



Seeing's believing  
Butterfly species  
spotted for the  
first time near  
border town of  
Sha Tau Kok

> CITY C2



It's complicated  
The Chinese  
girlfriend of  
married  
Vancouver mayor  
speaks of morals

> WORLD A10



Few takers  
Experiencing an overnight  
cruise on a 'ghost ship'

> LIFE C5

Honolulu hazard  
Australian golfer  
Robert Allenby  
kidnapped,  
robbed and  
beaten in Hawaii

> SPORT



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EXCLUSIVE

## HOW ONE MAN GAVE CHINA ITS CARRIER

**Xu Zengping reveals** for the first time the negotiations behind buying the Liaoning for the PLA Navy – and the secret behind its engines

Minnie Chan  
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It was a mission like no other. In the aftermath of the Soviet Union's collapse, one businessman armed with cash and a casino cover story scooped the world to buy the unfinished hulk of a Ukrainian aircraft carrier that would become the centrepiece of the PLA Navy.

Speaking to the media for the first time, the Hong Kong-based businessman at the heart of the

after work stopped on the vessel in 1992, presenting an enticing engineering package for a country seeking a leg up for its military.

It is the first time anyone linked to the deal has confirmed publicly the engines were in place at the time of purchase. Earlier reports said the vessel's power generation system was removed at Ukraine's Nikolayev South Shipyard on the Black Sea along with its electronics and weaponry before Xu bought it in 1998 for US\$20 million.

"When I was taken to the carrier's engine room by the shipyard's chief engineer, I found all four engines were brand new and carefully grease-sealed, each of them originally costing US\$20 million," Xu said. He said a refit finished in 2011 restored the four engines to operating condition.

What is now called the Liaoning was built on the hull of the partially completed Soviet Kuznetsov-class carrier, the Varyag. The Black Sea shipyard was about two-thirds of the way through the vessel's construction when work stopped as the Soviet Union crumbled. The hull languished until Xu made the deal, acting as a middleman for interests within the PLA Navy.

Xu said the shipyard agreed to sell the vessel because of the political turmoil that had left it in dire financial straits.

"The Chinese side deliberately released false information

> CONTINUED ON A4

> HARRY'S VIEW A14

\$20m

The amount, in US dollars, that Xu Zengping paid for the aircraft carrier

undertaking reveals in a two-part series the details of the little-known, behind-the-scenes odyssey to realise China's long-held dream of owning such a warship.

Xu Zengping (徐增平) disclosed that the militarily sensitive original engines of the carrier were intact when Ukraine sold the vessel in 1998. This is contrary to what Beijing told the world at the time.

The "four intact engines had been perfectly grease-sealed"



Xu Zengping with the chief engineer of the Soviet-built Varyag in Mykolaiv, Ukraine, in January 1998. Photo: SCMP Pictures

TOURISM



Mainland tourists take pictures at Golden Bauhinia Square. Mainlanders accounted for 47.2 million of last year's visitors. Photo: Dickson Lee

## Tourist numbers up despite Occupy

Arrivals hit 60.8m, thanks to more visitors from Shenzhen and S Korea

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Tourist arrivals in Hong Kong increased 12 per cent to 60.8 million last year – up on an estimate made last February that there would be 59 million visitors and despite uncertainty created by the Occupy protests.

The total included 47.2 million from the mainland, an increase of 16 per cent from the year before, according to preliminary Tourism Board figures.

For the first time, South Korea replaced Japan as Hong Kong's third-biggest tourism market. The mainland and Taiwan came in first and second.

The growth in mainland figures was driven by Shenzhen permanent residents who used their Hong Kong multiple-entry permits to make more trips to the city.

Arrivals of other Asian visitors rose in the first three quarters of last year, but the increase was countered by a fall in the last quarter due to the Occupy protests.

A sluggish economic outlook in Europe continued to affect long-haul arrivals, leaving the biggest growth potential in Southeast Asia, according to the board's executive director Anthony Lau Chun-hon.

To boost demand for travel

during the Lunar New Year holidays next month, the statutory body is sending a delegation of about 10 representatives from the retail, tour agency and hotel sectors to Beijing, Taiwan, South Korea, Japan, Singapore, the Philippines and Indonesia.

The marketing campaign includes discounted plane tickets, new tour itineraries and promotions. Three airlines will offer return tickets from Taiwan priced at HK\$500, excluding tax. The promotion began last week and the travel period runs until the Lunar New Year.

"We will spread the message that tear gas and the Occupy movement are over," said board chairman Peter Lam Kin-ngok.

Meanwhile, the board said Hong Kong had risen in popularity among South Koreans. For the first time ever, more South Koreans than Japanese came to Hong Kong last year.

In the first 11 months of last year, the city received more than 1.1 million South Koreans, an increase of almost 17 per cent from the year before. The country beat Japan in terms of the absolute number of visitors as well as the growth rate. Over the same period, growth in the number of tourists from Japan was just 3.5 per cent.

Thanks to the Korean cultural boom, South Korean television stations invest a lot in their pro-

grammes and do not hesitate to film their shows overseas – including in Hong Kong.

"Hong Kong is a hot filming location for their programmes," Lau said.

Popular South Korean variety programme *Running Man* was invited to Hong Kong, which saw stars go on a treasure hunt across the city. This year, the board has asked *Witch Hunt*, a variety programme about dating, to record a session here.



**We will spread the message that tear gas and the Occupy movement are over**

TOURISM BOARD CHAIRMAN PETER LAM

DIGEST

**HK and Macau working on extradition treaty**

Hong Kong and Macau are working on an extradition treaty that would have a de facto retroactive effect which would leave fugitives without a safe haven. Among those who could be hurt by the treaty are tycoons Joseph Lau Luen-hung and Steven Lo Kit-sing, who were sentenced to jail on bribery charges in Macau last March but are living free in Hong Kong.

> LEADING THE NEWS A3

**East Kowloon site to have 1,000 more flats**

The Development Bureau is studying a proposal to boost the number of flats planned for a project in East Kowloon by 20 per cent. The 86-hectare site at the former Anderson Road quarry was to have had about 9,500 flats but 1,000 extra units could now be added.

> CITY C1

**Nicaragua canal plan looking less attractive**

The Hong Kong-based firm building the Nicaragua canal may struggle to attract financing for the project because of global trade patterns and the relatively low returns investors can expect. The US\$50 billion project would rival the Panama Canal and open a second, more direct trade route between Asia and the Americas.

> BUSINESS B1

**Sri Lanka announces review of China deals**

The new government in Sri Lanka will review infrastructure projects granted to Chinese firms by the previous administration. Among the projects is a US\$1.5 billion port deal that India had strongly criticised.

> ASIA A8

CURRENCIES

## Swiss jolt confirms HK peg's worth, finance chief says

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The shock delivered by the Swiss franc is a good reminder why Hong Kong must not ditch its peg to the US dollar, the city's finance chief said in his weekly blog.

The Swiss central bank's move to abandon the franc's peg with the euro was like a "tsunami" and had important lessons for Hong Kong, wrote Financial Secretary John Tsang Chun-wah.

The turmoil that followed the Swiss decision undermined "investor confidence" and "credibility" in the landlocked nation, he wrote, comparing Hong Kong's own currency policy to a mythical talisman with the power to control tempests.

"Central banks take a long time to establish credibility. The sharp appreciation of the Swiss franc will weaken the Swiss

economy's overall competitiveness ... and may even lead to an economic slowdown and deflation," Tsang wrote.

His message to international investors was clear: unlike Switzerland, Hong Kong's reputation for financial stability was unshakeable because its currency policy was unwavering.

"It can be called a magic needle for calming the sea of the Hong Kong economy," Tsang wrote, comparing the 30-year-old peg to a famed needle owned by the Chinese Dragon King of the East Sea. "I would like to take this opportunity to reiterate that ... we have no plan to change such an effective system."

His comments were also likely aimed at criticism that the peg shackles Hong Kong's interest rates to the US Federal Reserve at a time of high local inflation.

The decision by the Swiss National Bank (SNB) to end a



**It can be called a magic needle for calming the sea of the Hong Kong economy**

JOHN TSANG, FINANCIAL SECRETARY

three-year-old peg to the franc, put in place to defend the currency from speculators during the financial crisis, sent the safe-haven currency soaring.

Only weeks earlier, SNB chairman Thomas Jordan had described the peg as "absolutely central" and the cornerstone of the bank's monetary policy.

The franc is now up 20 per cent, trading at parity with the euro, while the key Swiss stock market index has lost nearly 6 per cent. The SNB decision wreaked havoc on currency markets and forced several foreign exchange brokerages into administration.

US-based FXCM, one of the world's largest foreign exchange trading platforms, received a US\$300 million bailout loan on Friday from investment group Leucadia National after reporting it was owed US\$225 million by clients.

Additional reporting by Peggy Sito

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FOCUS

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## How ex-PLA basketball star Xu Zengping became the middleman in China's deal to buy the Liaoning

Minnie Chan  
minnie.chan@scmp.com

Xu Zengping (徐增平) knew the moment that he saw the hulk of a half-built Soviet aircraft carrier anchored in a cash-strapped Black Sea shipyard that he had to buy it for China.

Standing on the deck of the vessel in the snow and chill of a wintry day in Mykolaiv, Ukraine, on January 28, 1998, Xu, a PLA basketball player-turned-businessman, said he was awed by the strength of the steel leviathan. "It was the first time I had ever been on a carrier and I was overwhelmed [by its size] ... I told myself that I should buy it at all costs and make sure it became part of our navy," he said.

The Kuznetsov-class carrier was intended to be the pearl of the Soviet naval fleet when construction began in 1985, but in the aftermath of the USSR's collapse, the Ukrainian government needed to sell it to help dig it out of dire financial straits.

Xu, best known in Hong Kong for his Palace-of-Versailles-style home on The Peak, was on a mission to buy it for the Chinese military. But he had no idea of the costs and the political waters that lay ahead as the vessel made its way from the Black Sea to China, where it would be transformed into the Liaoning, the country's first aircraft carrier.

Speaking exclusively to the *South China Morning Post* at the South Lake Hotel in Guangzhou, a neglected former guesthouse for the central leadership, he revealed for the first time the price he paid – and says he continues to

pay – over two decades for his central role in the mission of a lifetime. "One Hong Kong business friend lent me HK\$230 million in 1997 without any guarantee – just based on our friendship and my integrity," Xu said.

### THE MISSION

The for-sale sign went up on the carrier in 1992. The Soviet Union had collapsed, the cold war was over and Ukraine's state-owned Nikolayev South Shipyard in the Black Sea was broke. Its one big asset was the carrier – two-thirds completed – and it had to be sold.

One of the potential buyers it reached out to was China. Its navy's armaments department had been looking into adding an aircraft carrier to its fleet since 1970, when chairman Mao Zedong (毛澤東) told the country to be prepared for a major conflict with the USSR or the United States. Back then, Beijing had severed ties with Moscow and the US was sending drones over the South China Sea. An aircraft carrier, the navy thought, could be a deciding factor in a war.

The navy formed a team led by General Liu Huaqing (劉華清) in late April 1970 to investigate possibilities, according to the *Southern Weekly*. Liu proposed that China build its own carrier, but Beijing was wary of the idea – such a project would raise the international community's suspicions over China's territorial ambitions and in any case the country could not afford to research and develop the vessel from scratch.

Buying a ready-made carrier sounded like a better idea. So



Xu Zengping saw the deal as a now-or-never chance. Photo: K. Y. Cheng

when Ukraine called in early 1992, the Chinese navy answered by sending a delegation.

Major General Zheng Ming (鄭明), the former armaments department head of the PLA Navy, was part of the delegation and told Shenzhen Television the carrier looked like a worthwhile buy. "During the trip [in 1992], we found it was a brand-new ship. Everything was completely new, from the armour plating to other parts, so we suggested [the central government] buy it and bring it home," Zheng said. "But the central government didn't do it because of the [political] situation at the time."

With the Soviet Union's downfall and the Tiananmen Square crackdown fresh in foreign minds, then-president Jiang Zemin (江澤民) was pursuing a US-friendly diplomatic line. China passed on the offer that time but some sections of the navy continued to harbour hopes. Four years after the dele-

I felt that I was soaking in liquor back then when I was negotiating with [the Ukrainians]

XU ZENGPING

gation's trip, the carrier was still anchored in the Black Sea shipyard and for sale. It was around that time that 45-year-old Xu, a former captain of the Guangzhou Military Command's basketball team, got the call. Xu was head of Chinluck Holdings, a Hong Kong-based company with interests in trading, catering, culture, entertainment, and property, among others.

Xu had made a name for himself organising cross-border cul-

tural events, including a stunt in which late Taiwanese entertainer Blackie Ko drove a car over the Hukou Waterfall on the Yellow River in 1997. He also arranged for military troupes from the PLA, Russia and Australia to put on shows in Hong Kong in the 1990s.

Xu said that when naval officials approached him to buy the carrier on China's behalf, they also warned him of two major impediments: the navy was severely underfunded and there was no support in Beijing for the carrier project. If Xu took on the job, he would be taking a gamble on government policy.

"I was chosen to do the deal. I realised it was a mission impossible because buying something like a carrier should be a national commitment, not one by a company or an individual," Xu said. "But my passion pushed me to take on the mission because it was a now-or-never chance for China to buy a new carrier from a nearly insolvent state-owned Ukrainian shipbuilder."

### THE DEAL

Xu got busy. He hired maritime engineers and other experts and installed them in an office in the Ukrainian capital Kiev to lay the groundwork for the purchase. They soon realised the shipbuilder did not want the hulk to be used for military purposes, so Xu's team told the Ukrainians that they would turn the vessel into the world's largest floating hotel and casino.

To that end, in August 1997, Xu set up a Macau shell company, Agencia Turistica e Diversoes Chong Lot, and spent HK\$6 million getting the necessary documents for a casino. Four months later, in January 1998, he

put his other businesses on the backburner and flew to Ukraine to negotiate with the shipbuilder and government officials.

The deal-making was not for the faint-hearted. Apart from the stacks of US dollars he handed over to the shipyard's management, Xu plied the Ukrainian sellers with fiery, 62-per-cent-proof Chinese liquor called *erguotou*.

"I felt that I was soaking in liquor back then when I was negotiating with the management of the carrier builder," Xu said. "At every meal I needed to drink two to three litres of *erguotou*. In the critical four days, I brought them more than 50 bottles. But I still felt I had the energy to do it and was always able to keep a sober mind because my drinking was goal-directed; the Ukrainians were drinking to get drunk."

It all paid off. After several alcohol-drenched days, the shipbuilder and government agreed to sell Xu the carrier – and the ship's all-important blueprints – for the bargain-basement price of US\$20 million. They shook hands and arrangements were made to transfer the money.

But what had seemed like a done deal wasn't. In mid-February, Ukrainian officials told him the carrier would be sold through an open auction. Other countries were interested in the ship and he had just three days to put in his bid. The sudden change in the negotiations worked to Xu's advantage – with the help of his Ukrainian friends, he was the only bidder to get his documents ready on time and meet all the key requirements. On March 19, 1998, Xu outbid opponents from the US, Australia, South Korea and Japan and won the ship.

That night an unmarked helicopter landed on the deck of the carrier. Xu did not know who it was but he had his suspicions. Spooked, he arranged the next day to have the 40 tonnes of blueprints for the carrier packed into eight trucks and moved overland to China. The Asian financial crisis meant it took Xu another year to get the money together, but the final payment – including a US\$10 million late charge – was made to the shipbuilder on April 30, 1999.

Now, Xu owned the vessel. But he also owned one very big problem – getting it to China.

Tomorrow: Xu Zengping describes steering the Liaoning through a political minefield home to Dalian (大連), the legal and financial price he's paid, and the risks of doing business with the government.

### FAMILY TEAM

Love of basketball runs deep in the Xu family. At the peak of his playing career in the late 70s, Xu Zengping (徐增平) was the captain of the PLA Guangzhou Military Command team, one of the best sides in the country and with strong overseas business connections.

His romance with the sport continued off the court – he met Liu Kexian, the woman he would marry, at a game in Jinan (濟南), the Shandong (山東) capital, on June 10, 1971. Liu was one of the main forces on the women's national team and played in the same squad as Fang Fengdi, the mother of retired basketball star Yao Ming (姚明).

Xu was born in Weifang (濰坊), Shandong in 1952. After his sports career, he went into business in 1983, marrying Liu a few years later and moving to Hong Kong in 1988 to expand in a range of directions, from catering to property.

The couple have two sons – Adam, aged 21, and Oliver, 18 – who have both inherited their parents' passion for the game, nurturing dreams from a young age of making it to the NBA.



Xu Zengping, wife Liu Kexian, sons Adam (left) and Oliver

The brothers were born in Queens, New York, and raised in Hong Kong before returning to the US for university. Adam has been on New York University's basketball team for three years, while Oliver is in his first year at Rice University. Both are on full basketball scholarships.

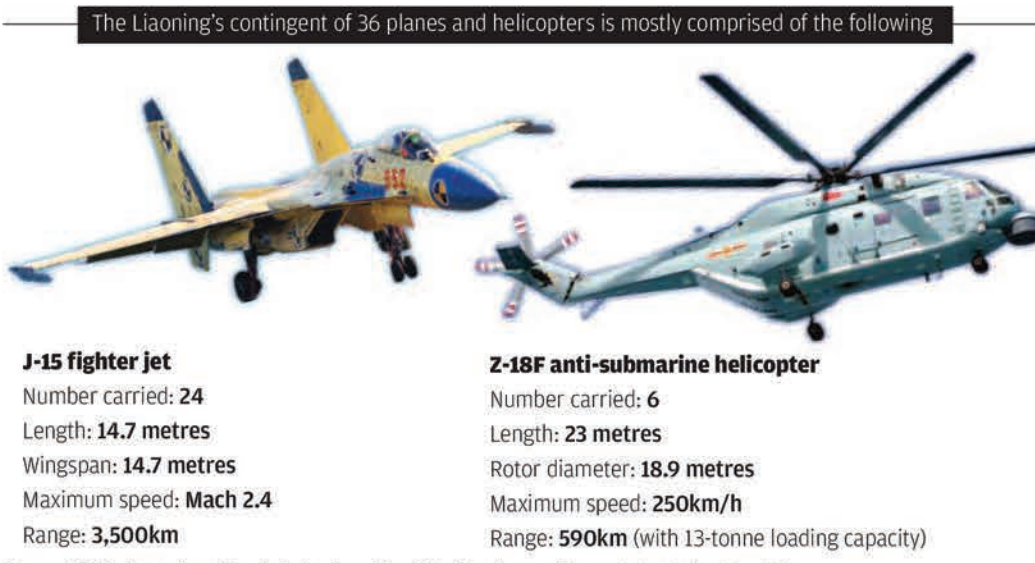
The family is tall: Xu is 1.85 metres, Liu Kexian is 1.75 metres, Adam is 1.95 metres, while Oliver is 1.88 metres.

But Adam and his brother have been careful to cultivate other strengths. "We both realised that an athlete's career is really short. It's very challenging to balance a strong academic career with an athletic career," Adam said.

"[But] we still train regularly and have plans to play on a team in the future, but the NBA is not our goal. My goal now is to pursue a business career after I graduate from NYU in May. There are a lot of fields that I want to explore, most of which are finance-related."

"My father has always trusted that I would find my own way. He never steered me towards a specific path ... [in the future] I would like to leverage my ability to cross between both cultures and make a name for myself."

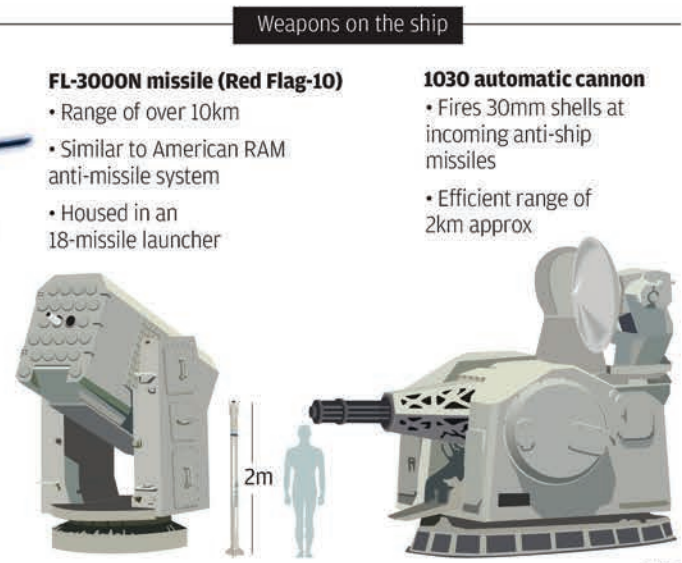
Minnie Chan



**J-15 fighter jet**  
Number carried: 24  
Length: 14.7 metres  
Wingspan: 14.7 metres  
Maximum speed: Mach 2.4  
Range: 3,500km

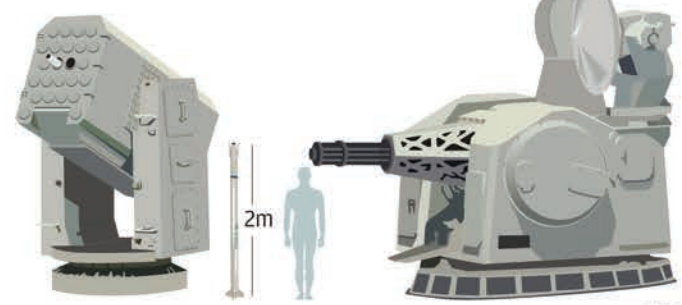
**Z-18F anti-submarine helicopter**  
Number carried: 6  
Length: 23 metres  
Rotor diameter: 18.9 metres  
Maximum speed: 250km/h  
Range: 590km (with 13-tonne loading capacity)

Sources: US-China Economic and Security Review Commission, GlobalSecurity.org, military analyst and enthusiast websites



**FL-3000N missile (Red Flag-10)**  
• Range of over 10km  
• Similar to American RAM anti-missile system  
• Housed in an 18-missile launcher

**1030 automatic cannon**  
• Fires 30mm shells at incoming anti-ship missiles  
• Efficient range of 2km approx



## How Xu Zengping bought China its aircraft carrier

> CONTINUED FROM A1

about the removal of the engines to make it easier for Xu and the shipyard to negotiate," a source familiar with the carrier deal told the *South China Morning Post*.

Western media also reported that the United States pressured Ukraine to remove everything on board the carrier, selling only the

hull to the Chinese buyer, the source added.

A retired PLA Navy colonel said it was "very likely" that the Liaoning was still using the original Ukrainian engines. "The Ukrainian engine technology is better than China's," the retired officer said. "It's my understanding that our navy later sought help from Ukraine to get the

carrier engines, which had been sealed up for years, up and running."

Buying the carrier was just the start. It took another four years to tow it from Ukraine to Dalian (大連) in Liaoning (遼寧) province, and more than a decade to fit it out.

Macau-based military observer Antony Wong Dong said

that after years of negotiations, the Black Sea shipyard also transferred their engine technology to China's Harbin Turbine Company, a manufacturing plant specialising in military boilers, turbines and steam equipment.

There were signs that the engines had been improved.

"The original propulsion system designed for the Liaoning

was the same as that of the Russian Kuznetsov-class aircraft class with a top speed of 32 knots. But the Liaoning is 6,000 tonnes heavier, so logically it would be slower," Wong said. "But recent sea trials showed the Liaoning's top speed was as fast as 32 knots, indicating its propulsion system has been upgraded."

The carrier was renamed

Liaoning when it was formally delivered to the PLA in September 2012 and so far has been used only for training.

Its pennant number – a type of naval identification – is 16. "Do you know why the Liaoning has been numbered 16?" Xu asked. "It was because we spent 16 years getting the job done, from making the deal to rebuilding it."



FOCUS

# Mission improbable II



Xu Zengping bought China's first aircraft carrier, the Liaoning. Photos: K. Y. Cheng

After sealing deal for China's first aircraft carrier, Xu Zengping had a new challenge: taking it home

Minnie Chan  
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Hong Kong-based businessman Xu Zengping (徐增平) pulled off the unlikely of military coups in 1998 – he convinced a Ukrainian shipyard to sell him an unfinished Soviet aircraft carrier for US\$20 million. Xu, a former member of the Guangzhou Military Command basketball team, had been approached by naval officials to buy the carrier on China's behalf but he had to do it with his own money and without the support of Beijing.

Xu sealed the deal over several days of alcohol-soaked negotiations and by April 30, 1999, with the final payment made, the massive vessel was his – he just had to get it home to China.

HOMEWARD BOUND

The Ukrainian shipyard had made it clear that it had no responsibility to get the carrier from the Black Sea to China. It was Xu's problem to get the vessel through to the Atlantic and onwards to its new home port of Dalian (大连) in Liaoning (辽宁) province.

Xu's team enlisted International Transport Contractors' (ITC) Netherlands firm to tow it all the way, and on June 14, 1999, four months after the final payment, the crew and the ITC's Sable Cape tugboat weighed anchor. It was plain sailing until they reached the Bosphorus Strait, Turkey's maritime boundary between East and West.

Relations between China and the United States had taken a downturn in the weeks before Xu's crew had left port. On May 7, the US bombed the Chinese embassy in Belgrade during the Nato air war over Yugoslavia, igniting anti-American protests in China.

In the fallout, Turkey, an ally of US-led Nato, would not allow the carrier through the strait. The crew waited a month, but Turkey was adamant and the carrier returned to Ukraine.

"I felt so helpless when the ship was waiting at the mouth of the Bosphorus Strait. At one point, I was prepared for the worst: we would rather have the giant ship go to the bottom of the strait than let it fall into the hands of states hostile to Beijing, like Japan," said Xu.

The vessel languished in the Black Sea port another 15 months before the tide turned in Xu's favour. In Beijing, after years of opposition, the leadership was re-thinking the project. Defence was back on the agenda after the embassy bombing and having an aircraft carrier to fend off US might was more appealing.

In April, 2000, then-president Jiang Zemin (江泽民) visited Ankara. He promised to encourage Chinese tourists to visit Turkey and to open up his country's markets to Turkish goods. This did the trick. On August 25, 2001, Turkey decided to allow the carrier through to the Mediterranean.

The carrier headed out again into the Black Sea. The Turkish authorities closed the strait on November 1 to let the carrier and its escort of 11 towboats and 15 emergency vessels through.

But storms snapped the cables connecting the carrier to the towboats, putting the project in jeopardy once again. At one point, the carrier drifted unsecured for four days in the Aegean near Skyros island before the tugs were able to rein it back in.

Over the rest of the year, the carrier and a series of tugs inched their way across the Mediterranean, through the Strait of Gibraltar, and out into the Atlantic. It rounded Africa's Cape of Good Hope, navigated the Strait of Malacca and on March 3, 2002, five tugs towed it into Dalian.

Xu said it was like seeing a "lost son find his way home".

"But I didn't feel real relief until it was formally commissioned by our navy 12 years later. The feeling was like finally seeing my child grow up and marry."

BITTERSWEET

It was gratifying but bittersweet for Xu, who was left with a bill for port and towage costs.

"US\$20 million was just the auction price of the carrier. In fact, I had to pay at least US\$120 million for the deal from 1996 to 1999. But I still haven't received one fen from our government. I just handed it over to the navy."

To raise the cash, Xu had to

**[The Liaoning's commissioning] was like seeing my child grow up and marry**

XU ZENGPING

sell his palatial home on The Peak at 37 Deep Water Bay Road in 1999 and mortgage his 280,000 sq ft property on Peng Chau.

A source familiar with the carrier deal said Xu was saddled with the costs because many of the naval officials who had approached him to take on the mission had either died or were in jail. "Ji Shengde, the former naval intelligence chief, entrusted Xu to do the deal," the source said. "But Ji was sacked and given a suspended death sentence in 2000 for his role in a Fujian (福建省) smuggling scandal."

As delays and costs mounted, Xu had to liquidate more of his personal assets. He also had to neglect his own businesses.

He had to borrow from Hong Kong acquaintances, including HK\$230 million from one friend.

"I spent 18 years paying back the debt in full, with interest, with the last payment clearing this year. I felt relieved because my friend is now 81 years old, and I promised myself I would clear the debt while he was still alive."

LEGAL MINEFIELD

Xu was trapped in several lawsuits as a result of the debts. "It's like I had three army regiments before the deal, but now I'm just left with a cookbook," he said.

According to *China's Carrier*, a book published by China Development Press, Xu bargained with the State Council for years over compensation, but Beijing would pay only the US\$20 million auction price, insisting Xu could be compensated for other costs only if he provided receipts.

"It's just ridiculous and unfair. How could the Ukrainians give receipts for meals, gifts and stacks of US dollar bills? And how about the other losses in raising the money?" a source familiar with the deal said. Those costs included HK\$6 million for a document from the Macau government to support his floating casino cover story to buy the ship.

One of Xu's friends said the carrier bills had plunged Xu into severe financial hardship. "For

many years, he had to rely on financial support from his friends. He couldn't even pay for his two sons' education overseas. Fortunately, the two boys won full scholarships from two universities in the US because of their basketball talent."

Xu said the central government refused to pay because "the navy didn't have the budget in the late 1990s because of China's poor economy at that time".

"But that's not a good reason. How could [the Chinese government] launch the 'two bombs and one satellite campaign' in the 1960s? It was the country's most difficult time; many people were starving," Xu said, referring to the national programmes to develop atomic and hydrogen bombs and send the country's first unmanned probe into space.

"China has made enormous economic strides in the past two decades, but the government still fails to use that strength to push the country towards sustainable development, with the defence industry one of the key issues."

But the carrier deal gave Xu some consolation. "Some naval experts told me that my deal helped our country save at least 15 years of scientific research," he said. "I was undaunted and it was my will to fulfil my mission. In the end, it indirectly pushed the central government to change its defence policy."

## 'Greedy officials' lose to man with aircraft carrier

Long-running legal dispute sapped Xu's finances as he tried to keep Liaoning project afloat

Minnie Chan  
minnie.chan@scmp.com

One dispute has dogged Xu Zengping (徐增平) for two decades and, says Xu, indirectly affected his efforts to raise money for the carrier deal.

It involves a legal tussle with the Guizhou (贵州) provincial government over the ownership of the Guizhou Park Hotel, a four-star development in the provincial capital of Guiyang (贵阳).

"It is a typical case of how some local authorities and greedy officials try to swallow foreign shareholders' profit through joint-venture projects," Xu said, adding that if his money had not been tied up in the hotel, he would have had more resources to devote to the carrier project.

In 1986, Hong Kong-based Hon Shan Holdings, which Xu co-founded, was invited by then Guizhou party chief Hu Jintao (胡锦涛) and governor Wang Zhaowen to get the unfinished hotel back on track, according to the hotel's website and legal documents from the Ministry of Foreign Trade and Economic Development, which later became part of the Ministry of Commerce.

Hon Shan invested US\$1.65 million for a one-third share of the project, while the provincial-owned Guizhou Tourism Investment Company contributed US\$3.35 million for the remainder. Xu's company also obtained a US\$5 million loan from Standard Chartered Bank to develop the hotel.

The ministry approved the deal in 1987 and the hotel opened for business in 1989.

The Standard Chartered loan was supposed to be paid off by the end of 1996, but Guizhou Tourism Investment took another loan with another bank and used the money to pay the Standard Chartered debt off six years early on December 22, 1990 – without notifying Hon Shan, according to a legal document.

The Guizhou authorities then assumed full ownership of the project, claiming that Hon Shan had not been contributing.

On April 27, 2004, Hon Shan was ejected from the hotel's management after the local government turned the joint-venture project into a wholly government-owned business without the ministry's approval, according to Hon Shan lawyer John Hou Xiangjing.

Both Hon Shan and the ministry filed suits in the Guizhou Intermediate People's Court, accusing the provincial tourism authorities of contract violations, but the court ruled against them in two trials in 2004 and 2005.

Hon Shan and the ministry appealed to the provincial high

court in August 2005, but the hearings ground to a halt because the Guizhou authorities refused to cooperate.

Over the next seven years, the hotel was linked to a string of corruption scandals that ended in several senior officials going on trial in Guizhou and Beijing and receiving punishments that ranged up to suspended death sentences. Guo Jingyi (郭京毅), the former deputy administrator of the ministry's treaty and law department, who represented the ministry in the hotel trial in 2005, was given a suspended death sentence in 2010 for taking 8.45 million yuan in bribes, some of which came from the Guizhou hotel's management.

In Guizhou, at least three leaders were felled by corruption investigations, including former party head Liu Fangren, 68, who was sentenced to life in prison in late June, 2004, for taking 6.77 million yuan in bribes. The province's former vice-governor Liu Changgui received an 11-year sentence for corruption.

**They used their administrative power to interfere in the legal system**

XU ZENGPING

"The key reason they won the [hotel] trials is that they used their administrative power to interfere in the legal system," Xu said.

On September 2, 2014, the provincial high court reversed the lower court's decision and ruled in favour of Hon Shan and the ministry. But it did not say what should happen to the 20-year joint-venture contract that ended in 2008.

"Hon Shan hasn't had a cent in compensation from the hotel management in the past near three decades," Hou said.

Even so, Xu said his company's "little victory" meant he "finally saw some hope" for the country's legal system.

"I think my case should be a contribution to President Xi Jinping's (习近平) call for the country to abide by its legal rules," Xu, a decade-long member of the Chinese People's Political Consultative Conference, said.

Xu insists that he hasn't used his position on the consultative body to lobby for his case.

"I just focused on ways of promoting our country's military and defence education and strengthening our country's military capability," he said.

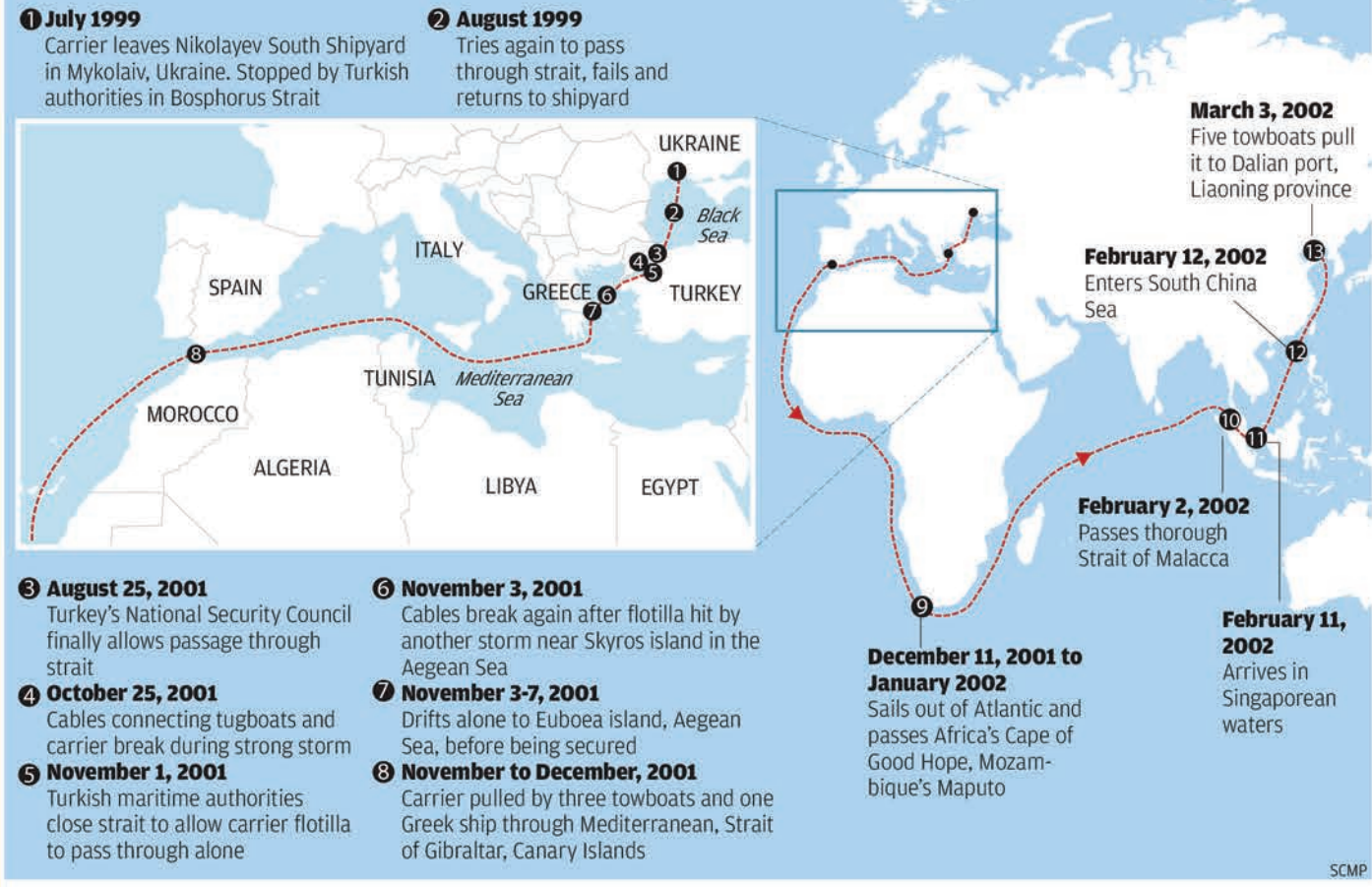


Xu Zengping (third from right) with PLA basketball players in the 1970s, and pointing to the Liaoning in March 2002. Photos: SCMP Pictures



### Slow boat to China

The long, troubled journey of the Liaoning from the Black Sea to Dalian, Liaoning



SCMP