

China's Transparency Standards, U.S. Investor Expectations Collide

Government Policy Curtails Scrutiny of Links Between Officialdom and Business

By JAMES T. AREDDY

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SHENZHEN, China—In the almost six years since VisionChina Media Inc. raised \$115 million in a U.S. initial public offering, the Chinese broadcasting company hasn't told U.S. investors its co-founder is the daughter-in-law of a senior figure in the Chinese Communist Party.

Should it have?

The omission is legal. But it illustrates wide differences between China's transparency standards and U.S. investors' expectations.



Editors cutting video at the Shenzhen headquarters of VisionChina, whose television-like broadcasts appear on mass-transit systems nationwide and whose co-founder is daughter-in-law of a senior Communist Party figure. *James T. Areddy/The Wall Street Journal*

The issue of Chinese political interests overlapping with business comes as inconsistencies pile up over how the U.S. and China treat information. Over the past year, Beijing and Washington have butted heads over jurisdiction to regulate auditors and enforce legal rulings. Accusations by U.S. hedge funds that several China-based, U.S.-traded companies engaged in fraudulent accounting have erased billions of dollars in market value, also hitting shares of companies not accused of wrongdoing. More recently in China, one scandal after another has highlighted ties between business and the relatives of politicians.

In the U.S., the media often link officialdom to business. But government policy curtails such scrutiny in China, where relatives of senior politicians often hold corporate positions.

When disclosed, Chinese personnel news can jolt markets. After China Satellite Communications Co. last year named the son of then-Premier Wen Jiabao as its chairman, shares of its listed subsidiary surged about 50% in a few days.

Connections cut the other way weeks later when former Communist Party star Bo Xilai was ousted from his government positions. Shares promptly slumped 10% at China Everbright International Ltd., an energy company where Mr. Bo's brother was deputy chairman. The brother abruptly resigned, saying it was for the good of the company, and the shares jumped.

An investigation by the U.S. Securities and Exchange Commission into hiring practices at J.P. Morgan Chase & Co., disclosed this month, appears to signal fresh regulatory concern about the goals companies have in hiring the relatives of Chinese officials. J.P. Morgan says it is cooperating.

Prosecutors in the corruption trial of the fallen Chinese politician Mr. Bo, which ended Monday, drew on witness testimony to demonstrate how businesspeople sought to maintain good relations with him by treating his family members to private-plane trips and a French holiday home. Mr. Bo denied accepting bribes.

Jon Larsen, portfolio manager at Albion Financial Group in Salt Lake City, which has more than \$700 million in assets under management, once hired a private investigator to examine his Chinese investments for links. "We had learned that a lot of these companies did better [on the stock market] if they were connected," he said.

Because political winds can shift, connections are more of a "warning sign" to Robert Horrocks, chief investment officer in Hong Kong at Matthews International Capital Management LLC, which manages more than \$24 billion.



A VisionChina screen offers soccer highlights on the Beijing subway. *Zhoudong Shangguan/The Wall Street Journal*

How many Chinese companies listed in the U.S. enjoy political ties is unknown. That makes it all but impossible to quantify whether and how such relationships might dictate a business's profitability or its stock-market performance. Yet signs that companies work hard to keep associations with political families hush-hush tells some analysts they matter. "If they did disclose relationships it would suggest a relevance to investors; they don't want to admit that," said [David Webb](#), a Hong Kong-based investor-rights activist.

But determining who's who in a Chinese business can be difficult, and risky. Last week, police in Shanghai arrested a well-known corporate investigator, Peter Humphrey, on suspicion the Briton violated the privacy of unnamed people by illegally obtaining details on personal identification cards and property holdings, according to a statement from his family and accounts published by state-run Chinese media. "We used illegal means to obtain personal information. I am very regretful for this situation and apologize to the Chinese government," a handcuffed Mr. Humphrey said in an interview broadcast by China Central Television. Shanghai authorities declined to comment on the matter.

Shenzhen-based VisionChina raised money in a December 2007 public offering on the Nasdaq Stock Market to build what is now China's largest network broadcasting video in subways and buses. Its co-founder, with 30%, was Liang Yanqing. Ms. Liang's shares were initially valued above \$52 million, but filings show she cashed out of around \$28 million worth. She remains a director.

In response to questions from The Wall Street Journal, VisionChina confirmed that the 41-year-old Ms. Liang is married to Wang Songhui, 44, a son of Wang Gang, a senior figure in the Communist Party.

The 70-year-old Mr. Wang retired from the 25-member Politburo in November after spending a decade on the Communist Party decision-making body and its board of alternates. His roles included managing the party's secretariat, its internal office and party-secrecy matters. He remains active, for instance meeting a Congolese delegation in June in his role as chairman of a state-affiliated think tank called the China Economic and Social Council.

VisionChina says Ms. Liang's family connections are irrelevant to its business and that the Wangs have no role. It also says its disclosures comply with U.S. regulations.



Li Limin, co-founder, chairman and chief executive of VisionChina Media *James T. Areddy/The Wall Street Journal*

"If you think this [political family link] is a good thing, then it's good," said VisionChina's other co-founder, Chairman Li Limin, in an interview. "If you think it's a bad thing, don't buy our shares."

The SEC requires U.S.-listed companies to disclose "related-person relationships" that might influence operations, like dependence on a customer, contract or benefactor.

"There's not a specific line item that governs these [family] relationships," says John F. Olson, a specialist in corporate governance and securities at the law firm Gibson, Dunn & Crutcher LLP in Washington. "But that's not to say they aren't

relevant, particularly in an initial public offering that requires a special burden to let investors know who they are dealing with."

Ms. Liang and Mr. Wang, her husband, didn't respond to requests for comment. The elder Mr. Wang couldn't be reached.

Documents show Ms. Liang and the younger Mr. Wang have a common business interest in a company called Beijing Zhonghe Qingrun Investment Co., which VisionChina has said owns 30% of the entity that holds certain key business licenses used by the listed company, under a corporate structure common in China.

VisionChina says it depends on government contracts that make it China's largest broadcaster of ads, news and entertainment in subways and buses, with a potential daily audience of 400 million.

In filings, VisionChina describes Ms. Liang as its co-founder in 2005. It cites her only prior work experience as eight years in the human-resources department of a phone company after college.

Mr. Li, VisionChina's chairman, said he ventured into broadcasting with Ms. Liang after multiple partnerships with her in property and developing a family friendship. "We were both real-estate developers for a long time," he said. "There are more-experienced people in this [broadcasting] industry but we understood the policy and future development opportunities." He said VisionChina is fully compliant in its U.S. regulatory filings.

Primary pre-IPO investors in VisionChina learned of its political connections. In 2006, New York hedge fund Och-Ziff Capital Management Group invested around \$14.2 million in VisionChina. It found in due diligence that VisionChina had ties to China's leadership, according to a person involved with the investment. Och-Ziff declined to comment.

The following year, Lou Yunli led a \$40 million investment in VisionChina by financial firms, including one she co-founded, Shanghai-based Milestone Capital Management Ltd. "We definitely did not make the investment based on the connections," said Ms. Lou. "Of course I knew the father of the husband was a high government official."

Robert Chiu, an investment banker who spearheaded VisionChina's U.S. public offering while at Merrill Lynch, said it made sense to limit focus on Ms. Liang during the IPO because she would be only a director,

not an executive. Still, Mr. Chiu said he regarded her as key to VisionChina's "strong relationships in relevant areas."

Albion's Mr. Larsen recalls that after he bought more than \$400,000 of the Nasdaq stock, he discovered VisionChina's connections only after having hired an investigator. "We hired our own sleuths," he said.

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