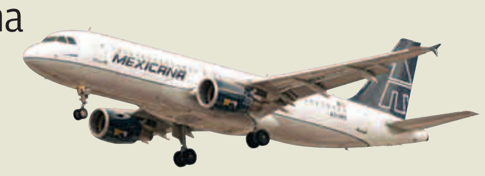
CCB posts double-digit growth in net earnings
Banking B3
Companies

Group buys control of troubled Mexicana
Airlines B4
World



Hang Seng Index: change on the week	H-share index: change on the week	Top blue-chip mover: China Shenhua
▼0.43%	▲1.19%	▲5.88%

Snapshot

Business

www.scmp.com

MONITOR On inventions and productivity **B12**

The Zhengdong exhibition and conference centre is the largest in Asia at 34,000 square metres. It has not been filled with people since a pharmaceutical conference last year. Photo: Lulu Chen

Zhengzhou's new area will be twice the size of Manhattan

Cities think big – but can they all really win?

Naomi Rovnick and **Lulu Chen** in Zhengzhou

As she opens the doors to a new exhibition and conference centre, Sun Sihan, a smartly dressed public-relations official for the city of Zhengzhou, is flushed with pride.

"We have the largest conference hall in Asia," she beams, displaying a cavernous room that at 34,000 square metres is nearly five times the size of Old Trafford, the world famous Manchester United football ground in Britain. The exhibition centre and the walkways, gardens, lake and car parks that are part of its development area cover 69 hectares, making it larger than Vatican City.

Built at a cost of 2.2 billion yuan (HK$2.52 billion) four years ago, its vast lobby boasts imported Italian stone walls, while the hallways are filled with fresh-cut flowers.

The last time the conference centre, which was entirely empty on a recent hot weekday morning, was filled with people was last year when Zhengzhou hosted a national pharmaceutical industry event.

The conference centre is one of many attractions on show at Zhengdong New Area, a recently created district within Zhengzhou, the capital of the relatively poor inland province of Henan. Still under construction, the new town eventually will cover 115 square kilometres, almost twice the size of New York's Manhattan Island, and cost 150 billion yuan, funded by the local government and property developers involved in the project.

Here in central China, Zhengzhou is racing against neighbouring cities to become this region's economic hub. Similar contests are being played out across China in second- and third-tier cities.

In the short term, such big projects boost employment and burnish the reputation of local authorities. But in the long term, the flurry of construction – much of it funded by local government borrowings – could leave the cities lumbered with white elephant projects for years to come and Chinese banks stuck with sour loans.

The provinces of Hunan, Henan and Hubei "are all pushing ahead with competing and perhaps redundant city cluster development strategies, designed in part to court investment" from much wealthier coastal areas, which some manufacturers may quit because of rising wages, says William Hess, managing director of Beijing-based economic consultancy China Analytics, who has lived in Zhengzhou.

Such "clustering" of real estate and infrastructure projects is common throughout the mainland, says Patrick Chovanec, an economics professor at Beijing's Tsinghua University. "Everywhere you go in China, you see projects that seem 10 to 15 years ahead of their time. If you only viewed each one singly, you could come up with a rational explanation of why they make sense, but there are just too many."

Wuhan, the Hubei capital about 500 kilometres south of Zhengzhou, appears to be winning the race to dominate central China's economy. Wuhan, like Zhengzhou, is now linked to the mainland's fast growing high-speed rail network. That could potentially attract multinational manufacturers to move inland to either city, because it makes it quicker to transport goods out of China's interior. But Wuhan got an earlier start, attracting investment from overseas companies including Coca-Cola and France Telecom.

Zhengzhou lacks a large crowd of foreign-owned manufacturers so far, but hopes they will flock to the city to build factories, and also set up headquarters offices in Zhengdong New Area.

But geography works against Zhengzhou. While the Yellow River skims the city's northwestern point, it lacks easy access to waterways. Wuhan, by contrast, sits on both the Yangtze and Han rivers and has several ports.

Even farther to the south is Changsha in Hunan province, which embarked on a construction and infrastructure drive a decade ago. Today it has a surfeit of unsold homes. Apartment prices in Changsha fell 20 per cent, month on month, between June and July, according to DTZ, an international property agency. Changsha also is linked to the national high-speed railway.

The biggest industries in Zhengzhou currently are construction – which is unsurprising given all the new property development – and textile manufacturing.

In downtown Zhengzhou, outside the new district, the scene is one of ageing tower blocks, roadside stalls and noodle shops. Farmers wheel carts of fruits and vegetables down the streets. On the highways outside the city centre, traffic is sparse.

Coming to the end of an 80-kilometre drive from Zhengzhou to Henan's Shaolin temple, whose monks are famous for their kung fu skills, the quiet road is lined with car dealerships. But most people are driving goods trucks, or riding electric bicycles. Cows plod contentedly down

• CONTINUED ON B2

Will they come?
Zhengzhou's exhibition centre covers 69ha, bigger than Vatican City

Zhengzhou new area now under construction will cost, in yuan,

¥150b

Cinda in talks to buy strategic stake in AIA

Jane Cai in Beijing

China Cinda Asset Management Corp is leading a mainland consortium to buy into AIA, as the state asset manager aims to build itself into a financial services conglomerate.

Cinda is in talks with AIA's parent, American International Group, to acquire a stake either before the Asian insurer's initial public offering in Hong Kong in October or during the IPO process as a strategic investor, bankers with knowledge of the matter, said.

Attracted by AIA's leading position in Asia, at least four consortiums comprising mainland private investors have been in talks with AIG for possible acquisition after British insurer Prudential aborted its US$35.5 billion bid for AIA in June, the *South China Morning Post* reported last month.

On August 13, the *21st Century Business Herald* reported China Life Insurance, Fosun Group and Cinda have decided not to proceed with their bids as the trio failed to find common ground with the seller on pricing.

However, bankers said that Cinda remained at the table and was pushing ahead with the acquisition bid.

It remains unclear which other firms are in the consortium led by Cinda but one major state-owned bank is believed to be involved as the deal would involve a large amount of money.

Huan Guocang, an investment banker turned private equity fund manager, is believed to be advising Cinda on the deal. Huan is a co-chairman of Hong Kong-based Primus Financial Holdings, which had bid for AIG's Nan Shan Life Insurance in Taiwan.

Huan was not available for comment

AIA is expected to put in the paperwork early next month with the regulators to kick off the listing process.

The company has been on the block since autumn 2008. AIG originally intended to sell a 49 per cent stake. In June last year, it appointed bankers to launch it on the Hong Kong stock market instead, but this plan was aborted because of the Prudential offer.

Chief with eye on ball **B12**

The nine banks that won roles on the earlier IPO plan would now have to re-apply for their jobs, a person close to AIA said.

Last year, AIG tapped Morgan Stanley and Deutsche Bank to lead AIA's IPO. In February, it added Bank of America, Citigroup, Credit Suisse, Goldman Sachs, UBS, China Construction Bank and Industrial and Commercial Bank of China as bookrunners.

A Cinda news officer said she did not know about the acquisition, while AIA was not available for comment.

"Cinda wants to strengthen its insurance business as the asset management company aims to make a strong presence in every financial arena," Yi Xianrong, a researcher at the Chinese Academy of Social Sciences, said. "The acquisition of AIA would be an important step for Cinda in the just initiated commercialisation process."

Beijing set up four asset management companies in 1999 to clean up the balance sheets of the country's biggest lenders after they racked up 1.4 trillion yuan (HK$1.6 trillion) of bad debts. Cinda was assigned to treat the non-performing loans of China Construction Bank, which were regarded as of the best quality among the lot at the state banks.

Assets reshuffle
Cinda was assigned to treat bad loans at China Construction Bank

The four asset managers were to clean up the balance sheets of the state banks after they posted bad debts of, in yuan

¥1.4tr

Price controls keep Sinopec's first-half earnings in check

Eric Ng

China Petroleum and Chemical Corp (Sinopec), Asia's largest oil refiner, reported a small rise in first-half profit on the back of higher oil and gas prices and sales volumes, although the benefits were largely offset by the government's price controls on refined fuel.

The nation's second largest oil and gas producer posted a 6.6 per cent year-on-year rise in first-half net profit to 35.46 billion yuan (HK$40.54 billion) from 33.25 billion yuan.

The profit is 9.4 per cent higher than the median estimate of 32.4 billion yuan in a survey by Bloomberg of 10 brokerage analysts.

Second-quarter net profit fell 10.6 per cent year-on-year to 19.68 billion yuan from 22 billion yuan, but it was 24.6 per cent higher than the 15.79 billion yuan profit recorded in the first quarter.

First-half operating profit from oil and gas production surged four-fold year-on-year to 22 billion yuan, thanks to a 40.7 per cent jump in natural gas output and a 97.9 per cent rise in average oil selling price to US$67.3 per barrel. Oil output was flat at 21 million tonnes.

However, refining operating profit plunged 71.4 per cent to 5.69 billion yuan, as profit margins were squeezed by much higher crude oil prices and Beijing's holding back from letting fuel price rise by the same degree to fight inflation.

Fuel marketing operating profit rose 15.5 per cent to 14.45 billion yuan, on the back of an 18.1 per cent rise in refined fuel sales to 68.15 million tonnes.

Chemical profit slid 14.5 per cent to 8.34 billion yuan despite a 24.7 per cent rise in six key products to 16.65 million tonnes.

According to a Citi research report, chemical profit margins have slid across the region. China's rapid ramp-up in supply is a major contributor to lower profitability.

Second-half supply is expected to continue to rise, as Sinopec began trial production at a new plant in Zhenhai, Zhejiang, in June, and put its Tianjin new plant into commercial operation in May.

Still, a 25 per cent jump in ex-factory gas price since June 1 will boost Sinopec's bottom-line. The company plans to produce 6.32 billion cubic metres of gas in the second-half, up 11.5 per cent from the first-half. Gas took up 18.3 per cent of total oil and gas production, up from 13.7 per cent in the year-earlier period.

Second-half oil output will again be flat at 21.5 million tonnes.

Sinopec's share price has recently under-performed the market due to concern Beijing will maintain a tight grip on refining margins.

Business Digest

Listings

Sanjian Chemicals plans HK$1b offering
Zhejiang province-based industrial chemicals producer Sanjian Chemicals is expected to raise just under HK$1 billion in an initial public offering mid next month, a person familiar with the deal said. The company is the mainland's largest privately-owned maker of ethylene oxide and other surfactants, which are core components of cleaning agents and cosmetics. Bank of Communications International is the sole global coordinator. Daiwa Capital Markets is a sponsor. Eric Ng

Markets

Australian deadlock may shake equities
Australian markets and the local currency are likely to suffer from the country's political deadlock, after the closest election in decades produced a hung parliament, analysts say. The political stalemate also means that the centre-left Labor government's proposed mining tax and its plans to introduce a national broadband network also hang in the balance. "The election outcome will likely add to local investor nervousness in the short term," says an economist.

Full report B4

The political stalemate will likely add to the nervousness of investors. Photo: AFP

Mining

Kiu Hung buying Fast Glory coal mines
Kiu Hung Energy Holdings said yesterday it agreed to acquire coal mines and licences on the mainland for HK$8.89 billion from Fast Glory Holdings. The company said its shares will resume trading tomorrow. The total estimated resources of the mainland coal mines to be acquired are 642.47 million tonnes. This acquisition is part of the Hong Kong-listed firm's plan to reinvent itself from a toy and gift manufacturer to a mining company. Toh Han Shih