



Market Survey on China Yacht Industry

April 11, 2011

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INTRODUCTION

Objectives

The key objectives of this Report are the following:

1. Provide a detailed overview of all relevant data concerning the supply side, the demand side and the regulations concerning the Chinese yacht market
2. Based on the above research and analysis, identify potential barriers and opportunities for Italian yacht manufacturers and provide a practical guide for viable approaches to enter the market, with a focus on legal setups and possible business models

Note: *This is the 2011 Edition of the Report: the 4 previous editions were completed in 2006, 2008, 2009 and 2010*

The Fifth Edition (April 2011) of this report is meant to provide Italian exhibitors at the *China International Boat Show* an accurate overview of the key changes since the fourth edition of the report, including considerations of key regulatory updates / changes and status of China's continued recovery in the China yacht industry

Doing market research in China and our methodology

- Generally speaking, conducting market research in China is different and significantly more challenging than it is in developed countries because of 1) the size and diversity of the country; 2) lack of fully reliable centralized/official information databases; 3) the change is constant and extremely rapid - the whole China economic system is far from being in equilibrium, therefore a solid market research work must be based on multiple resources and activities
- Our general methodology leverage a combination of resources/activities such as:
 - All relevant background information (existing available information, etc.)
 - Significant secondary research (in Chinese, English and Italian), from proprietary databases to access to associations or magazines, etc.
 - Primary research, which include access to external business network, interviews with experts and key insiders, possible visits to trade show or selected companies, etc.
 - Collective China knowledge/sector expertise/market research expertise with over 300 consulting projects executed in and outside China

This survey

- This survey is focused on leisure yachts (not considering those for commercial purposes); however, the concept of a “leisure yacht manufacturer” in China is somewhat different from that in Europe
- There are very few manufacturers concentrating solely on leisure yachts; most of the shipyards profiled are building watercraft like sightseeing ferries, speedboats etc, although they build some yachts as part of their product offering
- Because the industry can be defined as nascent, significant attention has been given to future projects and development plans for the yacht industry
- Given the limited amount of secondary data available, considerable emphasis was given to primary research in this update, conducting 10+ in-depth interviews and over 220 mini interviews with industry players including manufacturers, distributors, clubs and institutions

Players’ profile

- **190+ detailed profiles** of manufacturers, distributors, clubs & associations, and component suppliers are provided in appendix, together with **330+ basic profiles** of other relevant entities e.g. media, industrial parks etc.
- All contact information has been verified and is correct as of **April 7th, 2011**

Format of this report

- The report is organized in such a way to provide different level of details in different places – executive summary, overviews, and paragraphs in the body of the report, summaries, and appendixes; we have also used bullet points throughout the entire report to make reading easier
- Where appropriate we have included boxes with “inside stories” from interviews; the specific source of information is not shown to maintain confidentiality
- We have used abbreviations for recurring terms; see the appendix section for a glossary of terms used

Information sources

- Key sources of information for this report include
 - All background information (including previous reports)
 - Many secondary sources
 - Interviews with industry insiders and experts
 - Our ongoing analysis of all key facts and data collected
- In the report, sources are mentioned for chart, tables and key data; secondary sources include dozens of Chinese sources (news reports, magazines, publications, government statistics, etc.) as well as several English sources including the *International Boat Industry*, *Merrill Lynch*, *The Yacht Report*, *Boat Tech China*, as well as all companies' web sites, press releases from various magazines, etc.
- In total about 540 mini-interviews and some 50 in-depth interviews were carried out for the five versions of this report with a variety of yacht and component manufacturers, distributors, clubs and associations
- Ongoing analysis and re-elaboration of all data collected is key to cross-check data and information and identify key trends and industry dynamics

EXECUTIVE SUMMARY

1. CHINA YACHT MARKET

Overview

- The overall situation of the yacht industry in China is improving, and can be summarized by three key characteristics:
 - **Supply driven:** the supply side is still pushing the market
 - **Relatively weak demand:** still limited numbers of Chinese are buying yachts compared to the number of potential customers (wealthy individuals)
 - **Improving regulatory environment and government support:**
 - The first comprehensive regulation on yacht operations, registration, licensing, and sailing was enacted in January 2009; prior to this, there were no uniform or comprehensive regulations
 - Both the central and local governments have been encouraging the development of the yachting industry, in response to the global economic downturn and to promote tourism

Summary of key developments since the last edition (4th Edition - April 2010)

- Since April 2010, two key factors are still expected to have short-term and long-term impacts on the market – the *global worldwide economic downturn* as well as recovery, and the continued *development of yachting industry regulations*
- On the **supply side**, domestic production continues to improve and an increasing number of Chinese yacht manufacturers are exhibiting at international boat shows
- Exports of yacht and pleasure vessels declined 23% from US\$ 220 million in 2008 to US\$ 170 million in 2009, but rebounded 20% reaching US\$ 204 million in 2010 in part due to the global economy recovering from the downturn in 2008 and 2009
- On the **demand side**, interest in yachting continues to grow, and while the estimated number of HNWI¹ in China grew 31% from 2008 to 2009, the aggregate wealth of the top 1,000 HNWIs continued the uptrend with 26% year-on-year growth
- It is estimated that the number of HNWIs in China now exceeds 500 thousand individuals
- Additionally, there is significant growth in the number of Billionaires in China, with 115 in 2010, a growth of 80% over 2009
- However, the number of Chinese buying yachts remains low relative to the number of HNWIs, with only around 0.3% of Chinese HNWIs owning yachts

¹ High Net Worth Individuals: defined as individuals with at least US\$ 1 million in liquid financial assets

- Imports fell 23% from US\$ 50 million in 2008 to US\$ 39 million in 2009; however, in 2010 imports jumped 134% reaching US\$ 91 million
- Although Italy exported over US\$ 20 million to China in 2010, 23% of yacht imports, Italy fell from the #1 position as the leading exporter to the China market to #2 in 2010; England became the #1 exporter of yachts to the China market
- Further advancements have been made in terms of regulations for the yachting industry
- *The Guidelines on the Administration of Safety of Yachts (“Guidelines”)* were issued in August 2010, which liberalize yacht registration and simplifies procedures of entry and exit of overseas yachts
- Key changes brought about by the *Guidelines* include:
 - Widens limits of proof file² for import and export inspection, enrollment and registration of yachts
 - Simplifies examination and approval procedures of entry and exit of yachts
 - *Hainan, Xiamen, Shenzhen and Zhuhai* are open to registration of yachts owned by non-residents
- Besides the *Guidelines* mentioned above, a dual registration system for ships registered in *Hong Kong / Macao* was approved by the *Zhuhai* municipal government
- The dual registration system went into effect in January 2011, allowing yachts to freely cast anchor in *Zhuhai* waters and dock at *Zhuhai* berths and marinas
- Additionally, the *Hainan Maritime Safety Administration* issued *The Trial Measures for the Administration of Yachts in Hainan* in November 2010 and *The Provisional Measures for the Administration of Safety of Yachts in Hainan* in December 2010
- Both regulations have since made Hainan the most open and free water area in China
- The global economic crisis affected the yacht industry worldwide; however, since the world economy began to recover, both domestic as well as export demand has been increasing
 - Private Chinese enterprises have experienced a large rebound in export demand, with the number of yachts exported growing 70% year on year and export value increasing 51% year on year from 2009-2010
 - In addition, this segment is experiencing an enterprise-wide strategic change as a series of enterprises like *Zhejiang Millennium Marine Ltd.* are striving to consolidate domestic client base and enter overseas yacht market by revamping the product lines, purchasing overseas yacht assets and introducing overseas talent resources

² E.g. Before the *Guidelines* were issued, design diagrams were requested in the process of import inspection but manufacturers rarely provide design diagrams; the *Guidelines* now recognize certificates like CE and ABYC, commonly used by foreign manufacturers and design diagrams are not requested in the process of import inspection anymore.

Industry players

- There are about 300 pleasure boat builders in China concentrated along the coast, of which about 88 manufacture yachts as part of their product offerings
- About 40 foreign companies are manufacturing yachts in China, with manufacturing WFOEs; most are from *Hong Kong*, *Taiwan*, or the *US*
- For foreign manufacturers, China is still a relatively low-cost manufacturing base; it is about 20 - 30% cheaper to manufacture a yacht in China than it is in the *US* or *Europe*
- Around 100 foreign yacht brands are currently marketed through around 40 distributors
- The market is concentrated in the small and medium-sized boat / yacht segment, between 24' – 49' (7.3 – 15 m)
- Domestic manufacturers are increasing capacity to produce larger yachts; there are currently 7 domestic companies actively producing superyachts between 79'-100' (24-30m)
- In addition, 11 foreign-invested manufacturers produce superyachts in China for export
- Additionally, there are 3 key manufacturers currently building mega-yachts over 100' (30m) in China – all of which are foreign-invested companies that export the finished megayachts to the *US* and *Europe*

Chinese customers

- While China is estimated to have more than 500,000 High Net Worth Individuals (HNWI) with liquid financial assets exceeding US\$ 1 million, there are only around 1,500 Chinese yacht owners
- Relatively few wealthy Chinese are buying yachts - barriers to yacht ownership include: potentially negative cultural perceptions, high effective taxes, and an immature (although developing) regulatory environment for leisure yachting
- Limited areas for yachting – few open seacoast areas for leisure yachting and rivers are polluted and crowded with commercial boats; as a result, most yacht owners keep their yachts in Hong Kong where the market and infrastructure is more developed

2. OPPORTUNITIES, CHALLENGES, AND PRACTICAL OPTIONS FOR ITALIAN PLAYERS

- The yacht industry in China is still relatively nascent; challenges and opportunities facing Italian players would be largely similar to those facing other foreign players in the market or considering entry

Opportunities

- Significant opportunities do exist for Italian companies
 - China is a relatively low-cost manufacturing base, with construction costs about 20 - 30% cheaper to produce in China than in developed countries (e.g. *Europe* and the *US*).
 - The domestic market is well on its way to recover from the global economic crisis and is likely to show strong growth in the next decade; interest in yachting is already growing, for example:
 - Imports grew at 46% CAGR from 2004 – 2008; although 2009 saw a drop in imports, 2010 witnessed a sharp jump of 134% Year on Year; imports are expected to continue the uptrend in 2011
 - The number of exhibitors in the *China International Boat Show* has grown at 22% CAGR between 2004–2010, with the 2011 show expected to draw even more exhibitors up to 420
 - Market niches:
 - Italian design and technical know-how paired with the relatively low-cost production base of China, may offer opportunities in specific market niches
 - The superyacht segment is largely untapped and may offer long-term opportunities for Italian players
 - The government is showing support for the yacht industry
 - The *Shipbuilding Industry Revitalization Plan* was passed by the *State Council* in early 2009, and has benefited the yacht industry, e.g. more ports and marina construction projects
 - The *Ministry of Transport* issued the first comprehensive industry regulation the *Administrative Provisions on Safety of Yachts* in 2009; more local governments are catching up with regulations especially for yachting
 - The *State Council* announced in late 2009 its goal to develop coastal *Hainan island* into an international tourism destination, with the yacht industry (especially superyachts) as a key component
 - The *Maritime Safety Administration* issued the *Guidelines* in August 2010 and have since liberalized conditions of yacht registration and simplified procedures of entry and exit of overseas yachts

- Number of High Net Worth individuals growing fastest among developed and developing countries at a 28% CAGR between 2008-2010; it is estimated that there are more than 500,000 HNWI in China

Challenges

- Challenges facing a potential entrant include:
 - Limited demand: still a limited number of Chinese currently buying yachts, although interest is increasing
 - Differences in customer preferences: potential Chinese yacht owners have different preferences and requirements for the yacht (e.g. yachts used as entertainment venues, with card tables and karaoke machines)
 - General perception of China as a manufacturer of mass market / low quality goods: European and American clients might not be willing to have their luxury yachts made in China
 - Foreign players already present in China: although boats are at present mostly exported, these players are well-positioned to serve the domestic market once demand picks up
 - Impact of the global economic crisis: Many export-oriented manufacturers turned to the domestic market because of lower overseas demand, resulting in increasing competition
 - High effective taxes: total effective taxes applicable for an imported yacht is about ~40% (import tariffs, VAT, and consumption tax), presenting a significant hindrance to potential market growth

Practical options for market entry

- Various business setup options are available; using distributors or establishing a Representative office are good ways to enter the market without significant investment, allowing the company to learn about local market conditions as it sells yachts in China
- Although a greater commitment, foreign entrants looking to import and sell finished yachts in China can establish a FICE³ (WFOE or JV), which gives the company greater control of their supply and distribution chains in China
- Additionally, for players looking to manufacture yachts in China, a key decision between setting up a Manufacturing WFOE or JV has to be made
- There are pros and cons for each entry option, but a WFOE (FICE or manufacturing) is likely to become a more viable long-term strategy, avoiding potential (or likely) problems associated with having a local JV partner
- The emergence of dedicated yacht manufacturing zones and industrial parks should increase the benefits of setting up a Manufacturing WFOE

³ Foreign Invested Commercial Enterprise

3. CONCLUSIONS

- While yachting is still a nascent sporting activity and past time in China, there is considerable interest and momentum for domestic demand in the industry, with increasing numbers of clubs, marina projects under construction, and increasingly popularity of boat shows
- Trend in the export of yachts and pleasure vessels have also been increasing in the last few years (excluding 2009 due to the impact of the economic crisis); majority of local manufacturers export lower-value small and medium-sized boats, such as speedboats
- Foreign-invested yacht manufacturers in China are taking advantage of the still relatively lower costs of production and betting on the future of the market
- China is already one of the top 10 nations manufacturing superyachts above 80' (24m); all superyachts made in China are exported to the *US* and *Europe*, indicating that market potential may exist for a luxury yacht made in China
- Production quality continues to be a challenge and is generally addressed through training and *ad-hoc* solutions to problems; however, overall production quality continues to improve, especially amongst the top local companies
- It is necessary to approach the China yacht market gradually and with long-term vision; quick profits are unlikely; perseverance, choice of local partners, execution ability and confidence in the market are key to success

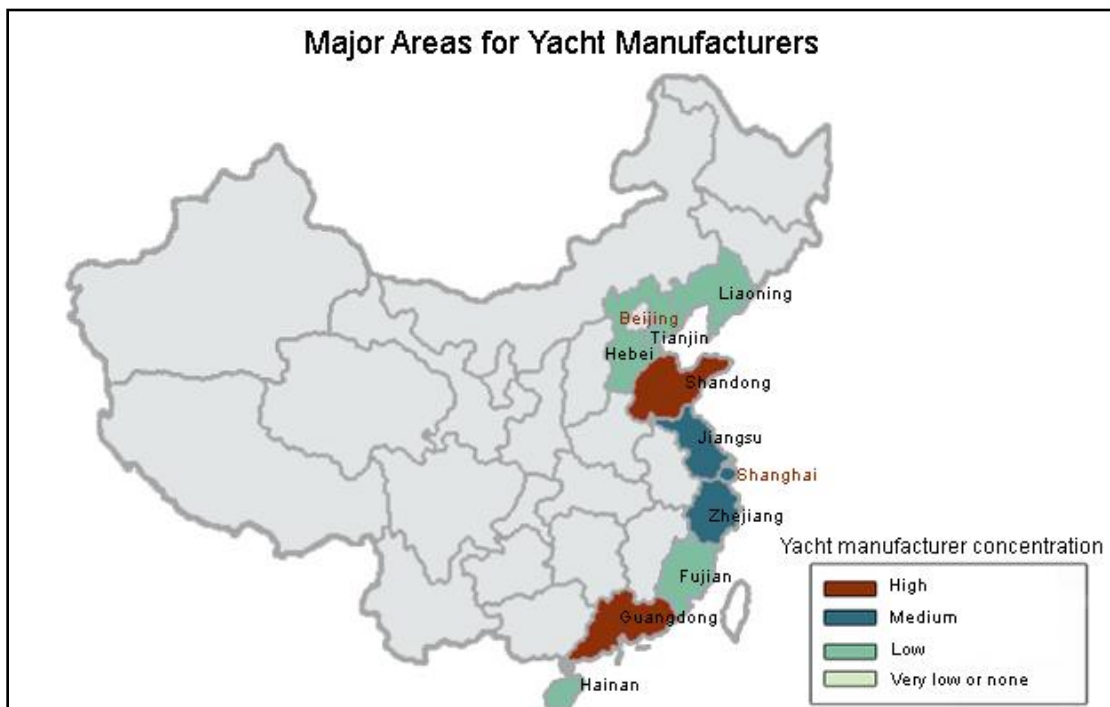
CHINA YACHT MARKET: SUPPLY SIDE

Overview

- The China yacht market has been growing since 2005, and it is expected to reach US\$ 10 billion (RMB 67.7 billion) by 2020
- Based on the expectation that yachts will become part of the lifestyle of China's growing wealthy class, provincial governments, property developers and boat builders are investing heavily in the industry
- China currently has around 300 pleasure boat manufacturers, including 88 yacht producers – 30 of which have production value of over RMB 10 million (US\$ 1.5 million)
- Domestic yacht builders are mainly involved in export; small yards are extremely price competitive, resulting in a limited market for imported small yachts under 30' (9m)
- Domestic manufacturers have been improving in technology and production techniques, and developing and designing their own brands
- Some capable domestic players have cooperated with foreign players for production, e.g. *Gianetti* has cooperated with *DHS* in building the *Gianetti 48* and *Navetta 80* models of boats
- As domestic yacht manufacturing grows, so do opportunities for manufacturers producing components (e.g. on-board instruments, engines, navigation systems etc.)
- The domestic market for high-end yachts relies mainly on imports, most of which are series production models ranging from 18' to 70' (6 – 23m) in size
- More and more megayachts are on display at shows such as *Hainan Rendez-Vous* held each year in *Hainan*, which will help to highlight and boost high-end expenditure
- Part of the reason for the lack of superyacht imports lies in the previously unclear sailing regulations and limited infrastructure
- However, the strengthening support from the government and an improving regulatory system should help drive domestic demand and subsequently imports of superyachts, e.g. government is considering simplifying yacht purchasing procedure
- As the world economy and China continues to recover, the outlook for Italian players in 2011 is positive due to new government regulations and initiatives beneficial to the yacht industry

Analysis of Local Yacht Industry

- China is already among the world's top 3 shipbuilders for commercial vessels, and many of its commercial shipyards have the capacity and potential to build leisure yachts
- However, only ~88 of the ~300 pleasure boat builders in China manufacture yachts as part of their product offering; of these, few shipyards in China concentrate solely on yachts due to the market demand and produce a variety of boats
- Large professional yacht manufacturers are either foreign (including Hong Kong/Taiwanese-invested yacht manufacturers) or state-owned companies
- Typically small and medium-sized domestic shipyards manufacture a variety of vessels, including speedboats, fishing trawlers, and cruising vessels in addition to yachts
- Most Chinese manufacturers compete in the small, medium and large-sized leisure boat segment under 79' (< 24m) as building superyachts larger than 79' (24m) requires very high-end finishes, which most Chinese builders are not as competitive
- Yacht production in China is concentrated mainly along the Eastern coast; *Shandong* and *Guangdong* provinces have the greatest concentration of yacht manufacturers
- The map below illustrates major concentrations of yacht manufacturers



Source: JLJ analysis based on multiple sources

- The highest concentration of manufacturers is in the cities of *Qingdao*, *Yantai* and *Weihai* in *Shandong* province; however, most foreign players are concentrated in *Guangdong* province in the cities of *Zhuhai* and *Shenzhen*

- Other key coastal cities and provinces which have yacht manufacturers include *Zhejiang, Jiangsu* and *Shanghai*; there are also scattered shipyards in other coastal areas such as *Hainan, Fujian, Hebei, Tianjin* and *Liaoning* provinces
- Overall domestic production quality is considered low by international standards; the overall industry in China faces over-capacity with respect to current market demand, causing significant pressure on prices
- However, domestic manufacturers have been improving in technology and production techniques, and are trying to design and develop their own brands
- An increasing number of boats are being built in China under contract building arrangements, in which foreign manufacturers outsource some manufacturing to local shipyards
- Additionally, many foreign manufacturers have established their own production facilities in China, e.g. *Cheoy Lee* and *Yantai Raffles* have successfully produced luxury superyachts in China

Inside story – From a local shipyard

- *“Everybody sees the yacht industry as having immense potential...At present, the gaps for the designs and quality between domestic and foreign manufacturers is narrowing”*
- *“Some domestic yacht manufacturers took the opportunity of the global economic crisis and purchased some international yacht brands and resources to improve their competitiveness; meanwhile, they extend product line in domestic market. This might be a developing trend for China yacht...”*

Inside story – From a foreign yacht manufacturer re: local shipyards

- *“One of our former factory managers eventually opened their own manufacturing facility. Although at first his boats were lower quality and missing some key details, each year we see substantial improvements in the quality and design of the yachts he produces”*

Market segments and pricing

- At present, most market demand is for yachts under 49 ft (<15m); there is very limited demand for superyachts (>79', or >24m) in China
- Yacht prices may vary significantly depending on the type and quality of interior fittings and equipment, e.g. the price of yachts under 49' (<15m) can range from US\$ 40,000 to US\$ 700,000



- The table below gives a comparison of the typical price range for yachts organized by size and origin, and assuming reasonably luxurious fittings

Table 1: Typical Price Range of Yachts sold in China

Size of yacht	Description	Price range of domestically produced yachts [US\$]	Price range of imported yachts ⁴ [US\$]
Small and Medium	<30' (<9m)	40,000 - 300,000	300,000 – 750,000
	30' – 49' (9 - 15m)	300,000 – 600, 000	750,000 – 1.5 M
Large	49' – 79' (15 - 24m)	600,000 – 3 M	1.5 M – 4.5 M
Super	>79' (>24 m)	>3 M	> 4.5 M

Source: JLJ analysis based on multiple sources including interviews with yacht producers

- Yachts made in China are generally ~20 - 30% cheaper than those made in *Europe* and the *US*, due in large part to lower labor costs
- Domestic yachts are gradually improving in quality and corresponding price, resulting in a shrinking price gap between domestically manufactured and imported yachts
- With an upward trend in the size of yachts, the demand for yachts over 49' (15m) is increasing
- Local manufacturers are extremely competitive in the small boat segment – it is likely that opportunities for future manufacturing entrants will lie in the superyacht segment, which currently only has a few manufacturers
- The cost and price advantage will also be more evident in the superyacht segment where most of the work is highly customized and labor intensive

Inside story – From a local distributor

- *“It is not that Chinese people do not have money, but it takes time for them to appreciate yachting to buy bigger boats...”*
- *“In China the age-old apprentice system is not only still being employed but is also alive and well, with new entrants coming into the field (unlike the US or Europe). So customization is possible given availability of skilled and experienced craftsmen, for example carpenters.*

⁴ Price of imported yacht: market price only, not including tax, transportation, insurance etc.

China as a relatively low-cost manufacturing base

- Yacht production is very labor-intensive relative to most other “consumer” products and mostly depends on labor cost and technical knowledge
- Especially at the high-end of the market (superyachts), yachts tend to be highly customized, specifically designed to address the needs of the buyer, making automation less viable
- With a relatively low-cost manufacturing base compared to developed countries, China offers several advantages for yacht manufacturers located within China:
 - *Low-cost but relatively high-quality labor* – with a large and relatively young work force, labor in China is readily available; although wages are only about 20-30% of Western rates, the cost for training needs to be considered
 - *Workers able to work under pressure* – due to fierce job competition, laborers care more about their current work and are more willing to work extra hours
 - *Low cost of facilities* – cost of facility construction and rents are typically cheaper than that in Western countries
 - *Strong auxiliary industry capability* – China has a strong auxiliary industry capability, which attracts foreign investors in different areas from production materials to components & accessories

Inside story- From an industry expert

- *“Yachts are obviously very luxurious items and the end customers who can afford one tend not to be too price sensitive; however, some foreign customers are willing to have them made in China because they can get larger boats for the same money”*
- *“A yacht made in China can be about 20-30% cheaper than one made in Italy; customers may give up some quality in exchange for bigger boat. However, the price gap for yachts between China and foreign countries is narrowing.”*
- *“I think it is difficult to lump all Asian boat builders together since each has a different focus in the industry. Some strive for low cost, others attack the US market, some try to beat European designers at their own game.”*
- *“If the yacht market is taking a downturn then I shift my staff to work on commercial and coastguard (government) projects”*

Overview of Yacht Manufacturers in China

- Although there are around 300 pleasure boat builders in China, only about 88 manufacture yachts as part of their product offering
- The majority of players are in the medium-sized segment for yachts under 79' (<24m)
- ~21 manufacturers (domestic and foreign) in China are actively developing superyachts (> 79' or 24m in length), of which 3 manufacture yachts greater than 100' (30m)
- The table below give an overview of key yacht players in China:

Table 2: Overview of yacht industry players in China

Size of yacht	Description	Type of player	No. of players	Key examples
Small & Medium & Large	- Small: <30' (<9m) - Medium: 30' – 49' (9- 15m) - Large: 49'-79' (15m – 24m)	Local	30	- <i>DFC</i>
		Taiwan/HK	3	- <i>Poly Marine</i>
		WFOE/JV	26	- <i>Brunswick (US)</i> - <i>Bluebay (US)</i> - <i>Kadaya (Japan)</i>
Super & Mega	- Super: 79' – 100' (24 – 30m) - Mega: >100' (>30m)	Local	7	- <i>Double Happiness</i>
		Taiwan/HK	5	- <i>Cheoy Lee</i> - <i>Kingship</i> - <i>Jet-Tern</i>
		WFOE/JV	15	- <i>Raffles</i>

Source: JLJ analysis based on multiple sources

- Most foreign companies in the small and medium yacht segment are manufacturing locally to produce small and medium-sized yachts and trawlers, taking advantage of China's low labor cost and various government-sponsored incentive programs
- Most yachts produced by foreign manufacturers are for the export market; however, a number of companies are changing their strategy to cater to the growing domestic market
- Noteworthy volume-based production was not present in China until the arrival of *Brunswick* in 2005, the world's largest boat manufacturing group, which invested RMB 85.3 million (US\$ 12.6 million) in the *Zhuhai Pingsha Yacht Industrial Zone*
 - The *Brunswick* shipyard (*Zhuhai*) mainly produces the 17' - 30' (5m – 9m) *Sea Ray* brand sports boats
 - Production commenced in 2006 with a capacity to produce 2,000 small fiberglass reinforced plastic yachts
 - 90% of the raw materials for production are imported from the *US*
- There are about 12 *Taiwanese* and *Hong Kong*-invested manufacturers, who are in general more sophisticated than local manufacturers and mostly focus on yachts under 79' (<24m)



- Several of these players, however, are very well established and well known in the superyacht segment, e.g. *Cheoy Lee* and *Kingship*
- Chinese manufacturers are competitive in custom and semi-custom low-volume power yachts in the 30' - 60' (9 - 18 m) range; and most of them acquired their expertise from *Taiwan*
- Several medium-sized local yacht manufactures (~15) have chosen to enter into a JV with foreign companies that can offer greater technical expertise

Superyacht manufacturers

Overview

- Currently, China has 21 manufacturers of yachts longer than 42' (24m), with three key producers actively developing yachts over 100' (30m)
- China is ranked 6th among the world's top ten builders of yachts over 100' (30m)
- *Shanghai-based Double Happiness* is the most well known domestic yacht manufacturer, specializing in production of yachts between 42' - 90' (13 – 27m)
- The following table lists six key superyacht manufacturers in China, separated into those currently manufacturing superyachts between 79' – 100' (24 – 30m), and those that are actively manufacturing megayachts at over 100' (>30m)

Table 3: Overview of superyacht manufacturers

Type of yacht	Name	Country of Origin	Location in China	Type of setup	Year of entry into China	Key products
24-30m	<i>Double Happiness</i>	China	Shanghai	SOE	2000	42'-90' (13-27m) custom yachts
	<i>Sunbird</i>	China	Hunan	Private Enterprise	2003	42'-90' (13-27m) custom yachts
	<i>Jet-Tern</i>	Taiwan	Guangdong	Manufacturing WFOE	1998	50'-100'(15-30m) ocean trawlers
> 30m	<i>Cheoy Lee</i>	HK	Guangdong	Manufacturing WFOE	1998	Custom yachts & superyachts
	<i>Kingship Marine</i>	HK	Guangdong	Manufacturing WFOE	2004	90' to 164' (27-50m) megayachts
	<i>Raffles Yacht</i>	Singapore	Shandong	JV	1994	Custom superyachts

Source: JLJ analysis based on multiple sources

(See appendix for details of deliveries and order books)

Profiles of superyacht manufacturers



Double Happiness (DHS)

- *Double Happiness (DHS)* is the most well known domestic yacht manufacturer and based in *Shanghai*
- *Double Happiness* is already one of the most well-known sports equipment manufacturers in China; it expanded its business into yacht production in 2000, building custom yachts from 42' – 90' (13m-27m) in length
- In 2004, an 80' (24m) luxury yacht (the *Navetta*) was exported to *Genoa, Italy*; in 2008, *DHS* partnered with *Gianetti* to develop the *Gianetti 48*
- *DHS* won the contract to build twelve 68' (21m) clipper yachts for the *UK Clipper 2005-2006 Round World Race*
- The largest yacht produced by *Double Happiness* to date is the *CORTENZO* – an 86' (26m) yacht completed in 2007
- *DHS* has experience continued growth, even through the global economic downturn; year-on-year growth in 2009 was about 20% over 2008
- *DHS* now produces yachts ranging from 42'-86' and has set up regional agents throughout the world; *DHS* has obtained authentication by *RINA, CE, RCD* and *MCA*
- In the coming 3-5 years, *DHS* will build up complete 4S sales and maintenance network and provide value-added services including free bottom paint maintenance and yacht mooring



Sunbird

- *Sunbird*, China's first listed yacht manufacturer, builds yachts, commercial boats and special purpose boats based in the city of *Changsha, Hunan* province, which has been constructed specifically to build yachts from 42' – 90' (13m-27m) in length
- In 2005, *Sunbird* built up manufacture facility in *Zhuhai Pingsha Yacht Industrial Park* and entered the large luxury yacht market with launching the first largest luxury yacht up to 80' (24m) in China
- In 2008, *Sunbird* started to export large yachts
- In September 2010, *Sunbird* was listed on China's GEM⁵ Board, with the stock code 300123 and ticker symbol *Sunbird*
- In 2010, *Sunbird* designed a number of new boats, e.g. the *Haidao 88'* motor yacht and the 46m luxury superyacht

⁵ GEM: Growth Enterprise Market

- *Sunbird* currently has five subsidiaries in *Changsha*, *Shanghai*, *Hong Kong*, the *US* and *Italy* focusing on yacht sales, and employs over 900 staff including 98 on yacht development and design



Jet-Tern

- *Jet-Tern* is a *Taiwanese* company with production facility in the cities *Zhuhai* and *Dongguan* in *Guangdong* province
- The shipyard in *Zhuhai* is located in the *Zhuhai Pingsha Yacht Industrial Park*
- *Jet-Tern* focus on yachts ranging in size from 50'-100' (15m-30m)
- Yachts are mostly exported to *Europe* and the *US*; the company has 5 dealers in *US*, *Australia*, *France*, *Russia* and *Singapore*
- The *Selene 92* – a 92' (28m) will be *Jet-Tern Marine's* first yacht over 24m; her delivery is scheduled for 2012 with her first debut at the *Monaco Yacht Show*



Cheoy Lee

- *Cheoy Lee* is one of China's oldest shipyards; the family-run company began in 1870 as a builder and repairer for steam-powered craft in *Shanghai*; in 1935 the business was relocated to *Hong Kong*
- *Cheoy Lee* reestablished its Mainland China shipyard at *Doumen* (*Guangdong* province) in 1998, which is capable of producing vessels in excess of 200' (61m)
- Traditionally, *Cheoy Lee* has been a commercial shipyard, producing a wide range of vessels such as tugs, offshore vessels, and naval craft; it began its yacht building activity in the 1960s when it was a pioneer working with fiberglass
- The company offers a range of four designs to the market between 60' and 151' (18 – 46m), as well as customizable production models
- In 2009, *Cheoy Lee* designed a number of new boats, e.g. the *Serenity 83* and *68 Long Range* motor yachts
- In 2010, *Cheoy Lee* designed a number of new boats, e.g. the *Serenity 59 Long Range*, the *Global 103 Pilothouse*, the *Bravo 68* motor yachts
- During production, *Cheoy Lee* typically employs around 1,300 workers, though only 325 employees are utilized during the development phase
- The yard works with key classification societies⁶: *LR*, *ABS*, *Bureau Veritas* and *DNV*; it geared up for new models and yard expansion in 2010 and hired top tooling personnel from the *US*

⁶Classification society: a non-governmental organization in the shipping industry, often referred to as a "Class." It establishes and maintains standards for the construction and classification of ships and offshore structures, ensures that construction is according to these standards, and carries out regular surveys of ships in service to ensure compliance with these standards

- The majority of *Cheoy Lee's* yachts are for *North American* customers, and the company has a network of distributors in the *US* as well as in *Italy* and *Australia*



Kingship Marine

- *Hong Kong-owned Kingship Marine* operates from a state of the art shipyard based in the city of *Zhongshan, Guangdong* province, which has been constructed specifically to build yachts up to 157' (45m)
- About US\$ 20 million has been invested in the shipyard; the yard is composed of a 60 acre ultra modern facility with capacity to build up to seven superyachts ranging from 90' – 164' (27 – 50m)
- Models include a 110' (33m) and 125' (38m) motor yacht designed by *PB Design* and *Vripack International*, and a 98' motor-yacht and 110' expedition yacht by the *US-based Setzer Design Group*
- *Kingship* is positioned as a manufacturer specialized in steel and aluminum luxury yachts; *Kingship* has again won the *Best Asian Motor Yacht Builder Award* in 2010
- In 2010, *Kingship* designed a number of new boats, e.g. the *Kingship 156*, the *Green Voyager 144* and the unique *Ocean SUV series* motor yachts
- Most of the yachts manufactured in the *Zhongshan* shipyard are exported to the *US*; *Kingship* maintains a sales office in *Fort Lauderdale, USA*



Raffles Yacht

- *Raffles Yacht*, a *JV* established by *Halter Marine Group*, *Yantai Raffles Shipyard* and *Yantai Taisun Shipbuilding*, builds luxury yacht through its factory in *Yantai* in *Shandong* province
- *Yantai Raffles* is, an established commercial builder, which constructs large commercial vessels for the offshore industry in particular
- The high-tech shipyard employs 5,000 staff; 400 typically work on yacht development
- The company specializes in megayachts larger than 98' (30m); all yachts are built in climate-controlled workshops in 24 hour shifts
- As of March 2010, three megayachts under construction Yachts manufactured in China are mainly exported to the *US*, *Europe*, and *Singapore*



Foreign players

- Around 100 foreign yacht brands have entered the China market by using local distributors/dealers – the simplest way of approaching the market
- Some foreign producers have established a direct presence through Representative Offices, including *Ferretti*, *Catana* and *Azimut*
- In addition, there are about 40 foreign players who have established a direct manufacturing presence in China, through setting up JVs or Manufacturing WFOEs, mostly from *Hong Kong*, *Taiwan* and *USA*
- The table below gives an overview of foreign players with a presence in China:

Table 4: Overview of Foreign players

Type of setup	No. of foreign companies	Key examples (country of origin)
Through Distributors	40 companies representing: ~100 brands	- <i>Sunseeker China</i> (UK) - <i>Shanghai Bahrfuss Yacht Sales</i> (Netherlands) - <i>Xiamen Azimut Yachts Co. Ltd.</i> (Italy)
Representative Office	~4	- <i>Ferretti</i> (Italy) - <i>Catana</i> (France) - <i>Azimut</i> (Italy) - <i>Beneteau</i> (France)
Joint Venture	~20	- <i>Raffles</i> (Singapore) - <i>Bluebay</i> (USA) - <i>Kadaya</i> (Japan) - <i>Yongxing</i> (Japan) - <i>Matsumoto</i> (Japan)
Manufacturing WFOE	~21	- <i>Brunswick</i> (USA) - <i>Cheoy Lee</i> (Hong Kong) - <i>Kingship</i> (Hong Kong)) - <i>Seahorse</i> (USA)

Source: JLJ analysis of foreign yacht companies

- Yachts sold through distributors primarily come from *Sweden*, *Norway*, *US*, *Australia*, *Italy*, etc. (See Appendix for detailed list of brands sold through distributors)
- Many companies first sell through distributors or set up Representative Offices as it allows companies to market their yachts, increase brand awareness, and to gain a better understanding of the market without needing a large investment
- A popular model for foreign manufacturers has been to create partnerships with local players through Joint Ventures (JV), to speed up entry and to leverage existing infrastructure and sales channels
- Most foreign manufacturers are using China as a lower-cost manufacturing base to build and export their yachts to the *US* and to *European* markets

Local component suppliers

- China's marine fittings and components manufacturing sector is well developed and many products are exported due to their relatively low cost
- Manufacturers of components initially started with low value-added items such as *cleats* and *shackles* but moved quickly up the value chain to *engines*, *communication devices*, *air conditioners*, *radars* etc.
- Component players are concentrated in coastal regions and are mainly located in the same vicinity as yacht producers, enabling them to better service their downstream clients
- The map below illustrates major concentrations of component manufacturers; most producers are concentrated in *Guangdong* and *Shandong* provinces



Source: JLJ analysis based on multiple sources

- Although many marine components are being manufactured in China, certain key yacht components such as *engines* are still primarily imported (~80%)
- The key reason for this practice is that customers in *Europe* and in the *US* prefer key components in their exported yachts (especially *engines*) to be of recognizable brands
- With boat-building activity increasing in China, the demand for imported components is increasing correspondingly, bringing opportunities for foreign component suppliers
- Many foreign engine manufacturers such as *Mercury Marine*, *Cummins*, *Suzuki* and *Yamaha* have already set up production facility in China

- Local governments are taking action to support component producers, e.g. a trade center was set up in *Zhuhai Pingsha Yacht Industrial Park* especially for component manufacturers

Inside story- From a foreign component manufacturer

- *“There are numerous local component manufacturers in China... these companies will supply to the local shipyards, as they are simply too cheap for us to compete, even though we too are manufacturing here...!”*
- *“When quality and reliability are serious concerns, customers will buy our brand of engine even though they are more expensive than brands made by domestic companies as the quality gap is still significant”*
- *“All of our products are exported 100%... we have significant cost advantages by manufacturing in China... most components are already made in China, whether for cars or ships...”*

Comment on players' profiles (appendix)

- The companies selected to be profiled are the *key* players in the industry; 88 manufacturers that are producing, or capable of producing yachts, are profiled in detail, including foreign companies which have a presence in China
- The total number of players by key category is summarized in the table below
- Detailed profiles are also provided for all relevant distributors/importers/agents, clubs and associations.
- The top 17 component manufacturers are profiled in detail; 50 basic profiles are also provided
- Basic profiles are also provided for all other relevant entities like media and tourist ports
- *In the fifth edition, all contact information has been verified and is accurate as of March 2011; [other company information such as sales and production information are current as of 2010]*

Table 5: Breakdown of Company Profiles

Category	Number of detailed profiles	Number of basic profiles
Yacht manufacturers	88	N/A
Yacht distributors/ importers/agents	40	
Yacht clubs	40	80
Associations & Institutions	10	N/A
Component Suppliers	17	50
Media	N/A	76
Foreign Brands		97
Expos		18
Industrial Parks		13
Total	195	334

Source: JLJ analysis

Basic profiles

- All basic information about the players is gathered into an Excel Database, organized by category (manufacturers, distributors, clubs etc.), including:
 - Company name (English and Chinese)
 - Address (English and Chinese)
 - Contact number
 - Email
 - Website
 - Type of company (foreign vs. local vs. JV)
 - Year established
 - Other relevant information

Detailed profiles

- In addition to the basic information above, more detailed business profiles are provided for the key players as shown in the tables below, a brief explanation of key categories is also included below

Business Profile of Key Manufacturers (or component suppliers)

Note: Contact information is accurate as of March 2011. (All other company information is accurate as of 2010).

Company Background	
Company name (Chinese)	Legally registered name of the company in China
Company name (English)	Translation of the Chinese company name
Company type	WFOE (Wholly Foreign Owned Enterprise) JV (Joint Venture) SOE (State-owned Enterprise) Private Chinese Enterprise / Local
Country of origin	For foreign enterprises, country of origin of parent company
Year established	Year of entry/setup in China
Registered capital	Capital invested at the time of formation of the legal entity
No. of employees	Number of employees in China
Production	
Product description	General description of type of boats manufactured- size range, types etc.
Brand/ logo	Brand of the yachts and logo
Production capacity	Production capacity of the shipyard
Number and location of shipyards	City where shipyard is located
Quality certification	Lists any ISO certifications, or if builds are overseen by classification societies
Sales & Distribution	
Number of yachts sold	Number of yachts sold thus far, if available
Price range	General price range of yachts
Sales revenue	Annual sales revenue as of 2010
Sales & distribution network	Geographic coverage of company, areas sold to Number of dealers and agents used, if any
Marketing activities	Marketing strategies adopted e.g. Advertising, attend boat shows etc..
Other Information	Other related information e.g. Company history, background etc.
Contact Details	
Address (Chinese)	Actual address of shipyard
Address (English)	Translation of Chinese address
Tel	Contact telephone
Email	Whenever available, often unavailable for small players
Website	Whenever available, often unavailable for small players
Contact Person	Contact name and position (if available)

Business Profile of Key Distributors/Importers/Agents

Company Background	
Company name (Chinese)	Legal name of the company in China
Company name (English)	Translation of the Chinese company name
Company type	Representative office OR Distributor (importer and agent)
Location	Location of office
Product range	
Key brands represented (country of origin)	Brands imported and country of origin for each brand
Type of yachts sold	General description of type of yachts, size range etc.
Sales & Distribution	
Number of yachts sold	Number of yachts sold, if available
Price range	General price range of yachts sold
Sales revenue	Annual sales revenue, if available
Geographic coverage	Geographic areas covered by distribution network, areas sold to
Sales & marketing practices	Sales practices and marketing strategies adopted, e.g. advertising, attend boat shows etc.
Other information	Other related information e.g. type of clients
Contact Details	
Address (Chinese)	Actual address of shipyard
Address (English)	Translation of Chinese address
Tel	Contact telephone
Email	Whenever available
Website	Whenever available
Contact person	Contact name and position (if available)

Business Profile of Clubs, Associations and Institutions

Clubs (or Association)	
Company name (Chinese)	Legally registered name of the company in China
Company name (English)	Translation of the Chinese company name
Year established	Year of setup in China
Location	City of location
Number of members	Number of members in the club, association or institution
Club (or Association) information	Includes background information, activities, facilities, services provided etc.
Contact Details	
Address (Chinese)	Actual address of the club, association or institution
Address (English)	Translation of Chinese address
Tel	Contact telephone
Email	Whenever available
Website	Whenever available
Contact Person	Contact name and position (if available)

Import - Export Analysis

This section analyzes imports and exports of china’s yachting industry, with focus on Italy’s position; it includes all types of marine vessels

The import export analysis for yacht & pleasure vessels is based on the following list of selected HS codes used to define the industry:

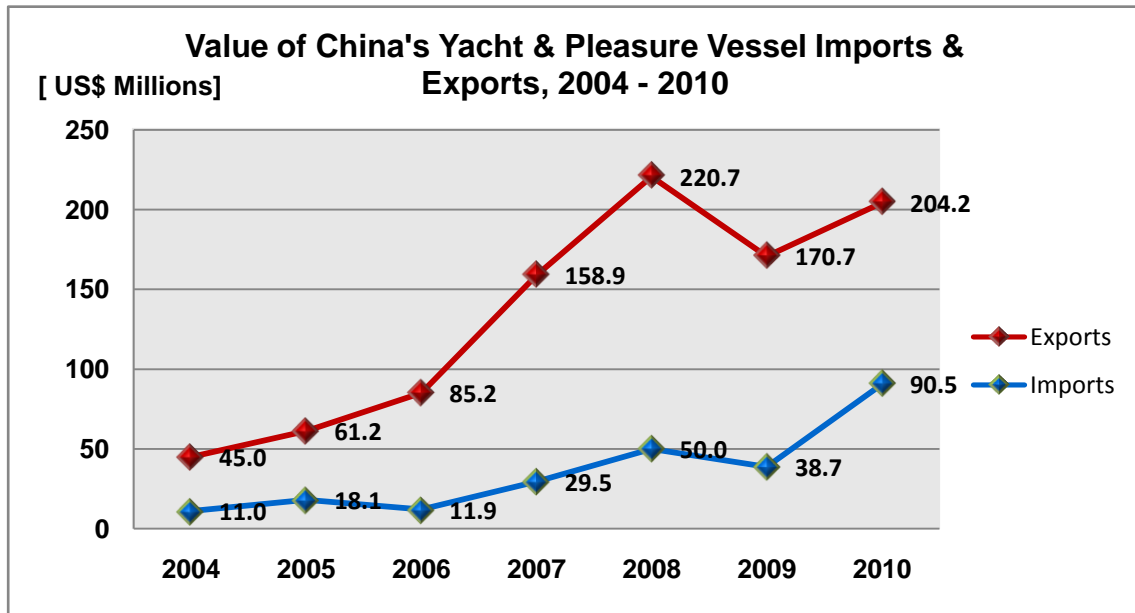
Table 6: Categorization of Yacht & Pleasure Vessel HS Codes

HS Code	Description of Products
8903	Yachts and other vessels for pleasure or sports
8903.1000	Inflatable recreational or sporting boats
8903.9100	Sailboats, with or without auxiliary motors
8903.9200	Motorboats, excluding outboard motor boats
8903.9900	Other unlisted recreational or sporting boats

Source: China Customs

Overview

- Exports and imports of yachts and pleasure vessels have experienced double-digit growth since 2004, although they fell in 2009 as a result of the world economic crisis
- In 2010 the total export value of China’s yachts and pleasure vessels increased 20% to US\$ 204M from US\$ 170M in 2009; however this is still below the high of US\$ 220M in 2008
- Import value jumped 134% to US\$ 91M from US\$ 39M in 2009, hitting historical peak
- The following chart shows the overall value of China’s imports and exports of yachts and pleasure vessels from 2004 – 2010



Source: JLJ analysis based on China Customs

- Most exports are still low value small and medium sized yachts, rather than luxurious superyachts
- Much of the exports come from foreign invested manufacturers, who are making use of China as a low-cost manufacturing base
- With US\$ 20.8 million in imports in 2010, Italy ranked number 2 for yacht imports into China, accounting for about 23% of China's total yacht imports

Imports of yachts and pleasure vessels into China

- China imports of yachts grew significantly from US\$ 39 million in 2009 to US\$ 91 million in 2010; an increase growth of 134% year-on-year, bringing the CAGR of imports from 2004-2010 to ~42%
- The table below shows the top 10 exporting countries of yachts and pleasure vessels to China from 2006 to 2010

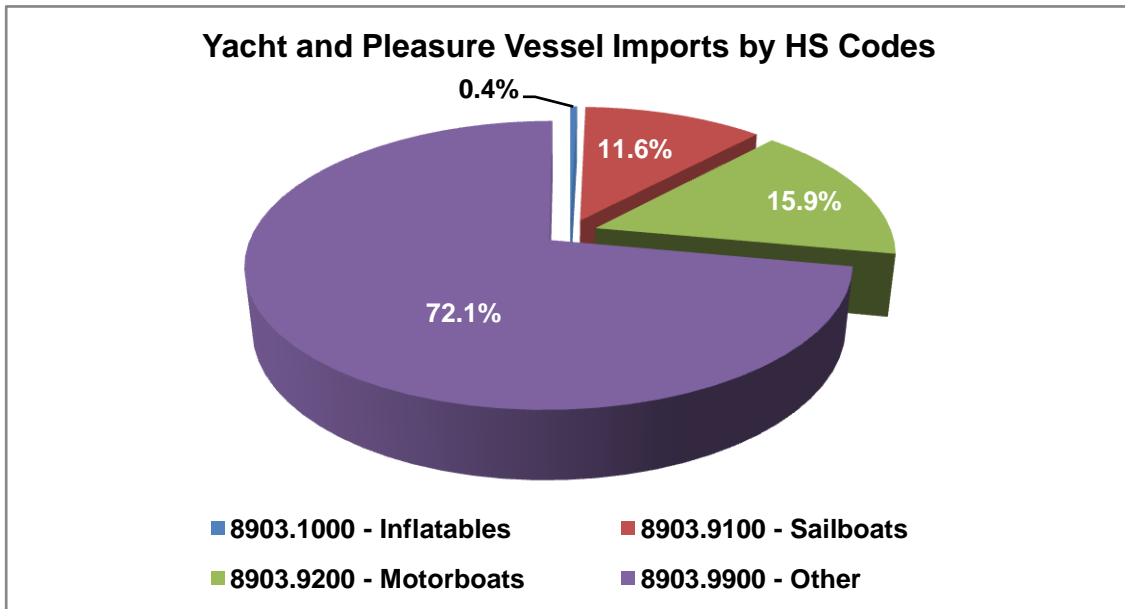
Table 7: Top 10 Export Countries of Yachts and Pleasure Vessels to China 2006 – 2010

Rank	Country	Imported Value [M US\$]					% Market Share					% Change (09 - 10)
		2006	2007	2008	2009	2010	2006	2007	2008	2009	2010	
0	World	12.1	29.5	50.0	38.7	90.5	100%	100%	100%	100%	100%	134%
1	United Kingdom	1.0	3.8	5.3	3.9	25.5	8%	13%	11%	10%	28%	554%
2	Italy	2.3	6.2	18.2	10.2	20.8	19%	21%	36%	26%	23%	105%
3	France	1.0	3.0	2.7	7.2	14.5	8%	10%	5%	19%	16%	101%
4	United States	4.2	7.9	12.4	5.9	12.2	35%	27%	25%	15%	14%	108%
5	Taiwan	-	0.7	1.3	1.1	6.3	-	2%	3%	3%	7%	454%
6	Australia	1.7	2.0	0.1	1.3	2.1	14%	7%	0%	3%	2%	56%
7	Canada	0.5	0.7	0.6	0.8	1.9	4%	2%	1%	2%	2%	145%
8	Japan	0.6	0.6	0.7	0.7	1.6	5%	2%	1%	2%	2%	134%
9	Germany	0.2	0.3	1.1	2.9	1.2	2%	1%	2%	7%	1%	-58%
10	Spain	0.2	0.0	0.0	0.0	0.9	1%	0%	0%	0%	1%	N/A

Source: JLJ analysis on China Customs data

- In 2010, Italy ranked number 2 in countries from which China imports yachts and pleasure vessels (falling from #1 in 2008 and 2009), accounting for 23% of China's total yacht and pleasure vessel imports (US\$ 20.8M)
- In 2010, *The United Kingdom* replaced *Italy* as the number 1 country from which China imports yachts and pleasure vessels, largely due to the number of boats sold increasing from 29 in 2009 to 85 in 2010 and average sales price growing 123% in 2010 over 2009

- China imported around 2,175 yachts and pleasure vessels from 33 countries in 2010, but the majority are relatively low value (worth less than US\$ 30,000)
- The proportion of middle value yachts and pleasure vessels (worth between US\$ 30,000 and US\$ 900,000) continued improving since 2008, accounting for 26% of the total yachts and pleasure vessels imported in 2010
- Imports of yachts and pleasure vessels are broken up into four main categories as shown in the chart below:

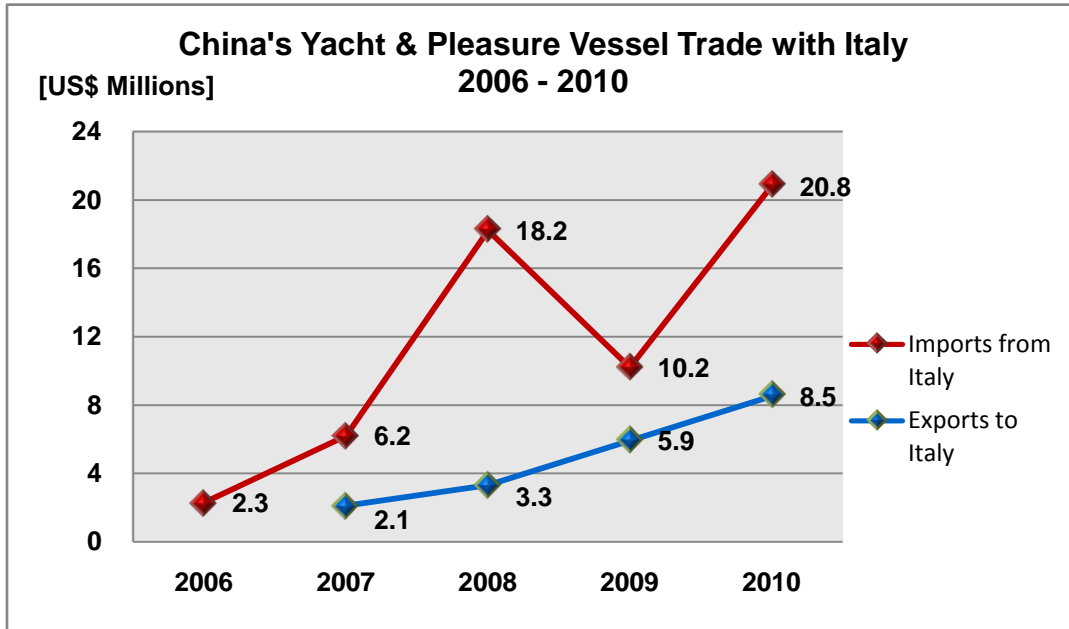


Source: JLJ analysis on China Customs data

- The “Other” category (HS code 8903.900) includes speedboats, small yachts, inflatable boats, fishing boats, canoes, jet skis, and other vessels
- For a market of China’s size, the imports of yachts and pleasure vessels are still relatively low as a result of the following:
 - Limited amount of actual sales in China; Chinese owners also prefer cheaper yachts in the US\$ 125,000 – 625,000 price range
 - Many wealthy Chinese buy and use their yachts in *Hong Kong*; *Hong Kong* sales do not show up in *China Customs* statistics
 - Many distributors have none or very few yachts for show or sale in China – keep yachts in *Hong Kong*
 - Not all yacht imports may be classed in the “Yachts and Pleasure Vessels” custom category (HS Code: 8903)

Italy's Position

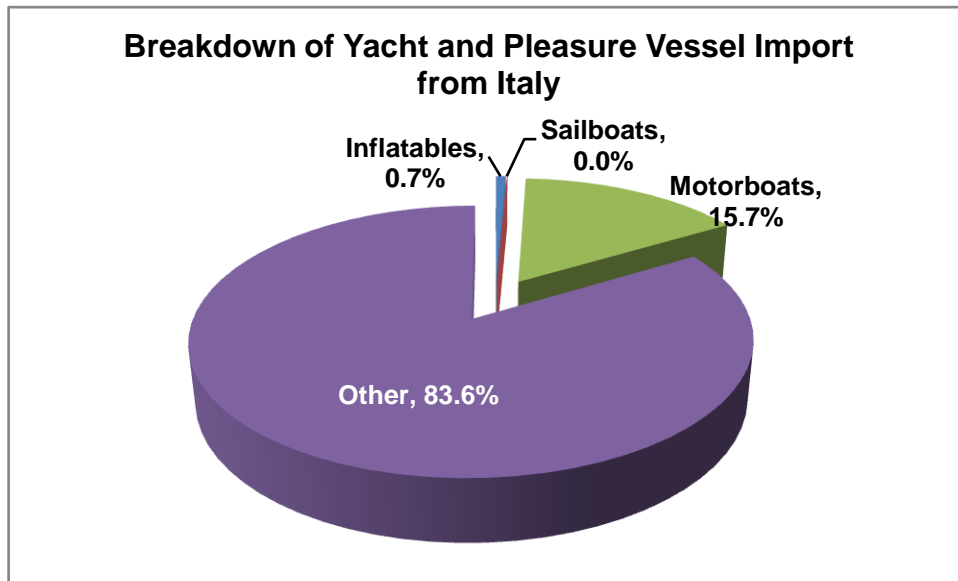
- Although Italy imports to China doubled from 2009 to 2010, Italy's position fell to #2 behind the UK for countries importing into China
- As indicated in the chart below, China imports from Italy grew to US\$ 20.8M, a 105% from 2009, hitting historical peak; total exports to Italy increased 51% to US\$ 8.5M



Source: JLJ analysis based on China Customs data

- The overall number of vessels imported from Italy to China decreased from 26 in 2009 to 22 in 2010 (same as 2008); however the average value of the vessels were much higher (increased 142% year on year) reflecting an increasing demand for higher value vessels
- However, 16% of the import value from Italy's came from 3 small-medium sized yachts (HS Code: 8903.9200) with a combined value of US\$ 3.3M; US\$ ~17.5M came from 19 small yachts and other vessels (HS Code: 8903.9900)

- As shown in the table below, *Motorboats* and “*Other*” yachts and pleasure vessels make up the majority of boats imported to China from Italy



Source: JLJ Analysis on China Customs Data

*Note: The Other Category (HS Code 8903.9900) may also contain small-medium sized yachts

- The table below illustrates *Italy’s* position for the different segments of yachts and pleasure vessels:

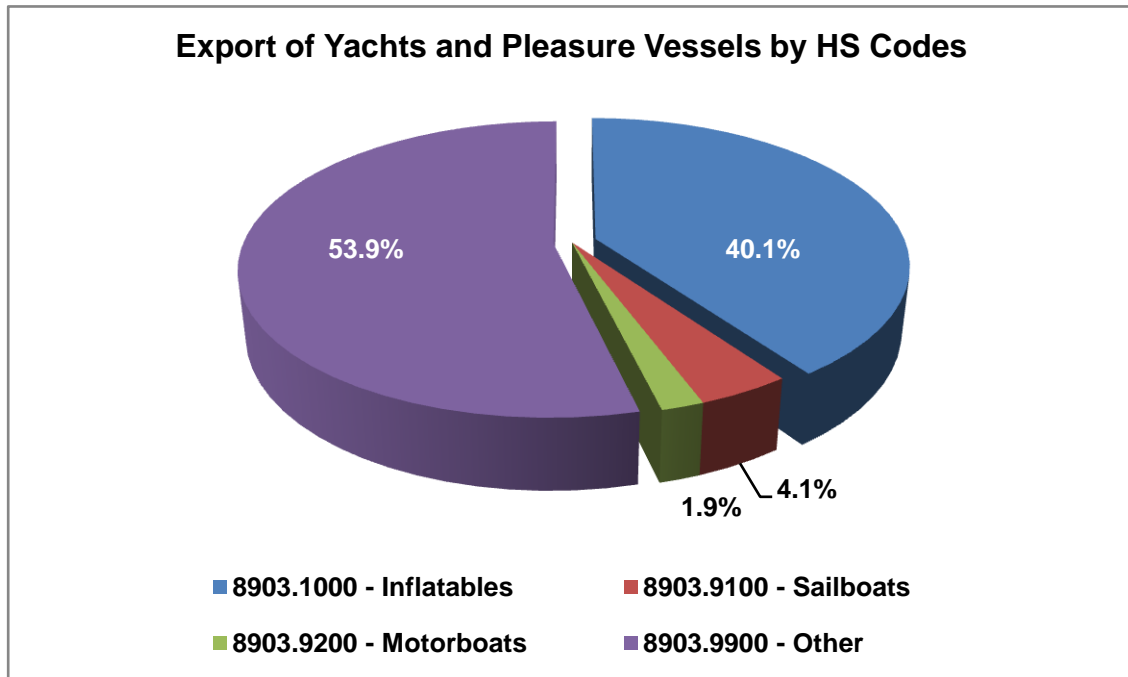
Table 8: China’s Imports from Italy by HS Code

Product Category	HS Code	Italy's Position	Value ['000 US\$]	% Share of Imports	Major Competitors (% Market Share)
Inflatable	8903.1000	#1	145.1	36.7%	US 17.1% UK 9.1% China 7.8%
Sailboats	8903.9100	#14	9.7	0.1%	France 65.5% US 10.3% South Africa 8.5%
Motorboats	8903.9200	#2	3262.1	22.6%	UK 39.9% France 13.9% US 10.6%
Others	8903.9900	#2	17,365.5	26.6%	UK 29.8% US 14.7% Taiwan, 9.6%
Total imports of yachts and pleasure vessels from Italy		#2	20782.4	23%	UK 28% France 16% US 14%

Source: JLJ analysis on China Customs data

Exports of yachts and pleasure vessels from China

- In 2010, China's exports of yachts and pleasure vessels grew to US\$ 204.2M from US\$ 170.7M in 2009
- However, the 20% year-on-year growth is primarily the result of the increase in global demand in part due to the recovering worldwide economy; the CAGR of China exports from 2004-2010 is 29%
- The majority of exports are still lower value small and medium boats, such as speedboats



Source: JLJ Analysis on China Customs Data

- As the economy continues to recover from the economic crisis, international demand is expected to stabilize and is likely to grow in 2011
- The top 5 export destinations are *Hong Kong*, *US*, *Australia*, *Netherlands* and *France*
- In particular, *Hong Kong* replaced *US* as the number 1 country which imports yachts and pleasure vessels from China in 2010; total export value to *Hong Kong* reached US\$ 35M, a 97% increase from 2009
- Italy ranked 8th, with about US\$ 8.5 million worth of exports from China or about 4.1% of total China boat exports, up from US\$ 5.6 million and 3.4% respectively in 2009

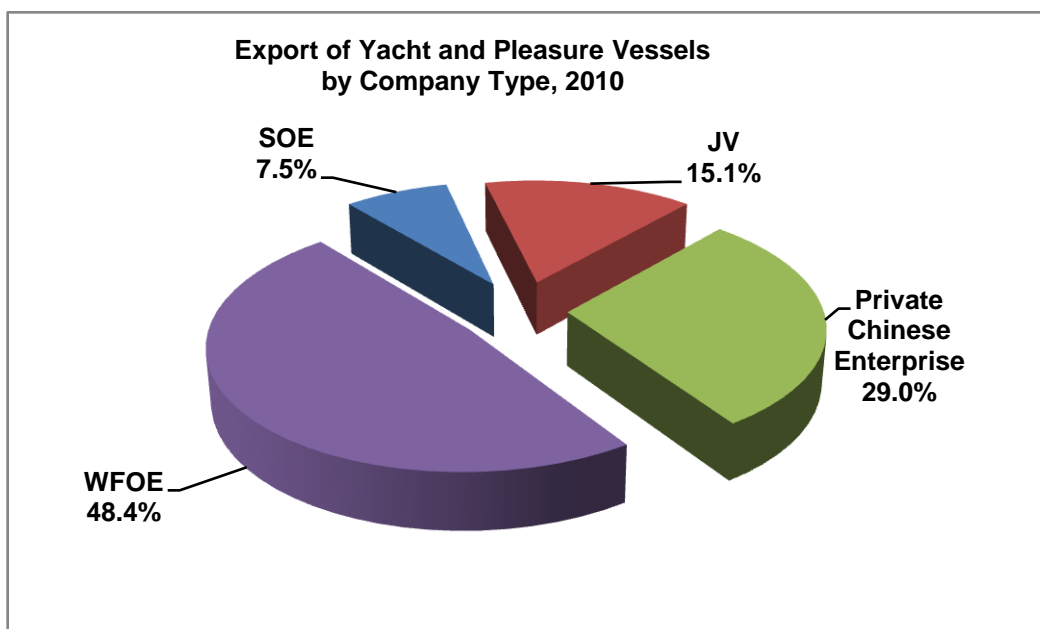
- The table below shows the top 10 export destination countries of yacht and pleasure vessels from China

Table 9: Top 10 Importers of Yachts and Pleasure Vessels from China

Rank	Country	Exported Value [M US\$]	% of China Exports
-	World	204.2	100.0%
1	Hong Kong	34.9	17.1%
2	United States	33.7	16.5%
3	Australia	20.7	10.1%
4	Netherlands	13.1	6.4%
5	France	11.9	5.8%
6	Russian Federation	11.3	5.5%
7	Germany	9.6	4.7%
8	Italy	8.5	4.1%
9	United Kingdom	8.2	4.0%
10	Japan	4.5	2.2%

Source: JLJ analysis on China Customs data

- Most foreign-invested companies use China as a low-cost export manufacturing base
- Foreign-invested enterprises (JV or WFOE) accounted for 64% of total exports by value, as shown below



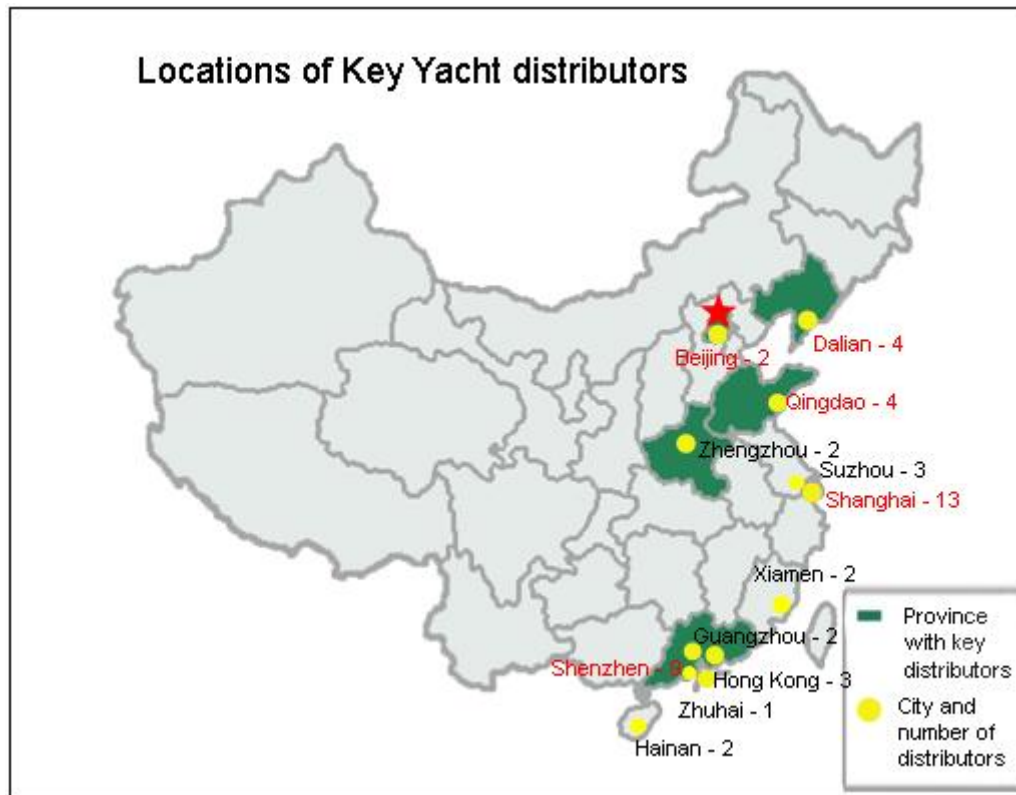
Source: JLJ analysis based on China customs data

Inside story- From a local yacht manufacturer

- *“The Chinese traditional concept of yacht is quite different from that used in the West...ten years ago, the only “yachts” being made in China were fiberglass tourist boats used to cruise the lakes or rivers... there were no luxury yachts with nice interiors and bedrooms! ”*
- *“Many local manufacturers still continue to target the domestic tourism industry, or they make speedboats for the government... it is difficult to get into the luxury yacht industry without the expertise in design and knowledge...”*
- *“In terms of quality and styling, the “typical” Asian boat builder is probably below the “medium” builder in the US or Europe. However, the top 10% of Asian boat builders are just as good when it comes to quality as their US/European counterparts”*

Sales & Distribution System

- Domestic yacht sales are dominated by distributors/ agents
- Typically, distributors in China are fragmented and highly localized and focus on regional clients
- Thus, it is important to have strong local agents in order to build brand awareness and promote sales
- In the yacht business, there are around 40 key dealers / agents, which distribute about 100 international yacht brands
- Yacht dealers / agents are mainly concentrated in coastal cities such as *Shanghai, Qingdao, Shenzhen, Guangzhou* (see Excel appendix for detailed list of yacht brands sold in China through distributors)
- The following map shows the locations of key distributors (see Appendix I for detailed profiles of the key distributors)



Source: JLJ analysis based on mu Source: JLJ Analysis on multiple sources

- *Shanghai* has the highest number of yacht distributors (12) for several reasons:
 - Central location along coastal China, making it a good base to establish dealership
 - Large number of HNWI's
 - Several potentially good yachting locations near *Shanghai* in *Zhejiang* and *Jiangsu* provinces, such as *Lake Taihu*, one of the largest lakes in China

- *Shenzhen* and *Guangzhou* (*Guangdong* province) are also popular locations for distributors, who usually represent the whole of south China
- Both are in close proximity to *Hong Kong*, with a large number of potential clients, wealthy Chinese, as well as *Hong Kong* or *Taiwanese* individuals who locate there due to business interests
- Many of the best agents are owned by or affiliated with yacht clubs, which sell a variety of brands
- Yacht clubs have an advantage in sales since they are in closest proximity to potential clients and boating enthusiasts
- Although the industry is improving, there is still a lack of professional salespersons with solid yacht and yachting knowledge

Inside story- From a yacht distributor

- *“There are not that many yacht distributors around...”*
- *“...many Chinese have yachts in Hong Kong... we keep our yachts there to arrange visits for our potential customers...”*

Laws and Regulations for Yachting / Sailing

Overview

- In January 2009, the *Ministry of Transport* enacted the first comprehensive set of regulations for yachting – *The Administrative Provisions on Safety of Yacht* (referred to the “*Provisions*” hereafter),
- These *Provisions* clarified operations on registration, licensing, sailing and security
- The key changes brought about by the *Provisions* include:
 - Simplifies yacht registration procedure
 - All rivers, lakes and seas⁷ will eventually be fully open to individuals
 - Nationwide piloting licenses for yachts are becoming available
- In addition to the *Provisions*, the *Maritime Safety Administration* issued an easily operable set of regulations for yachting - *The Guidelines on the Administration of Safety of Yachts* (referred to the “*Guidelines*” hereafter) in August 2010
- The *Guidelines* have since liberalized conditions of yacht registration and simplified procedures of entry and exit of overseas yachts
- Key changes brought by the *Guidelines* include:
 - Widens limits of navigability proof file, providing design diagram, enrollment and registration of yachts
 - Simplifies examination and approval procedures of entry and exit of yachts
 - *Hainan, Xiamen, Shenzhen and Zhuhai* are open to registration of yachts owned by non-residents
- Some local governments (especially in the coastal provinces, which are trying to promote yacht activities) are also starting to issue regulations specifically for yachting
- Key issues facing the yacht sector can be classified into four areas, which are:
 - Yacht registration
 - Areas/routes for yachting
 - Yacht piloting licenses
 - Import duties and consumption taxes

⁷ Some restrictions exist, such as sailing from mainland to Hong Kong and vice versa.

Yacht registration

- The lack of clear legislation has been one of the key factors for the low number of actual yacht purchases in China, despite the large number of high net-worth individuals
- Under previous maritime legislation prior to the *Provisions*, there was no difference between commercial boats and private boats, making the purchasing and operating of private boats much more complex than in other countries
- In cities with more experience in registering yachts (e.g. *Shenzhen, Shanghai, Qingdao*), the registration process is more straightforward than in other cities
- Ease of registration depends on the size of the yacht; larger yachts may be considered passenger vessels, resulting in a more complicated registration process and higher yacht ownership requirements (e.g. number of crew, qualifications of crew, etc.)
- For example, yachts with a rated crew of over 12 persons are subject to safety supervision and administration as though they were passenger ships
- When purchasing a yacht, owners need to provide multiple certificates and documents, including the boat's certification, proof of ownership, and nationality certificates
- While distributors and agents may be able to handle the registration process, many restrictions also lie in the actual operation and use of the boats
- Many distributors and manufacturers actually encourage buyers to register and keep yachts in *Hong Kong* – in addition to ease of registration and good berthing infrastructure, buyers also avoid the high taxes (~40%) associated with importing a yacht into China
- The *Provisions* simplified and standardized the yacht registration procedure; now the *Maritime Safety Administration* is the only authority in charge of yacht registration

Areas / routes for yachting

- Prior to the *Provisions*, most leisure boating was confined to inland lakes such as *Dianshan Lake* near *Shanghai* and *Lake Taihu* in *Suzhou*
- There were also no clear regulations or defined routes for river boating; tight restrictions exist because of heavy barge traffic
- While yachting is allowed on *Shanghai's Huangpu River* and *Suzhou River*, the routes open are minimal and boaters would have to crowd in with heavy barges and other commercial traffic
- Additionally, yachts along the river have a speed limit of 8 knots (15 km/hr)
- It is also not uncommon for the yacht to be ordered to stop at a point along the route in times of heavy traffic

- Before the *Provisions* were enacted, provinces and local governments had different rules regarding designated areas for yachting; yachting across regions needed approval from local authorities
 - E.g., the route from *Huangpu River* in *Shanghai* to *Lake Taihu* in *Jiangsu* was open to yachting, but before departing on the trip, permission would have to be obtained from the *National Maritime Authority*, the *Zhejiang Maritime Authority*, and the *Suzhou Maritime Authority*, and several other departments
- Even in areas where yachting was technically allowed, many approvals would still have to be obtained from different authorities before the sailing can actually happen
- Controls were even tighter along the seacoast due to concerns over *Taiwan*; it was nearly impossible for private yachts to sail at sea
- For example, new yacht owners or clubs must file with the local maritime administrative authorities for record of the navigation waters of the yachts before their maiden voyage
- If the navigation waters exceeded the recorded scope, the ship name, navigation plan, name list of yacht operators or crew and contact methods in emergency had to be reported to maritime administrative authorities
- However, the *Provisions* were a breakthrough in China's yacht navigation field and have set a new stage for the development of the yachting industry by making all rivers and lakes open to individuals, and have opened up the possibility of the long-anticipated cruise of yachts across sea areas
- Currently many wealthy Chinese own and keep boats in *Hong Kong*; it is possible to sail *Hong Kong*-registered boats into Chinese waters, although special application and permission is still needed before the boat can set sail even after the enactment of the *Provisions*
- However, the *Zhuhai City Water Safety Ordinance* approved by the *Zhuhai Municipal People's Congress* went into effect on January 2011, which allows for the registration of "dual accounts" in *Zhuhai* for yachts already registered in *Hong Kong* and *Macao*
- In addition to being allowed to freely sail between *Hong Kong*, *Macao* and *Zhuhai* waters, yachts with this "dual account" now are also allowed to freely cast anchor in *Zhuhai* waters and dock at *Zhuhai* berths and marinas
- Additionally, the *Hainan Maritime Safety Administration* issued *The Trial Measures for the Administration of Yachts in Hainan* in November 2010
- Whether this new regulation will extend to the rest of China's waters is yet to be seen, but this contributes to the trend for the opening up of China's coastline, which should in turn open up the yachting industry considerably

Yacht piloting licenses

- Since January 2009, all yacht schools must follow uniform national standards for fees, teaching materials, course hours and exams, making it possible for nationwide yachting licensees in the future
- The *Provisions* stipulate that the *Maritime Safety Administration of China* is in charge of issuing piloting licenses for private yachts to students passing the training courses of yacht piloting schools
- Qualification certificates for yacht operators are classified into qualification certificates for operators of oceanic yachts and qualification certificates for operators of inland waterway yachts
- Before the *Provisions* were enacted, a yacht piloting license issued in *Shanghai* could not be used in other provinces and vice versa
- For example, an individual with a yacht piloting license issued in *Suzhou* could only sail a yacht on *Taihu Lake* (which is within *Jiangsu* province), but was not permitted to sail on *Qiandao Lake* (in *Zhejiang* province) or in other waters
- There were plans by provincial and local governments in the *Yangtze River Delta* (*Shanghai, Jiangsu and Zhejiang*) to issue a uniform license that could be used to boat in the rivers and lakes of the three provinces, but no such plan came into reality
- The implementation of the *Provisions* allowed trans-regional access to yacht operators holding a license, a significant breakthrough in China's yacht navigation field
- It also clarified that international yacht licenses could be transferred to a domestic Chinese license upon registration with the relevant government department
- A systematic and comprehensive set of regulations for yachting - *The Provisional Measures for the Administration of Safety of Yachts in Hainan* (referred to the "*Provisional Measures*" hereafter) came into force on December 29, 2010
- The key changes brought about by the *Provisional Measures* include:
 - Simplifies procedures for yacht registration, examination and approval procedures of entry and exit of yachts in *Hainan*
 - Widens limits on yacht registration for individuals without *Hainan* census registration and enterprises with proportion of foreign capital over 50%
 - Foreigners can take piloting test and obtain piloting licenses in *Hainan*; foreign piloting licenses are accredited in *Hainan* for 7 days

Import duties and consumption taxes

- The import duty for pleasure boats is between 8% - 10.5%, as shown in the following table

Table 10: Import Duties & Taxes for Marine Vessels

HS code	Description of Products	Import Tariff (2010)
8903.1000	Inflatable recreational or sporting boats	10%
8903.9100	Sailboats, with or without auxiliary motors	8%
8903.9200	Motorboats, excluding outboard motor boats	10.5%
8903.9900	Other unlisted recreational or sporting boats	10%
* VAT (Value Added Tax) = 17%		

Source: China customs

- Yachts are currently subject to a consumption tax⁸ of 10%
- A Value-added tax (VAT) is also payable on imports, which is calculated as follows:

$$VAT\ Payable = VAT\ Rate \times [Dutiable\ Value + Customs\ Duty + Consumption\ Tax]$$
- Thus the effective tax rate for importing a yacht is about 43% of total purchase price
- The *Ministry of Commerce* is drafting a motion to lower China’s tariffs imposed on luxury import goods in an effort to boost sales revenue of the country’s luxury market

Inside story – From a yacht distributor

➤ *“Yachts are now also subject to high consumption tax... this brings the total tax on importing a yacht to about 43%... we have seen that this puts off many buyers and many Chinese are instead choosing to register and keep their yachts in Hong Kong ”*

⁸ Consumption Tax is levied on sales value of certain consumer goods, including include cigarettes and tobacco, liquor and alcohol, cosmetics, skin and hair care products, precious jewelry, firecrackers, gasoline, diesel oil, motor vehicle tires, motorcycles, motor vehicles, golf and golf facilities, luxurious watches, yacht, wooden one-off chopsticks and wooden floor board. Rates are 3% - 50% depending on the items.

Current and Future Projects (marinas / industrial parks)⁹

Overview

- Currently, there are around 90 yacht clubs with independent berths, among which ~70 are in operation or under construction and ~20 scheduled for completion, mainly located in the *Yangzi River Delta*, *Pearl River Delta*, *Hainan Island* and *Bohai Bay*
- Tourist ports for leisure boating, on the other hand, are still limited; however, there are numerous plans for marina developments and yacht industrial bases in all areas of China
- In addition, 100+ marinas are being planned or are under construction in various parts of China, encouraged and managed by local governments
- *Qingdao* alone has planned to build 30 marinas (2 have been approved) and *Hainan* has 13 marinas under construction or being planned while *Shanghai* aims to construct 10+ marinas and cruise ship centers along the *Huangpu River*
- *Hangzhou* in *Zhejiang* province is the first city that has approved the constructions of private marinas
- An understanding of the plans in place for the yacht industry is important to predict the development of the industry - major areas for yacht production, areas for yachting etc
- There are five major areas, illustrated in the map below, where local governments are promoting the yacht industry with numerous projects under construction or being planned:



Source: JLJ analysis based on multiple sources

⁹ Projects in this section include yacht clubs, marinas and industrial parks

- Some foreign yacht sellers or manufacturers (e.g. *Brunswick* etc.) have also invested in existing or upcoming yacht clubs and marinas, as this is one of the best ways to stimulate demand for private yachts in a developing industry

Details of projects by region

1. Qingdao

- The *2008 Olympic Games* were held in *Beijing*, with the sailing regatta being held in *Qingdao*, a coastal city in North China's *Shandong* province
- *Qingdao* has held a series of yacht races such as the *2010 Qingdao International Sailing Week*, *Mayor Cup*, and the *Second Dalian-Qingdao International Sailing Race*
- The *Qingdao* government also spent about RMB 10 million (US\$ 1.5 million) to purchase 1,000+ sailboats to implement "*A Thousand Sailings Set Sail*" 2008 *Humanistic Olympics Project*
- Meanwhile, 100 teenage sailing clubs has been established in *Qingdao*, which has been honored as a "*China Teenager Sailing Games Popularizing Model City*"
- *Qingdao* has already hosted eight *China International Marine Fairs* between 2002 and 2010, in which some yachts were exhibited
- The city's *11th Five-Year Plan*¹⁰ aimed to invest US\$ 4.4 million in a high-end offshore tourism program and planned to build 30 marinas (2 of which have been approved and are in preparation for construction) specially for yacht clubs
- *Qingdao* currently has 50+ yacht enterprises, generating over 30,000 different types of yachts and achieving annual exports around US\$ 140-160 million, among which over 90% was exported to European and American countries
- *Qingdao* currently has around 150 private yacht owners; among whom 60% are from *Qingdao* and most of them are in the real estate business
- Construction of yacht marinas and developing yacht economy have been listed in the city's *12th Five-Year Plan*

2. Zhuhai

- *Zhuhai*, a coastal city in South China's *Guangdong* province is vying to become one of the largest yacht and yacht-related products manufacturing centers in China in the next few years
- *Pingsha Yacht Industrial Zone*, located in the city's *Jingwan District* and established in 2002, covers an area of 6 square kilometers and has become the largest and most concentrated yacht industry parks in China
 - Currently there are more than 50 industry players established in the park, including 18 yacht manufacturers such as *Brunswick* and *IAG*, and over 30 component manufacturers such as *Yamaha Motor* and *Cummins Engine*

¹⁰ *11th Five-Year Plan*: it is a short-term plan (once every five years) issued by both central and local governments to guide economic and social development; "*11th Five-Year*" covers 2006 to 2010

- Three yacht enterprises are from *Taiwan* (17% of total yacht manufacturers in the park); other foreign-invested enterprises are from *USA, Australia, Italy* and *Canada*
- The park's annual output value exceeded RMB1 billion (US\$ 148 M) in 2009, and it is expected to reach RMB 4.5 billion (US\$ 665 M) by 2015, covering different types of yachts ranging from 17' - 300'
- A yacht component trading center was set up in the park in 2008 with US\$ 88 million investment; it provides services especially for component producers
- In 2010, over 10 component suppliers were introduced into the park including the largest Asian yacht component supplier *Tritex Holding Pte Ltd.*
- *Sunbird* was successfully listed in China's GEM Board, becoming the first listed yacht company in China
- There are currently two marina projects under construction in *Zhuhai: Jiuzhou Marina* and *Xiangzhou Marina* which will be specialized yacht marinas
- Over US\$ 37 million has been invested in *Jiuzhou Marina*, and when completed it will be the first yacht marina in the *Pearl River Delta*; Phase I of *Xiangzhou Marina* was completed in 2007 and construction on Phase II is now proceeding
- The total investment in *Pingsha Yacht Industrial Zone* reached over US\$ 300 million, currently making it the largest and most highly concentrated yacht manufacture base in China

3. Shanghai

- *Shanghai* is one of China's most developed cities; it is located on the eastern coast of China and has more than 200 private yachts
- Preparations for the *Shanghai 2010 World Expo* has been pushing the boat industry to develop rapidly
- In large due to the Expo, the *Shanghai* government planned to build over 10 marina facilities with over 20,000 berths along the downtown river as part of its transformation into an international tourism metropolis
- Marinas will concentrate around *Dianshan Lake*, connecting *Shanghai* and *Jiangsu* province, and *Fuxing Island*, the intra-river Island in the downtown area of *Shanghai*
- A manmade lake is being constructed in the *Harbor City* development, and facilities will include a yacht club in accordance with city planning
- One of the major plans to develop yacht manufacturing around Shanghai is in *Fengxian*, which will comprise of the *Fengxian Yacht Industrial Zone* and *Nanqiao Yacht Area*

Fengxian Yacht Industrial Zone

- The zone is 60 kilometers from *Yangshan* deep-water harbor and 20 kilometers from *Jin Hui Yacht City*; it is about 50 minutes drive from *Shanghai* city center
- The *Fengxian Yacht Industrial Zone* aims to provide a base for the yacht industry, with a planned area of 2.6 sq km
- The zone will be divided into six core areas for yacht production, yacht component manufacture, interior decoration and woodworking, shipping and storage, yacht research and development and an administrative centre; berthing facilities are also planned
- The first phase (about 1 sq km) was completed in 2008 as part of the efforts to develop recreational yachting facilities for *Expo 2010*
- Currently there are 11 yacht-related manufacturers in the parks, e.g. *Hampton Yacht*
- The *Fengxian Blue Sea and Golden Sand* will invest RMB 1.8 billion (US\$ 266 million) to build a brand-new indoor beach – *Hawaii Pavilion*; besides, 1,200 berths will also be constructed with 30,000 sq m yacht club, aiming to build a *Venice on Water*
- Additionally, *The East Dock* next to the *Bund* and against the *Lujiazui Financial Area*, with an area of 70,000 sq m is under construction, including three docks to park yacht, aiming to build a luxury, film and fashion media platform in *Shanghai*

Nan Qiao Yacht Area

- The *Nan Qiao Yacht Area* will be within easy reach of the *Huangpu River* to the north and *Hangzhou Bay* to the south
- The development of the new town of *Nan Qiao* has already begun; to the south is a forest region of 9 sq km, with a total of 1,550 acres of water; this area will be transformed into a development of town houses, with moorings and a marina

4. Hainan Island

- *Hainan Island* is the main island of *Hainan* province at the southernmost end of China
- The island has hosted many international events due to its beautiful environment and pleasant weather, including the *Boao Forum* and the *International Yacht Exhibition*
- *Haikou* and *Sanya* are two key yachting centers on the island
- The *Haikou Wan Club* is the first and largest yacht-specialized marina in *Hainan*; it currently has over 100 ports and plans to construct 200 more
- Another 300 ports are under construction in *Haikou* and will be run by *Xinfu Island Club*, a new club that has just opened in October 2010
- In addition, the *Haikou Yacht Exchange* – China's first yacht exchange – was announced in February 2010

- Between 2010-2011, *Hainan* has 3 yacht marinas – Sanya Hongzhou, Haikou Meiyuan and Haikou Port; 13 marinas are under construction or planned
- *Sanya* has 62 yachts registered, 72 berths constructed and 310 berths approved; 1,000 berths are expected to be constructed by the end of 2011
- *Haikou* plans to invest RMB 1.5 billion (US\$ 222 million) in three phases to build a yacht factory, which is expected to produce 2,000 small yachts and 70-80 large yachts per month; meanwhile, ~600 berths will be constructed between 2010-2011
- By the end of 2010, 35 yacht clubs including 28 domestic, 4 foreign and 3 private clubs have registered in *Hainan* province, among which 10 yacht clubs have registered capital above RMB 10 million (US\$ 1.5 million)
- *Sanya* has held three annual yacht exhibitions, and the government aims to develop the city into an important yacht base by encouraging private yachts and clubs

5. Zhoushan Island Chain

- China's largest island chain lies on the eastern coast of China with 1,390 islands bordering *Wenzhou* and *Fujian* on the south, *Shandong* on the north and *Shanghai* on the west
- With the area's scenery and geographical advantages, *Zhoushan's* municipal government plans to develop a "yachting center" to attract high-end tourists from surrounding areas

Other Areas

- Besides the above key areas, other cities and areas that have on-going marina projects include *Dalian*, *Ningbo*, *Guangzhou*, *Tianjin*, *Shenzhen* and *Xiamen*

Inside Story- From an industry insider

- *"One the biggest obstacles to yacht ownership in China is the lack of proper infrastructure. Where do I keep and use my yacht?!" At present, this awkward situation is changing. A number of large yacht clubs with several hundred berths start operation / under construction, including Xiangshan International Yacht Club, Qingdao Yin Hai International Yacht Club, etc."*

CHINA YACHT MARKET: DEMAND SIDE

Overview

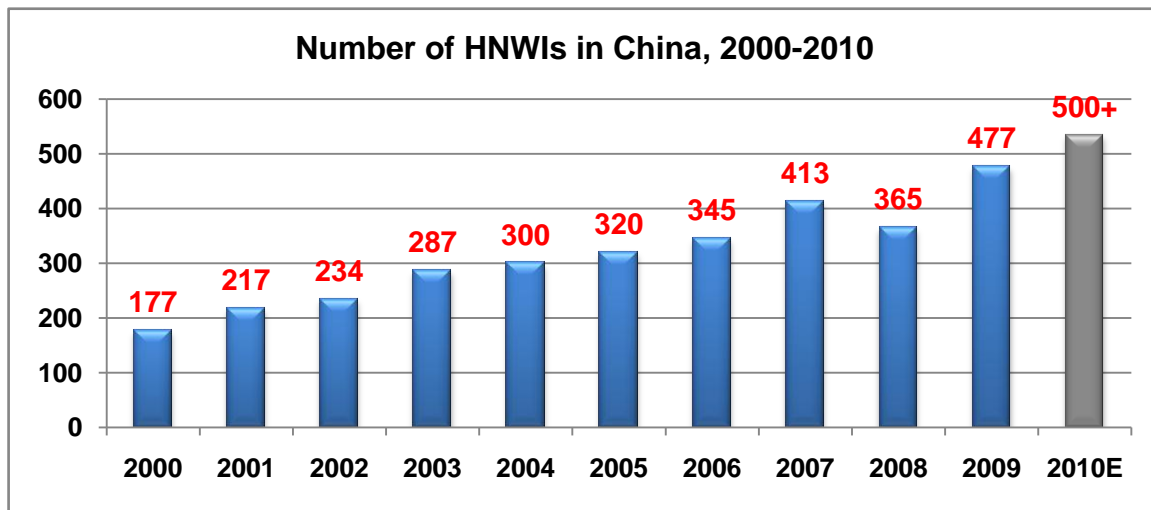
- The total market value of leisure boat & yacht business worldwide is estimated to be US\$ 33 billion as of the end of 2010
- In Mainland China (excluding *Hong Kong* and *Taiwan*), the yacht market alone is currently worth US\$ 400 million
- In comparison, *Hong Kong* alone is estimated to have 3,000 yachts with an estimated market value of more than HKD 4 billion (or about US\$ 515 million)
- The current domestic demand for yachts in China is predominantly in the small and medium-sized boat segment
- However, there is a steadily growing demand for imported superyachts amongst the richest Chinese, e.g. first superyacht sold in China (to a Chinese individual) was imported from a European manufacturer
- The ways in which the Chinese market perceives what a leisure boat is used for differs from the use concept understood in the West
- The key driver for the use of leisure boats in China is corporate use, sightseeing, party activities and fishing
- The concept of using a leisure boat as an activity/sport for recreational use is not yet fully understood as China does not have a culture of “enjoying the water”

Inside story – From a yacht club

- *“There are many very wealthy people in China... we organized a small show at our marina... the Chinese came with cash ready to buy!”*
- *“There are barriers preventing people from buying yachts in China... but financial limitations are definitely not one of them!”*
- *“It seems like rich men in China are not only competing on larger villas, but also on bigger yachts.”An important businessman” got very upset when his 24-meter powerboat was dwarfed by a newly arrived 49-meter luxury yacht.”*

Demographics of High Net-Worth Individuals in China (profile of potential end users)

- The number of high-net-worth individuals¹¹ (HNWI) in mainland China recovered approximately 31% from an estimated 364,000 individuals in 2008 to 477,000 individuals in 2009¹²; the number is estimated to be over 500,000 in 2010
- As shown in the chart below, the number of HNWI in mainland China (excluding *Hong Kong* and *Taiwan*) has been steadily growing since 2000, although declining in 2008



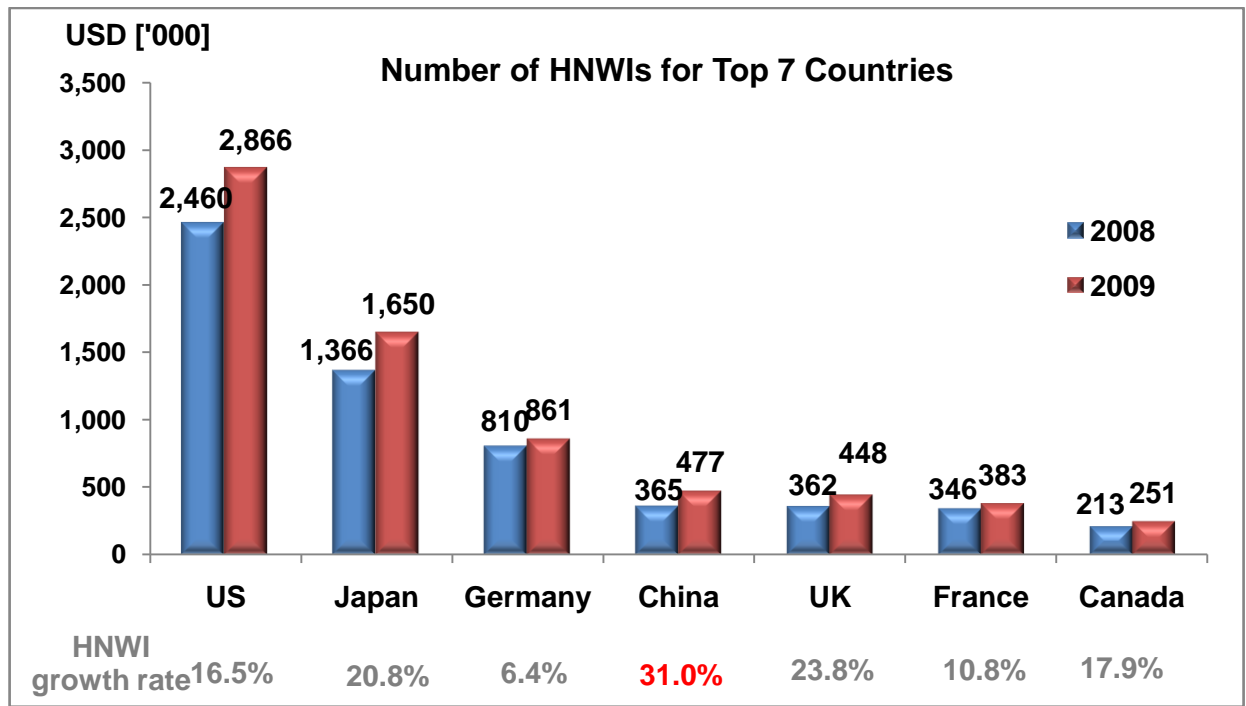
Source: JLJ analysis based on World Wealth Report 2010 and Economic Intelligence Unit

- Furthermore, the number of HNWIs in Mainland China is expected to continue growing to 788,000 by 2013
- While there are a large number of HNWIs in China, the number of yacht owners is extremely low
- There are about 1,500 private yacht owners in China; an estimated 400 yacht owners in *Shanghai* and 100 in *Beijing*
- In contrast, there are about 76,000 HNWIs in *Hong Kong* and around 3,000 yachts
- Thus, the estimated ratio of yacht owners to HNWIs is 1:318 in Mainland China and 1:25 in *Hong Kong*
- The Hurun Wealth Report surveyed over 350 high net worth mainland Chinese with wealth of US\$ 1.5M or more (~66 with US\$ 15M or more), over 50% expressed interest in becoming a yacht owner, with *Princess* chosen as the preferred luxury cruising yacht, followed by *Ferretti*, *Azimut*, and *Sunseeker*
- Almost 80% of the respondents were male and the average age was 40 years old – similar to the profile of a typical yacht buyer

¹¹ High Net Worth Individual is an individual with more than US\$ 1 million in liquid assets

¹² Source: World Wealth Report 2010 by Merrill Lynch and Capgemini; Note: HNWI figures for 2010 were not available at the time of writing

- China has similar number of HNWI's as the *UK* and greater numbers than *Australia* and *Canada*, as seen in the figure below



Source: JLJ analysis based on data from World Wealth Report 2010

- However, China's number of yacht owners is significantly less than these other nations
- In contrast to China's 1,500 yachts, there are around 600,000 recreational boats owners in the *UK* and approximately 19 million recreational boats in *US*
- This indicates that significant market potential exists, especially now that many barriers to yacht ownership have been removed with the implementation of clearer regulations on marine traffic

Preferences of Chinese Customers for Yachts

- Compared to Westerners, Asian customers including Chinese have different requirements for yacht design due to different leisure cultures, e.g. a karaoke, card or ma jiang table, larger shades for the flying deck, etc.
- Most of the current Chinese yacht owners are mainly driven by their interest and normally lack the expertise in sailing and yachting to fully enjoy the sport
- The primary challenge for various yacht-related businesses in China is therefore to educate potential customers to appreciate yachting
- Most yachts sold in China are still medium to low-end products, but the potentially promising Chinese market is attracting the attention of super-luxury yacht manufacturers from around the world

- The most preferred yachts are small to medium-sized yachts in the RMB 1 million to RMB 5 million price range (US\$ 147,700 to US\$ 738,600)
- However, the size of yachts being purchased by Chinese owners (and subsequently the price) is steadily increasing, with the sale of multiple yachts between the lengths of 60' to 99' (18m to 30m) in recent years

Profile of a typical Chinese yacht buyer

- Male, aged between 25-45
- Based in Shanghai, Guangdong, or Beijing
- Businessman in manufacturing, IT or real estate
- Prefers yacht in the range of RMB 1 - 5 million (US\$ 147,700 –738,600)

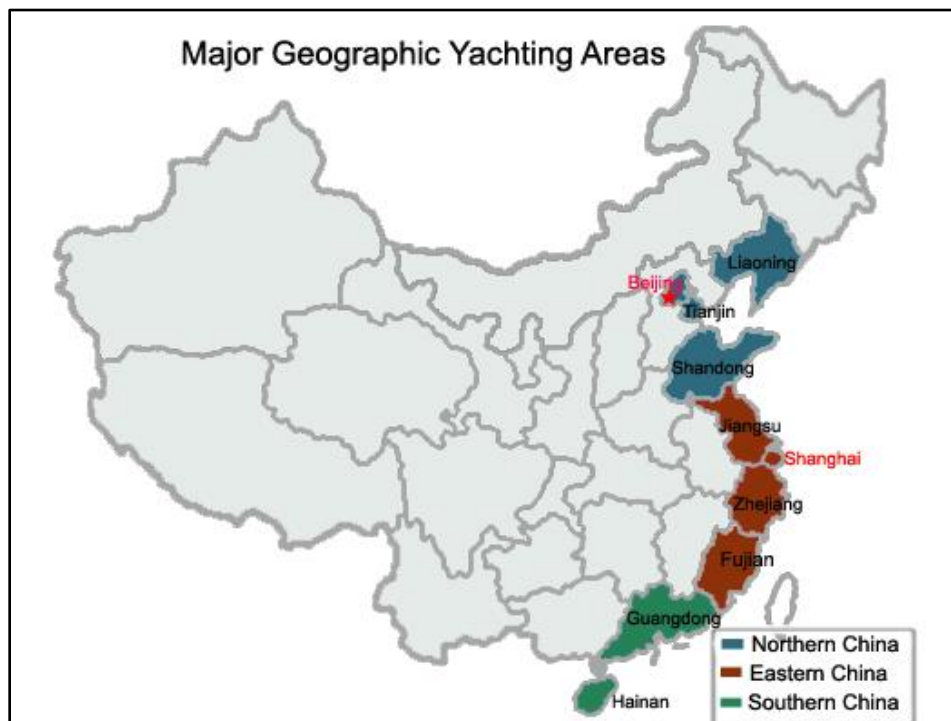
Source: multiple sources including news reports and interviews

The Hong Kong Chinese Yacht Owner

- Understanding how *Hong Kong* functions as a marine market is useful in trying to stimulate marine leisure interest in China
- Many wealthy mainland Chinese aspire to live in *Hong Kong* as wealth is less conspicuous and there is more on which to spend money
- Yacht market for *Hong Kong* Chinese is dominated by motorboats
- The *Hong Kong* Chinese use of yachts differs from the expatriate community; while expatriate sailors usually sail for pure enjoyment, Chinese owners of big motor-yachts (around 99' or 30m) prefer to use their boats as a leisure “hangout”
- The Chinese owner is likely to go out during the weekend for a short run and then anchor; or possibly just to sit-in it at the marina
- Recreation would typically take place in air-conditioned spaces where owners would enjoy karaoke, ma jiang, cards, etc.; thus, larger air conditioning units may be required for yachts to be used in China or Hong Kong
- As marine developments are few and far apart, there are few places to sail to; due to the engine's short running time, Chinese owners in *Hong Kong* regard brokerage boats as very good deals
- While some Mainland Chinese own and keep their yachts in *Hong Kong*, regulations can make it difficult to sail *Hong Kong*-registered yachts into Mainland China waters except *Zhuhai* and *Hainan* currently

Major Geographic Areas for Yachting

- China has considerable waters that could be used for yachting/sailing, including 90,000 lakes, more than 6,500 islands and an 18,000 kilometer-long coastline
- In addition the four major river systems of the *Yangtze*, *Pearl*, *Yellow* and *Heilongjiang Rivers* can all be used for yachting / sailing, although they are also extensively used by commercial traffic
- However, water quality in many areas is well below Western standards
- Major yacht markets are in the more economically developed coastal provinces and three key regions can be identified, as shown on the map below:



Source: JLJ Analysis of key geographic locations

Eastern China - Shanghai, Jiangsu, Zhejiang and Fujian Provinces

- Most activity is in *Shanghai*, with some activity in nearby *Suzhou*, *Nanjing* and *Hangzhou*
- The maritime situation in this region is similar to *New York*; the market to date has been mainly for sightseeing and/or party boats
- The development of an extensive range of marinas in *Shanghai* in recent years ensures that this area will continue to be a major hub for leisure boating in China
- There are boating options in *Suzhou* and *Hangzhou* in inland lakes, as well as rivers connecting to the *Huangpu River* in *Shanghai*

Northern China- Shandong & Liaoning province; Beijing & Tianjin city

- Yachting in Northern China is primarily centered around *Qingdao* (*Shandong* province), with some activity in *Dalian*, *Tianjin* and on inland rivers and lakes near *Beijing*
- Climate in this region is colder and the boating season is shorter, with sea conditions also generally being rougher
- Some prestigious marina developments are planned, representing an opportunity for larger and more luxurious boats
- The yachting events for the *2008 Beijing Summer Olympics* were based in *Qingdao*, which has promoted the development of yachting and sailing in Northern China
- *Qingdao* is now host to a number of international yacht races and regattas including the *Clipper Round the World Yacht Race* and the *Volvo Ocean Race*

Southern China - Guangdong Province and Hainan Island

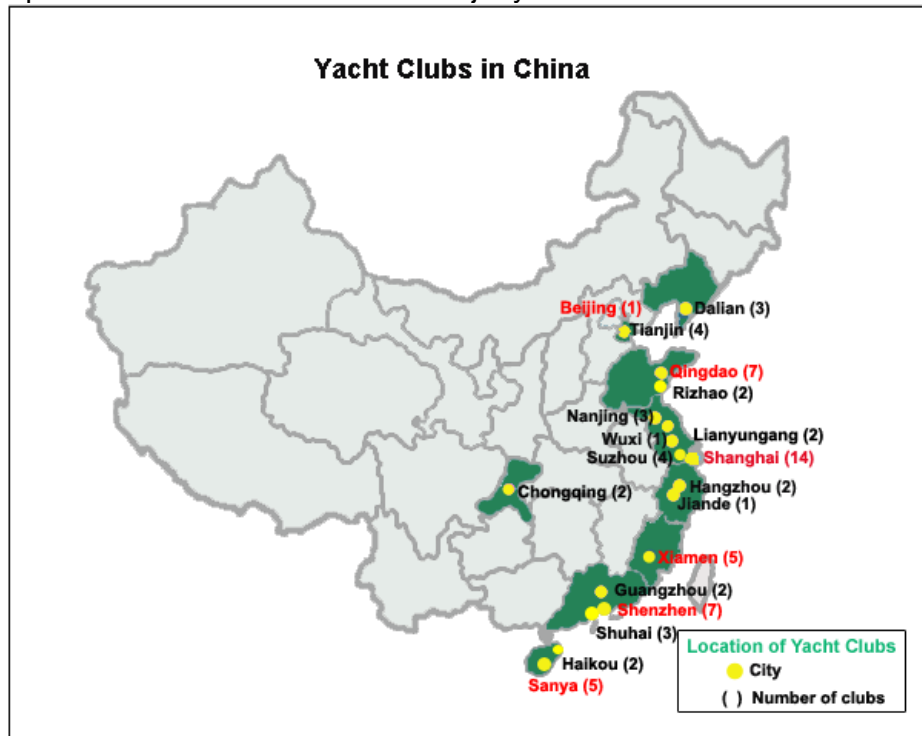
- Main areas for yachting activities are *Shenzhen* and *Hainan Island*, with some activity in *Zhuhai*
- This market is suitable for smaller boats in the 19' – 33' (6 – 10m) range; usage is expected to be multipurpose with tourism being a key factor, and fishing becoming increasingly popular
- *Hainan Island* is in the far south of China, and it has a tropical climate similar to that of *Hawaii*
- Leveraging its rich tourism resources, *Hainan* is aiming to become one of the leading yachting bases
- *The State Council* announced plans at the end of 2009 to develop *Hainan* province into an international tourism destination, with the yacht industry (especially superyachts) as a key component
- As *Shenzhen* and *Zhuhai* are in very close proximity to *Hong Kong*, the passing of *Zhuhai's* “dual account” registration would allow ships to sail between *Hong Kong* and Mainland China waters
- The largest yacht marina in Asia was recently completed in *Xiamen* and entered operation at the end of 2010

Inside story – From an industry insider

- *“I don't doubt that yachting could potentially be popular in China... there is an abundance of coastline and lakes... but it will take a considerable effort from the government as these places don't offer very attractive landscape...”*
- *“With the pollution and the crowd on the rivers...who would want to yacht? But if some places were cleaned up, and dedicated to only yachts, then perhaps the situation might change... Hainan Island and Qingdao are good examples...”*

Map of Influential Circles (yacht clubs / golf clubs)

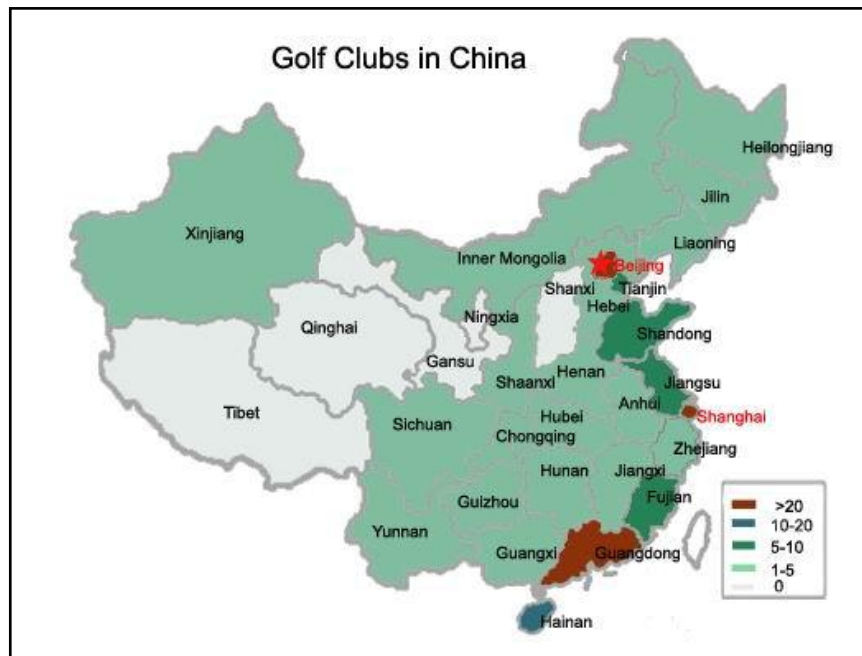
- There are now around 90+ yacht clubs with independent berths and 100+ marinas in China, among which many are currently under construction or being planned
- Traditionally, most yacht clubs in China operated like tourist clubs, but there is an increasing number of exclusive “members-only” clubs
- The scale and sophistication of domestic clubs are approaching levels comparable to the *Royal Hong Kong Yacht Club* and other Western clubs, especially in *Sanya, Shenzhen, Shanghai, Xiamen* and *Qingdao*, where yachting is more developed
- The map below shows the locations of major yacht clubs in China:



Source: JLJ analysis of yacht clubs

- As the demand for yachting infrastructure has increased in recent years, it has quickly becoming the standard for yacht clubs to provide berths and maintenance services for its yacht-owning members to keep their yachts
- Other services include renting and supplying yachts for sightseeing, photography, private parties etc
- Most clubs own, or are affiliated with, an on-site distributor that sells yachts
- While yachting is still a relatively new industry in China, golf, as another example of a relatively luxurious sport, has grown quickly in popularity amongst China’s newly rich
- There are around 600 golf clubs in total and are located in all the major cities; there are another 500+ that are under construction, despite the official ban on establishing new golfing developments

- Two decades after the birth of the country's first golf course in 1984, China now ranks among the top five in the world in terms of the sheer number of courses; major concentrations are shown in the map below



Source: JLJ analysis of golf clubs

- *Guangdong* has the highest number of golf clubs with 70+ clubs in all (not including those under construction); *Shenzhen* alone has around 15 golf clubs including *Mission Hills*, the world's largest golfing complex
- However, the golf market is saturated with too many clubs and too few regular members
- Even in *Guangdong* where golf is more developed and popular, the golf clubs have an attendance rate lower than 60%
- In addition, while the number of golf courses have grown very quickly, a large number are still not making profits and do not see enough players
- The fast rise in popularity of golf might give an indication to the future development of the yachting industry
- However, yachting faces significantly higher barriers than golf; besides the significantly higher cost, there is also a lack of suitable scenic areas for yachting in most parts of China

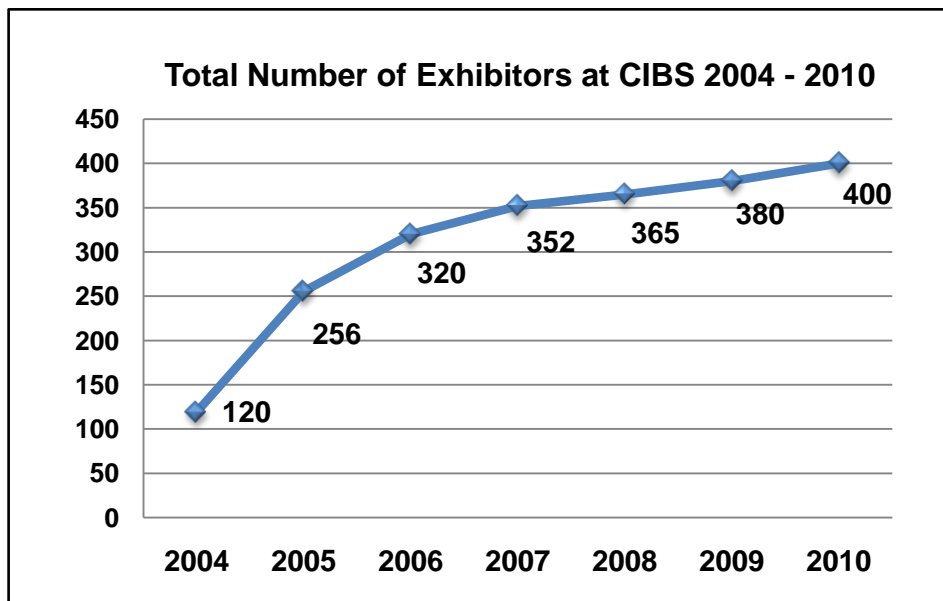


Inside story – From a yacht club

- *“Yachting is a new market in China, only a few people know about yachts... yacht clubs are the first steps to introduce this sport to the wealthy... making immediate profits is not a top priority at the moment...”*
- *Living far from the sea is not the only issue that keeps some of the affluent far from yachts; to many of them, the traditional mindset that only luxury cars and villas are worth buying is another problem*
- *“Clubs in China are important to educate and develop the market by first providing services...”*
- *“That is why many distributors and even some manufacturers have invested in clubs... you have to teach people about yachting before they will buy yachts...!”*

Yacht and Boat Shows in China

- The *China International Boat Show (CIBS)*, into its 16th year in 2011, is regarded as the largest comprehensive boat show in Asia, attracting exhibitors from all over the world
- The event is becoming increasingly popular, as shown in the consistent rise in the number of exhibitors in the figure below



Source: CIBS Post Show Report



- A total of 15,827 visitors attended the show in 2010 - of which 2,058 were foreign visitors from 51 countries and regions, as shown in the figure below

Table 11: Top 10 Visiting Nationalities to CIBS '08 - '10

Rank	Country	No. of visitors			% Change (09 - 10)
		2008	2009	2010	
1	Korea	139	171	282	65%
2	Taiwan	135	167	274	64%
3	USA	133	138	230	67%
4	Australia	132	110	230	109%
5	Hong Kong	120	179	176	-2%
6	Singapore	45	22	107	386%
7	Japan	72	29	79	172%
8	France	70	15	50	233%
9	Italy	118	82	49	-40%
10	Sweden	-	-	39	-
Total Overseas		1,324	1,105	2,058	86%

Source: CIBS Post Show Report

- There was a marked drop in Italian attendance from 2009 to 2010, but the strong growth in attendees from *Singapore, France, Japan, Australia, USA, Korea and Taiwan*
- A total of 13,769 Chinese visitors attended the boat show, a majority of which came from *Shanghai, Jiangsu and Zhejiang* provinces, as shown below

Table 12: Top 10 Visiting Provinces to CIBS '08 - '10

Rank	Country	No. of visitors			% Change (09 - 10)
		2008	2009	2010	
1	Shanghai	9,064	9,952	9,321	-6%
2	Jiangsu	994	973	1,357	39%
3	Zhejiang	733	613	924	51%
4	Shandong	406	379	564	49%
5	Guangdong	376	410	546	33%
6	Hebei	-	-	236	-
7	Beijing	215	179	173	-3%
8	Fujian	156	165	159	-4%
9	Liaoning	127	115	102	-11%
10	Tianjin	33	52	65	-
Total Overseas		12,471	13,171	13,769	5%

Source: CIBS Post Show Report

- *CIBS 2010* covered a total floor space of more than 32,000 sq m, and in total had 252 yachts on display plus 126 yacht models

- The show displayed yachts ranging from 30' (9m) to over 120' (37m), and the total trade value achieved over RMB 300 million (US\$ 44 million)
- *CIBS 2011* is expected to cover over 400 brands home and abroad and have over 300 yachts on display; the sponsors predict a 36% year-on-year growth in the number of visitors in 2011
- The success of the boat shows, especially large ones like the *China International Boat Show*, has raised the popularity of yachts amongst the wealthy
- The increasing number of boat shows is another indication of the momentum gathering in the China yacht market; number of boat related expos nearly doubled since 2006
- In its first year (2010), *Hainan Rendez-Vous* luxury show, attracted over 5,600 visitors, among which over 200 guests were Ultra-HNWIs with net assets over RMB 1.5 billion (US\$ 222 million)
- Now in its second year, *the Hainan Rendez-Vous* luxury show will showcase yachts, jets, helicopters, luxury goods and real estate
- The exhibition space includes 27,000 sq m on-water display area and 19,500 sq m floor space, which is expected to cover over 160 exhibitors home and abroad with ~180 brands
- Participants included *Royal Huisman, Blohm + Voss, Lurssen, the Azimut-Benetti group, Sunseeker, Brunswick and Ferretti Yachts*
- The yacht and marine portion will showcase over 60 superyachts, including China's first 50m+ (164'+) superyachts at their on-water display area
- This year, *Hainan Rendez-Vous* event is expected to draw over 200 famous Chinese CEOs and VIPs and more than 8,000 HNWI's throughout China, presenting a good opportunity for the yachting industry in general
- Despite the small but-growing demand for superyachts in China, the rise of more boat shows and shows dedicated exclusively to superyachts and megayachts will serve to increase the popularity and awareness of yachting among China's wealthy

IMPACT OF ECONOMIC CRISIS ON CHINA'S YACHT INDUSTRY

The following section gives an overview of the ongoing trends in China's yacht industry during and since the recent worldwide economic crisis

China's economy in the worldwide economic recovery

- While many nations are just starting to recover after the global economic crisis, China appears to have maintained strong economic growth throughout the crisis
- By the end of 2010, the Chinese government completed disbursement of its US\$ 586 billion (RMB 4 trillion) stimulus package and active measures launched in 2009 and have encouraged domestic consumption and boosted China's economy
 - The RMB 4 trillion (or US\$ 586 billion) investment was put into seven key sectors, including infrastructure construction of marinas and high-tech industry support, and will have a far-reaching influence on China's economic structure
- As a result, China was able to achieve an overall GDP¹³ growth of 10.3% in 2010, showing a steady economic growth
- After exports dropped 16% in 2009; overall exports in 2010 realized a 31% renewed growth, surpassing the pre-economic crisis boom
- After imports shrank 11% in 2009, overall import in 2010 grew 39% – primarily reflecting China's stimulus-spurred need for more raw materials
- Since the 2nd quarter of 2010, government has begun unwinding certain stimulus measures (e.g. tighten monetary policy) to prevent the economy from overheating
- The global economic recovery is expected to continue, despite Japan's 9-magnitude earthquake and tsunami which might cause Japan to sink into a recession and slow down the global economic growth (median forecast is 0.5%)
- Although economists do not necessarily always agree, China's economy is expected to continue its strong growth in 2011 (median forecast of 9.5%)

The yacht industry and recent trends

- While many segments have begun showing signs of recovery, China's ranks of wealthy individuals have continued to expand
- For example, the average wealth of the top 1,000 richest people in China grew by 28% CAGR between 2008-2010, reaching about US\$ 722 million, from 2008's lows – surpassing the pre-economic crisis boom
- The superyacht segment, with its long production cycles and very wealthy customers who are not dependent on financing, has remained relatively stable through 2010 and has continued to grow

¹³ Gross Domestic Product

- Meanwhile, sales of small and medium sized yachts, priced around US\$ 147,700-738,600, show a renewed growth as traditional buyers (e.g. entrepreneurs and bankers) benefit from the global economic recovery
- Recovering world and domestic demand resulted in overall Chinese yacht imports and exports rising 134% and 20% respectively in 2010
- Additionally, some encouraging economic movements including policy packages to revitalize 10 critical industries – one of which is shipbuilding, have been implemented
- This revitalization plan aims to improve design capability of the shipbuilding industry, increase marine equipment supply, develop large-scale shipbuilding construction, and optimize three large ship types
- As a result, the Chinese yacht industry has been experiencing revived growth in 2010
- The Chinese central government is also targeting the development of the yacht industry in coastal provinces to encourage tourism
- E.g. the *State Council* announced plans in December 2009 to develop *Hainan* province into an international tourism destination, with the yacht industry (especially superyachts) as a key component
- In addition, the *Haikou Yacht Exchange* – China's first yacht exchange – was announced in February 2010, further promoting the development of private yacht ownership in China
- Subsequently, The *Maritime Safety Administration* issued *The Guidelines on the Administration of Safety of Yachts* in August 2010 and have liberalized conditions of yacht registration and simplified procedures of entry and exit of overseas yachts
- However, the small and medium sized yacht sectors are experiencing an increase in competition as many export-oriented manufacturers are turning to the domestic market
- Benefiting from the global economic recovery and government stimulus policy, China's yacht industry will still have great market potential in the long term despite the increasing competition
- Japan's 9-magnitude earthquake and tsunami in March 2011 might cause a transfer of global orders from Japan to China, which might be an opportunity for Chinese yacht manufacturers and component suppliers in the short term

KEY MARKET DYNAMICS

1. Still a supply driven industry

- The yacht industry in China is driven by the supply side, with more than 88 yacht manufacturers and ~40 distributors
- The industry is nascent, with a vast majority of manufacturers and distributors only established in the last seven years
- Although there are around 90+ yacht clubs, many still do not operate as full members' clubs for yacht owners as usage is low
- Many clubs operate like a tourist club, primarily to introduce yachting and yachts to Chinese by offering chartering services
- However, there is an increasing number of exclusive "member-only" clubs that offer comprehensive services and whose scale and sophistication is comparable to western yacht clubs
- Some distributors have invested in yacht clubs and marinas, as these are the first points of contact with potential customers, to spread awareness and increase popularity of yachts

2. Still relatively limited number of Chinese buying yachts

- Compared to the supply of yachts, few Chinese are buying yachts, e.g. there are currently only 1,500 yacht owners in all of China
- There are over 500,000 estimated High Net Worth Individuals with liquid financial assets exceeding US\$ 1 million - which indicates that financial potential to buy yachts exist
- Yet actual sales are very low, despite the fact that there are over 100 yacht brands imported by more than 40 distributors, offering a wide range of yachts for every need and budget
- There are considerable barriers in stimulating demand, some of which are deeply rooted in Chinese culture
- Traditionally, Chinese are not fond of the water, which they view as "yin", or the "dark side"
- Promoting yachting and the sea as a leisure lifestyle to traditional Chinese would involve overcoming the cultural dislike for the water and water sports
- In addition, several other key barriers serve to prevent China's new rich from buying yachts in China:
 - Limited understanding of yachting as a sport
 - Few areas of natural scenic landscape
 - High taxes (import tariffs and consumption tax)

3. Improving regulations and government support for yachting

- With yachting being a new and supply driven industry, the government is catching up with industry regulations and supporting policies
- There is limited centralized legislation for yachting in China, and in general, pleasure boats are treated the same as other commercial vessels
- However, the first comprehensive yachting regulation, *The Administrative Provisions on Safety of Yacht*, was enacted in January 2009, and is regarded as a key step for improving the overall regulatory environment
- It aims to address many of the major issues facing the yacht industry regarding registration, licensing and sailing
- Meanwhile, local governments (especially cities along the Eastern coast) are also making efforts to both regulate and promote the industry,
- E.g. the *Zhuhai* municipal government has approved dual registration for yachts in *Zhuhai* and *Hong Kong / Macau*, allowing them to berth in both locations
- Additionally, the *Hainan Maritime Safety Administration* issued *The Trial Measures for the Administration of Yachts in Hainan* in November 2010 and *The Provisional Measures for the Administration of Safety of Yachts in Hainan* in December 2010
- Both regulations have since made Hainan the most open and free water area in China

4. Few natural scenic landscapes

- Even with regulations put in place for yachting along the rivers, there is limited natural scenery that would encourage the activity
- Yachts would have to crowd in with barges and other commercial boats, which make the yachting experience less pleasant
- This leaves only inland lakes as the main areas for yachting, but geographic limitations mean that demand and use of yachts will be limited to the smaller yacht segment, since large superyachts cannot be used on lakes
- However, government attention to the yacht market, especially in *Shanghai* which is developing its marinas, may ensue in better regulation and designation of yachting areas
- *Longcheer Yacht Club* in *Shenzhen* has an agreement with the government such that part of the sea area where the club is located can be used for pleasure yachting
- Efforts to develop *Hainan Island* have been successful in attracting many domestic tourists to its beach resorts
- Thus, there is no lack of coastline or lakes for yachting, but it will require more government attention to improve and dedicate areas for yachting before the activity becomes more popular

5. Mainland Chinese buy and use yachts in Hong Kong

- While there are still considerable barriers to yacht ownership in China, many of the wealthier Mainland Chinese buy, keep and use their yachts in *Hong Kong*
- It is still important for China's new rich to be humble and low-key with one's wealth, and owning a yacht in China may draw unwanted attention
- However in *Hong Kong*, wealth is less conspicuous and many Mainland Chinese aspire to live in *Hong Kong*; there is also more to money spending in *Hong Kong*
- In addition, the *Hong Kong* yacht market is much more developed with good facilities
- Buyers who keep their yacht in *Hong Kong* also avoid the high taxes associated with importing the yacht into Mainland China
- However, *The Administrative Provisions on Safety of Yachts* have changed this somewhat, as they provide domestic yacht owners with much more flexibility regarding sailing areas and simplify the registration process

6. Good potential for export with economic recovery

- The current barriers to yacht ownership like the regulatory environment and lack of scenic locations may not be barriers for a foreign entrant into yacht manufacturing
- There is a strong case for using China as a low-cost manufacturing base, building the yachts in China and exporting them to *Europe*, *US* and *Australia*
- Most foreign invested manufacturers are in China because of its attractiveness as a low-cost manufacturing base, rather than because of the potential of domestic demand
- It is about 20 – 30% cheaper to manufacture a yacht in China than in *Europe* or *US*
- Many owners are willing to have their yachts made in China as cheaper costs would mean that they would be able to purchase much larger boats for the same price they would have paid if it was made in *Europe* or the *US*
- Most yacht manufacturers in China focus on the export market, which grew by 20% in 2010 due to the economic recovery, increasing from US\$ 170 million to US\$ 204 million
- However, there is still long term potential in exports as world economies (*US*, *Europe*, *Australia*) begin to recover
- China is already one of the world's top 10 superyacht manufacturers above 30m, and nearly all of the superyachts made in China are exported
- It will take at least three to five years before domestic demand takes off; companies already manufacturing in China for the export market will have a considerable first-mover advantage, as it is relatively easy to switch to the domestic market

7. Large number of ongoing marina projects

- There are around 90 yacht clubs in China, many of which have yet to develop into full service clubs for yacht owners, though increasingly common
- They offer yacht charter services in order to promote yachting and increase popularity of the leisure activity
- While domestic demand is still recovering, there is a momentum in the industry and considerable interest from the government in stimulating the yacht industry
- Many coastal city governments, like *Shanghai*, see developing the yacht industry and coastal recreational facilities as an important part in the overall transformation into a truly international city
- There are 100+ small to medium scale marina projects planned or under construction, with high profile developments such as the *Royal Yacht City* in *Tianjin* (will be the first super yacht marina over 100 meters in China upon completion at the end of 2015)
- The marina projects give an indication of how the yacht industry might evolve and grow in the next decade
- More marinas and better attention to developing locations specifically for leisure boating will also serve to stimulate demand, given that the current lack of scenic spots for leisure boating is a significant barrier to yacht ownership
- The government is showing greater support to the yacht industry, e.g. new regulations, establishment of two national industry development bases, development plans to use yachting to build *Sanya* into an international tourism destination

8. Difference between Western and Chinese yacht owners

- The ways in which the Chinese use yachts differs from the western concept of yachting as a leisure activity to enjoy the sea and sun
- Most Chinese use their yachts for business entertainment purposes, and do not necessarily enjoy yachting as a sport or family activity
- The Chinese owner is likely to go out during the weekend for a short run and then anchor or possibly just to sit in the marina
- Chinese prefer to use yachts as a “hangout” place; recreation takes place in the *air-conditioned* space often to sing karaoke, or play mahjong and cards
- Yachts are most likely used to entertain clients or business friends, or as a retreat with male friends - the owners are less likely to use it as a family retreat
- It is important for a manufacturer to appreciate such differences in order to design yachts targeting the Chinese market; things unheard of in the West, for example a karaoke room, might be essential in China

9. Demand likely to pick up in the next decade

- Although there are currently very few Chinese buying yachts, there is momentum in the market that will stimulate demand
- *Qingdao* hosted the *2008 Olympics* sailing events which prompted some interest in yachting and water sports
- Once completed, the large number of ongoing marina projects should raise the popularity of yachting by providing more facilities and designating areas specifically for leisure boating, ensuring that yachts do not have to crowd in with commercial traffic as is the current situation
- *The Administrative Provisions on Safety of Yachts* and *The Guidelines on the Administration of Safety of Yachts* were enacted by the *Ministry of Transport* and the *Maritime Safety Administration* respectively
- On the other hand, regulations and supporting policies are also being enacted at the city level, especially among the coastal cities
- Meanwhile, local governments, especially those in coastal areas, are making efforts to regulate the industry to make the locality a more attractive place for leisure boating
- The popularity of boat shows also gives an indication to possible pickup in demand – nearly 16,000 visitors attended the *China International Boat Show* in 2010

CONSIDERATIONS FOR ITALIAN PLAYERS

- As the yacht industry in China is developing, Italian players will face similar challenges and possibly have similar opportunities as all other foreign players
- The difference may be that Italian players are likely to be focused on the high-end of the market, on very luxurious and large yachts, leveraging the Italian tradition for design, quality and technological know-how
- This section will discuss key opportunities and challenges for Italian players in the China yacht market, as well as address specific practical considerations for Italian companies that are considering entering

Key Opportunities in the China Yacht Market

- **Manufacturing base for export**
 - While there is limited domestic demand, China serves as an attractive location as a manufacturing base for the export market
 - Many foreign companies manufacturing in China are using it as a manufacturing base for export, rather than to target the domestic market
 - Labor costs are about 10-20% of that of developed countries, and it is about 20–30% cheaper to build a yacht in China than it is in developed countries
 - Despite the possible negative perception regarding China as a manufacturer of low-end goods, many superyachts (but not the top brands) are already being built in China to take advantage of the low labor costs
 - China is already in the world's top 10 of superyacht manufacturers in the >30m (90'+) segment; superyachts being made in China are primarily exported
 - Some buyers are willing to have their luxury yachts constructed in China because it is possible to buy a much larger yacht for the same price compared to a yacht constructed in Europe
- **Finding the right niche**
 - China offers significant cost advantages for the potential foreign yacht manufacturer, but the key to success is to find the correct positioning and market niche
 - For Italian players in particular, strengths are in design, quality luxury fittings, and superior technical know-how; players should capitalize on these strengths to develop the yacht market in China
 - For example, *Qingdao WaterWish Boat Manufacturing Ltd.* (a domestic company) prominently promotes their partnership with Italian boat designer and production engineer *Massimo Di Rosa*, who supervises all yacht production
 - By utilizing Italian designs and engineering, the company attains a competitive edge over their competitors in brand perception

- **Domestic market likely to pick up in the next decade**
 - Although current market demand has not fully recovered, there is significant upward momentum in the market and good prospects in the long term
 - The many ongoing marina projects and the increasing popularity of boat shows give an indication of the momentum in the industry
 - The issuing of *The Administrative Provisions on Safety of Yachts* in 2009 was a big step for regulatory environment improvement and will help to raise demand in the next decade
 - *The Guidelines on the Administration of Safety of Yachts* issued in 2010 have further liberalized conditions of yacht registration and simplified procedures of entry and exit of overseas yachts
 - Both the central government and governments of coastal cities are also putting more emphasis on the leisure boating industry, investing in marina projects and yachting infrastructure, and starting to regulate the industry
 - For example, the *State Council* has recently announced its plan to turn *Hainan* province into a international tourism destination, with an emphasis on yachts, particularly superyachts
 - Besides, the *Zhuhai* municipal government approved the dual registration system for ships registered in *Hong Kong / Macao*, allowing them to freely cast anchor in *Zhuhai* waters and dock at *Zhuhai* berths and marinas
 - Additionally, the *Hainan Maritime Safety Administration* issued *The Trial Measures for the Administration of Yachts in Hainan* and *The Provisional Measures for the Administration of Safety of Yachts in Hainan* in 2010
 - Both regulations have since made Hainan the most open and free water area in China
 - As domestic demand picks up, manufacturers already established in China are well positioned to sell domestically

Key Challenges in the China Yacht Market

- **Limited demand from Chinese customers**
 - The domestic demand for yachts in China is still very limited, with roughly 1,500 private yacht owners, relative to the number of HNWI
 - The traditional Chinese dislike of water and its with the “dark side” may be a considerable cultural barrier for promoting yachting and water sports
 - In addition, the lack of attractive scenic landscapes decreases the attractiveness of yachting as a leisure activity
 - With Italian players focused on luxury yachts in particular, there is very limited demand in the superyacht segment (>24m), as yachting on the seacoast is still restricted to a certain extent

- Owning a yacht is also deemed a conspicuous show of wealth and is generally avoided amongst China's new rich, which may also keep demand low
- **Differences in customer preferences**
 - Chinese customers tend to use yachts differently than Westerners, preferring to use their yachts for business entertainment purposes
 - They are unlikely to use it to enjoy the water and sun; they are more likely to spend most of their time in the air-conditioned spaces
 - For foreign yacht manufacturers, understanding the differences in preferences and use of the yachts is crucial in adapting yacht designs to Chinese tastes
 - For example, a karaoke room is essential for most Chinese buyers, and emphasis should be placed on the indoor recreational spaces, such as areas for playing Mahjong and cards
- **General perception of China as manufacturer of mass market goods**
 - China is often associated with the production of mass market and low-end goods with low quality and prices
 - As a result, potential foreign yacht customers may be reluctant to have their luxury yachts made in China (especially true for high-end luxury yachts)
 - This might be a potential barrier for foreign yacht manufacturers, especially Italian players who tend to occupy the highest end of the market
- **Existing foreign players**
 - There are already around 36 foreign players with a direct manufacturing presence in China (via JV or WFOE), and have an advantage by being in the market early
 - There are currently 3 foreign invested manufacturers building yachts above 30m in China, exclusively for the export market
 - Although there is still very limited demand for superyachts, the existing foreign manufacturers are well positioned to sell domestically should demand increase
- **Impact of the global economic crisis and recovery**
 - As a result of the world economy recovering from the economic crisis, yacht imports and exports from China grew 134% and 20% respectively in 2010, reflecting an increase in both international and domestic demand for yachts
 - As China's economy continues to recover, domestic interest in yachts has also begun recovering and is expected to continue in 2011
 - The international market for yacht exports from China, however, is still relatively weak (although superyachts have recently seen strong growth)

- **High import duties and consumption taxes**

- The import duty for pleasure boats is between 8% - 10.5%, and yachts became subject to a consumption tax¹⁴ of 10% after 2006; a VAT is also payable on imports
- Thus the effective tax rate for importing a yacht is about 43% of total purchase price – a significant hindrance to potential growth of the yacht market in China
- Many private yachts are registered under the names of companies for commercial use to avoid paying the 10% consumption tax

¹⁴ Consumption Tax is levied on sales value of certain consumer goods, including cigarettes and tobacco, liquor and alcohol, cosmetics, skin and hair care products, precious jewelry, firecrackers, gasoline, diesel oil, motor vehicle tires, motorcycles, motor vehicles, golf and golf facilities, luxurious watches, yacht, wooden one-off chopsticks and wooden floor board. Rates are 3% - 50% depending on the items.

Practical Options for Italian Players Approaching the China Market

Legal setup options in China for yacht related business

- The table below summarizes different options available specifically for yacht-related businesses

Table 13: Legal setup options for yacht-related businesses

Presence in China	Option	Business Scope
No direct presence	Use Distributors	<ul style="list-style-type: none"> • Import and market yacht in China; distributor sells yachts
Direct presence	Set up a Representative Office (RO)	<ul style="list-style-type: none"> • Manage distributors • Develop business network; conduct market surveys and facilitate (but not execute) transactions on behalf of parent company
	Establish a Joint Venture (JV) with a local partner	<ul style="list-style-type: none"> • Joint venture with a local shipyard • Cooperative or equity JV • Manufacture and sell yachts domestically and internationally
	Set up a Wholly Foreign Owned Enterprise (WFOE)	<ul style="list-style-type: none"> • Multiple types exist determined by business scope • Manufacturing WFOE: manufacture and sell yachts domestically and internationally • Foreign Invested Commercial Enterprise (FICE): import and sell yachts domestically

Source: JLJ analysis from multiple sources

- There are several possible legal setup options for Italian players; however, the most suitable one depends greatly on the company’s objectives
- As a result, it is often the case that there is no perfect solution to a specific company’s objectives

Sell without manufacturing

- Very few foreign companies have set up yacht trading companies to sell yachts in China, as the setup options are less straightforward than for a manufacturing company
- Most foreign yacht companies not manufacturing in China have chosen to use distributors or agents to enter the market, or to establish a Rep. Office
- A Representative Office is the simplest way of establishing a presence in China, and can be used to manage distributors more effectively
- A Rep. Office can also develop business networks and promote the brand, although actual sales transactions are carried out through the parent company
- Rep. Offices also allows a company to be present in the local market and to gain a better understanding of China without having to make a significant investment
- Another option available to foreign companies is to establish a FICE, which allows the company to both import yachts as well as to sell / distribute domestically

Manufacture and sell

- To manufacture yachts, companies can enter into a Joint Venture with a local shipyard, or invest wholly in a new shipyard
- JV is a popular option for yacht manufacturers as building shipyards from scratch (manufacturing WFOE) may require a larger overall investment
- Forming JVs with a local shipyard and investing capital to improve and expand the shipyard may be a faster and more efficient way of establishing a manufacturing presence in China
- The foreign investor will gain from the resources and expertise of the local partner, but the management of the relationship between the foreign investor and local partner is the most critical factor to the success of the JV
- *Apart from the contract for forming the JV, other legal setup procedures are the same as the ones for a manufacturing WFOE*
- The amount of risk and profit shared can be determined either by the capital shared or by the agreed percentage depending on the type of JV (EJV or CJV)
- A yacht manufacturing WFOE is treated the same as any other manufacturing WFOE and similar registration criteria apply
- A WFOE would require a larger *initial* investment and may take a longer time to setup but may be more viable in the long term as it does not have the risk of potential partnership problems or conflicts that may arise in the case of JVs

(See page 81 for a more detailed analysis of the pros and cons of each setup option)

Market Entry Strategy

- This section analyzes viable / practical options for foreign payers and Italian ones in particular
- It is meant as a “practical guide” for setting up a yacht-related business in China
- The analysis will follow three key parts:
 1. Possible entry locations
 2. Possible approaches for yacht business in China
 3. Example of possible business plan for manufacturing in China

1. **Possible entry locations**

- The yacht industry is almost exclusively concentrated along China’s coastal provinces, and can be divided into North, East, and South China:
 1. North China: *Liaoning, Hebei, and Shandong* provinces
 2. East China: *Jiangsu, Zhejiang, and Fujian* provinces
 3. South China: *Guangdong and Hainan* provinces
- The demand for yachts is also likely to come from large cities in the coastal provinces like *Shanghai, Beijing, Tianjin, Guangzhou and Shenzhen*
- In recent years, smaller Tier 2 cities such as *Dalian, Qingdao, Sanya, Zhuhai, Xiamen, Suzhou, Hangzhou and Wuxi* have also become yachting centers

- The map below illustrates key areas of yacht industry activity in China:



Source: JLJ analysis based on multiple sources

- Marinas, manufacturers, distributors, suppliers (including component manufacturers), yachting-related industrial parks, and owners (both individuals and yacht clubs) are all concentrated in these coastal provinces
- To promote further industry development, local governments are constructing additional production bases, trade centers and marinas, e.g. *Chihu Jiangjun'ao Yacht Manufacturing Industrial Park* in Fujian province
- For yacht manufacturing, three major industry “clusters” have developed, each with its own industry ecosystem:
 - Pearl River Delta* – centered around the *Zhuhai Pingsha Yacht Industrial Zone* (Guangdong province)
 - Yangtze River Delta* – centered around the *Fengxian Yacht Industrial Zone* (Shanghai)
 - Bohai Bay* – centered around *Qingdao* and *Dalian* (*Dalian Gulf Industrial Zone*)

i. Pearl River Delta - Zhuhai Pingsha Yacht Industrial Zone

- *Zhuhai Pingsha Yacht Industrial Zone* is located in *Zhuhai*, in the southern coast of *Guangdong* province and close to *Shenzhen* and *Hong Kong* (shown in map below)



- *Pingsha* was the earliest operational specialized yacht manufacturing zone in China, established in 2002, and has become the largest and most concentrated yacht manufacturing zone in China
 - More than 38 yacht (and component) manufacturers are located in the park, including 18 yacht manufacturers such as *Brunswick* and *IAG* and over 20 component manufacturers such as *Yamaha Motor* and *Cummins Engine*
 - *Brunswick*, the world's largest boat manufacturing group, invested in the zone in 2006 with a factory that can produce up to 800 *Sea Ray* yachts annually
 - The manufacturers are mainly from the *US*, *Australia*, *Taiwan*, *Italy* and *Canada*
 - An US\$ 88 million yacht & components trading center was established in 2008, which is convenient for component producers to trade their products
 - The annual output value of *Pingsha* reached RMB 1 billion (US\$ 148 million) in 2008 and is expected to reach RMB 1.5 billion (US\$ 222 million) by 2012
- In the *Pearl River Delta*, there is a potentially high demand for yachts in *Shenzhen* and *Guangzhou*, where there are a large number of wealthy Chinese
- *Shenzhen* has seven yacht clubs, including the well-established *Longcheer Yacht Club*, and was the site of the first "in-water" superyacht show in China in October 2006
- There are at least six distributors in *Shenzhen* and two in *Guangzhou*

ii. Yangtze River Delta - Fengxian Yacht Industrial Zone

- In recent years, the boat industry in the *Yangtze River Delta* region has been developing rapidly due to the success of *Shanghai's* hosting the *2010 World Expo*
- The *Shanghai* government has plans to build over 10 marina facilities along the downtown river as part of its transformation into an international tourism metropolis
- *Fengxian Yacht Industrial Zone* located in *Shanghai* aims to provide a base for the growing yachting industry, in an area of over 2.6 sq km (shown in the following map)



- The zone is divided into six core areas for yacht production, yacht component manufacture, interior decoration and woodworking, shipping and storage, yacht research and development, and an administrative center; there are also berthing facilities planned
- There are 11 yacht-related manufacturers in the parks, e.g. *Hampton Yacht*
- *Fengxian* is also in close proximity to distributors in *Shanghai*, as well as to yacht clubs in the surrounding *Jiangsu* and *Zhejiang* province
- There are over 25 yacht clubs in *Shanghai* and in the surrounding cities (*Hangzhou*, *Suzhou*, *Nanjing*, *Jiande*, *Wuxi*)

iii. Bohai Bay – Qingdao and Dalian

- *Qingdao* hosted the *2008 Olympic Sailing Regatta*; as a result, there is considerable government attention to the yacht industry in this region.
- There are manufacturing facilities available in *Qingdao*, as well as a dedicated yacht manufacturing zone in *Dalian* – the *Dalian Gulf Industrial Zone*.
- *Shandong* province (shown in the map below) is well-established in building commercial vessels; existing local shipyards may provide potential JV partners



- *Qingdao* and *Dalian* are also areas of natural beauty and are in close proximity to the markets in *Beijing* and *Tianjin*, where there are large number of wealthy individuals
- There are seven yacht clubs in *Qingdao*, and three each in *Dalian* and *Tianjin*, indicating a potential for the yacht market in the region
- Currently, the only superyacht manufacturer in the *Bohai Bay* region (and in North China) is *Raffles Yacht*, based in *Yantai*, *Shandong* province
- There are about 7 key distributors in the region, spread across the cities of *Beijing*, *Dalian* and *Qingdao*

2. Possible approaches for yacht business in China

- The table below gives a broader description of entry options for Italian players:¹⁵

Table 14: Description of entry options for Italian players

Entry Option		Reason for Choosing Option	Description/Activities	Pros	Cons
1. Use Distributors/agents		Sell / Distribute Yachts in China through agent	<ul style="list-style-type: none"> • Use distributor to import and sell yachts in China • Need one with strong network; may need ones for different regions • No legal entity needed 	<ul style="list-style-type: none"> • Requires no direct investment in China • Relatively low risk • Use distributors' network to develop brand awareness 	<ul style="list-style-type: none"> • May be challenging to identify a committed distributor and to manage relationship • Results may be uncertain
2. Set up a Rep. Office (RO)		Manage distributors, conduct market research and business development activities	<ul style="list-style-type: none"> • Manage distributors • Network, conduct marketing activities on behalf of parent company • Note: Rep. Office cannot issue Fapiao (invoices) or directly receive payment for goods or services 	<ul style="list-style-type: none"> • Simplest way of establishing direct China presence • Low investment • Allows company to learn local market conditions & manage distributors • Develop business/client network first 	<ul style="list-style-type: none"> • Still a "light" presence as RO cannot conduct own commercial transactions or issue invoices • RO mainly limited to marketing function
3. Establish a Joint Venture (JV) with a local partner – Equity or Cooperative JV		Can be several: time to market, technology fit, sales channels, local network, etc	<ul style="list-style-type: none"> • Joint venture with a local shipyard • Equity or cooperative JV • Manufacture and sell yachts domestically and internationally 	<ul style="list-style-type: none"> • Faster time-to-market; leverage existing shipyard • Leverage China knowledge of local partner • Potentially, lower initial investment than WFOE 	<ul style="list-style-type: none"> • Chinese partner may offer less in terms of technology (but may provide market access) • Potential IPR issues • Need to manage relationship with JV partner - conflicts not uncommon, difficult to maintain control
4. Wholly Foreign Owned Enterprise (WFOE)	Manufacturing WFOE¹⁶	Manufacture Yachts in China	<ul style="list-style-type: none"> • Set up factory and manufacture yachts • May use distributors to then sell domestically and internationally 	<ul style="list-style-type: none"> • Full control and ownership of the company • Most sustainable in long run and most popular for players committed to China • Typically greater control of IP • Individual types of WFOE's may have additional benefits 	<ul style="list-style-type: none"> • Higher investment and commitment required • Relatively more time to setup / develop the business • Individual types of WFOE's may have specific cons
	WFOE-FICE¹⁷	Sell / Distribute Yachts in China	<ul style="list-style-type: none"> • Import, trade, and sell/distribute yachts within China 		
5. [Acquisition of local company]		Reasons for Acquisition may vary	<ul style="list-style-type: none"> • Alternative to WFOE or JV 	<ul style="list-style-type: none"> • May acquire local channels/ knowledge quickly • Mitigate issues associated with having JV partner 	<ul style="list-style-type: none"> • Potentially highest investment required • Potentially risky without local knowledge or experience • Difficult to conduct proper due diligence

Source: JLJ Analysis

¹⁵ Is important to emphasize that while the table provides a general framework for market entry, these are not prescriptive strategies as each individual company's situation differs and may require a customized strategy

¹⁶ The feasibility of setting up a Manufacturing WFOE depends on the specific sector and the individual company's situation, access to high-quality suppliers, possible Intellectual Property concerns related to production processes and know-how, and availability of high-quality machinery and qualified personnel, etc.

¹⁷ FICE: Foreign Invested Commercial Enterprise



JV vs. Manufacturing WFOE

- To manufacture yachts, a new entrant can either enter into a Joint Venture (JV) with a local shipyard or set up a manufacturing WFOE
- The choice between a JV and a WFOE is a key decision that needs to be made
- Currently, there are about 36 foreign yacht manufacturers in China, of which 21 are manufacturing WFOEs and 15 are JVs

Table 15: Breakdown of type of setup amongst foreign-invested yacht manufacturing companies in China

Type of setup	Number of companies
Joint Venture	~15
Manufacturing WFOE	~21

Source: JLL analysis based on multiple sources

- A JV requires less investment than a WFOE and it allows the company to leverage the existing shipyard facilities, speeding up all set up processes
- Because yacht manufacturing is a labor-intensive industry and may require highly skilled workers (e.g. wood workers), a JV may offer immediate access to such skilled labor, which may in other cases be difficult to find
- However, manufacturing WFOEs are becoming increasingly popular choices given the general risks associated with having a JV partner, including the difficulty of managing relationships and risk of losing control of the company; a JV is also less sustainable in the long run
- JVs are also often utilized when companies want a quick access to the *Chinese domestic market*, but this is unlikely to be the case for yacht manufacturing which would most likely still be geared towards exports, at least for the next 5 (to 10) years
- Going forward, with the new establishment of industrial zones dedicated to yacht manufacturing (see previous section), a manufacturing WFOE may be the preferred choice, as setting up in these zones is relatively simpler than outside of the zone
- There may also be guidance and incentives provided by the local government, who are keen to attract more yacht manufacturers into the zones
- The dedicated yacht manufacturing zones are also likely to have supplies of skilled labor for the yacht industry given the presence of other yacht manufacturers in the zones
- Although a manufacturing WFOE would require higher initial investment, it is the recommended option for a company committed to manufacturing in China
- Especially for yacht manufacturing, the role played by China in the near term would most likely be that of a manufacturing base, to build and export yachts to *Europe* and to the *US*

- In this case, the local sales and distribution network of the JV partner is less useful, since it is likely that most of the sales and yacht building contracts will be won using the parent company's existing network of Western clients and contacts

Inside story - From an industry expert

➤ *“For us, WFOE is always the way to go. When you are deciding between a JV and WFOE, ask yourself these questions:*

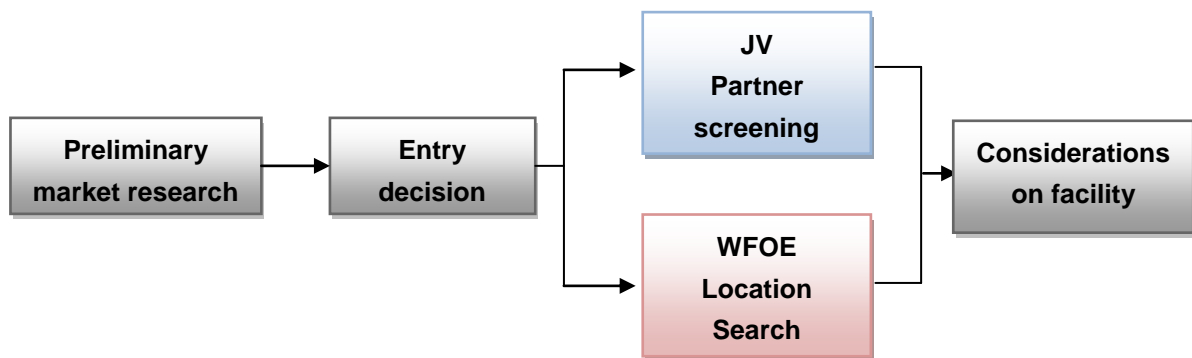
- *Is a JV required by government regulation?*
- *Do I need very quick access to the Chinese market?*
- *Does my potential partner have the technology and experience I want but cannot get on my own in a short time (3 – 4 years)?*

If your answers to any one of the 3 questions is “Yes”, then you should do a JV; otherwise, do a WFOE to avoid potential issues with a JV partner...”

3. Example of possible business plan for manufacturing in China

- While there are many ways to enter China, this business plan will aim to provide a rough guide to the activities and timing required to set up a yacht manufacturing facility in China, broken down into three stages:
 - Stage 1: Pre-entry
 - Stage 2: Business setup
 - Stage 3: Operations
- The table on page 88 gives a high-level overview of activities and timeline
- *Important note: it is often important, if not necessary, to get qualified professional advice and services throughout the China project, especially if the company is relatively new to the China market*

Stage 1: Pre-entry



Preliminary / specific market research

- Before any entry or decisions can be made, a preliminary market research may be conducted, specific to the company's products and services
- This would involve gaining a solid understanding of current and projected future market conditions, the challenges and opportunities facing the company, estimated market potential, and optimal strategy or positioning for approaching the market
- The strategy would involve preliminary considerations on the type of yachts to manufacture, optimal location, pricing, target clients etc.

Entry decision

- The entry decision between Manufacturing WFOE and JV is a key decision to be made
- Pros and cons of both options have been analyzed at length in the previous sections (See page 82 for a detailed analysis of JV vs. WFOE)

JV: Partner screening

- Should the decision to establish a Joint Venture with a local partner be made, then an initial list of potential JV partners should be drafted
- The potential partners may be screened and narrowed down according to some key criteria, for example:
 - Years of experience in boat building
 - Quality and technology levels
 - Availability of skilled workers
 - Facilities at shipyard

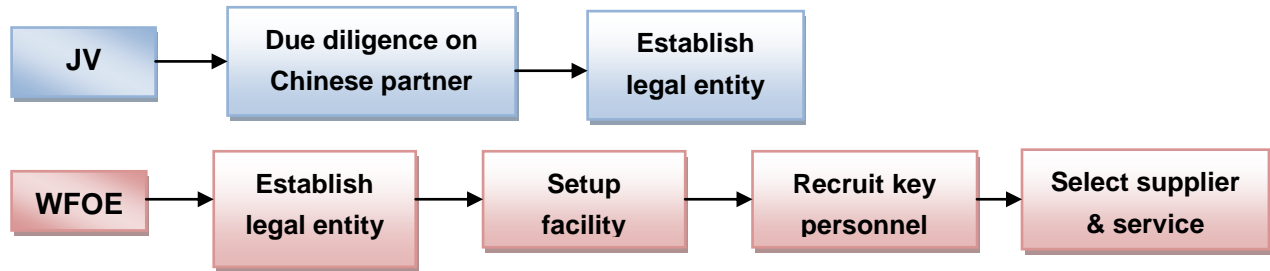
WFOE: Location search

- Once the decision to set up a WFOE has been made, the next step is to search and make site visits to potential locations
- In particular, visit and consider the different yacht manufacturing industrial zones available (see pages 78-80 for descriptions of various zones)

Considerations on facility

- For WFOE: type of machinery, components, number of manufacturing staff, number of management / office staff, etc.
- For JV: taking into consideration existing facilities, areas to improve, type of machinery, workers, etc.

Stage 2: Business setup



JV

- Before the Joint Venture can be established, due diligence needs to be carried out on the potential Chinese JV partner before the capital is invested
- Due diligence involves a detailed background check on the potential partner, including its accounting practices, often the most “tricky” part of the due diligence process in China
- Then, the legal entity needs to be registered and established

WFOE

- It normally takes about 3 to 4 months for a manufacturing WFOE to be registered¹⁸
- When registration has been officially approved, all setup activities can start (building of the shipyard, purchase of machinery, etc.)
- Key personnel would need to be recruited early on, including a general manager, factory head, office assistant, etc.
- All other activities concerning business setup, including supplier selection, and selection of various service providers (tax & accounting, personnel administration, etc.)

Stage 3: Operations

- Further recruit staff, including factory workers as well as a sales force
- Set up sales and marketing organization
- Develop and implement marketing strategy, which would typically involve using distributors, attending both domestic and international boat shows, establishing a showroom, setting up website and advertising in yacht magazines etc.

¹⁸ Upon submission of all documents

Possible high-level timeline

(Note: timing is illustrative as many specific factors may affect actual work plan)

Timing Activity	Yr 0	Yr 1												Yr 2	Yr 3	Yr 4		
		M1	2	3	4	5	6	7	8	9	10	11	12					
1. Pre-setup considerations																		
Preliminary market research	■																	
Entry decision	■																	
JV: Partner screening																		
WFOE: Location search																		
Considerations on facility setup																		
2. Business setup																		
JV: Due diligence																		
JV: Establish legal entity																		
WFOE: Establish legal entity																		
WFOE: Setup facility																		
Recruit key personnel																		
Select supplier & service provider																		
3. Operations																		
Recruitment, manufacturing, sales & marketing																		

Legend	■	Carried out by both WFOE or JV
	■	Carried out by JV
	■	Carried out by WFOE

CONCLUSIONS

- With Beijing hosting the *2008 Olympics* and *Qingdao* hosting the *Olympic Sailing Regatta*, considerable interest in the yacht industry was created in China
- While there is still relatively limited demand for yachts at present, there is significant momentum gathering, with the increasing popularity of boat shows, more marina projects and increasing attention from foreign players and government authorities
- Domestic demand is likely to pick up in the next decade; meanwhile, China is still an attractive low cost manufacturing base for yacht manufacturers, with costs 20-30% lower than in developed nations
- China is already on the list of the top 10 builders of yachts over 30m (nearly all for export)
- Production quality has been and continues to be an issue, but standards are improving
- Nevertheless foreign companies approaching the China market should take into consideration that:
 - The China market can offer great opportunities, but it is necessary to maintain a long-term vision; quick profits are unlikely – time, money, perseverance, and effort are necessary
 - The China market should be approached gradually, un-emotionally and with realistic expectations
 - Applying the logic and mindset of the mother country (*Italy*) will likely not work - gaining local knowledge of business environment and practices is crucial, including finding the right partners and/or service providers
 - Although China's economy and global economy are gradually recovering, the impact of the economic crisis, especially on exports from China, should be closely watched in the next few years

Inside story - From a marine bureau official

- *Wealthy Chinese people have begun showing interests in yachts*
- *However, the regulations toward yachts in China are incomplete: procedures for yacht registration are over-elaborate, piloting licenses cannot be used to cross provinces, marina construction is nonstandard, and customs tariffs for imported yachts are very high*
- *The result is that wealthy people purchased the yachts but cannot sail them*
- *The currently situation for yachts may change within several years. China's yacht market has great potential*

*****APPENDIX*****

- **Glossary of Terms**
- **Superyacht Deliveries and Order Book**
- **Yacht Manufacturers in China**
- **Yacht Distributors, Importers, Agents in China**
- **Yacht Clubs, Associations and Institutions in China**
- **Suppliers of Components Relevant to Yacht Manufacturers**
- **Sample of Yachts Made in China (sample pictures)**
- **Relevant Media**
- **Tourist Ports in China**
- **Boat Shows**
- **Relevant Industrial Parks**
- **List of Foreign Brands Sold Through Distributors in China**

Glossary of Terms

The report contains terms that may appear ambiguous without a proper definition. The following are the definitions used in the report:

Table 16: Key yacht-related terms

Term	Explanation
Boat	Most general term referring to vessels on water, both for commercial and leisure purposes; all Yachts are boats, not all boats are yachts...
Boat builder	Manufacturer of boats, including yacht manufacturers
CJV	Cooperative Joint Venture: where profits are split in a JV according to the terms specified on the contract
EJV	Equity Joint venture: where profits are split in a JV according to the share of capital
HNWI	High Net Worth Individual: Individual with over US\$ 1M in investable assets
JV	Joint Venture; in China between a Chinese company and a foreign one
Megayacht	A yacht with an overall length of 30m (99') and up
Rep. Office (RO)	Representative office of a foreign company in China
Shipyard	General term for the area where boat building activity takes place, including yacht building
SOE	State-owned Enterprise
Superyacht	A yacht with an overall length of 24m (80') and up
Ultra HNWI	Ultra High Net Worth Individual: Individual with over US\$ 30M in investable assets
WFOE	Wholly Foreign Owned Enterprise; 100% foreign invested company
Yacht club/marina	Lawfully established organizations providing yacht keeping and use services for their members
Yacht/leisure boat	Ships with mechanical propelling devices which are used by their owners for touring, sightseeing, leisure and entertaining activities
Yachting/sailing	The use of yachts (for pleasure); leisure boating

Source: JIJ analysis of multiple sources