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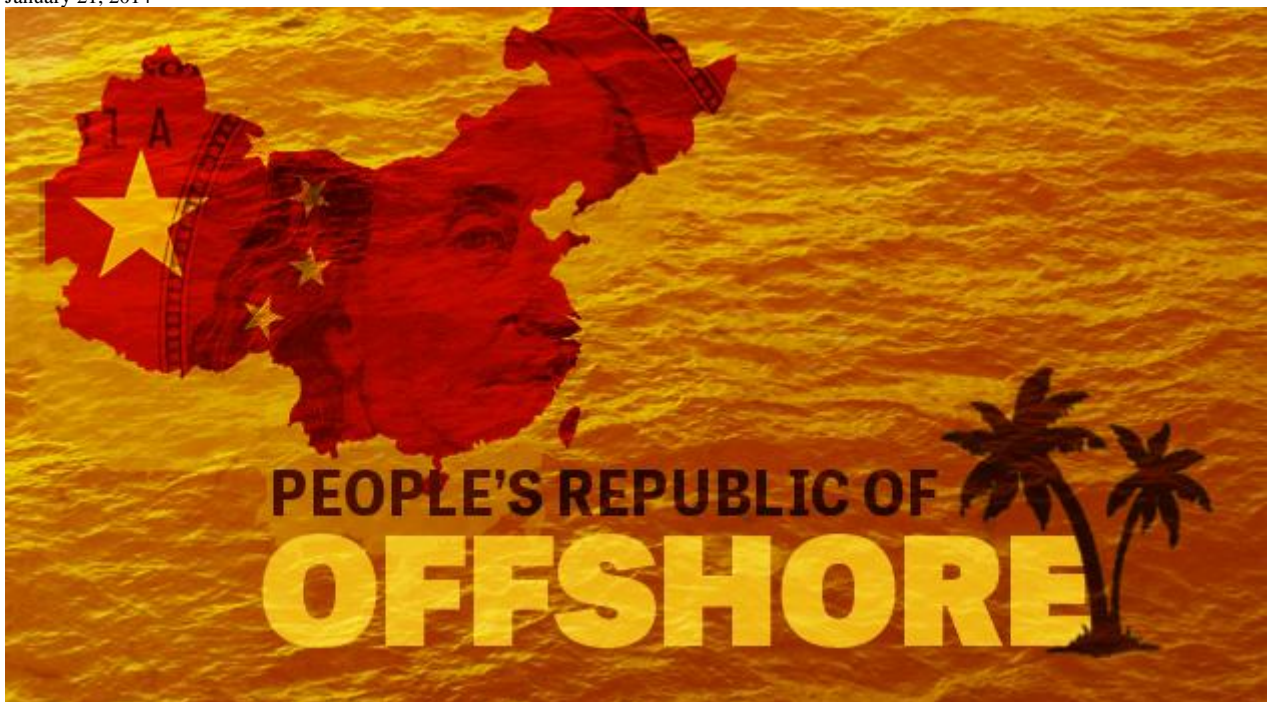
ICIJ THE INTERNATIONAL CONSORTIUM
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Leaked Records Reveal Offshore Holdings of China's Elite

*By Marina Walker Guevara, Gerard Ryle, Alexa Olesen, Mar Cabra, Michael Hudson and
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Files shed light on nearly 22,000 tax haven clients from Hong Kong and mainland China.

Note: A Chinese version of this story is available [here](#)

Close relatives of China's top leaders have held secretive offshore companies in tax havens that helped shroud the Communist elite's wealth, a leaked cache of documents reveals.

The confidential files include details of a real estate company co-owned by current President Xi Jinping's brother-in-law and British Virgin Islands companies set up by former Premier Wen Jiabao's son and also by his son-in-law.

Nearly 22,000 offshore clients with addresses in mainland China and Hong Kong appear in the files obtained by the International Consortium of Investigative Journalists. Among them are some of China's most powerful men and women — including at least 15 of China's richest, members of the National People's Congress and executives from state-owned companies entangled in corruption scandals.

PricewaterhouseCoopers, UBS and other Western banks and accounting firms play a key role as middlemen in helping Chinese clients set up trusts and companies in the British Virgin Islands, Samoa and other offshore centers usually associated with hidden wealth, the records show. For instance, Swiss financial giant Credit Suisse helped Wen Jiabao's son create his BVI company while his father was leading the country.

The files come from two offshore firms — Singapore-based Portcullis TrustNet and BVI-based Commonwealth Trust Limited — that help clients create offshore companies, trusts and bank accounts. They are part of a cache of 2.5 million leaked files that ICIJ has sifted through with help from more than 50 reporting partners in Europe, North America, Asia and other regions.

Since last April, ICIJ's stories have triggered official inquiries, high-profile resignations and policy changes around the world.

Until now, the details on China and Hong Kong had not been disclosed.

The data illustrates the outsized dependency of the world's second largest economy on tiny islands thousands of miles away. As the country has moved from an insular communist system to a socialist/capitalist hybrid, China has become a leading market for offshore havens that peddle secrecy, tax shelters and streamlined international deal making.

Every corner of China's economy, from oil to green energy and from mining to arms trading, appears in the ICIJ data.



Xi Jinping and Wen Jiabao: relatives appear in ICIJ's data.

Chinese officials aren't required to disclose their assets publicly and until now citizens have remained largely in the dark about the parallel economy that can allow the powerful and well-connected to avoid taxes and keep their dealings secret. By some estimates, between \$1 trillion and \$4 trillion in untraced assets have left the country since 2000.

The growing onshore and offshore wealth of China's elites "may not be strictly illegal," but it is often tied to "conflict of interest and covert use of government power," said Minxin Pei, a political scientist at Claremont McKenna College in California. "If there is real transparency, then the Chinese people will have a much better idea of how corrupt the system is [and] how much wealth has been amassed by government officials through illegal means."

Top-level corruption is a politically sensitive issue in China as the country's economy cools and its wealth gap continues to widen. The country's leadership has cracked down on journalists who have exposed the hidden wealth of top officials and their families as well as citizens who have demanded that government officials disclose their personal assets.

In November, a mainland Chinese news organization that was working with ICIJ to analyze the offshore data withdrew from the reporting partnership, explaining that authorities had warned it not to publish anything about the material.












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ICIJ is keeping the identity of the news outlet confidential to protect journalists from government retaliation. Other partners in the investigation include the Hong Kong newspaper *Ming Pao*, the Taiwanese magazine *CommonWealth* and the German newspaper *Süddeutsche Zeitung*.






The ICIJ team spent months sifting through the files and the leaked lists of offshore users. In most cases, names were registered in Romanized form, not Chinese characters, making matching extremely difficult. Many offshore users had provided a passport as well as an address when they set up their companies, which made it possible to confirm identities in many but not all cases. Some suspected princelings and officials in the files could not be confirmed and have not been included in this story.

Along with the China and Hong Kong names, ICIJ's files also include the names of roughly 16,000 offshore clients from Taiwan. ICIJ will continue to publish stories with its partners in the next few days and will release the Greater China names on its Offshore Leaks Database on Jan. 23.

The Red Nobility

				
Deng Jiagui Brother-in-law of President Xi Jinping	Wen Yunsong Son of former Premier Wen Jiabao	Liu Chunhang Son-in-law of former Premier Wen Jiabao	Hu Yi Shi First cousin once removed of former President Hu Jintao	Li Xiaolin Daughter of former Premier Li Peng
				
Wu Jianchang Son-in-law of paramount leader Deng Xiaoping	Che Feng Son-in-law of a former central bank governor	Wang Zhi Son of a former vice president	Wang Jun Son of a former vice president	Fu Liang Son of one of 'Eight Elders' of the Communist Party
				
Yeh Shuen-ji Nephew of one of PRC's founders	Wang Jingjing Grandaughter of a former vice president	Su Zhijun Grandson of one of best-known PLA commanders		

The Wealthy

				
Ma Huateng Co-founder of Internet giant Tencent	Yang Huiyan China's richest woman	Zhang Xin Co-founder of property developer SOHO China	Zhang Zhidong Co-founder of Internet giant Tencent	Shen Guojun Chairman of Yintai Group



Princelings go offshore

China's Politburo Standing Committee is the all-powerful group of seven (formerly nine) men who run the Communist Party and the country. The records obtained by ICIJ show that relatives of at least five current or former members of this small circle have incorporated companies in the Cook Islands or British Virgin Islands.

China's "red nobility" — elites tied by blood or marriage to the current leadership or Party elders — are also popularly known as "princelings." Ordinary Chinese have grown increasingly angry over their vast wealth and what many see as the hypocrisy of officials who tout "people-first" ideals but look the other way while their families peddle power and influence for personal gain.

The leaked offshore records include details of a BVI company 50 percent owned by President Xi's brother-in-law Deng Jiagui. The husband of Xi's older sister, Deng is a multimillionaire real estate developer and an investor in metals used in cell phones and other electronics. The records show the other half of Excellence Effort Property Development was owned by yet another BVI company belonging to Li Wa and Li Xiaoping, property tycoons who made news in July by winning a \$2 billion bid to purchase commercial real estate in Shenzhen.

Since taking over as the Communist Party's top official in 2012, Xi has sought to burnish his image with an aggressive anti-graft campaign, promising to go after official corruption involving both low-level "flies" and high-level "tigers." Yet he has crushed a grassroots

movement that called for government officials to publicly declare their assets. Wen Jiabao, who stepped down as premier in 2013 after a decade-long tenure, also styled himself as a reformer, cultivating an image of grandfatherly concern for China's poor.

The ICIJ offshore files reveal that Wen's son Wen Yunsong set up a BVI-registered company, Trend Gold Consultants, with help from the Hong Kong office of Credit Suisse in 2006. Wen Yunsong was the lone director and shareholder of the firm, which appears to have been dissolved in 2008.

Bare-bones company structures are often created to open bank accounts in the offshore firm's name, helping obscure the relationship to the real account owner. It isn't immediately clear from the documents what Trend Gold Consultants was used for. A U.S.-educated venture capitalist, Wen Yunsong co-founded a China-focused private equity firm and in 2012 became chairman of China's Satellite Communications Co., a state-owned firm that aspires to be Asia's largest satellite operator.

ICIJ made repeated attempts to reach Wen Yunsong and other individuals named in this story. Only a few responded. Wen was among those who did not. Citing confidentiality rules, a Credit Suisse spokesman said the bank is "unable to comment on this matter."

The ICIJ files also shed light on the BVI's previously unreported role in a burgeoning scandal involving Wen Jiabao's daughter, Wen Ruchun, also known as Lily Chang. *The New York Times* has reported that JPMorgan Chase & Co. paid a firm that she ran, Fullmark Consultants, \$1.8 million in consulting fees. U.S. securities regulators are investigating the relationship as part of a probe into the bank's alleged use of princelings to increase its influence in China.

Fullmark Consultants appears to have been set up in a manner that obscured Wen Ruchun's relationship to the firm, the ICIJ files indicate. Her name does not show up in any of the incorporation documents in the ICIJ data, though a 'Lily Chang' is CC'd in one August, 2009 email correspondence about the company. Her husband Liu Chunhang, a former Morgan Stanley finance guru, created Fullmark Consultants in the BVI in 2004 and was the sole director and shareholder of the firm until 2006, the same year he took a government job at the agency that regulates China's banking industry.

Liu transferred control of the company, the ICIJ files show, to a Wen family friend, Zhang Yuhong, a wealthy businesswoman and colleague of Wen Jiabao's brother. *The Times* reported that Zhang also helped control other Wen family assets including diamond and jewelry ventures.

The ICIJ files show that offshore provider Portcullis TrustNet billed UBS AG for a certificate of good standing for Fullmark Consultants in October 2005, indicating a business relationship between Fullmark and the Swiss bank. In response to ICIJ's questions, UBS issued a statement saying its "know-your-client" policies as well as procedures to deal with politically-sensitive clients are among "the strictest in the industry." Liu and Zhang did not respond to ICIJ's requests for comment.

A 2007 U.S. Department of State cable passed along a source's tip that Premier Wen was "disgusted with his family's activities," and that "Wen's wife and children all have a reputation as people who can 'get things done' for the right price." The cable, part of the

Wikileaks document dump, reported that Wen's kin "did not necessarily take bribes, [but] they are amenable to receiving exorbitant 'consulting fees.' "

The records also include incorporations by relatives of Deng Xiaoping, former Premier Li Peng, and former President Hu Jintao.

China experts say that the growing wealth and business interests of the princelings, including offshore holdings, are a dangerous liability for the ruling Communist Party but that people in leadership positions are too involved to stop it.

"What's the point of running the Communist Party if you can't get a couple billion for your family?" said Steve Dickinson, a China-based American lawyer who has investigated fraud cases involving BVI companies. "The issue is enormous and has tremendous significance for China, and the fact that everybody dances around it and doesn't want to talk about it is understandable but scandalous."

China embraces offshore

The story of China's involvement with the offshore world begins with paramount leader Deng Xiaoping's deepening of economic reforms in the early 1990s.

Laws reorganizing China's economy drove many Chinese offshore because they were written with state-owned enterprises in mind, not fledgling ventures like the entrepreneur trying to "market the latest iPhone app," according to Don Clarke, a China specialist at the George Washington University Law School in Washington, D.C.

Western bankers, accountants and investors wary of doing business on strictly Chinese terms also pushed the offshore model.

"It was us, the foreigners, that imposed this," said Rocky Lee, head of the Greater China corporate law practice of Cadwalader, Wickersham & Taft. "It had to do with the foreign investors' general discomfort with Chinese rules and regulations."

Other factors — including tightened capital controls within China as a result of the 1990s Asian debt crisis — also nudged Chinese offshore. Many had flocked to Hong Kong, then still a British territory, to incorporate businesses. As the 1997 handover back to China approached, though, Hong Kong itself began to look risky and many companies sought more far-flung offshore destinations.

The British Virgin Islands became a favorite haven for Chinese wanting to move businesses and cash offshore.

China's tax regime favored foreign investment, helping fuel the push to incorporate in the BVI and other offshore centers. Some Chinese manufacturers, for example, reduced their taxes by a maneuver known as "round-tripping" — setting up subsidiaries outside the country, then selling their products at low cost to the subsidiaries, allowing the parent companies to avoid taxes by showing little or no profits inside China. The offshore entities in turn resold the goods at profitable markup — then slipped the profits back to the parents as untaxed "foreign investment" from the BVI or Hong Kong.

Today 40 percent of the BVI's offshore business comes from China and other Asian nations, according to BVI authorities.

Every corner of China's economy, from oil to green energy and from mining to arms trading, appears in the ICIJ data

Frank Savage, the BVI's governor from 1998 to 2002, says the islands helped cultivate the relationship by persuading Chinese authorities that they were a "well-regulated territory with a robust and sound legal system."

Critics of the offshore system, though, see the BVI in a different light — as a "no-questions-asked" haven for shadowy dealings. Tax Justice Network, an advocacy group, says BVI offshore entities have been linked to "scandal after scandal after scandal" — the result of a corporate secrecy regime that creates an "effective carte blanche for BVI companies to hide and facilitate all manner of crimes and abuses."

Among the important Chinese who went offshore in the late 1990s was Fu Liang, the son of Peng Zhen, one of the "Eight Elders" of the Communist Party and a top leader of the National People's Congress in the 1980s.

Offshore Leaks records show Fu — who has invested in yachting clubs and golf courses on the mainland — controlled at least five offshore companies established in the BVI between 1997 and 2000. He used one of them, South Port Development Limited, to acquire a Philippines hotel in 2000.

TrustNet, the offshore services provider, helped Fu set up some of his offshore companies. By 2000, Trustnet was among the offshore services firms that were making an all-out drive to sign up clients from China, doing marketing meetings at the Shanghai offices of what were then known as the "Big 5" accounting firms: KPMG, Ernst & Young, Pricewaterhouse, Deloitte & Touche, and Arthur Andersen.

The audit firm now known as PricewaterhouseCoopers helped incorporate more than 400 offshore entities through TrustNet for clients from the mainland, Hong Kong and Taiwan, the ICIJ records show. Swiss banking giant UBS helped set up more than 1,000 offshore structures via TrustNet for clients from those three markets.

UBS Hong Kong helped Yang Huiyan, China's richest woman, with an estimated net worth of US\$ 8.3 billion, establish a BVI company in 2006. Yang, who inherited a real estate fortune from her father, did not respond to questions about her offshore company, Joy House Enterprises Limited.

The following year the Swiss bank referred another Chinese real estate billionaire, Zhang Xin, to TrustNet. Zhang, founder of Soho China, a company that has reshaped much of the Beijing skyline, recently made headlines by buying a \$26 million Manhattan townhouse. Through a representative, Zhang declined to answer questions about her BVI company Commune Investment Ltd., a name similar to that of her exclusive boutique hotel outside Beijing, the Commune by the Great Wall.

Li Jinyuan, a business tycoon and philanthropist with a net worth estimated at \$1.2 billion in 2011, was director of seven BVI companies that PricewaterhouseCoopers helped incorporate between 2004 and 2008. According to the ICIJ files, the BVI companies appear to be

connected to his Tiens Group conglomerate, which has interests in biotechnology, tourism, e-commerce and real estate.

In a 2005 marketing memo marked “strictly private and confidential,” TrustNet staffers were encouraged to improve ties with Credit Suisse in Hong Kong. They courted Credit Suisse and UBS with wine and cheese sessions. On the mainland, where foreign banks were restricted, they took a different tack: “In Shanghai, we will target international law firms and accounting firms,” the 2005 memo says.

The marketing campaign paid off. The number of companies TrustNet set up for clients in China, Hong Kong and Taiwan tripled from 1,500 to 4,800 between 2003 and 2007.

Favorite Tax Havens

The Caribbean British Virgin Islands are the preferred offshore destination for mainland China and Hong Kong residents, according to the Offshore Leaks data. For the Taiwanese, Samoa in the South Pacific is also popular.

The TrustNet clients who incorporated companies during this period include two current delegates to the National People's Congress, China's legislature.

Wei Jianghong, who represents Anhui province in the legislature while serving as chairman of state-owned Tongling Nonferrous Metals, was a director of Tong Guan Resources Holdings, a BVI company set up in 2006. Tongling used Tong Guan to invest \$10 million in a \$50 million copper processing project in Chile in 2007.

Another delegate with offshore holdings is Ma Huateng, the founder of China's leading online chat company, Tencent. Ma is worth \$10 billion and is ranked No. 5 on Forbes' list of billionaires in China. In 2007, he became director of TCH Pi Limited in the BVI with fellow Tencent founder Zhang Zhidong.

A spokeswoman for Ma said TCH Pi is a Tencent company that “has nothing to do with [Ma or Zhang] personally,” but the firm doesn't show up in Tencent corporate filings, and its purpose isn't clear.

Profits and corruption

Things have changed dramatically for China since it first dipped its toe into the offshore world. The country is wealthier and offshore centers serve increasingly as channels not only for capital that “round-trips” out of the country and back again, but also for overseas investment and accessing markets for metals, minerals and other resources.

Defenders of China's offshore push say the offshore system has helped boost the country's economy.

"I think we should face the reality, which is that Chinese capital is flowing out. I think it's actually a beneficial thing," said Mei Xinyu, a researcher at China's Commerce Ministry. "Of course I support the idea that a company should incorporate in its host country. But if the host country can't provide the right environment, then incorporating the company in an offshore center is actually a practical choice."

With markets in China often hamstrung by red tape and government intervention, incorporating offshore can smooth the way to do business, said William Vlcek, author of *Offshore Finance and Small States: Sovereignty, Size and Money*.

There's also evidence, though, that many Chinese companies and individuals have used offshore entities to engage in illicit or illegal behavior.

In September Zhang Shuguang, a former high-level Chinese railway executive, pleaded guilty to criminal charges in the wake of allegations that he'd funneled \$2.8 billion into offshore accounts. An internal government report released by the Bank of China revealed that public officials — including executives at state-owned companies — had embezzled more than \$120 billion out of China since the mid-1980s, some of it funneled through the BVI.

Portcullis TrustNet helped state-run shipping giant Cosco incorporate a BVI company in 2000. Among the numerous directors of Cosco Information Technology Limited were current Cosco Group chairman Ma Zehua and Song Jun, an executive who would stand trial in 2011 for embezzlement and bribery. After Cosco sent Song to help oversee a Qingdao subsidiary in 2001, he set up a fake BVI joint venture partner and used it to siphon millions from the building of Qingdao's gleaming Cosco Plaza, prosecutors said. State news service Xinhua said he embezzled \$6 million, took \$1 million in bribes from a Taiwanese business partner and purchased 37 apartments in Beijing, Tianjin and Qingdao with his ill-gotten earnings. His trial was adjourned but no verdict was publicly announced.

China's corruption-plagued oil industry — which recently has been the target of criminal investigations that have led to the suspension of key oil executives — is a big player in the offshore world. China's three big state-owned oil companies, which are counted among the largest companies in the world, are linked to dozens of BVI firms that show up in the ICIJ data.

Former PetroChina executive Li Hualin, who was dismissed in August after coming under investigation for alleged "serious violations of discipline", often a party shorthand for corruption, was the director of two BVI companies, the ICIJ files reveal.

While some of these offshore firms are disclosed in corporate filings, several others linked to individual executives — including Zhang Bowen of PetroChina's natural gas distribution arm Kunlun Energy and Yang Hua of China National Offshore Oil Corporation — appear to operate in the dark, and their purpose is not clear. PetroChina and CNOOC did not respond to ICIJ's repeated requests for comment.

Other scandal-tainted Chinese who have used the BVI to do business include Huang Guangyu, once China's richest man. The ICIJ records show that he and his wife Du Juan set

up a maze of at least 31 BVI companies between 2001 and 2008 as they built the largest consumer electronics retail chain in China.

The husband, Huang, was sentenced to 14 years in prison in 2010 after Chinese courts convicted him of insider trading, bribery and stock price manipulation. Du Juan was convicted of related charges but was released from prison in 2010 after serving a brief time.

While Huang is in prison and many of his assets are frozen, his business empire survives through his offshore network of companies. In 2011, one of his BVI firms, Eagle Vantage Assets Management, made a bid for a retired British aircraft carrier that Huang wanted to turn into a luxury shopping mall (the Brits in the end decided to scrap the ship).

He still owns more than 30 percent of Gome, his electronics retailer, via two companies in the BVI, Shining Crown Holdings and Shine Group.

Offshore's future

As concerns grow about the wealth of corporate oligarchs, government officials and their families, some Chinese have braved the government's anger by raising questions about corruption.

A grassroots group, the New Citizens Movement, uses the Internet and small demonstrations to press for greater transparency. "How can you fight corruption if you don't even dare to disclose your personal assets?" the group's founder, legal advocate and activist Xu Zhiyong, wrote last spring.

The government's response has been swift. It has arrested Xu and detained more than 20 other members of the group, indicting some for "disturbing public order" or "illegal assembly," charges frequently used to silence dissidents.

The government has also cracked down on foreign media that have focused attention on the gap between wealth and poverty in China. After *The New York Times* and Bloomberg News reported on the onshore assets of China's princelings, the government blocked their websites and delayed approving visas for their journalists.

After years of inaction, the U.S., the U.K. and international organizations have begun pushing reforms that, they say, would reduce offshore abuses. China has been less aggressive in pressing for changes in the offshore system.

Big loopholes in tax laws have allowed Chinese individuals to operate with relative freedom offshore. They weren't required to report their foreign holdings.

"Chinese policy makers didn't envision individuals absconding with that much money," Lee, the Beijing-based corporate lawyer, said.

Now mainland authorities are moving to get a handle on the flow of private wealth offshore. New rules that went into effect Jan. 1 require Chinese to report their overseas assets.

How aggressively China joins global efforts to reshape the offshore system may have a big impact on the current push for reform. Just as China has become an increasingly important

player in the global economy, it has also become more important as a supplier of clients to the market for offshore accounts and companies.

A 2013 industry-sponsored poll of 200-plus bankers and other offshore professionals found that “China-related demand” is the key driver in the offshore market’s growth. The chief of a BVI offshore services firm said in the survey: “China is the most important location for client origination for business in the next five years.”

Contributors to this story: Margot Williams

8 comments



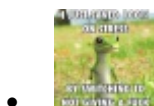
Hugh Magbie · Top Commenter · Founder at The Light of the North Star

Corruption rules the world, from predatory Wall St speculators, to the US Congress and their masters, big oil. The pirates of the Caribbean hold many more secrets. Time to pry open those cans of worms.



Sandra Hey · Broadmeadows High School

Instead of funding wars in Afghanistan, Syria and the like which costs the taxpayers billions and makes the arms dealers billions, we should be smarter and have an Economic War instead on all the Tax Havens around the world including the Swiss Banks and repatriate the funds back to country of origin to be spent on social programs for the benefit and wellbeing of its poor.



Black De Captain · Top Commenter

I thought communism was about the "little guy" "working class" "proletariat"??? Now it turns out that the Chinese communist country has 80% of the population as peasants, and they have more income inequality than the evil rich "capitalists". I'd love to see a Marxist/Socialist explain this ICIJ report.



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Abimanu Mathoorasing · Top Commenter · Lincon's inn

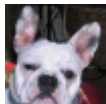
IT is widely known that Chinese are very secretive and for the Consortium of Investigative Journalists to dig up what you have published is unbelievable, and it entails hard work deserving high praise. Thank you.



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Nebojsa Ristic · Belgrade, Serbia

It appears that even jade, in the shade of coconut palms, finds more...tranquility?



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Stepel Reeltje

China, met het kapitalisme binnen te halen hebben ze nu ook hun eigen offshoreleaks

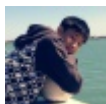
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Guillermo Gillespie · Trujillo, Peru

Vaya... vaya!!!, los chinitos preparando su LARGA MARCHA para apoderarse del Mundo. Con otro estilo.



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Liang Shuliang · University of Sussex