THE BIG PICTURE

Xiao Jianhua's Lost Empire

A look at Xiao Jianhua's financial empire: the companies involved, what's happened to them, and what, if anything, remains.

BY ELIOT CHEN — SEPTEMBER 18, 2022

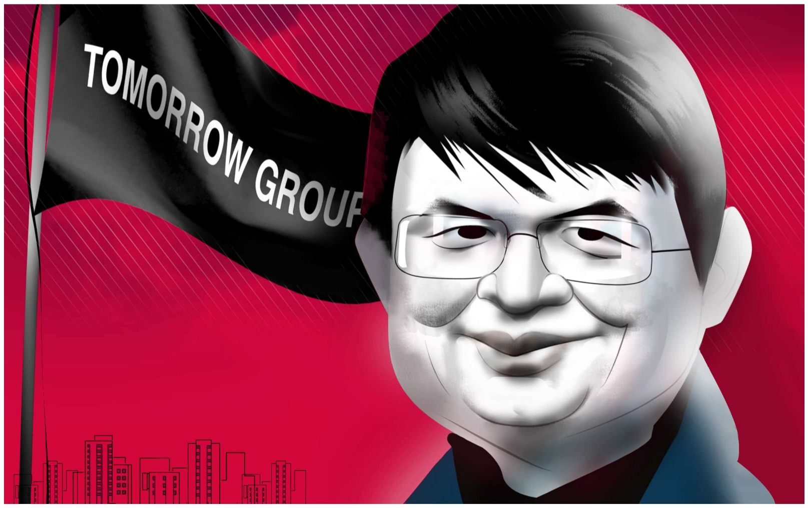


Illustration by Luis Grañena

Five years after he was abducted from his service apartment at the Four Seasons Hotel in Hong Kong, Xiao Jianhua — once one of China's wealthiest businessmen — has been sentenced to 13 years in prison for financial crimes. But what has happened to his fortune, once estimated at more than $100 billion?

The Chinese financier, who was connected with the highest echelons of the Communist Party, amassed his wealth through the Tomorrow Group, a financial services conglomerate that he helped found in the 1990s. Over the years, a web of affiliates and shell companies allowed the group to build stakes in banks, brokerages, insurance and trust firms, listed companies and other investment vehicles.

But after his detention in 2017, Chinese banking and securities regulators began dismantling Xiao's sprawling financial empire. More than a dozen companies linked to Xiao and the Tomorrow Group have been seized by the government, sold or filed for bankruptcy.

This week, *The Wire* looks at Xiao Jianhua's financial empire: the companies involved, what's happened to them, and what, if anything, remains.

THE GREAT UNWINDING

Gaining a full picture of what Xiao and the Tomorrow Group controlled is difficult, because the conglomerate held majority stakes in firms through a variety of shell companies and indirect investments. Company ownership records show that few investments were held directly by Xiao himself; instead, many of the key shareholders were relatives or close associates.

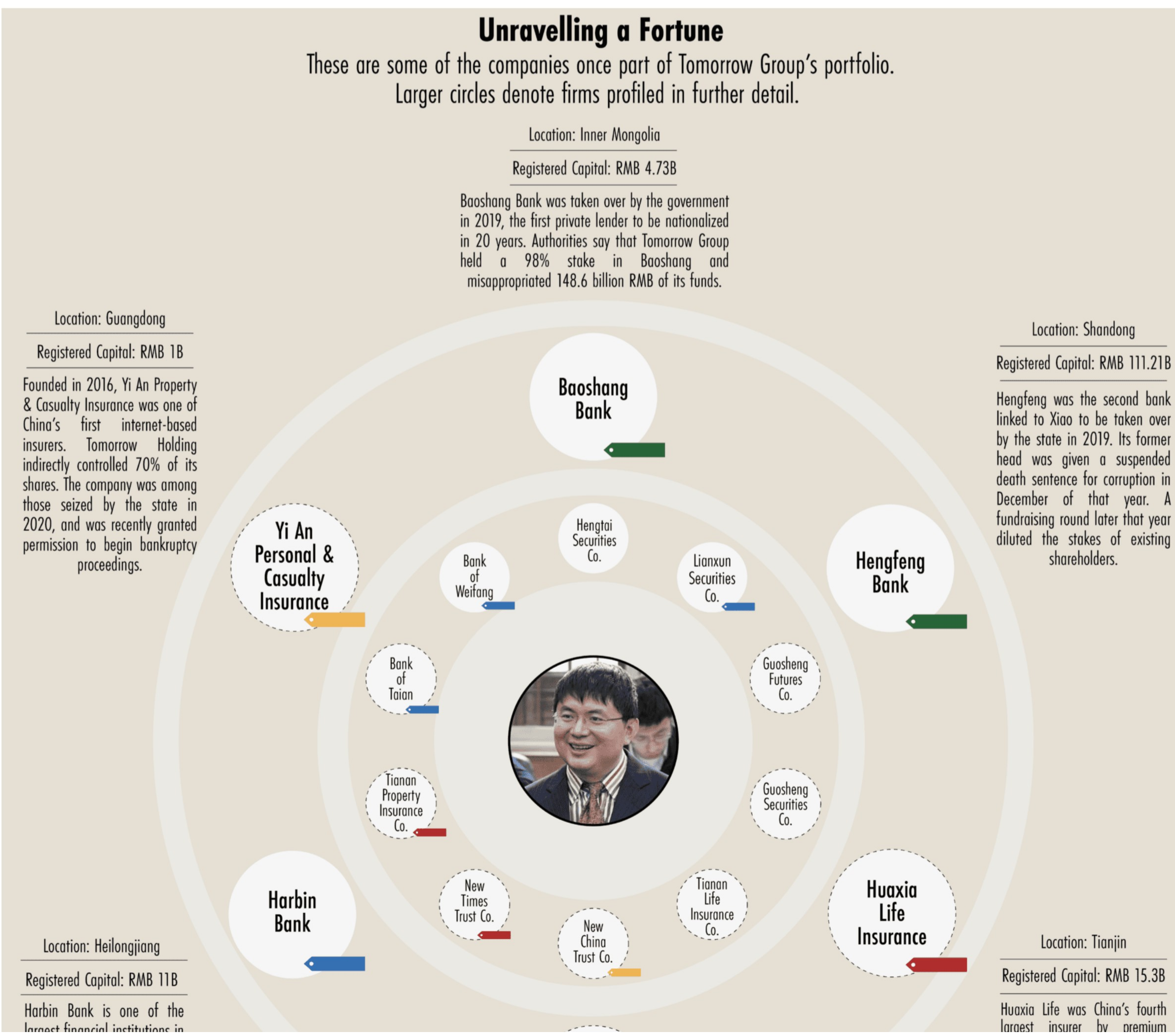
Chinese media reported in 2013 that Xiao controlled as many as nine listed companies and 17 banks. A 2014 profile by *The New York Times* reported that he had acquired stakes in at least 30 financial institutions, while other estimates have put that figure as high as 60.

Part of Xiao's wealth has long been associated with his ties to China's political elites. His penchant for cultivating ties to the government trace back to his time as a student at elite Peking University, where he served as president of student union in 1989. Friends said his decision not to join many of his classmates in the massive pro-democracy demonstrations in Tiananmen Square that spring put him in good standing with some university administrators.

Years later, after Xiao entered business, first by selling computers and then gradually building stakes in financial services and listed firms, he began bragging about his ties to China's political elite. Some of these claims have been backed up by corporate records, which show that some of his investment firms helped facilitate lucrative deals for the families of Politburo members, including the relatives of Xi Jinping, according to this profile by *The New York Times* and a subsequent letter by the Tomorrow Group.

But by 2017, Xiao's privileged standing had become a liability. Under Xi Jinping, the government initiated a massive crackdown on corruption, some of it aimed at political opponents. And on the eve of the Lunar New Year that January, Xiao Jianhua was abducted from his residence at the Four Seasons Hotel in Hong Kong, apparently by agents working for Chinese state security. It was a brazen, extrajudicial arrest, given that Hong Kong did not then have a mechanism for extraditing suspects to mainland China.

Xiao, who had obtained Canadian citizenship in the late 2000s, subsequently disappeared from public view for five years. One of the world's wealthiest businessmen — with control over perhaps the largest privately-held financial services company in China — simply went missing. Years later, when China acknowledged that he was in custody, the authorities rebuffed attempts by Canadian diplomats to visit him or attend his trial last month.



Data: WireScreen, Shanghai No. 1 Intermediate People's Court, media reports

China never made clear why it detained Xiao and legal experts have said the legal process was flawed in numerous ways, beginning with Xiao's abduction and his lengthy detention before any charges were filed. While there has been rampant speculation that the abduction may have been politically motivated or linked to infighting among China's political elite, there has been no independent way to verify details of the case.

Regardless, not long after Xiao was abducted from the Four Season Hotel in Hong Kong, the authorities began dismantling the Tomorrow Group. One of their prime targets was Baoshang Bank, an Inner Mongolia-based private lender that the authorities said was 89 percent owned by investors tied to Tomorrow Group.

According to the Shanghai court that sentenced Xiao last month, he and the conglomerate that he controlled misappropriated close to 150 billion RMB ($22 billion) from Baoshang Bank's clients. By 2019, Baoshang had grown severely indebted, the authorities said. It was seized by China's banking regulator that year, the first direct state takeover of a commercial bank in more than 20 years. Baoshang filed for bankruptcy in 2020.

Attempts to sell off other companies in Tomorrow Group's portfolio have often proved challenging, in part due to a struggle to find suitable buyers. Take Huaxia Life Insurance, for example, which was China's fourth largest insurer by premium income in 2019. Real estate developer Zhongtian Financial Group's bid for a 25 percent stake in the company was first announced in November 2017, 10 months after Xiao was detained, but then languished for years after Zhongtian struggled to raise sufficient capital to close the deal.

Subsequent discussions with Ping An Insurance in 2019 reportedly stalled over disagreement about Huaxia's asking price. Then in July 2020, Huaxia became one of nine companies linked to Xiao to be seized by Chinese banking and securities regulators for allegedly violating laws and regulations.

The authorities' attempts to unwind and sell off assets of the nine seized companies remain incomplete. Regulators stated in 2020 that their takeover of the firms would last one year, but they later extended custody through to July 2022 to further "defuse financial risks." A review of company ownership records by *The Wire* shows that only one of the nine firms seized, New Times Securities, has found a buyer, while several other firms have been cleared to begin bankruptcy proceedings.

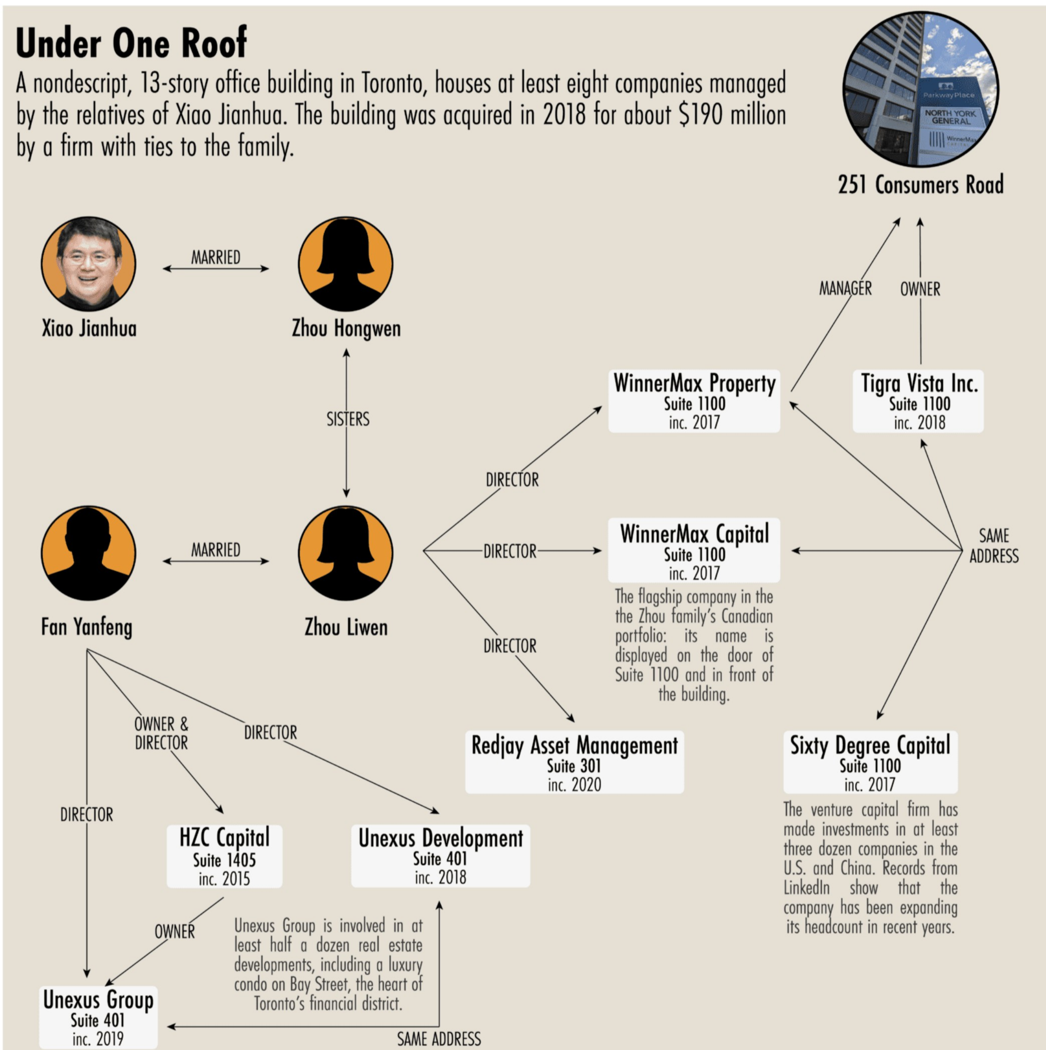
As for who would benefit from the sale of Tomorrow Group's seized assets, "typically any proceeds from the sale of assets of a bankrupt company go to the company's creditors, not the state," says Nicholas Lardy, a senior fellow at the Peterson Institute for International Economics and longtime expert on China's banking system.

What is clear is that a substantial share of the sprawling financial holdings once held by the Tomorrow Group have been unwound: former employees told *The Wire* that what the government seized in 2020 was the Tomorrow Group's entire portfolio. And at the time of Xiao's sentencing last month, the Tomorrow Group was hit with 55 billion RMB ($8.1 billion) fine, though the authorities did not detail how or why they had come to such a figure. (The Tomorrow Group's assets were widely believed to be many times larger than the fine, according to people familiar with its operations.)

THE CANADA CONNECTION

Even before Xiao's disappearance, his relatives began establishing their own operations in Canada. According to people familiar with their business dealings, the family began to transfer their wealth from Hong Kong to Canada in order to set up business operations in North America.

The network of companies based in Canada all appear to be set up by the relatives of Xiao's wife and longtime business partner, Zhou Hongwen.[1] The details — first reported by Canadian outlet *Global News* and later by *Bloomberg* — show that the Zhou family is involved in at least half a dozen companies in venture capital, private equity and real estate development and management.

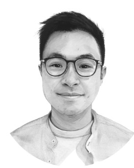


Source: Corporations Canada, Ontario Land Registry, Ontario Business Registry, company websites, legal records

All are located under one roof, a 13-story office building in Toronto managed by the property management arm of WinnerMax Capital, a private equity investor that lists Xiao's sister-in-law, Zhou Liwen, as a director. It was incorporated just weeks after his abduction. The office complex was purchased for C$256 million ($190 million) in 2019 by Tigra Vista Inc., an Ontario corporation that shares the same address as WinnerMax Capital.[2] Another real estate firm affiliated with the family, Unexus Group, is a partner in six property developments, including a high-rise condominium in downtown Toronto.

People familiar with the deals say the Zhou family wanted to establish its own business ventures and family office in Toronto, where they have hired more than 100 people. For instance, the venture capital firm Sixty Degree Capital, which shares an office suite with WinnerMax Capital, has made investments in dozens of startups in the fields of healthcare, transport and consumer technology. Between 2017 and 2018, it made late-stage investments in Chinese unicorn firms including the New York Stock Exchange listed electric vehicle maker, Nio,[3] as well as mobile phone company Xiaomi and the commerce giant, Meituan, according to data compiled by PitchBook. Other firms formerly or currently in its portfolio include the ride-hailing giant Uber, the bike sharing company Lime and Schrodinger, a biotech firm.

None of the Canadian companies linked to the Zhou family responded to requests for comment.



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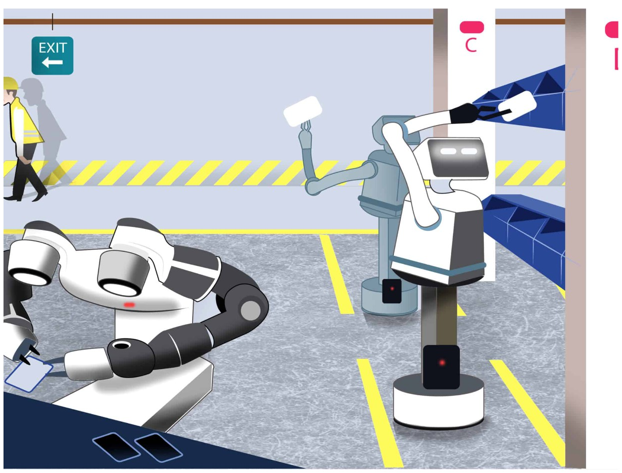
COVER STORY



China's Bot Boom

BY ISABELLA BORSHOFF

China became "the world's factory" in large part due to its demographics: a tidal wave of young, hungry workers drove growth by churning out low value goods. But between rapidly changing demographics and rising wages, those days are over. For China to maintain its reputation as a manufacturing powerhouse, it needs robots — lots of them. But can advanced manufacturing be a panacea for China's slowing economy?

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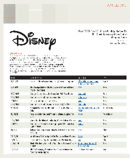

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