

Chairman Liu Shiyu  
China Securities Regulatory Commission  
Focus Place 19, Jin Rong Street  
West District Beijing, 100033

Dear Mr. Liu Shiyu,

I am writing to bring to the attention of the China Securities Regulatory Commission activities undertaken by Shanghai Zijiang Group (上海紫江 (集团) 有限公司) and its chairman Shen Wen. In particular, I would like to draw your attention to a lack of disclosure of key relationships between shareholders in the IPO filings of two companies connected to Shen Wen, Zijiang Enterprise Group (上海紫江企业集团股份有限公司) and Well Tech (上海威尔泰工业自动化股份有限公司). Additionally, we have questions about a transfer of Well Tech stock at below market value that involved Jiang Mianheng.

As the hotel workers' union in the United States and Canada, our researchers regularly conduct due diligence of hotel owners and operators. We have set up a website, Marriott China Observer ([www.marriottchinaobserver.org](http://www.marriottchinaobserver.org)), to publicize the results of our research on Marriott's portfolio in China. While investigating the Shanghai Marriott Hotel Hongqiao, which is owned by Shanghai Zijiang Group, we uncovered the activities described in this letter.

Because our findings relate to the integrity of China's public stock markets, we believed it was appropriate to notify your agency. These findings also concern the relationship between Shen Wen and Jiang Mianheng; Jiang Mianheng is the son of Jiang Zemin,<sup>1</sup> and Shen Wen served as a member of the 10<sup>th</sup>, 11<sup>th</sup>, and 12<sup>th</sup> National Committee of the Chinese People's Political Consultative Conference.<sup>2</sup> Therefore, we are sending copies of this letter to the Central Commission for Discipline Inspection and to the Embassy of the People's Republic of China in the United States.

## **Zijiang Enterprise and Well Tech omitted shareholder relationships in Initial Public Offering (IPO) filings**

Zijiang Enterprise and Well Tech both omitted from their IPO filings the fact that the directors of their largest shareholders had business relationships. The disclosure of this information could have been of interest to investors in the IPO.

### *Zijiang Enterprise*

In its annual report after its 1999 IPO, Zijiang Enterprise did not disclose whether its two largest shareholders – Shen Wen's Zijiang Group and Sunstar Investment – had any business relationship.<sup>3</sup> In its 2007 report, Zijiang Enterprise claimed that the legal person shareholders Zijiang Group and Sunstar Group had no business association relationship [original text: 法人股股东上海紫江(集团)有限公司、坤氏达(香港)有限公司不存在关联关系].<sup>4</sup>

However, Sunstar's 1997 Annual Report stated that Shen Wen was one of its shareholders and directors.<sup>5</sup> A Bermuda-based corporation named Zijiang Group Holdings Limited was listed as the

owner of 95% of Sunstar's shares.<sup>6</sup> In its 1999 annual report, the first after the IPO, Zijiang Enterprise reported that its biggest shareholders were Zijiang Group (which held 47% of shares) and Sunstar (which held 26.17%); Shen Wen was Zijiang Group's legal representative.<sup>7</sup> In other words, Shen Wen had influence over both of Zijiang Enterprise's largest shareholders, which collectively owned 73% of the company's shares – but his position was not apparent to other investors in Zijiang Enterprise.

## *Well Tech*

The 2006 IPO filings of another company, Well Tech, did not disclose the business relationships between Shen Wen, Zijiang Group, and Zijiang Enterprise. This had the effect of obscuring the fact that Shen Wen was represented in over 50% of the ownership of Well Tech.

Well Tech went public on August 2<sup>nd</sup>, 2006.<sup>8</sup> Well Tech's 2006 Annual Report, filed on February 7<sup>th</sup>, 2007, stated that the following three shareholders collectively held a majority (50.97%) of the company's stock: Zijiang Group (26.3%), Zijiang Enterprise (15.66%), and New Shanghai International Group (新上海国际 (集团) 有限公司) (9.01%).<sup>9</sup>

Well Tech disclosed in its IPO Prospectus that Eaglesky International owned 100% of New Shanghai, and that a person named Liu Jian Gang was the ultimate owner of Eaglesky.<sup>10</sup> In the same document the company also disclosed that New Shanghai purchased its stake in Well Tech from Sunstar Investment in 1996.<sup>11</sup>

However, Well Tech did not disclose in either its IPO Prospectus or its 2006 Annual Report any relationships between Zijiang Group/Shen Wen on the one hand, and New Shanghai/Eaglesky/Liu Jian Gang on the other. Yet, according to the leaked corporate information revealed in the Paradise Papers, a person named Shen Wen served on the board of Eaglesky International from 12/31/1997 to 6/18/2004 at the same time as Tai Wai Tsui David.<sup>12</sup> Sunstar, according to its 2004 Annual Return, listed Tai Wai Tsui David was listed as a director and shareholder.<sup>13</sup>

The 2006 Annual Report of Well Tech also failed to mention that on October 31<sup>st</sup>, 2006, Liu Jian Gang became a director of Sunstar.<sup>14</sup> According to Zijiang Enterprise's 2006 Annual Return, Sunstar remained the second largest shareholder of Zijiang Enterprise, which in turn was the second largest shareholder of Well Tech during that year.<sup>15</sup> However, as with Zijiang Enterprise, information regarding business relationships between shareholders of Well Tech were not disclosed.

## **Well Tech stock sold between Zijiang Group-owned companies at a price below market value**

On December 10<sup>th</sup>, 2016, the financial news site Hangqiu reported that Zijiang Enterprise announced the transfer of its stake in Well Tech, equivalent to 12.11% of Well Tech's shares, to Shanghai Zizhu. Hangqiu noted that the stock was sold at 10% below market value.<sup>16</sup>

At the time, Shanghai Zizhu was 50.25% owned by Zijiang Group. Zijiang Group was also the largest shareholder of Zijiang Enterprise (27.06%). In effect, the sale of Well Tech stock was a transfer between related companies.<sup>17</sup>

According to Hangqiu, Zhou Shuanghu, deputy director of Shanghai Shunying Law Firm, stated: “A transfer of quality assets by a listed company to a related party leads to the latter enjoying positive excess return. Not only is Zijiang suspect of engaging in tunneling through related party transaction, the company’s behavior is also seriously jeopardizing the interests of small and medium-sized shareholders. How can the regulatory authorities sit idly by?”<sup>18</sup>

The outlet did not report that, according to the records of the Administration for Industry and Commerce, the second largest shareholder of Shanghai Zizhu is Shanghai Alliance Investment Ltd. (上海联和投资有限公司).<sup>19</sup> Shanghai Alliance Investment Ltd. was founded by Jiang Mianheng.<sup>20</sup>

## Questions for Regulators to Investigate

These activities are concerning because they reflect on the integrity of China’s public stock markets and the level playing field for investors. We urge regulators to investigate the following questions:

- Why wasn’t Shen Wen’s influence on a majority of the shares in Zijiang Enterprise and Well Tech reported in each company’s IPO?
- Why did Zijiang Enterprise’s IPO filings specifically state that its shareholders Zijiang Group and Sunstar Investment had no business relationship, when directors of both companies sat on the board of an offshore corporation?
- Why didn’t Well Tech disclose that Zijiang Group and Eaglesky shared directors in its IPO filings, giving Shen Wen influence over a majority of shares in Well Tech?
- Why did Zijiang Enterprise sell a significant stake in Well Tech to related company Shanghai Zizhu at a price below market value?
- Did Jiang Mianheng’s role at the second-largest shareholder of Shanghai Zizhu in any way influence the transaction?

We are happy to support the CSRC in any way as it investigates these questions. Please contact me if we can in any way be of assistance.

Sincerely,

Jeff Nelson

Cc: Central Committee for Disciplinary Inspection  
Embassy of the People’s Republic of China in the United States of America

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<sup>1</sup> Cary Huan, “Fast-track success of Jiang Zemin’s eldest son, Jiang Mianheng, questioned by Chinese academics for years”, *South China Morning Post*, Jan. 5, 2015, <https://www.scmp.com/news/china/article/1677891/fast-track-success-jiang-zemins-eldest-son-jiang-mianheng-questioned>

<sup>2</sup> Zijiang Holdings, “沈雯董事长圆满完成今年两会议程”, *新闻中心*, Mar. 17, 2017, <http://www.zijiang.com/zh/node/60>

<sup>3</sup> Shanghai Zijiang Enterprise, 1999 Annual Report.

<sup>4</sup> Shanghai Zijiang Enterprise. 2007 Annual Report, p.8.

- <sup>5</sup> Sunstar Investment, 1997 Annual Return.
- <sup>6</sup> Sunstar Investment, 1997 Annual Return, Schedule 1.
- <sup>7</sup> Shanghai Zijiang Enterprise, 1999 Annual Report, p.5.
- <sup>8</sup> Well Tech, 2006 Annual Report, p.10.
- <sup>9</sup> Well Tech, 2006 Annual Report, p.10.
- <sup>10</sup> Well Tech, IPO Prospectus, p.57.
- <sup>11</sup> Well Tech, IPO Prospectus, p.35.
- <sup>12</sup> ICIJ, Eaglesky International (Holdings) Limited, Offshore Leaks Database, <https://offshoreleaks.icij.org/nodes/82001706>
- <sup>13</sup> Sunstar Investment, 2004 Annual Return, p.3 and p.5.
- <sup>14</sup> Sunstar Investment, Notification of Change of Secretary and Director, October 31<sup>st</sup>, 2006, p.2.
- <sup>15</sup> Shanghai Zijiang Enterprise, 2006 Annual Report, p.9.
- <sup>16</sup> Huanqiu.com, 紫江企业低价出让股权 被质疑利益输送, <http://finance.huanqiu.com/lingdu/2016-12/9865115.html>
- <sup>17</sup> Huanqiu.com, 紫江企业低价出让股权 被质疑利益输送, <http://finance.huanqiu.com/lingdu/2016-12/9865115.html>
- <sup>18</sup> Huanqiu.com, 紫江企业低价出让股权 被质疑利益输送, <http://finance.huanqiu.com/lingdu/2016-12/9865115.html>
- <sup>19</sup> Shanghai Zuzhi (上海紫竹高新区 (集团) 有限公司) 2017 Annual Report
- <sup>20</sup> BBC News, 江泽民长子江绵恒卸任中科院职务, Jan. 8, 2015, [https://www.bbc.com/zhongwen/simp/china/2015/01/150108\\_jiang\\_zemin\\_son\\_shanghai](https://www.bbc.com/zhongwen/simp/china/2015/01/150108_jiang_zemin_son_shanghai)