The Superyacht Market in China: Today and Tomorrow

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• Focus:
  – market entry into China for European & U.S. companies – „China Inbound“
  – Chinese business activities in Europe and the U.S. – „China Outbound“
  – Domestic Chinese law

• (Super) Yacht business in China
Any superyachts on the horizon?
Items to be covered

China: Fundamentals
China Yachting Activities – Regions
Who and where are the Chinese Customers
Their Preferences for Yachting
The Role of Yacht Clubs
The Yacht Business: Growth vs. Supply
Analysis of the Superyacht Industry in China
Sales & Distribution
Laws & Regulations
Import Duties & Taxes
Infrastructure
Summary
Legal Setup Options
Strategic Issues
China – Fundamentals:

• **Population:**
  1,344,130,000 (2012 census)

• **Size:**
  Total area of 9,598,094 km².

  It is the world's 3\textsuperscript{rd} largest country, if the USA's area does not include Alaska. The world's largest country is Russia, the second largest is Canada.

• **Coastline:**
  18,000 km.

  United States: Atlantic coast: 3,329 km; Pacific Coast: 12,267 km; total 15,596 km

• **Sea Borders (east)**
  
  – East China Sea, Korea Bay
  – Yellow Sea
  – South China Sea
Yachting Activity
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 basis.

- 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.
Who are the Potential Yacht Buyers in China?

According to Hurun Report, by the end of 2011 there were

- **1,020,000 millionaires** (with assets over RMB 10 million or € 1,250,000) and
- **63,500 super rich individuals** (with asset over RMB 100 million or € 12,500,000).

In detail:

- In 2012, the number of Chinese millionaires reached 1,020,000, an increase of 6.3% compared to 960,000 last year.

- **Beijing** is home to the largest concentration of millionaires in China, with 179,000; following closely in second is **Guangdong**, home to 167,000; coming in third is **Shanghai**, with 140,000.

- That number includes **54 super rich** with over RMB 100 million (€ 12,340,000).

- The **average wealth** of respondents by Hurun Wealth Report reached RMB 63 million (€ 7,775,000; 9% less than last year, while the average annual expenditure was RMB 1.76 million (€ 217,000), accounting for less than 3% of their average wealth.

- The majority of millionaires engage in manufacturing and real estate, with most of their wealth coming from their returns on investment and business ownership.
The Millionaire Class (1,020,000)

A Chinese Millionaire´s Profile

• On average, millionaires are 39 years old, and 60% of them are male.

• They have 2 private bank accounts, 3 cars, 4.2 luxury watches, spend 8 days a month on business trips and go on 3 international trips per year. Tourism is the main reason for going abroad, and they take 20 days of holiday per year.

• Travelling, reading and tea tasting are the preferred leisure activities of millionaires, while golf, swimming and yoga are their favorite sports.

• 46% of millionaires smoke, while 70% of them enjoy drinking, particularly red wine and champagne.

• Watches along with Chinese paintings and calligraphy are at the top of their collection list.

• 80% have children, and most send their children abroad to be educated. The United States, the United Kingdom and Canada are their favorite destinations for education, while Canada, the United States and Singapore are the most popular destinations to emigrate to.
## Where the Chinese Millionaires Live

<table>
<thead>
<tr>
<th>Location</th>
<th>Number of Millionaires</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>East China</td>
<td>438,400</td>
<td>43.0</td>
</tr>
<tr>
<td>North China</td>
<td>241,000</td>
<td>23.6</td>
</tr>
<tr>
<td>South China</td>
<td>176,600</td>
<td>17.3</td>
</tr>
<tr>
<td>Northeast</td>
<td>50,600</td>
<td>5.0</td>
</tr>
<tr>
<td>Southwest</td>
<td>47,300</td>
<td>4.7</td>
</tr>
<tr>
<td>Central China</td>
<td>46,300</td>
<td>4.5</td>
</tr>
<tr>
<td>Northwest</td>
<td>19,470</td>
<td>1.9</td>
</tr>
</tbody>
</table>
The 5 cities with most millionaires

<table>
<thead>
<tr>
<th>Location</th>
<th>2012</th>
<th>Increase</th>
<th>YOY%</th>
<th>% of Toal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>179,000</td>
<td>9,000</td>
<td>5</td>
<td>17.5</td>
</tr>
<tr>
<td>Guangdong</td>
<td>167,000</td>
<td>10,000</td>
<td>6</td>
<td>16.4</td>
</tr>
<tr>
<td>Shanghai</td>
<td>140,000</td>
<td>8,000</td>
<td>6</td>
<td>13.7</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>133,000</td>
<td>7,000</td>
<td>6</td>
<td>13.0</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>73,000</td>
<td>5,000</td>
<td>7</td>
<td>7.2</td>
</tr>
</tbody>
</table>
The Super Rich Class (63,500)

- The number of super rich is up 6% this year.
- The average age of the super rich is 41.7 and male.
- On average, they have 2.8 private bank accounts, 3.4 cars and 5.6 luxury watches.
- On average, they make 4 international trips per year and a third travel abroad more than 5 times each year. The average super rich take 20 days of holiday each year.
- The super rich have different travel habits to the millionaires, favoring Hong Kong and the U.S. as travel destinations.
- In addition to travel, they like to spend their leisure time tea tasting and reading, as well as enjoying family activities. Golf remains the first choice for sport.
- 13% of the super rich plan to buy private jets and 15% plan to buy yachts.
## Where the Chinese Super Rich Live

The 5 cities with most billionaires

<table>
<thead>
<tr>
<th>Location</th>
<th>2012</th>
<th>Increase</th>
<th>YOY%</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beijing</td>
<td>10,500</td>
<td>500</td>
<td>5</td>
<td>16.5</td>
</tr>
<tr>
<td>Guangdong</td>
<td>9,500</td>
<td>500</td>
<td>6</td>
<td>15.04</td>
</tr>
<tr>
<td>Shanghai</td>
<td>8,200</td>
<td>400</td>
<td>5</td>
<td>12.9</td>
</tr>
<tr>
<td>Zhejiang</td>
<td>7,800</td>
<td>350</td>
<td>5</td>
<td>12.3</td>
</tr>
<tr>
<td>Jiangsu</td>
<td>4,800</td>
<td>200</td>
<td>4</td>
<td>7.6</td>
</tr>
</tbody>
</table>
The Billionaire Class (7,500 billionaires)

- China has 7,500 billionaires, up 3,500 from last year.

- Furthermore, there are 260 persons with ten billion RMB (€ 1.233 billion) in assets.
How does that to relate to Yachts?

• 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 (app.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.

China has similar number of HNWIs as the UK and greater numbers than Australia and Canada, 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 U.S.

• 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)
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 Mainland 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, mah jong, cards, etc.; thus, larger air conditioning units may be required for yachts to be used in China or Hong Kong

- 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.
The Role of Yacht Clubs in China

• 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 next map shows the locations of major yacht clubs in China:
The map below shows the locations of major yacht clubs in China:
As the demand for yachting infrastructure has increased in recent years, it has quickly become 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.
Yachting in China: Growth vs. Supply

- The China yacht market has been growing since 2005, and it is expected to reach **€ 8 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 (€ 8 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 mega yachts 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 foreign players in 2012 and 2013 is positive due to new government regulations and initiatives beneficial to the yacht industry.
Analysis of the Chinese 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 app. 88 of the app. 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.
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 brand.

- 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.
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>
<thead>
<tr>
<th>Size of yacht</th>
<th>Description</th>
<th>Price range of domestically produced yachts (US$)</th>
<th>Price range of imported yachts (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small and</td>
<td>&lt;30´ (&lt;9m)</td>
<td>40,000 – 300,000</td>
<td>300,000 – 750,000</td>
</tr>
<tr>
<td>medium</td>
<td>30´- 49´ (9 – 15 m)</td>
<td>300,000- 600,000</td>
<td>750,000 – 1.5 M</td>
</tr>
<tr>
<td>Large</td>
<td>49´- 79´ (15 – 24 m)</td>
<td>600,000 – 3 M</td>
<td>1.5 M – 4.5 M</td>
</tr>
<tr>
<td>Super</td>
<td>&gt;79´ (&gt; 24 m)</td>
<td>&gt; 3 M</td>
<td>&gt; 4.5 M</td>
</tr>
</tbody>
</table>
Overview of Yacht Manufacturers in China

• Although there are around 300 pleasure boat builders in China, only about **88 manufactures yachts** as part of their product offering

• The majority of players are in the **medium-sized segment for yachts under 79’ (<24m)**

• App. **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 gives an overview of key yacht players in China.

<table>
<thead>
<tr>
<th>Size of yacht</th>
<th>Description</th>
<th>Type of player</th>
<th>No. of players</th>
<th>Key examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small &amp; Medium &amp; Large</td>
<td>- Small: &lt;30´ (&lt;9m)</td>
<td>Local</td>
<td>30</td>
<td>- DFC</td>
</tr>
<tr>
<td></td>
<td>- Medium: 30´-49´ (9-15m)</td>
<td></td>
<td></td>
<td>- Poly Marine</td>
</tr>
<tr>
<td></td>
<td>- Large: 49´-79´ (15m – 24m)</td>
<td>Taiwan/HK</td>
<td>3</td>
<td>- Brunswick (U.S) - Bluebay (U.S) - Kadaya (Japan)</td>
</tr>
<tr>
<td>Super &amp; Mega</td>
<td>- Super: 79´-100´ (24-30m)</td>
<td>Local</td>
<td>7</td>
<td>- Double Happiness</td>
</tr>
<tr>
<td></td>
<td>- Mega: &gt;100´ (&gt;30m)</td>
<td>Taiwan/HK</td>
<td>5</td>
<td>- Cheoy Lee - Kingship - Jet-Tern</td>
</tr>
<tr>
<td></td>
<td></td>
<td>WFOE/JV</td>
<td>15</td>
<td>- Raffles</td>
</tr>
</tbody>
</table>
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.

- 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 (app. 15) have chosen to enter into a JV with foreign companies that can offer greater technical expertise.
Superyacht Manufacturers

• 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 next table lists 6 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>
<thead>
<tr>
<th>Type of yacht</th>
<th>Name</th>
<th>Country of Origin</th>
<th>Location in China</th>
<th>Type of setup</th>
<th>Year of entry into China</th>
<th>Key products</th>
</tr>
</thead>
<tbody>
<tr>
<td>24 - 30m</td>
<td>Double Happiness</td>
<td>China</td>
<td>Shanghai</td>
<td>SOE</td>
<td>2000</td>
<td>42’- 90´ (13-27m) custom yachts</td>
</tr>
<tr>
<td></td>
<td>Sunbird</td>
<td>China</td>
<td>Hunan</td>
<td>Private Enterprise</td>
<td>2003</td>
<td>42’- 90´ (13-27m) custom yachts</td>
</tr>
<tr>
<td></td>
<td>Jet-Tern</td>
<td>Taiwan</td>
<td>Guangdong</td>
<td>Manufacturing WFOE</td>
<td>1998</td>
<td>50´-100´(15-30m) ocean trawlers</td>
</tr>
<tr>
<td>&gt; 30m</td>
<td>Cheoy Lee</td>
<td>HK</td>
<td>Guangdong</td>
<td>Manufacturing WFOE</td>
<td>1998</td>
<td>Custom yachts &amp; superyachts</td>
</tr>
<tr>
<td></td>
<td>Kingship Marine</td>
<td>HK</td>
<td>Guangdong</td>
<td>Manufacturing WFOE</td>
<td>2004</td>
<td>90´- 164´ (27-50m) megayachts</td>
</tr>
<tr>
<td></td>
<td>Raffles Yacht</td>
<td>Singapore</td>
<td>Shandong</td>
<td>JV</td>
<td>1994</td>
<td>Custom superyachts</td>
</tr>
</tbody>
</table>
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 next table gives an overview of foreign players with a presence in China:
<table>
<thead>
<tr>
<th>Type of setup</th>
<th>N. of foreign companies</th>
<th>Key examples (country of origin)</th>
</tr>
</thead>
</table>
| Through Distributors   | 40 companies representing app. 100 brands | - Sunseeker  
- Shanghai Bahrfuss Yacht Sales (Netherlands)  
- Xiamen Azimut Yachts Co. Ltd. (Italy) |
| Representative Office  | 4                                        | - Ferretti (Italy)  
- Catana (France)  
- Azimut (Italy)  
- Beneteau (France) |
| Joint Venture          | app. 20                                   | - Raffles (Singapore)  
- Bluebay (USA)  
- Kadaya (Japan)  
- Yongxing (Japan)  
- Matsumoto (Japan) |
| Manufacturing WFOE     | app. 21                                   | - Brunswick (USA)  
- Cheoy Lee (Hong Kong)  
- Kingship (Hong Kong)  
- Seahorse (USA) |
• Yachts sold through distributors primarily come from Sweden, Norway, U.S., Australia, Italy, etc.

• 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 U.S. and to European markets.
Sales & Distribution

• 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

• The following map shows the locations of key distributors:
Locations of Key Yacht distributors
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.
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 seas 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.
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 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 (43%) 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.
Historical Development of The Provisions (Ministry of Transport)

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 registr **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, Macau 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 in the future **nationwide yachting licensees**

• 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 in land waterway yachts

• 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 Taxes

• The import duty for pleasure boats is between 8% - 10.5%

• VAT is 17%

• Yachts are subject to a consumption tax of 10%

• Thus the **effective tax rate for importing a yacht** is about **43%** of total purchase price
Infrastructure - Current and Future Projects (marinas / industrial parks)

• Currently, there are around 90 yacht clubs with independent berths, among which app. 70 are in operation or under construction and app. 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:
• 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
SUMMARY

1. Still a supply driven industry

- The yacht industry in China is driven by the supply side, with more than 88 yacht manufacturers and app. 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

- 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.

- For example, 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, U.S. 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 U.S.

- 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 U.S.

- 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

• 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.
### Legal Setup Options in China for Yacht Related Business

Options available specifically for yacht-related businesses

<table>
<thead>
<tr>
<th>Presence in China</th>
<th>Option</th>
<th>Business Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>No direct presence</td>
<td>Use Distributors</td>
<td>Import and market yacht in China, distributor sells yachts</td>
</tr>
<tr>
<td>Direct Presence</td>
<td>Set up a Representative Office (RO)</td>
<td>• Manage distributors&lt;br&gt;• Develop business network; conduct market surveys and facilitate (but not execute) transactions on behalf of parent company</td>
</tr>
<tr>
<td></td>
<td>Establish a Joint Venture (JV) with a local partner</td>
<td>• Joint venture with a local partner&lt;br&gt;• Cooperative or equity JV&lt;br&gt;• Manufacture and sell yachts domestically and internationally</td>
</tr>
<tr>
<td></td>
<td>Set up a Wholly Foreign Owned Enterprise (WFOE)</td>
<td>• Multiple types exist determined by business scope&lt;br&gt;• Manufacturing WFOE: manufacture and sell yachts domestically and internationally&lt;br&gt;• Foreign Invested Commercial Enterprise (FICE): import and sell your domestic league</td>
</tr>
</tbody>
</table>
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 (RO)** is the simplest way of establishing a presence in China, and can be used to manage distributors more effectively.

- A RO can also develop business networks and promote the brand, although actual sales transactions are carried out through the parent company.

- ROs 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 (Foreign Invested Commercial Enterprise)**, 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.
Strategy Options to Approaches the Yacht Market in China

The next table gives a broader description of entry options
<table>
<thead>
<tr>
<th>Entry Option</th>
<th>Reasons for choosing option</th>
<th>Description/activities</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
| 1. Use distributors/agents           | Sell/distribute yachts in China through agent                                                | • Use distributor to import and sell yachts in China  
• need one with a strong network,  
• no legal entity needed                                                                                                                                 | • Requires no direct investment in China  
• Relatively low risk  
• Use distributors network to develop brand awareness | • May be challenging to identify a committed distributor and to manage relationship  
• Results may be uncertain  
• Requires no direct investment in China  
• Relatively low risk  
• Use distributors network to develop brand awareness |
| 2. Set up a Rep. Office (RO)         | Manage distributors, conduct market research and business development activities             | • Manage distributors  
• Network, conduct marketing activities on behalf of parent company  
• Note: RO cannot issue Fapiao (invoices) or directly receive payments for little services                                                                 | • Simplest way of establishing direct China presents  
• Low investment  
• Allows company to learn local market conditions and manage distributors  
• Develop business/client network first | • Still a light presence as RO cannot conduct own commercial transactions or issue invoices  
• RO mainly limited to marketing functions |
| 3. Establish a joint venture (JV)    | Can be several: time to market, technology fit, sales channels, local network etc.           | • Joint venture with local shipyard  
• Equity or cooperative JV  
• Manufacture and sell yachts domestically and internationally                                                                 | • Faster time-to-market; leverage existing shipyard  
• Leverage China knowledge of local partner  
• Potentially, lower initial investment of than WFOE | • 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 |
<table>
<thead>
<tr>
<th>Entry Option</th>
<th>Reason for choosing option</th>
<th>Description/Activities</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
</table>
| 4. Wholly Foreign Owned Enterprise (WFOE) | Manufacturing WFOE         | • Setup factory and manufacture yachts  
• May use distributors to sell/domestically and internationally                      | • Full control and ownership of the company  
• Most sustainable in the long run and most popular for players committed to China  
• Typically greater control of IP  
• Individual types of WFOEs may have additional benefits | • Higher investment and commitment required  
• Relatively more time to set up/develop the business  
• Individual types of WFOEs may have specific con´s |
| WFOE-FICE                           | Sell/Distribute Yachts in China | Import, trade, and sell/distribute yachts within China                              |                                                                      |                                                                      |
| 5. (Acquisition of a local company)  | Reasons for acquisition may vary | Alternative to WFOE or JV                                                            | • May acquire local channels/knowledg e quickly  
• Mitigate the issues associated with having JV partner             | • Potentially highest investment required  
• Potentially risky without local knowledge or experience  
• Difficult to conduct proper due diligence                         |
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>
<thead>
<tr>
<th>Types of setup</th>
<th>Number of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Ventures</td>
<td>App. 15</td>
</tr>
<tr>
<td>Manufacturing WFOE</td>
<td>App. 21</td>
</tr>
</tbody>
</table>
• 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.

• Since 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, 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.

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• 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 U.S.

• 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.
The Chinese Millionaire Wealth Report 2012

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