

The background of the entire page is a photograph of the Shanghai skyline. The Oriental Pearl Tower is the most prominent feature on the left, with its three spheres and spire. To its right, several other skyscrapers are visible, including the Shanghai Tower. In the foreground, a white yacht is cruising on the water. The sky is blue with scattered white clouds.

Business

R E P O R T

China

*yacht*

THE NEW SUPER / POWER

*China is fast developing as a leading global economic power and leisure is now a major growth area in the country with the prospect, in time, of it not only building superyachts but also having owners of such craft, as well as the country becoming a cruising destination.*

## Setting The Scene

THE emergence of China as one of the world's leading economic powers is without doubt as impressive as its growth and is turning it into the workshop of the world. The combination of a huge and cost-effective labour force is one of its vital assets in meeting the increasing global demand for consumer and industrial products. Already its ability to compete has led to many jobs transferring there. While this huge expansion takes place, averaging around 9% a year, China's communist government is having to face many challenges and difficulties, not to mention changes of attitude in order to maximise benefits for the country. It is ironic that within the world's largest communist state the government is having to adopt very flexible market policies, highly capitalist in nature, in order to secure the many new opportunities being offered.

One of the biggest impacts of this intriguing development is the creation of a new affluent sector within its 1.3 billion population, amounting in several hundred million people who are interested in buying luxury goods from the west and elsewhere. This is generating a huge demand for such items as cars, watches and clothes, to name but a few. The other key aspect of this process is that leisure time and pursuits are now becoming a part of the lives of this newly developing section of the Chinese population. This potential impacts across many sectors, not least the marine leisure industry with the firm prospect to develop boating and yachting as regular leisure interests for many Chinese, especially taking account of the country's large coastline and inland water resources such as rivers and lakes.

China is now the place for the fastest growth of millionaires, with Forbes estimating that there are now over 200,000 dollar millionaires and growing almost daily. This bodes well for the superyacht industry and one estimate suggests that there may already be as many as 400 potential large-yacht charterers or owners in China, in addition to Hong Kong which is already home to a number of superyacht owners. The potential is huge and China will move from being just a building centre for superyachts, as it already is, to being a base for yachts and also possibly a cruising destination (especially as more high-profile events like the Olympics and World Expo are being held in China). It is all part of the newly emerging population section for which lifestyle will be very important, be it a Rolls-Royce or Mercedes car or a Rolex watch.

Generating the momentum to develop yachting is all at a very early stage, but many building blocks are being put in place and there is considerable enthusiasm and support in national and regional government to move ahead with promoting yachting and water sports. Two further incentives underpinning this are the Olympics being held in China in 2008 and the World Expo scheduled for Shanghai in 2010. The former, in particular, has already led to the development of facilities at Qingdao for the yachting part of the Olympics.

While there is growing enthusiasm there are also some considerable hurdles to overcome, but those who have seen China move forward over the past few years know that nothing tends to stop them from achieving. The Three Gorges dam and the expansion of Shanghai into a major world city are just two of the many examples.

## CHINA'S ECONOMIC DATA

**Capital:** Beijing

**Government:** Communist state

**Premier:** Wen Jiabao

**National structure:** 23 provinces, five autonomous regions and four municipalities

**Population:** 1.306 billion (July 2005 est) – 71% aged 16–64

**GDP:** \$7.262 trillion(2004 est)

**GDP real growth:** 9.1% (2004 est)

**GDP per capita:** \$5,600 (2004 est)

**Unemployment rate:** 9.8%

**Exports:** \$583,1bn (2004 est)

**Imports:** \$552.4bn (2004 est)

**Currency:** Yuan (also known as Renminbi RMB)

**Coastline length:** 18,400km

The three main challenges are:

- Cultural change
- Regulation change
- Infrastructure development

The cultural change centres on breaking through some very entrenched Asian characteristics. In general, Asians do not like water and, as such, swimming, as well as being out in the sun. The regulation change focuses on the need of the Chinese Government to reshape its laws relating to coastal cruising and the movement of leisure craft. There are some initial signs of this happening; however, this is a significant issue for Beijing, especially with Taiwan. Finally, the development of an infrastructure to support boating is necessary, including marinas, sailing schools and the education of people about the benefits and value of boating, as well as the fun and enjoyment it can bring.

The Shanghai municipal and regional governments are among those strongly supporting initiatives to develop marine leisure interests. As part of the preparation for the World Expo in 2010 the Shanghai authorities are planning to construct a whole new canal system which will divert commercial shipping from passing by the central waterfront area of the city called The Bund. It is planned to upgrade this important area for tourists in time for the Expo and yachting is a part of this large project. The plans include a superyacht marina to add to the one recently opened in the centre of the city, the Shanghai Metropolitan marina.



*China International Boat Show*

The strength of enthusiasm for the potential that the Chinese market holds was readily presented at the China International Boat Show held in Shanghai in April, which was the biggest ever in its 10-year history. Held at the Shanghai Exhibition Centre for the first time, the four-day show attracted 21,000 visitors compared with just 12,000 in 2004. The show had moved to the Centre to provide more space and in order to accommodate the 265 exhibitors, which was more than double the 120 last year.

There were over 50 yachts on show, but none of them superyachts because of the difficulty in transporting to the Exhibition Centre through the city centre. However, many of the key superyacht builders were exhibiting – including Lürssen, Jongert, Azimut/Benetti, Ferretti, CIM, CNB, Sunseeker and Horizon. There were many leading brokers, charterers and distributors also, such as Edmiston, Nigel Burgess, Simpson Marine, Cavendish White and Starship Yachts, to name but a few. Jamie Edmiston summed up the attitude of many superyacht exhibitors to TYR: “We just felt we had to be here. The yachting industry is at a very early stage of development and it will take several years to develop, but we need to be seen to be here.”

In terms of business done at the show it is reported that around 90% of the yachts on show were sold. There weren't many buyers for the larger luxury yachts, which was to be expected, but there is no doubt among exhibitors that they will come. The size of yachts being purchased by Chinese owners is increasing with a Pershing 62 having reported to be sold to Hainan Island, and Azimut having sold a 68-ft yacht to Shenzhen and a 62-ft to Rizhao in northern China. “The business done in Shanghai proved a valuable awareness lesson to the future potential of the Chinese market,” another exhibitor told TYR. “Patience and confidence that the market will grow” were seen as necessary qualities by a leading European builder for doing business in China.

At present few European yards have seriously looked at building in China although this may change in the future. It may be a case of following the Taiwanese trend whereby several yards have set up building facilities in mainland China, initially to build smaller yachts up to about 50 ft. In time they may well build larger. As to equipment, most yards building superyachts in China still import much of the on-board equipment and fitting from Europe or North America. With the cost

advantage and quality of product on the rise in China this may change. One manufacturer considering making some parts in China is Maxwell Marine of New Zealand and several others reported that they will be looking into it.

A new awards system, the Christofle Asia Boating Awards 2005, was inaugurated at the show. This awards programme included a number of superyacht categories which were the Best Asian Megayacht Builder (100 ft+) and the Best Megayacht (100 ft+). The former was won by Cheoy Lee Shipyard; other nominees in this category included Kingship Marine and Raffles Yacht (Yantai-Raffles) both from China and Horizon based in Taiwan. The 58-m *Capri*, built by Lürssen, won the best megayacht category; other nominees in this field included *Blue Scorpion*, *Ocean of Love*, *Sweet Doll*, *Tiara* and *Lady Lola*.

Meanwhile in the other categories, Swan of Finland won the Best Sailing Yacht Brand award and Ferretti Yachts for the Best Brand presence in Asia award. The China International Boat Show won the best Asian Boat Show award and the Aberdeen Marina Club in Hong Kong won the best Asian marina category. Hong Kong also won the category of Best Asian Maritime City.

## Yacht Construction

The one superyacht market area where China is already well established is in yacht building, with at least four yards actively building craft over 80 ft and a number of others moving in that direction.

Probably the biggest of the yards is **CMI Yachts (Custom Marine International)**, an American group headquartered in Annapolis with subsidiaries in Hong Kong and mainland China, which oversee the flow of materials to the builders located in Guangzhou province in the south of China, in addition to operating a new finishing facility that is currently being built. The various member companies work in a chain: therefore the US deals with Hong Kong and the Hong Kong office liaises with the design and building companies in China. By doing this the group achieves a smooth flow of materials bought internationally through to the yard.

CMI works in a joint venture with two local Guangzhou builders that construct the hulls. In future these yachts will then be transferred to CMI's new \$20M, 60,000-ft<sup>2</sup> fitting-out facility which is being developed in Zhuhai. This new facility, which will handle the finishing of all



*Custom Marine International's recently opened headquarters in Guangzhou, China. The new 8,000 square foot facility has been built to provide full support and service to the company's yacht manufacturing operations in the region.*

CMI yachts, be they GRP, steel or aluminium, will be opened in phases. The GRP finishing facility will open in August, followed by the aluminium section in November and the steel part in March 2006. At that time the yard will be employing about 300 of its own employees for which accommodation will be provided at the yard. CMI also have a dedicated operations centre in Guangzhou which oversees the manufacturing and design work in China.

This new facility will also have separate finishing halls for fibreglass, steel and aluminium vessels. CMI is trying to buy an additional 40,000-ft<sup>2</sup> area in which it proposes to develop a hull building facility including a 500-tonne ship lift. CMI is currently awaiting approval for this purchase and the necessary licences. This land would be used as a second phase development for which no timeframe has yet been set.

Of the two Guangzhou yards working with CMI, the Huang Pu Shipbuilding Company builds all the company's steel and aluminium hulls and Poly Marine Engineering Co. Ltd builds all the fibreglass hulls. Between the two yards the facilities available to CMI include:

- 400 ft x 120 ft steel production shed
- 350 ft X 90 ft aluminium production shed
- 200 ft x 90 ft mould construction shed
- 400 ft x 75 ft fibreglass shop
- 150 ft x 75 ft wood finishing shop

At Huang Pu there is also a 300-ft pier with 16-ft depth alongside that can be used for sea trials and a rail ramp used for launching yachts. The 400-ft fibreglass shop at Poly Marine has only recently been completed and this yard also have a new interior wood fabrication shop and climate controlled paint finishing room.

CMI's series of custom yachts range from 82 ft to 250 ft, including 100-ft, 110-ft, 120-ft, 125-ft and 165-ft models. All these yachts are designed by the US based Arthur M. Barbeito & Associates, Inc. Currently a new design for a 100-m (394-ft) yacht is being worked on. CMI's present order book includes 14 yachts, all for North American owners although negotiations are presently under way with a number of European owners. The order book extends to 2008 with the following:

Size	Type	Material	Delivery Date
100 ft	M/Y	Steel	Feb 2006
125 ft	M/Y	Steel	Aug 2006
100 ft	M/Y	Steel	Oct 2006
127 ft	M/Y	Aluminium	Nov 2006
127 ft	M/Y	GRP	Dec 2006
126.5 ft	M/Y	Aluminium	Feb 2007
127 ft	M/Y	GRP	Apr 2007
127 ft	M/Y	Aluminium	May 2007
168 ft	M/Y	Steel	Oct 2007
220 ft	M/Y	Steel	Dec 2007
200 ft	M/Y	Steel	Dec 2007
250 ft	M/Y	Steel	Jan 2008
220-ft	M/Y	Steel	Jul 2008
140 ft	M/Y	GRP	TBC



All CMI yachts are built to LR or ABS class and MCA standards. CMI runs a large training programme for its staff and those at its joint venture yards to ensure that product quality is of the highest level. All electrical systems are imported from the US or Europe and the group has a US-based service and commissioning team available for warranty and service issues.

CMI also has its own particular financing system whereby yacht contracts are based on payment by a stand-by letter of credit and not cash advances. The package is claimed to provide both security and on-time completion and the contract is based on the vessels' specification, production schedule, pricing and performance guarantees. The letter of credit will be made on an established delivery date and in the event that this is not met there is no liability upon the purchase. As part of its purchasing package, CMI also provides buyers with a guaranteed performance bond with each contract to ensure that the yachts are delivered according to the contractual terms.

In the Pearl River Delta area there are two other superyacht builders, Cheoy Lee and Kingship. **Cheoy Lee** is one of China's oldest shipyards, having started operations near Shanghai in 1870. In 1936 it moved to Hong Kong where it is still based. In 1998 it transferred its main ship-building activities to Doumen on the Pearl River. Traditionally, Cheoy Lee is a commercial shipyard, building a wide range of vessels such as tugs, offshore vessels, small cargo and container ships and naval craft.

Cheoy Lee, which is a family firm run by eight brothers, began its yacht-building activity in the 1960s when it was a pioneer working with fibreglass. Today it offers a range of four designs to the market place between 60 and 172 ft, as well as custom build craft. Its current order book includes nine yachts over 24 m, including one over 30 m. The largest yacht it has built to date is the 172-ft *Sea Shaw* in 2003 to a Frank Mulder design, based on the company's Global series of yacht designs. These come in 108-ft, 125-ft, 145-ft and 172-ft lengths. Other designs over 30 m include its 128-ft Expedition yacht. The yard built an earlier *Sea Shaw* yacht, measuring 145 ft and completed in 1996, now named *Summerwind*. Both the *Sea Shaw* yachts were for the same Singapore based owner.

Cheoy Lee's work on fibreglass led it in 1977 to build the world's then largest GRP vessel, the 130-ft motor sailer *Shango II*. This work has also resulted in Cheoy Lee having the ability to build large custom built yachts.



*Chey Lee's yard layout of their new facility, Hin Lee Shipyard*

At Chey Lee's new yard, called the Hin Lee shipyard, about 50% of the production work is accounted for by yachts and about half of the current 700-strong workforce is generally linked to yacht work. The yard itself is in an area where there are some 20 other yards, therefore recruiting labour is not usually difficult when extra staff are required. The 30-acre Doumen yard has dormitory facilities for up to 500 workers. The yard's facilities include a 1,000-tonne capacity railway lift and 60- and 150-ton travel lifts. There are some 12 construction bays in the yard, of which six are devoted to steel, four to GRP and three multi-discipline ones. For both steel and GRP there are three bays up to 96 m x 20 m. There

are in addition, two dedicated yacht fitting out bays of 63 m long by 20 m wide. The yard also has a 1,500-ft water frontage.

Chey Lee work with a number of international designers including Jack Hargrave, Tom Fexas, Frank Mulder, Sparkman and Stephens, Don Shead and Arthur Robb. The yard works with key classification societies like LR, ABS, Bureau Veritas and DNV. The company also works to MCA and ABYC standards and recommendations.

The majority of its yachts are for North American customers and the company has a network of distributors in the US. These work through Chey Lee Shipyard NA (CLSNA) and the Crows Nest Point Marine Group (CNCPY). The latter has officers in Alameda, Newport Beach, Seattle and San Diego on the west coast. While CLSNA has an office in Fort Lauderdale to handle sales and marketing and yacht purchases.

Chey Lee's superyacht order book for 24-m plus yachts is shown in the table below.

Hull no.	Size	Type	Engines	Delivery Date
4866	80 ft	Cockpit M/Y	2 x Cat C-30, 1550HP	Late 05
4872	84 ft(+3)	Sport M/Y	2 x Cat C30, 1550HP	Sept 05
4873	84 ft	Sport M/Y	2 x Cat C30, 1550HP	Oct 05
4864	84 ft (+6)	Sport M/Y	2 x Cat C18, 1000HP	Nov 05
4885	84 ft (+4)	Sport M/Y	2 x Cat C30, 1550HP	Mar 06
4891	84 ft (+4)	Sport M/Y	2 x Cat C32, 1652HP	Oct 06
4865	95 ft	M/Y	2 x Cat C-32, 1652HP	Jun 05
4871	95-ft (+5)	M/Y	2 x Cat C-32, 1652HP	Jun 06
4874	148 ft	Explorer M/Y	1 x Cat 3512B, 1911HP	Feb 07



*Chey Lee shipyard*



*Kingship's first newbuilding yacht on the slip*

Also located in this area is **Kingship Marine** which has built a brand new yard in the Pearl River Delta area specifically to build yachts up to 45 m. Some \$20M has been invested in the new yard which has seven 45-m yacht building bays. The venture is led by Roger Liang, a Hong Kong-based entrepreneur who has previously had experience of yacht and shipbuilding in Singapore.

The 60-acre yard, which was opened in July 2004, provides some really impressive facilities including a leisure club environment for its 130 plus workers and any visitors to the yard. The yard was built with Dutch input after several years' research. At present it is only half full because only two yachts are currently under construction. The first is a 110-ft expedition yacht designed by Ward Setzer, which will be launched in October or November and is being purchased by a UK owner. The second, a 110-ft motor yacht designed by Vripack International and Pieter Beeldsnijder Design, is still being negotiated for sale. Other possible contracts are under negotiation and Liang's own yacht is also being refitted. Liang told TYR that: "We are receiving several enquiries for yachts in the 32- to 45-m range".

Kingship has put together a portfolio of designs based on steel hulls and aluminium superstructures by leading international naval architects to promote to the market. These designs include 110-ft and 125-ft motor yachts designed by PB Design and Vripack International, and a 98-ft motoryacht and 110-ft expedition yacht by the US based Setzer Design Group. The yachts can be put together relatively quickly because they are shipped from The Netherlands in six or seven containers costing \$30,000 to transport them.

Liang told TYR that: "We are offering a range of quality designs that we can build cheaper than elsewhere." He considers the cost advantage of building yachts in China to be around 30% at present. The yard is facing a substantial hike in the price of steel, which rose 70% in just one month earlier this year. Kingship buys its steel from China and aluminium from Singapore.

Liang is interested in building series of

yachts and it is rumoured that he has had negotiations with at least one yacht share operator, which is understood to be looking at motor yachts of 37 m. For the future, Kingship is looking to buy an adjacent area of land on which it may develop a construction hall for 70-m yachts, but this is still being looked at.

Several other yards are based in the Pearl River Delta area including the **Uni Shine Marine Co Ltd** shipyard, which is a subsidiary of the Her Shine yard in Taiwan. Uni Shine is located in the Pingsha Industrial Zone which extends to an area of 6 km<sup>2</sup> and is planned to be a base for a cluster of related marine industry companies.

**Yantai Raffles**, based in Yantai, northern China, is, like Cheoy Lee, an established commercial builder. It has a large yard at Yantai which constructs large commercial vessels for the offshore industry in particular. It also has a dedicated yacht building facility which currently has a 77-m yacht in build, understood to be for a European owner, which is due to be launched early next year. Julian Chang, a director of the company, told TYR that, "We have been working on the design of a 37-m motor yacht for a European client for several months. We expect to hear later this year if they will go ahead with the project." He indicated that a series of 14 yachts would be required for this contract which is believed to be a yacht-share scheme.



*Kingship's five-bay construction hall*

**Raffles Yacht**, the yacht division of Yantai Raffles, has been working with the client on developing a computer based design so that once the decision to go-ahead is made they will know exactly all the parts and how the yacht will perform. On its commercial ship-building side Yantai Raffles is building a 45,000-dwt yacht transporter vessel for Dockwise Shipping, which will be completed in the summer of 2006. When this ship is introduced Dockwise which extend its yacht transport network further into Asia including regular calls at Shanghai.

Another major project involving a superyacht is being undertaken by the **Shanghai**

**Blunauta Yacht Co Ltd**, a Sino-Italian company. The company will shortly place an order for the hull of a 52-m sailing yacht which has been named *Cecilia*. The steel hull will be constructed at a yard in Wuxi for launching next year. *Cecilia* has been designed by Roberto Greco with the interior by Simone Morris. This yacht will have two masts of 40 m and 35 m respectively and powered by a Caterpillar C32 1401hp engine.

Along with these four yards, which are all building 30-m plus yachts are a number that are building above 24 m and others developing facilities that will have the capacity to do so. One of the most active is the **Double Happiness Shipyard**, which is based near Shanghai. This yard won the prestige contract to build twelve 68-ft Clipper yachts, of which eight have already been delivered.

In the 24 m+ category Double Happiness has completed one vessel and is building two more 24-m motoryachts, with their final fitting out to be completed in Italy. While one 26-m is on order to go to France with others being negotiated. DHS has recently upgraded their lifting capacity at the yard to 160 tonnes so that it will be able to handle larger yachts and has the capacity to build up to 200 ft in length. Other companies that may move into the superyacht market are **Sunbird Yachts** based in Hunan province, the **Norseman**



*Uni Shine shipyard*

**Shipyard** near Xiamen, who are reportedly building a 112-ft sailing yacht, and the **Shanghai Ding Lin Shipbuilding Co. Ltd**, which is developing a new yard with the capability to build steel, aluminium and fibreglass yachts up to 60 m.

## Infrastructure

As to marina infrastructure it really is early days. While a number of projects have been completed none of these have facilities for 24-m or above yachts because there is just no demand at present. There are plans for over 50 marinas throughout China, of which around 20% have been completed or are under construction.

With regards to sailing clubs and schools these too are on the increase but slowly. Several ex-pats, like Alistair Skinner, a Scottish investment banker who is President of the Shanghai Yacht Club, have been helping to progress these areas. He has recently been taken on by the Shanghai regional government to advise on yachting.

As to changing the coastal cruising regulations, it is definitely a case of watch this space! It is important to remember that encouragement in regards to yachting in China is needed as well as moving China forward as a possible superyacht cruising destination.

## The Future

Looking several years ahead, more and more superyachts will be built in China. The country is now the world's third largest commercial shipbuilder and intends to be the largest in 10 years or so. As to the number of Chinese owners in 10 years is anyone's guess, but they will come. Simpson's and other charterers are building awareness about large yachts by encouraging charters for rich business people as well as using superyachts for corporate occasions, like they did for a Chinese telecoms company in Cannes.

It is only a matter of time before more large yachts and related systems and equipment will be made in China. Quality is a constant issue at present but it is usually addressed quickly and efficiently.

David Robinson

