Coming to America

Jack Ma’s IPO of Alibaba edges a step closer with the firm’s New York filing
Hit the road(show), Jack
How Alibaba’s IPO will change the internet world

In late October 1999 Alibaba’s founder Jack Ma received an email from a banker inviting him to meet a potentially-useful contact. That person turned out to be Softbank’s Son Masayoshi. But on arriving at the venue, Ma realised that heavy-hitters from 10 other Chinese internet firms were also waiting to present their cases to Softbank. Seven-month-old Alibaba was a minnow, so Ma only got six minutes to make his pitch.

Ma told Son two things. First, that Alibaba wanted to become China’s largest online marketplace. Second, that his start-up didn’t need any money. (Alibaba had just concluded a $5 million angel investment round.)

Son was looking for a man who would shape the future of Chinese cyberspace, says 21CN Business Herald, to mirror the success he’d had with Softbank’s investment in Jerry Yang’s Yahoo in the early 1990s which gave the Japanese firm a presence in North America. Within a month, a deal had been struck, although Ma took only two-thirds of the $30 million that was being offered. He also insisted that his team hold a controlling number of shares. Son wasn’t convinced at first but Chauncey Shey, head of Softbank’s China division, convinced him that Ma was the right guy to back.

“Why we picked Jack Ma? We found him and his team very special,” 21CN quoted Shey as saying this month. “Alibaba has 18 founding partners. To be able to pull 18 ambitious and capable young people together, sit tight and share his vision, Ma must have some special abilities.”

Shey also says that Ma’s right-hand man, Joseph Tsai, underscored his conviction that Alibaba was going to be a good investment.

Born in Taiwan and educated at the prestigious Ivy League college Yale (Ma says his own application to Harvard was rejected 10 times), Tsai was working as lawyer at an investment firm before Ma convinced him to join Alibaba for $50 a month. He’s since become one of the most sought-after executives on Wall
In the future, finance will help new growth flourish.

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There’s more on the future of finance at www.hsbcnet.com/growth
Street, and all the more so after Alibaba filed for its US listing last week. “The detail man to Mr Ma’s vision”, as the New York Times puts it, Tsai “holds the key to what will most likely to be the largest initial public offering of this generation”.

But there are a few key details missing in Alibaba’s registration statement, which runs to more than 2,300 pages. For example, we still don’t know the expected price range for the flotation or the size of its proposed fundraising. There is plenty of hype around the IPO, but not much company guidance on Alibaba’s future earnings. So investors are left to ponder Ma’s vision and how he and Tsai will take Alibaba forward.

Who owns Alibaba?
Regular readers of WiC won’t need reminding of Alibaba’s mammoth scale and sprawling business reach. Its status as China’s largest e-commerce company makes it the world’s biggest online marketplace. Based on the average estimate of 12 analysts, Bloomberg puts Alibaba’s post-float valuation at $168 billion. The IPO documents say that it will raise at least $1 billion, although analysts seem to think the total is more likely to end up at between $15 billion and $20 billion. A higher amount would top Facebook’s $16 billion offering in 2012, the record for the internet sector.

Alibaba’s filing also names four principal shareholders. Softbank owns 34.4%, while Yahoo has a 22.6% stake. Jack Ma owns the large majority of an 8.9% share held by founding partners, via an offshore vehicle. Tsai, executive vice chairman, holds a further 3.6% shareholding himself. The remaining 30% is held by “shareholders of record in the United States”, i.e. financial institutions that have invested in the internet firm during its first 15 years.

Using Bloomberg’s estimate of the firm’s valuation, Softbank’s stake is worth a whopping $58 billion, or 2,900 times its investment 15 years ago. Softbank has pledged to keep hold of more than 30% of Alibaba – for the time being at least. “Of course, that doesn’t mean we promise to hold it forever, but for now we consider Alibaba a core strategic partner,” Son told Reuters last week.

However, Yahoo is expected to sell almost half of its Alibaba stake as a consequence of the offering. It will also relinquish its only seat on Alibaba’s four-person board (the others held by Ma, Tsai and Son).

As such, a big chunk of Alibaba’s IPO proceeds will see existing shareholders exit, rather than raising new money for the company itself. Perhaps that’s why Jack Ma has returned to a similar script to the one he pitched to Softbank in 1999: that this deal isn’t about money. Tsai has also tried to play down the significance of the offering, pointing more to the company’s future. “There’s lot of life after an IPO,” he told the New York Times.

So why go public now?
Two factors seem to be setting the tempo. One is that some existing investors want to exit. Another is that Alibaba’s shareholders think that it’s a good time to IPO, with market conditions supporting a high valuation.

Barron’s says that Alibaba wants to sell stock while the major US indices are close to historic highs. That’s ominous, the magazine thinks. A handful of deals are now looked back on as watersheds in market cycles, it warns, drawing comparison to Blackstone’s high-profile listing in 2007. Ma and Tsai want to time it right too. “Alibaba’s message: sell high, in any language,” it suggests.

But New York wasn’t Alibaba’s preferred IPO destination. The company worked throughout 2013 to list in Hong Kong, only to pause when
the territory’s regulators rejected its dual-class share structure. (The arrangement allows Ma and Alibaba’s founding partners to retain voting control, even as minority shareholders.)

Yahoo is said to be fed up with the power imbalance. According to the Chinese media, its chagrin with Ma is a primary reason for why Alibaba is going public.

For this, some history is required.

Back in 2005 Softbank’s Son arranged for Yahoo to acquire a 40% stake in Alibaba for $1 billion and then agree to inject it own Chinese assets into the firm. It looked like a sound strategic partnership. Indeed, the timely capital infusion helped Taobao, Alibaba’s online C2C (customer to customer) shopping platform to defeat eBay (which had topped China’s C2C market in 2004).

But relations between company executives and Yahoo began to deteriorate, especially after 2010 when Yahoo rejected an offer to sell its stake (then 40% and valued at $11 billion, see WiC79) back to Alibaba.

The tension worsened in 2011 when ownership of Alipay, an online payment system underpinning all of Alibaba’s e-commerce businesses, was transferred to a company controlled by Ma.

Yahoo raged publicly that the switch was made without shareholders’ approval (see WiC112). Before the transfer, Alipay was owned by Alibaba. Beyond that it gets more complicated. Yahoo enjoyed an economic interest in Alibaba’s success via a so-called “variable interest entity”, or VIE, a structure devised to get around rules disallowing foreign ownership in certain Chinese assets.

Ma countered Yahoo’s complaints over the Alipay disposal by claiming he was forced into the move after warnings from the Chinese central bank about foreign shareholdings in a domestic payments system. By any definition, the move exposed the inherent flimsiness of the VIE structure – more on which later...

(Separately, Alipay isn’t included in Alibaba’s listing, at least not at this point. Meanwhile if it goes public separately – most likely in China – Alipay will receive a one-off cash payment of about $6 billion.)

Indeed, Yahoo wasn’t convinced, accusing Ma of breaching his contractual commitments with his partners. So the first phase of the divorce was made in 2012 (see WiC118) with Alibaba buying back nearly half of Yahoo’s stake. Under the agreement, Yahoo said it would cut its Alibaba stake by another half should an IPO take place. Critically, existing shareholders have first rights to buy the shares. But this option is set to expire by the end of 2015, which Century Weekly cites as another factor in driving the IPO timetable.

How will Alibaba’s IPO reshape the internet world?

Clearly, it will impact Yahoo. The veteran portal operator has struggled with its core business, and was increasingly viewed more as a proxy for faster-growing Alibaba. (When Microsoft launched a $53 billion takeover bid for Yahoo in 2008, Chinese media saw it as an indirect raid on Alibaba.)

By selling down its Alibaba stake, Yahoo will realise upwards of $10 billion, or more than double its existing cash stockpile. It could return cash to shareholders through a buyback or a special dividend, or use the money to make acquisitions. Bloomberg says the windfall represents Yahoo’s “best shot yet at narrowing the ever-widening gap between web rivals Google and Facebook”.

Or might Alibaba turn the tables and buy further into Yahoo? That was something Jack Ma proposed rather playfully three years ago. “After nine years, the pair have swapped positions,” 21CN says, suggesting that Alibaba must go global if it is to continue its supercharged growth. “Alibaba only needs to acquire 20% in Yahoo to become its biggest shareholder. It is worth about $6.4 billion. Given Yahoo owns a 35% stake in Yahoo Japan, such a deal would also give Alibaba a solid presence in Japan,” 21CN

Bought the vision: SoftBank’s boss Son Masayoshi
opines. “Alibaba’s vision to become the number one global internet firm could turn to reality – from once being just a Chinese dream.”

The Financial Times’s Lex Column concurred that deals of that size barely warrant a second thought from Alibaba bosses. “Super-charged with a superior ‘growth stock’ valuation, it will be in a strong position to beat Silicon Valley at its own game,” the FT reckons.

So far Alibaba’s international expansion has been slow, although it has started making investments in the US, including ShopRunner, an e-commerce firm that rivals Amazon’s Prime free-shipping service. It has also added Lyft, a ride-sharing service, and Tango, a mobile messaging operator, to its global business portfolio.

But could a bigger, more transformational bid for Yahoo be in the offing? If so, it might encounter political opposition. “Will Americans and the American government tolerate the rise of Chinese internet firms on their soil? More than that, will Alibaba and other rising Chinese companies manage cultural differences any better than American firms did in China?” the New York Times asked.

What other risks lie beneath?
Another worry for some investors is the IPO’s structure i.e. its reliance on VIE arrangements. In an interview on CNBC, Antoine Chemali, chief investment officer at Digital World Capital, said many American investors won’t be able to buy into the flotation because of the risk the structure poses. The VIE acknowledges an inconvenient fact: that foreigners aren’t allowed to own Chinese internet assets. Instead ownership benefits (i.e. the profits) are transferred to the US-listed entity, without ceding ownership of the assets that generate them.

“The US investors will own shares in this variable interest entity, and that has a contract with the mother company in China. That poses concerns to a lot of different investors,” Chemali says. Why? “Because they don’t have title to the shares of the mother company but instead rely on the contract between the two companies so as to enjoy their economic rights. A large class of investors will not invest in this company because of the regulatory risk.”

We wrote in WiC197 about the risks involved in this opaque (though quite common) ownership structure and Gordon Chang returned to the same theme in an article about Alibaba’s IPO for Forbes. Chang says that investors who purchase the New York-listed stock will assume that Beijing has consented to these VIE arrangements, even though they contravene the spirit of Chinese rules that foreigners cannot own internet firms.

“People believe that if Beijing were to declare a VIE arrangement illegal, it would be like setting off a nuclear weapon, shutting off new Chinese companies from foreign equity markets,” he writes.

But Chang reaches a somewhat different conclusion. “In reality, the legality of Alibaba’s contractual arrangements is very much in doubt. As a result, Beijing has the right to effectively confiscate the business of the issuer. Investors are making a bet that Chinese officials will not do so, but the risk of such an adverse event is not small – and there are indications that the risk will increase over time.”

Chang also reiterates the recent experience among Alibaba’s foreign shareholders. Alipay was previously part of Alibaba’s Cayman Islands VIE. When its ownership changed in 2011 there was little recourse for foreign investors, as Yahoo discovered.

Those who buy the New York IPO are buying into the same Cayman VIE.

“There are substantial uncertainties regarding the interpretation and application of current and future PRC laws, rules and regulations,” Alibaba’s IPO documents have also noted.
Talking Point

Of course, the flotation process has also provided more clarity on Alibaba’s ownership. For one thing, it shows that a company usually portrayed as a Chinese giant actually only has a small minority of Chinese shareholders. Alibaba may become a giant in other e-commerce markets outside China. But if it does, a disproportionate number of foreign investors will be cashing in.

Back at home this has aroused nationalist sentiment as more people become aware of Alibaba’s foreign owners. “Who is Jack Ma working for?” was one of the questions being asked on weibo. There were even accusations that Ma was a “big traitor” when the level of Japanese ownership became clear. Noting the continued tension between the two country’s over disputed islands, Reuters reported that there were calls for boycotts of Alibaba’s websites.

Revelations about the ownership of the VIE are unlikely to damage Alibaba’s core business but they highlight that the offshore arrangements are becoming more controversial. And in Alibaba’s case this structure is hardly something in the prospectus marginalia: it is underpinning what is likely to be one of the biggest IPOs ever.

What’s Ma’s vision?

Never too bothered by the dangers of hubris, Ma has said that he wants to build a company that lasts at least 102 years, so that it spans three centuries from its founding in 1999.

Five years ago, Ma had already identified a much-vaunted set of peers. “If Alibaba cannot become a Microsoft or Wal-Mart, I will regret it for the rest of my life,” he told an interviewer in 2009.

And since then Alibaba has been trying to transform itself into a much more diverse beast. To name just a few of the initiatives added to its e-commerce core, it is taking on the financial monopoly of the state banks, has started to venture into the movie industry, and last year launched a logistics venture that competes with couriers that have long supported its online trading businesses.

To put this in perspective: an American equivalent to Alibaba’s multi-industry goals would knit together the likes of eBay, Wells Fargo, Disney and UPS. And the same 18 founding partners will be making all the important decisions about these strategies. (After all, the New York listing is deliberately structured to cement their managerial control; a Hong Kong IPO would have shifted more power to minority shareholders.)

Can they continue to steer the firm to ever-greater heights? Many of Alibaba’s own staff seem to believe so. According to the Oriental Morning Post, the price of company shares on its in-house trading platform has climbed from $60 last year to $160 as of late.

Arrêter voleur!

Chinese tourists have a love-hate relationship with Paris. They adore its architecture, its parks and its fabulous shopping. But they don’t always like the food – it is often too creamy — and they are occasionally bemused by the attitudes of their city hosts.

Lately there has been something new for them to worry about: robbery. Thieves have been targeting Chinese visitors because they know they are likely to be carrying larger amounts of cash and high-end goods.

The issue hogged the headlines in China last March when a group of 23 tourists were stripped of their passports, plane tickets and wallets shortly after arriving at Charles De Gaulle airport. Since then there has been a stream of stories in the media and on weibo about how France, which gets a million visitors from China every year, is no longer a safe place to visit.

Thus the announcement by the French interior ministry last week that it has invited Chinese police to Paris this summer to help protect their fellow countrymen. The Chinese officers will work alongside their French colleagues, Le Monde quoted a government spokesperson as saying.

A drop off in Chinese custom would be a serious blow to Paris high-end shops, many of which have recruited Chinese-speaking staff to help them attract big-spending customers.

From the perspective of the Chinese shopper it often makes economic sense to fly to France to buy luxury goods because the mark-up on the same items is so steep at home. If tourists purchase goods ordered by their friends and family, the trips turn out to be even better value. But sadly many criminals have cottoned on to this shopping tactic and now wait for Chinese tour groups outside the more prestigious shops, an AFP report claimed.
China needs to adapt to a “new normal” in the pace of its economic growth, said President Xi Jinping. On the other hand, growth fundamentals haven’t changed and the country is still in a “significant period of strategic opportunity,” he said, according to Xinhua. The government must remain “cool-minded” and take “timely countermeasures to reduce potential negative effects”. Xi’s comments came just before the OECD said that growth will continue to slow in China over the coming months. Xi’s statement is being taken to mean that people should not expect large stimulus programmes like the one in 2008-09.

The Philippines has accused China of undertaking illegal land reclamation in the disputed Spratly Islands, which violated a longstanding pledge not to build on any of the South China Sea’s contested islands. The Philippine government estimated that the Chinese have reclaimed a land mass of at least 30 hectares from the reef, which Manila says is part of its western Palawan province. China’s Foreign Ministry has claimed that the area is part of China’s territory, and that any Chinese activities at the reef should be of no concern to Manila.

Thousands of people in Hangzhou protested this week against plans by the local government to build a waste incinerator in the city. Local residents say they are worried about pollution from the plant. The incinerator is viewed by the Hangzhou government as a solution to growing volumes of rubbish. However, as WIC has reported as far back as issue 48, they rouse loud objections from nearby communities.

The row between China and Vietnam worsened this week with at least 16 Chinese killed – according to the UK’s Guardian newspaper – when rioters attacked Vietnam’s biggest steel plant (Taiwanese-owned, ironically) to protest against Beijing placing an oil rig in a part of the South China Sea claimed both by Hanoi and Beijing. The violent anti-China protest was one of the worst breakdowns in Sino-Vietnamese relations since the neighbours fought a brief border war in 1979. Hundreds of Chinese have fled to Cambodia to escape the riots (for more see page 8).

This week Samsung Electronics held an inauguration ceremony in Xi’an for its first semiconductor fabrication factory in China, and also the Korean firm’s largest overseas investment in semiconductor production. Kwon Oh-Hyun, chief executive, said: “In the past, Xi’an served a pivotal role in cultural exchange between the West and the East as it was the starting point of the Silk Road. On a similar note, we hope that this place will be a starting point of the 21st Century Digital Silk Road, a fruit born out of cooperation between Korea and China.”

The Chinese government has accused Mark Reilly, former China head of GlaxoSmithKline (GSK), of bribing doctors to use its drugs and trying to cover up his activities during a subsequent investigation. If convicted, Reilly could face a prison term. He was replaced as GSK’s China head last July.
A dventurous Chinese tourists have been visiting the Paracel Islands over the past year. But as tensions rise in waters not far south of the archipelago, the minor tourism boom that the Paracel’s ‘city’ of Nansha has just experienced could be at an end. In fact, the mood is so tense that the Chinese military has called a halt to cruise ship visits to the region.

The tourist embargo follows a series of confrontations between Chinese and Vietnamese vessels about 120 nautical miles from the Vietnamese coastline, where CNOOC, the Chinese oil giant, wants to locate a new rig. Ships from Vietnam have mustered to prevent it from establishing a fixed position and vessels from both countries are said to be trying to ram their opponents. The Chinese have also been firing water cannons (“the most gentle measure we can take in trying to keep the other side out,” a Foreign Ministry spokesman explained).

Hanoi says the Chinese rig is within a 200-nautical-mile sovereign zone established under the UN Convention on the Law of the Sea. But China says it sits within reach of the Paracels (which it calls the Xisha Islands). “Which is the closer?” the Foreign Ministry official asked. “I think the international community can make its own judgement.”

Hanoi counters that Beijing never demanded sovereignty over the Paracels before the 1940s and that Vietnam has a stronger claim.

In 1974 Chinese troops clashed with South Vietnam over the Paracels, establishing de facto control after a battle in which more than 100 soldiers were killed. In 1988 there was another confrontation, this time over the Spratlys. Vietnam again came off worst, losing about 60 sailors.

The tension surrounding the row extended to last weekend’s annual ASEAN summit, with China’s Foreign Ministry warning Vietnam against trying “to rope in other parties” in its support. About a thousand Vietnamese then joined one of the largest-ever anti-Chinese rallies in Hanoi last Sunday.

Andrew Chubb, an Australian specialist on territorial disputes in the region, says that Vietnamese boats have a history of confronting Chinese ships surveying for energy resources in the region. A documentary on Chinese television shows a similar clash seven years ago. Both sides steer their boats into their counterparts. As martial music beats in the background, one Chinese captain promises: “Be it hitting, ramming or crashing, we will perform our duty resolutely.”

But Chubb is unsure about China’s tactics in the current row, saying that CNOOC could have chosen sites closer to the Paracels that wouldn’t have been so provocative to Hanoi, as well as easier to defend against the Vietnamese flotillas. His conclusion is that the motivations are more political than economic, and that Beijing wants to mark out its claims to the outermost reaches of the disputed ‘nine-dash line’.

But in Vietnam the mood turned uglier on Tuesday as 20,000 rioters started targeting Chinese factories in the worst anti-Chinese unrest for almost 35 years.

Hundreds of Taiwanese and South Korean businesses were also damaged in the disturbances despite putting up signs declaring they were not Chinese. China’s Foreign Ministry responded by urging the Vietnamese “to take effective steps to resolutely stop and punish these crimes, and to ensure the safety of Chinese citizens and institutions”.

The Guardian reported yesterday that the riots have now turned deadly. A local hospital says 16 Chinese have been killed.
Economy

The Canton Fair is often described as a barometer for China’s export health. So when the signals are that business is dropping, commercial confidence often takes a hit. But does the fair still serve as a reliable indicator? Or could the barometer be broken and no longer capable of divining the true economic weather?

Organisers of the twice-yearly event in Guangzhou, which is also known as the China Import and Export Fair, called time on its most recent session at the end of last month. But the two-week gathering has an enduring status, as Kevin McGeary describes in The Nanfang, a blog about the Pearl River Delta.

Starting out under Mao Zedong in 1957, the fair came to be regarded as the fulcrum in China’s economic progress. Doing just $1 million worth of business in its first year, it was accounting for as much as a fifth of exports by the mid-1980s. Business volumes then soared during the 1990s as China integrated more deeply into the global economy.

Foreign attendees braved hostile political conditions in some of the earlier meetings, McGeary writes, especially during the Cultural Revolution when Red Guards plotted to disrupt the gatherings.

When the Americans first turned up in 1972, they had something to learn from the Japanese, who had been coming to Guangzhou for a while. To keep things civil, Japanese businessmen weren’t averse to chanting “Long live Chairman Mao”, McGeary says, and as late as 1999 the country’s trade minister was ready to sing a few of the old revolutionary songs with his hosts.

But turnover in Guangzhou has now been declining for three years, the Global Times reports. About $31 billion worth of deals was recorded at this session, which was a 12.6% decline on last spring. The number of overseas buyers also fell to a little over 188,000 visitors. Fair spokesman Liu Jianjun blamed a slower-than-expected recovery in traditional markets and low demand in emerging ones.

Of course, the fair is no longer the only option for traders, with hundreds of other exhibitions and conventions springing up across China. Many buyers and suppliers now have long-term relationships, making the need to visit China less pressing too.

“The function of the fair seems to have changed in recent years,” Wang Changyin, general manager of trading at Galanz Group, a home appliance retailer, explained to the Global Times. “It is now more like a platform to display new products or enhance brand recognition internationally. Fewer and fewer foreign participants are willing to sign deals on the spot.”

The South China Morning Post also identified differences to former fairs, like less evidence of hard bargaining over price and more focus on the range and quality of goods. “Products are of better quality but of course they are more expensive,” an importer from New Zealand told the newspaper. “It’s true that there are cheaper products in Thailand and Vietnam, but the quality is poorer for the type of products I source.”

The fair is also losing out to new sales channels, most notably online platforms like Alibaba. According to iResearch, a Beijing-based market research firm, Chinese companies contracted deals worth Rmb3.1 trillion ($497.6 billion) with foreign partners online last year, up from Rmb2 trillion in 2012. “Before there was no internet so customers had to come to the Canton Fair, but now it is easy to get information [online] so there is no need to come,” Lina Shang, a sporting goods trader, told the Financial Times.

But other attendees in Guangzhou spoke up for face-to-face meetings, especially in trading higher value or less standardised items. They were also cautious about some of the anonymity of online sales platforms. “We tried to use the internet before, but now we have stopped,” a Walmart supplier told the FT. “In China, there are lots of cheaters.”

Fewer deals signed this year

Photo Source: Reuters

Fair enough

Guangzhou’s trade gathering is no longer the only game in town

Week in China
16 May 2014

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Gamblers caught counting cards on the blackjack tables of Las Vegas are swiftly shown the door. But casino bosses in Macau are wrestling with a different type of illicit card activity – the cash-generating variety.

The greyer areas of Macau’s economy were caught in the spotlight again last week when the South China Morning Post reported that the dominant Chinese card payment system UnionPay was making new efforts to combat money laundering and capital flight in the world’s top casino destination.

That was seen as bad news for casino stocks, which have more than doubled over the last two years but fallen by a fifth in 2014, Bloomberg comments. The target of the crackdown are portable UnionPay terminals brought to Macau from across the border in China. Agents are taking them around the casinos and offering customers the chance to get more money on the spot. Transactions are then classed as domestic sales, unlike those at terminals properly registered in the city (Macau is classified as a special administrative region).

Police said they made six arrests in February and six more in March, collecting a haul of mobile card terminals, account books and cash. Reports in the media this week have also suggested that the casinos have been given a July 1 deadline to get rid of the illegal terminals, or face a wider crackdown.

Capital controls restrict Chinese visitors from bringing more than Rmb20,000 (about $3,200) in cash per trip to Macau, plus the withdrawal of a further Rmb10,000 a day from ATMs.

For some that’s not enough of a stake – hence why the reports caused a stir among casino stock investors, especially as the crackdown seems likely to hit the segment known as premium mass-market (Macau is trying to attract a wider crowd and reduce its dependence on high-roller gamblers). The gaming shares worst affected were Wynn Resorts (down 8.5%) and Galaxy Entertainment (down 7.6%).

But as Charlene Liu at HSBC then pointed out, the UnionPay review had been underway for a while with little sign that it was undermining revenues. Business from mass-market gaming grew by 34% in April year-on-year, for instance.

The ban on portable terminals will be hard to police, analysts believe. But for those now unable to find one, what is the alternative if you need to top up your gambling pot?

Macau is dotted with shops where Chinese visitors can use their UnionPay cards to buy watches or jewellery. The stores then helpfully offer to repurchase the items. Reuters journalists visiting one outlet in the Grand Lisboa casino in March and reported that as much as Rmb10 million of gold bullion could be bought with Chinese plastic and then sold straight back for cash (minus a fee, of course).

So why announce a crackdown on the mobile terminals now? It looks like some of the pressure is coming from those same storeowners, with local pawnbrokers complaining that rogue operators are besmirching the good name of their industry. Illicit terminals are being used “savagely”, the industry’s chamber has warned.

The floaters have been doing brisk business. One estimate from an analyst in Hong Kong last week was that illicit card swiping bought as much as $6 billion worth of mass-market chips, or about 12% of the total.

But there was a strong rebound for casino stocks the day after the sell-off. Nevertheless, in the longer term casino shares may face headwinds.

While other businesses have been hit by Xi Jinping’s campaigns against graft and extravagant spending (see WiC182 and WiC225), Macau’s casinos haven’t suffered in the same way. Yet some investors are fearful that the reprieve won’t last, making for a jittery mood in the gaming sector.

Just a few days before the UnionPay reports, state broadcaster CCTV also revealed loopholes in some of the visa arrangements for Macau. More than 2.5 million tourists arrived on transit visas last year but at least three-quarters of them never made an onward journey, it seems. Immediately there was speculation that those rules would be tightened. Casino stocks fell sharply again.
In 1886 a young Englishman called Harry Page Woodward spent a year crossing 13,000 km of Western Australia on a camel. As the state’s new geologist, Woodward’s job was to map a region he came to describe as ‘iron country’. What Page had discovered was the iron ore potential of the Pilbara. He believed there was enough ore “to supply the whole world”.

He was right. Today, iron ore extracted from the Pilbara not only constitutes the majority of the 610 million tonnes that Australia is likely to ship in 2013 and 2014, but also the major chunk of the 850 million tonnes China will import this year, according to blog The Conversation. 

China was the destination for 72% of the world’s iron ore in 2013. But rather than just import the stuff, Beijing wants to own the ores that supply its massive steel industry. State-owned Baosteel seems to have heeded that policy dictat this month, launching a $1.3 billion unsolicited, all cash bid for Aquila Resources in association with Australian commodity rail freight operator, Aurizon Holdings.

China’s largest steel producer already owns 19.8% of the listed Pilbara-based group, which it purchased in 2009. But Baosteel’s chief financial officer, Wu Yiming, told reporters it launched its A$3.40 per share bid after getting fed up with progress on Aquila’s stalled A$6.93 billion (US$6.49 billion) West Pilbara ore project. This has effectively been on hold since 2012 after Aquila’s 50% joint venture partner AMCI baulked at the cost of the capital expenditure plan. AMCI is itself a joint venture between US commodity specialist AMCI International and South Korean steel giant, Posco.

For Baosteel, increasing its investment in Aquila will move it closer to becoming a more vertically integrated player, as well as reducing its reliance on the world’s largest iron ore producers Rio Tinto, BHP Billiton and Vale. 

China’s steel firms have tried to crack the existing oligopoly for years but their efforts have been stymied by a lack of control over a fragmented domestic industry in which demand from small-scale producers often drives up prices on the spot market. The race to secure supply during the peak of the steel-making splurge four years ago, pushed benchmark iron ore contracts to record highs of $180 per metric tonne.

Prices are down from those heady levels. This year they have dropped 24% to $102.70 (as of last Friday) under the twin pressures of reduced Chinese demand and ramped up supply from the three majors (Vale is expected to produce 360 million tonnes per annum this year, followed by Rio Tinto on 300 million mtpa and BHP Billiton 217 mtpa).

In that context, some industry experts are questioning why Aquila is pushing to bring its two billion-tonne project on stream. Could it be a negotiating tactic to reduce China’s iron ore dependency?
prices, for instance? Or as The Australian newspaper concludes: “Now Baosteel has declared its hand – either you guys help drive iron ore prices lower by taking up all your exploration options, or we’ll ensure an oversupply situation for the long-haul.”

Others are applauding Baosteel for its timing. The company has pitched its bid at a 52.7% premium to Aquila’s 12-month trading average. But Aquila’s share price is currently in the doldrums and its management will not be happy with the proposed valuation. This is primarily why Baosteel bypassed them and went directly to shareholders, although getting a 50% acceptance rate may hinge on the views of executive chairman Tony Poli, who owns 29%, and his co-founder Charles Bass, who owns 11%.

Analysts say the two men may have to accept the offer because of the ongoing difficulties in funding the West Pilbara project’s capex. This is the primary source of disagreements with its joint venture partners, who look likely to support Baosteel’s bid themselves. By contrast, Baosteel can draw on the immense financial firepower of China Development Bank. In 2012 the two signed a strategic co-operation agreement, granting Baosteel $20 billion of capital for global projects.

Should the bid succeed, Baosteel will own 85% of Aquila and Aurizon 15%. The two plan to split the railway project and processing port from the mine, which will reduce Aquila’s share of the total outlay. About $4.3 billion of the project’s current costs involve the construction of a 430km railway line and 350 mtpa processing port at Anketell, which will also serve independent producers unable to transport stranded reserves out of the Western Pilbara.

Will the bid succeed? Analysts aren’t expecting a competing offer. They also believe that the bid will be passed by Australia’s Foreign Investment Review Board (FIRB) as a domestic firm is involved in the consortium. What may yet transpire is a personal sweetener from Baosteel to convince Tony Poli to give up the company he founded 14 years ago.

The three iron ore majors are talking down the deal’s potential significance. Last week, the Sydney Morning Herald quoted Rio Tinto CEO Sam Walsh as saying the lead-time between finding a resource and starting operations has blown out from 10 to 27 years.

Nor has China’s track record in Australian mining investment been a happy one. As we have reported before (see WIC 220), Citic Pacific’s Sino Iron Pilbara venture with Metallurgical Corp of China has ended up in litigation after massive overruns and delays, which pushed up the costs from $2.5 billion to nearly $10 billion.

Nonetheless, Baosteel and Aurizon say they are confident about their prospects in the West Pilbara project, which underwent a detailed feasibility study in 2012. Aurizon chief executive Lance Hockridge says it could start producing iron ore in 2017 and that the resource has been graded at an average of 57.1% iron content, which meets the quality standard for DSO (Direct Shipping Ore). If the deal comes off it will eventually reduce Baosteel’s reliance on the three majors. On completion of the project’s first stage the mine ought to be shipping around 30 million tonnes per annum to Baosteel’s foundries.

### Off the rails

**Steel woes for railways group**

The Fortune 500 rankings were first compiled in 1955 and topped by General Motors. Some of the other companies in the top 10 back then don’t sound so familiar, including Esmark at number 5 and Armour at number 7. Both were steelmakers that made huge revenues (hence their inclusion in the rankings) but earned much less profit.

A company that has been surging up the rankings in Fortune’s more recent listings is China Railway Materials Company, or CRM, which specialises in supply chain management in the railway and steel industries. However, the reasons for its astonishing revenue growth now look anything but healthy, reports CBN. Indeed it was recently forced to announce that its profits have evaporated.

According to the Chinese newspaper, CRM boosted its revenues by moving aggressively into shadow banking. But the sagging financials of some of its commercial partners in the steel sector have left it nursing huge losses.

CRM’s 2013 annual report revealed a net loss of Rmb7.65 billion ($1.23 billion) after the group made provisions of Rmb6.1 billion to cover losses on loans to steel traders. This puts the Sasac-con-
trolled SOE into the same league as some of China’s largest lenders such as Citic Bank, which attributed a Rmb7.7 billion increase in non-performing loans last year to its own exposure to steel firms.

CRM’s problems first became evident in its 2012 results. They showed that revenues had rocketed to Rmb231 billion but that profitability had dropped to just Rmb622,000.

CRM’s sales had accelerated since the group first entered the Fortune 500 in 2011 at the number 430 slot. By the following year it had climbed almost 100 places to number 349 after revenues soared more than 45% to Rmb206 billion and profits jumped to Rmb13 billion. In 2013 it climbed another 57 places to number 292 in the rankings, just behind ANZ and Mitsubishi Chemical.

As CBN points out, “the company spent decades to achieve revenues of Rmb100 billion and then just three years to reach the second Rmb100 billion.”

It did so by setting aggressive sales targets across its businesses. Employees responded by moving into shadow financing and in particular into entrusted loans and what CBN calls ‘pallet financing’.

According to the central bank, Rmb2.55 trillion of entrusted loans were issued in 2013, equivalent to 29% of all new bank loans in China that year. They usually involve state firms like CRM exploiting their superior credit status to borrow funds from banks at low rates of interest and then entrusting the same bank to release the funds to a second borrower at higher interest rates.

The SOEs are happy because they are making money on the spread. Banks are pleased as they profit from both sides of the trade, while they believe that the credit risk lies with the SOEs, who will get bailed out by the state in event of any difficulties. And the ultimate borrow-

ers are grateful too, especially firms struggling to source finance in their own right.

And so entrusted lending has continued into 2014, despite concerns about the growing risk of a wider collapse in credit. Central bank figures show that a further Rmb716 billion of loans were extended during the first quarter.

Pallet financing is another form of shadow financing. The SOEs again act as middlemen for borrowers with difficulties accessing normal banking channels. In this instance, the state firms raise bank loans to purchase products like steel, which are warehoused. When the trading company sells the steel, it pays back the loan, plus a commission.

However, as WiC has also reported (see issue 229), many steel traders have then been using steel stockpiles as security for a further round of financing (warehousing firms often collaborate by allowing the same quantity of steel to be lent out again and again). That means problems in defaults when there are rival claims on the collateral. But even when ownership rights are clearer, many of the SOEs are stuck with inventory that is difficult to sell at a good price.

Indeed, CBN reports that lending at the railway firm has got so confused that it has ended up in litigation with itself, with CRM Harbin Logistics taking on Wuhan CRM Yitong Logistics. That situation looks likely to worsen if more steel firms go under. Trade body CISA (China Iron and Steel Association) says that about Rmb1.5 trillion of steel loans could be at risk if the lending networks implode, with state firms on the hook for most of the debt, either on their own account or through backing loans to smaller companies.

CISA said previously that a third of China’s steel traders could fail as a result of slumping prices. The steel industry itself reported a first-quarter loss of Rmb2.33 billion.

And at CRM the debt-to-asset ratio has hit a reported 97.2%, far above the industry standard. The debacle has led to the group’s chairman, president and Party secretary all being removed from their posts, CBN says. And in March, the troubled firm also withdrew its application for a Shanghai IPO because of its weak financials.

In issue 145, WiC wrote about Momo, a mobile application that resembles the popular US dating (or hook-up) app Tinder by helping its users find prospective dates or friends nearby. Momo, which now has over 120 million registered users, is planning to IPO in the US this year, says the Wall Street Journal. The likely valuation is about $2 billion, or 50 times its worth in 2012, when it was valued at $40 million, says TechinAsia, a technology blog.

If it does float, Momo will have to shrug off accusations from newspapers like Xinhua that it hosts offers from sex workers. When one of its reporters opened the app in Beijing’s Sanlitun bar street, he found “a large number of photos of seductive women… [who] were either wearing bikinis to show off their physiques or taking selfies from angles to emphasise their beauty,” Xinhua claimed.
Enter the big guns

Minsheng Bank’s shareholders want to create a new financial giant

In 1799 the controversial US politician Aaron Burr obtained a state charter for a water company called the Manhattan Company. It included a provision allowing the waterworks to employ excess capital in any activity “not inconsistent with the Constitution and laws of the United States”.

Burr used that provision to start a bank. The fledgling lender would evolve into today’s JP Morgan Chase via the merger of more than 1,200 predecessor institutions.

In China a group of private-sector capitalists has just created a new financial group – and observers are wondering what it too might become.

Known as China Minsheng Investment (CMI), the group is a private company jointly owned by many of the same shareholders that backed China Minsheng Bank (CMB). The plan is to take advantage of new investment opportunities made possible by policy changes recently announced or mooted and designed to reduce the influence of state capitalism.

News of CMI’s launch first broke last month when Shi Yuzhu, the founder of online game developer Giant Interactive and a major shareholder of CMB, said that Giant holds 2% of the new venture, having invested Rmb1 billion ($162 million).

That means that CMI’s registered capital amounts to Rmb50 billion. Shi also posted a picture of five of CMI’s board members, which includes the chairman of China Oceanwide Lu Zhiqiang (see WiC50 for a profile on Lu, whose conglomerate indirectly controls computer giant Lenovo) plus CMB’s chairman Dong Wenbiao.

Dong told journalists last August that he was drafting a plan to establish a new investment firm focusing on domestic infrastructure. But few in the media had expected that new entity he envisaged would be capitalised at such scale, or be backed by so many of the titans of the Chinese private sector.

CMI’s founding shareholders include 50 entrepreneurs or business owners of leading firms. Most have a connection with CMB, which was set up in 1996 by business bosses from the semi-official All China Federation of Industry and Commerce. (CMB is the only banking heavyweight in which the state doesn’t own a majority stake.)

With backing from CMB and its powerful shareholders, CMI will put together an investment fund that is worth at least Rmb300 billion, the Economic Observer predicts. It will focus on industries likely to go through major restructuring, especially steel, shipbuilding and solar power, which are plagued by overcapacity. CMB is a major creditor of many of the private firms operating in these sectors, the newspaper says, but under local rules it cannot swap debt for equity in non-financial industries.

Ergo CMI. “Many people see CMI as the asset management company to clear up CMB’s bad loans,” CBN posits.

Century Weekly has a different view – that CMI’s goal is to take over CMB in the future also. “Dong (CMB’s chairman) wants to build a financial and industrial empire that controls not only CMB but also other companies invested in by the bank’s top shareholders, including Minsheng Financial Leasing and Minsheng E-Commerce,” sources told the magazine.

No matter what lies ahead, the Economic Observer thinks that CMI’s investment in troubled industries will be welcomed by the central government, especially in consolidating surplus production.

The newspaper also expects real estate to take on a key role in CMI’s calculations. Some of the troubled steel plants will be redeveloped as property plays, it believes. It reckons CMI might even be likened to a private sector version of CIC, drawing comparison with the sovereign wealth fund responsible for investing China’s foreign reserves in overseas assets.

Local journalists expect to hear more about CMI’s dealmaking in the coming months...
Six years ago this week an earthquake in Sichuan left more than 88,000 people dead or missing. There was public anger when it emerged that 5,300 of the dead were pupils killed when their schools collapsed. Shoddy construction standards were blamed.

Last week a residential block in Shanghai also fell to the floor, killing two people, according to the Oriental Morning Post. “In other countries, an 8.0 quake only kills eight people,” one netizen fumed. “But our houses collapse on days without even a hint of trouble.”

According to initial reports, the three-storey structure crumbled after a gas explosion. The building was one of the last remaining in a slum area. Most of the other residents in the district had been moved out as part of government programme.

But the accident in Shanghai isn’t unusual. This week a factory collapsed in heavy rain in Qingdao, for instance, killing 18 people inside. In April, a five-storey residential tower disintegrated near Ningbo in Zhejiang, killing one person and burying several others in the rubble. Residents had reported cracks in the building to the local authorities but hadn’t received a response, says Ningbo TV.

Regular readers of WiC will remember the fate of another residential tower in Shanghai which toppled over shortly before its construction was complete in 2009. Visually it made for a strange sight, as it fell on its side virtually intact.

Needs more than a lick of paint

In the same year, 17 people were killed when a two-storey building from the 1980s subsided in Hebei after heavy rain.

Back in issue 56 we also quoted remarks from Qiu Baoxin, the deputy housing minister, that the average building in China wasn’t expected to last more than 25 to 30 years. Qiu said that poor quality construction and weak design wasn’t conducive to longer lifespans.

Another government official agreed more recently that much of the existing housing stock isn’t fit for purpose. “Given China’s fast economic development and pace of urbanisation, houses built between 1979 and 1999 cannot meet the demands of modern living… Only those homes built after 1999 are likely to be preserved in the longer term,” Chen Huai, a senior researcher from the Ministry of Housing and Urban-Rural Development, told Southern Metropolis Daily.

Still, the economics of knocking down vast swathes of property and starting again won’t always be attractive. Hence Xinmin Weekly argues that repairing and restoring older stock is going to be “big business” as buildings continue to age (in many cases rather ungracefully).

Take Shanghai. It had a major construction boom in the 1980s when its economy was one of the first to prosper as part of China’s reform era. As a result, the number of buildings in the city in need of repair is greater. “Many of the buildings constructed during that period are old masonry buildings with hollow walls. So as they age, they pose serious security risks… For companies that repair old structures, these buildings are undoubtedly a big cake to feast on,” Xinmin Weekly suggests.

As a result, construction companies are establishing specialist units that can take charge of restoration projects, the newspaper points out. One example is Shanghai Construction Group: it used to confine itself to new build property projects but it has since added a repair-and-refurbishment unit.

“The amount of land in the city (Shanghai) is limited. The local government can’t keep selling large parcels of land to developers. New buildings are getting old and old buildings need repairing. In the long run, Shanghai’s building restoration industry is only going to get bigger,” says Wang Anshi from the Shanghai Municipal Housing Authority.
How would you feel if we went and killed all your pandas?”

That was the question put to a Chinese journalist by a Kenyan game warden. The query didn’t make the final cut of a Chinese documentary on the ivory trade last year. But the fact that the question was asked so directly hinted at how attitudes to Chinese influence in Africa have started to become more critical.

Hence the careful planning of Chinese Premier Li Keqiang’s weeklong trip to Ethiopia, Nigeria, Angola and Kenya this month. Gone were the high-profile announcements about oil and mining contracts that have served as centerpiece for trips in the past. In their place were pledges of jobs, investment in infrastructure, and technology transfer.

For Africa’s game wardens, there was even a promise of more money for wildlife protection too.

This more “brotherly” approach is designed to counter allegations that Beijing’s behaviour in countries like Angola, Zambia and Nigeria is that of a neo-colonialist – something that China finds hard to stomach because of its own experience at the hands of expansionist imperial powers in the nineteenth and twentieth centuries.

“I sincerely wish to assure our African friends that China will never pursue a colonialist path like some countries did or allow colonialism, which belongs to the past, to reappear in Africa,” Li announced shortly before his visit.

According to the African Development Bank, 85% of Chinese exports from Africa are raw materials, such as oil and minerals. So Africans want to see more evidence of words becoming deeds.

“Engagement must be on terms that allow the Chinese to make money while developing the continent, such as incentives to set up manufacturing on African soil and policies to ensure employment of Africans,” Nigeria’s central banker Lamido Sanusi told the Financial Times last year.

In a speech to the African Union in Addis Ababa, Li also acknowledged that there had been “growing pains” in relations but promised an “upgrading” in business ties that will see more job creation for Africans. He said that China would push for more technology transfer for machinery makers and garment factories. Li also committed to building more airports, roads and railways. A few days later he signed a $3.8 billion deal to fund a railway line from the port city of Mombasa to Kenya’s capital Nairobi. Noting that the presidents of Uganda, Rwanda and South Sudan were at the signing ceremony, Li highlighted their “common desire to develop [a] railway network in East Africa.”

“Both history and reality tell us that when China develops well, Africa will get opportunities; when Africa develops well, China will stand to benefit; and when China and Africa all make progress in development, the world will become a better place for mankind to live,” he said.

Chinese state media hailed the trip as a great success, quoting local experts to prove its point.

“Everybody is coming here and lecturing us about human rights and all these things… This is the first world leader to come… and make commitments on technology transfer,” Bright Simons, a ‘social innovator’ from Ghana, told Xinhua.

The same source quoted Francis Chigunta from the University of Zambia as saying that the pledges “defeat long-held beliefs by some that China has the colonial mentality with its engagement in Africa”.

“When facing the sour grapes attitude of the West, the Chinese enterprises should polish their brands and concentrate on building good infrastructure in Africa,” the Guangzhou Daily urged.

Li – who was accompanied by his wife Cheng Hong, a professor of American literature – certainly struck a more approachable figure than some of his predecessors on trips around Africa.

And on his final day in Kenya he visited a monument to fighting ivory poachers – just a few miles from the elephant orphanage in which the warden confronted the Chinese TV journalist. Here he made a pledge of $10 million towards battling the trade in endangered species. ■
To say that Xu Zheng boosted Chinese tourism to Thailand single-handedly may not be an understatement. Thanks to *Lost in Thailand*, a blockbuster that Xu both directed and starred in (see WiC177), an influx of Chinese visitors flocked to the Land of Smiles.

The film, which portrays Thailand as a charming place of adventure and natural beauty, even caught the attention of Yingluck Shinawatra last year. In fact, the then prime minister even invited Xu to Bangkok to thank him personally for the positive PR.

Early this month, Xu was causing a stir again, this time for his role in a new movie genre. Or to be more accurate, one that is new for China, albeit more familiar to Western audiences thanks to films like *The Sixth Sense*. *The Great Hypnotist*, which stars Xu and Hong Kong’s Karen Mok, has been a success since its release two weeks ago. The horror-flick-cum-psychological thriller, also produced by Xu, has already surpassed Rmb200 million ($32.08 million) in box office receipts but cost just Rmb50 million to make.

It tells the tale of a renowned hypnotist (played by Xu) and a troubled patient (Mok) who claims to see “dead people”. The story is an unusual one by Chinese standards because the country’s film bureau normally restricts how supernatural elements are represented on-screen. For example, the first instalment of the *Pirates of the Caribbean* series is said to have been banned because it contained ghosts.

“Censors do not allow ghosts and aliens in films. So no matter how the supernatural elements are portrayed, in the end, the director basically has to slap his own face by arranging a reasonable explanation for the phenomenon, explaining that they are man-made,” according to a contributor to Zhihu, a popular chat platform.

To work within the restrictions, *The Great Hypnotist* presents many of the plot’s supernatural elements in pseudo-scientific terms. Not all the critics think that this compromise works (Variety’s review calls it “ludicrous”, for example).

But comments on weibo suggest that most local filmgoers are won over by the novelty.

“Many people labelled the film suspense and horror, but I think it’s far better than using scary sound and lighting to create an atmosphere that’s typical of horror films. It is not just about telling a mysterious story but it is also carefully packaged, cleverly designed, includes a play within the play and it evolves until the very last moment!” praised one netizen.

“I really like *The Great Hypnotist*... The suspense thriller drama is so well produced it sets the right tone for domestic production. I
hope more directors are like Chen Zhengdao and try new genres,” one netizen wrote.

Other viewers said that the film shows that Chinese directors lack experience in making horror films or complained that the that movie’s climax is a let-down. But the main complaint is a familiar one: a tendency towards plagiarism (an ever-present source of controversy, see WiC236). This time the charge is that Xu has borrowed too heavily from earlier Hollywood hits. “The mystery aspect of the film is very similar to The Sixth Sense. The part about hypnosis is clearly borrowed from Inception. The twist at the end is straight out of Shutter Island,” one critic wrote on weibo.

If the plot sounds familiar, that’s probably because it is. The screenwriter Ren Peng told the Yangtze Evening News the story is only “semi-original”, admitting that he drew references from Vanilla Sky and Shutter Island. He also took inspiration from TV shows like Medium (which starred Patricia Arquette) and American Horror Story, says China News Net.

Still, the success of The Great Hypnotist is impressive given that Hollywood blockbusters have been offering stiff competition at Chinese cinemas. In addition to Disney’s Captain America, which has grossed more than $115 million, The Amazing Spider-Man 2 also opened this Sunday. Godzilla, too, will arrive in coming weeks (presumably getting past the censors on grounds that dinosaurs have scientific provenance).

But another Hollywood blockbuster will not be shown in China, with the Russell Crowe film Noah falling to get a release slot. Perhaps that’s because of the story’s religious origins. Christianity is a touchy topic and last week there were protests in Wenzhou when a church was bulldozed by local officials (they claimed it violated building codes, reports the UK’s Telegraph newspaper, but church leaders said it was part of a broader crackdown on Christians in the city). Some of Noah’s scenes of environmental degradation might have had audiences nodding along sadly too. But other insiders speculate that the film was blocked out of commercial concerns (i.e. to divert audiences back towards domestic productions). Certainly, the move came as a surprise for Paramount, the Hollywood studio that produced it. It was widely believed that Noah had been accepted for release and director Darren Aronofsky was even scheduled to visit China to promote it next week. But now he will travel only to Japan.

Now showing on Imax

This week Imax hosted a glitzy press conference to celebrate the premiere of director Zhang Yimou’s new release Coming Home. The film, produced by Le Vision Pictures and Wanda Cinema, will be shown at Imax’s from today. But the collaboration has many scratching their heads. Isn’t Imax technology better suited for blockbuster dramas and special effects extravaganzas?

To which, Imax has a ready riposte. “In addition to action-packed and dazzling special-effect stories, Imax can also heighten the delicate performances and sensitive atmosphere in drama films. Take Coming Home… The subtle performances by Gong Li and Chen Daoming are even more worthy of Imax’s superb technology to bring them to life,” says Chen Jiande, the firm’s China head, who was also at the press conference.

The truth is that Imax needs more films – even if they are dramas – to sustain its growth in China, which is now its second-largest market. Last year China accounted for 20% of its revenues, up 25.7%. In the US sales dropped in the same period.

Imax says it will also show director Jiang Wen’s new drama Gone With The Bullets.

“Our strategy in China is we’re going to continue to invest in the Imax versions of Chinese blockbusters… We look at the [titles] and if we think it’s a blockbuster – if it will look good in Imax, if it’s an action or major drama film – then we’ll want to be part of it,” Don Savant, managing director for Imax Asia-Pacific, told the Hollywood Reporter.

The spread of Imax screens in China has been “slow” in CBN’s view. The newspaper notes that only 137 Imax theatres have been built since the company entered the China market in 2001. China’s ‘homegrown’ large screen technology Dmax, which directly competes with Imax, has opened more than 30 screens in just two years.

Late last month Imax sold a 20% stake in its Chinese subsidiary to in-
Investment fund China Media Capital and the local private equity firm FountainVest Partners. The two investors will pay around $40 million each for 10% stakes. Richard Gel- fond, Imax’s chief executive, emphasised that the new partnership would help to fuel its expansion plans and strengthen relationships with local governments.

“At this juncture, it makes sense to bring in Chinese investors to help us better address local market dynamics and further optimise our business in China,” Gelfond says, adding China is an “enormously complex market”.

Another of Imax’s challenges is that it needs multiplex cinemas as partners. Many are located in malls, which means winning over property developers.

That explains why the company was so eager to ink a deal with Dalian Wanda. Imax announced last year that it will be working with Wanda Cinema, backed by the property developer Dalian Wanda, to build 210 giant-format theatres by 2021. Wanda already runs 82 Imax

**FAST FOOD:** For over five millennia, food has been at the heart of China’s culture.

### Eating alone

A few weeks ago WiC reviewed the second season of *A Bite of China*, CCTV’s hit show about Chinese cuisine. Meanwhile New Weekly is reporting on another programme about food, after *Cooking For One* became one of the most talked-about series online.

As the title suggests, it is about eating alone. The brainchild of Shanghai-based Cai Yani, it went viral after the first episode was broadcast on Youku, an online video site. Cai told the South China Morning Post that she wanted to rescue solo diners from fast food and microwave meals. This seems to have struck a chord with many singletons – the series has collected over 5.6 million views on Youku alone, although the total number will be much bigger because the series has been reposted on other online video sites.

Each episode lasts about three minutes and follows diners as they assemble a dish for a meal on their own.

The programme features dishes that are ordinary home cooking but still look mouthwateringly good. Shot through a soft filter, the camera follows the cooks as they prepare meals for single portions (by comparison, most Chinese dishes are cooked with a group of diners in mind).

“Every day we are running around for work. But no matter how tired you are, you should still relish the joy of cooking, which, in many ways, is a manifestation of your attitude towards life. Even if you are alone, you need to take care of yourself. When you get home, the least you can do is to make yourself a delicious meal. Use food to warm your stomach and soul,” says one reviewer on Douban, a social network for appraisal of books, TV shows and films.

The success of *Cooking For One* has even made eating alone trendy. New Weekly recently called dining by yourself “a type of lifestyle, a philosophy”.

“Today, eating alone has become a lifestyle. You can easily sort out what to eat for dinner, or you can be more critical and discerning. But dining alone is no longer considered sad. It can be grand, beautiful and pure,” the magazine claimed rather grandly.

The show is also reflective of a profound demographic shift in China. Three decades ago almost every meal would have been consumed at the family table or by groups in canteens or restaurants. But economic and social changes have created more single-person households, with many opting to stay single, failing to find a partner, or getting divorced.

One of the meals featured on the show is the egg dumpling, a traditional Shanghainese dish. The filling is just like normal dumpling, which is made of ground pork with a sprinkling of soy sauce, corn starch and sesame oil. But instead of the more standard wonton wrapper, the dumpling is stuffed inside an egg covering (imagine a mini omelette). The dumplings are traditionally made during the Lunar New Year as a symbol of prosperity. But San Ren Xing, a popular hotpot restaurant chain in Shanghai, is a good place to try them. They are cooked in scalding hot broth and you know when they are ready when they float atop the soup.

**Address:** 7th Floor, Bailian Shimao International Plaza, located on Nanjing East Road, Huangpu District (Tel: +8621 6351 8298).
theatres in its shopping malls, making it easily the technology’s biggest local backer.

“A few years ago China’s film industry wasn’t as vibrant as it is today so a lot of Imax cinemas were in reality losing money,” an industry insider told Economic Weekly. “Wanda, however, owns its own property, so it can put up the investment [for Imax].”

Meanwhile, Imax reckons that there is plenty of untapped audience potential. So far, it accounts for no more than 1% of total cinema screens in the country. But it already contributes 10% of total ticket revenues, says Gelfond, due to the higher admission prices.

The company is also seeking to expand beyond first-tier cities as spending power grows in second- and third-tier locations. It also has aspirations to get into Chinese living rooms with plans to sell home theatre units made in partnership with TCL Multimedia.

Home alone
Bereaved parents look for government compensation

“Have only one child and the government will take care of you” was the promise made in 1985 by China’s National Family Planning Commission. The pledge came at a time when enforcement of the one-child policy was ramping up.

Thirty years on, however, and many Chinese are questioning the commitment, especially parents who have suffered from their children dying before them, a misery suffered by 76,000 families every year.

Hence one group of bereaved parents is campaigning for greater compensation for their loss.

The government currently pays a monthly stipend of Rmb340 ($54.54) to urban families and Rmb170 to rural ones who have lost their offspring. But these amounts are regarded as pitifully small compared to the help – financial and otherwise – that many adult Chinese daughters (and sons) give their greying parents.

“I responded to the national family planning policy and I fulfilled my obligation as a citizen, but now, we’ve lost our only supporters. We shouldn’t be asked to face this alone,” Mrs Di, the group’s leader told Legal Evening News.

“I don’t even know who is going to bury me,” she added.

Aside from loneliness, parents in the group suffer from more practical difficulties. For example, most hospitals require the signature of a close relative before conducting an operation, while many pensioners are unable to get credit cards without offspring to guarantee them.

Some of the campaigners now lament they were so law abiding in their youth and are encouraging others to have more than a single child, even if it means punitive fines.

Earlier this year the government increased the number of one-child-policy-exemptions to include urban families where only one parent is a single child, allowing them to have a second baby. Previously only rural families, ethnic minorities and urban households where the parents were both only children could have a second child.

It is too early to see how many households will take advantage of the changes to the law but anecdotal evidence suggests the numbers might be quite low. Many families cite the cost of raising a second child as the prohibiting factor, which suggests that a lot more parents could be left without the filial support of a grown-up child – assuming similar mortality rates.

It doesn’t look like any additional financial support is coming from Beijing to deal with the straitened circumstances. Last week, two years after Di and her group submitted their petition, the National Family Planning Commission finally responded, thanking them for their “contribution to population control and rapid economic growth”.

But it went on to say: “There is no causal link between state policy and the death of your children. Therefore, there can be no compensation.”

One father, writing to Shandong province’s Liaocheng Evening News, described the response as “ice cold”.

National Family Planning Commission faces backlash from elderly
Punctured pride

Wuhan’s bike-sharing scheme is failing

In 2010, a model called Ma Nuo became a minor celebrity after telling a potential suitor on a dating show that she would rather weep in someone else’s BMW than smile on the back of the contestant’s bike.

Four years on, the bike has been making a minor comeback, as city governments embrace bike-sharing schemes as a means to reduce air pollution. According to the Earth Policy Institute, China accounts for 79 of 535 such programmes worldwide, including 16 of the 21 biggest schemes. A showcase example was supposed to be in Wuhan, central China’s largest city. At its peak it offered 90,000 bicycles for rent.

Wuhan netizen Guan Dekuan suspects the figure is a lot less now. Xinhua reports that Guan walked five kilometres and went to 16 docking stations, but found not a single bicycle available. And when he spoke to staff about finding one, they asked why on earth he’d want to rent a bike when a bus or taxi would be more convenient.

Reporters from the news agency discovered similar situations when they conducted random checks in March and April. Many docking stations lacked bikes or had inventory that was locked or broken. In many instances, the docking stations had been converted into newspaper kiosks.

So what went wrong? Chinanews.com lays the blame with the company in charge of Wuhan’s scheme: Xinfaida. It tells a familiar tale of the government awarding a contract and providing subsidies, but failing to supervise the programme’s implementation properly. Instead, the scheme’s operator has invested in real estate and other sidelines.

Xinfaida officials counter that the scheme is making losses of Rmb20 million ($3.19 million) every year because of unexpectedly high management and maintenance costs. “We have been unable to continue and can do nothing about the paralysis,” it told Xinhua.

But the news agency then unpicked some of the contract figures with the help of anonymous Xinfaida staff. This suggests that the firm got an upfront grant of Rmb300 million, mainly to pay for advertising billboards whose rent was supposed to generate ongoing revenue to service the bikes. These billboards can raise up to Rmb46 million in annual sales. Half the booths at collection stations have also been rented, netting more income, while 800,000 Wuhan citizens deposited cash on cards that allow them to use the bikes. Together this amounts to Rmb540 million in upfront revenue and Rmb550 million in annual revenue, Xinhua says. On the cost side of the equation, the docking stations and the bikes cost Rmb132 million to set up. So there should have been sufficient funds for Xinfaida to run the project. But the state news service then quotes an insider’s claims that cash was diverted into buying part of an office building in the centre of Wuhan.

But if Wuhan offers a cautionary tale, Hangzhou appears to have had a more successful time. Its better managed scheme will see the city’s 69,750 bikes increased to 175,000 by the end of the decade.

Photo Source: Imagine China

“The early days

Made in India

“If we think we can become another China, I think it’s too late. In the 1960s the Indian economy was 20% bigger than China’s. Today China’s economy is seven times bigger.”

Baba Kalyani, the chairman and managing director of auto components maker Bharat Forge, talks to the Financial Times. He says India should focus on high-end, high-value manufacturing rather than try to compete with low-cost producers.
Photo of the Week

Faces of the new China: people hold portraits of themselves taken as part of an art project in Shanghai

In Numbers

7.8%
The percentage decrease in property sales in the first four months of the year compared with the same period in 2013.

22.1%
The drop in newly-started construction in the first four months versus the same period last year.

4.4%
Year-on-year rise in electricity production in April. The figure for March was 6.2%.

68
The number of different antibiotics found in China’s surface water, according to a report from the Chinese Science Bulletin, an academic journal. The study found another 90 non-antibiotic ingredients including cosmetics, prescription medicines and sedatives.

Rmb300,000
The amount a theme park in Ganzhou, Jiangxi – which cost Rmb450 million ($72.22 million) to build – has earned in income since being put into operation. Officials in the city originally expected Rmb13 million in annual income but the park received an “unanticipated low number of visitors,” says China News Service. The park has now suspended operations.