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 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 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" 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 about the removal of the engines to make it easier for Xu and the shipyard to negotiate," a source familiar with the 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 in Liaoning province, and more than a decade to fit it out.

READ MORE: How former PLA basketball star was recruited by China for secret ship-buying mission

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 carrier 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."


The inside story of the Liaoning: how Xu Zengping sealed deal for China's first aircraft carrier

In the mid-1990s, the former PLA basketball star was contacted by officers within the PLA Navy with a secretive mission: go to Ukraine and buy the Soviet-built carrier

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

Major General Zheng Ming, 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 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 delegation'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 made a name for himself organising cross-border cultural 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.

**Mission impossible II:** the battle to get China’s aircraft carrier home
Xu Zengping bought China's first aircraft carrier, the Liaoning. Photo: K.Y. Cheng

Hong Kong-based businessman Xu Zengping pulled off the unlikeliest 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.
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 in Liaoning 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.

**INTERACTIVE: Slow boat to China — the long, troubled journey of the Varyag from the Black Sea to Dalian**
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 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."

• ALL COMMENTS

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A Kuro Jan 20th 2015
6:03am

Xu Zengping is a great man.

Jonathan Smith Jan 20th 2015
6:57am

Xu Zengping helped make China's aircraft carrier dream a reality. One such man is better than a million Xu Caihou's. Thank God that China still have such great people.
finally, we know the real answer to as why usa bomb chinese embassy in 1999? because usa regime find a legitimate excuse to cancel the deal, prevent such ship into china. if china has respond to embassy bombing with violent manner.

The most prominent patriotic overseas Chinese that we all know is Tan Kah Kee 陳家庚, who single-handedly founded Xiamen University and many other educational institutions in Fujian, China and Singapore before and during Mao era. His lifetime contributions to education culminated in UC Berkeley Chemistry Department, with the largest contingent of Chemistry Nobel Prize winners, naming a building after him. Professor Y. T. Lee, a Nobel Laureate and admirer of Tan, worked in the molecular beam group as a grad student and taught there. Minnie Chan's interesting account brings into sharp focus that the Chinese patriotic spirit as seen here in Xu Zengping is perhaps not a rare occurrence. Many Chinese in diaspora, including those most destitute, never lose sight or wish to have their remains brought home to 唐山 someday. My point of telling this story is many Chinese will be forever grateful for those nourishing their roots. Whether I am in Chongqing, Wuhan or Kweilin, the mention of Tan invariably elicits the 愛國華人 adulation. Except for self-hate Chinese, no good deed to our people will go unremembered. When will Hong Kongers learn?
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 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 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."

Xu Zengping points to the Liaoning in March 2002. Photo: SCMP Pictures

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 cookhouse," 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."

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