



FOREWORD BY FRANK NEWMAN  
FORMER DEPUTY SECRETARY OF TREASURY AND  
FORMER CHAIRMAN AND CEO OF SHENZHEN DEVELOPMENT BANK

WEIJIAN SHAN  
**MONEY**  
MACHINE

A TRAILBLAZING  
AMERICAN VENTURE  
IN CHINA

WILEY



## Praise for *Money Machine*

“Weijian Shan has been at the top of the Asian private equity game for decades. But this is much more than just a gripping account of the vicissitudes of one deal. It is the story of the only foreign investor to take control of a major Chinese bank and throws light on China’s gigantic life-or-death struggle to rescue its banking sector as it stood teetering on the edge of the abyss.”

—**Tim Clissold**,  
Author of *Mr. China*

“Shan Weijian is a master dealmaker who takes the reader on a white-knuckled ride on the roller coaster of China’s reform era. It should be required reading in business schools and by anybody who enjoys an intriguing story of money making.”

—**James McGregor**,  
30 years in China as a journalist, businessman,  
investor, consultant, and author of  
*No Ancient Wisdom, No Followers, and One Billion Customers*

“The book shows private equity at its very best . . . taking a perilously close to insolvent institution with bad loans, cleaning it up through write downs and write offs, and powering it forward with good governance and innovative new products on the back of a booming Chinese economy. It’s a great case study of how private equity can transform underperforming enterprises even in China . . . but it took many false starts by Shan to achieve the control necessary for the American firm to administer the medicine needed to transform the business into the trophy asset it became. The storied turnaround, orchestrated by Shan and his partners, was a tour de force that has helped burnish Shan’s reputation as an imaginative and capable titan of private equity in Asia.”

—**David J. Teece**,  
Professor of The Graduate School at the  
University of California, Berkeley, the faculty  
director of the school’s Tusher Initiative for the  
Management of Intellectual Capital and  
a prolific author of books and scholarly papers



# Money Machine



# **Money Machine**

*A Trailblazing American  
Venture in China*

Weijian Shan

WILEY

Copyright © 2023 by Weijian Shan. All rights reserved.

Published by John Wiley & Sons, Inc., Hoboken, New Jersey.  
Published simultaneously in Canada.

No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, except as permitted under Section 107 or 108 of the 1976 United States Copyright Act, without either the prior written permission of the Publisher, or authorization through payment of the appropriate per-copy fee to the Copyright Clearance Center, Inc., 222 Rosewood Drive, Danvers, MA 01923, (978) 750-8400, fax (978) 750-4470, or on the web at [www.copyright.com](http://www.copyright.com). Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permission>.

Trademarks: Wiley and the Wiley logo are trademarks or registered trademarks of John Wiley & Sons, Inc. and/or its affiliates in the United States and other countries and may not be used without written permission. All other trademarks are the property of their respective owners. John Wiley & Sons, Inc. is not associated with any product or vendor mentioned in this book.

Limit of Liability/Disclaimer of Warranty: While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Further, readers should be aware that websites listed in this work may have changed or disappeared between when this work was written and when it is read. Neither the publisher nor authors shall be liable for any loss of profit or any other commercial damages, including but not limited to special, incidental, consequential, or other damages.

For general information on our other products and services or for technical support, please contact our Customer Care Department within the United States at (800) 762-2974, outside the United States at (317) 572-3993 or fax (317) 572-4002.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic formats. For more information about Wiley products, visit our web site at [www.wiley.com](http://www.wiley.com).

### ***Library of Congress Cataloging-in-Publication Data***

Names: Shan, Weijian, 1953- author.

Title: Money machine : a trailblazing American venture in China / Weijian Shan.

Description: Hoboken, New Jersey : John Wiley & Sons, Inc., [2023] | Includes index.

Identifiers: LCCN 2022049588 (print) | LCCN 2022049589 (ebook) | ISBN 9781394161201 (hardback) | ISBN 9781394161225 (adobe pdf) | ISBN 9781394161218 (epub)

Subjects: LCSH: Shenzhen fa zhan yin hang. | Banks and banking—China—Case studies. | Banks and banking—Foreign ownership—Case studies. | Bank management—China—Case studies. | Private equity—United States. | Global Financial crisis, 2008–2009.

Classification: LCC HG3338.S54 S53 2023 (print) | LCC HG3338.S54 (ebook) | DDC 332.10951—dc23/eng/20221019

LC record available at <https://lcn.loc.gov/2022049588>

LC ebook record available at <https://lcn.loc.gov/2022049589>

Cover Design: Wiley

Cover Image: © Koiyip Lam/Getty Images

*To our investors, to whom we owe our gratitude for their  
partnership and trust over the years.*



# Contents

Foreword by Frank Newman: An Extraordinary Journey	xi
A Note from the Author	xiii
<b>Part I Courtship</b>	<b>1</b>
<b>Chapter 1</b> An Unexpected Question	3
<b>Chapter 2</b> A License to Print Money	11
<b>Chapter 3</b> The Craft of Private Equity	19
<b>Chapter 4</b> A Special Time and Place	29
<b>Chapter 5</b> Dancing with the Wolves	41
<b>Chapter 6</b> Rolling Faster	55
<b>Part II Fight</b>	<b>73</b>
<b>Chapter 7</b> Tug of War	75
<b>Chapter 8</b> Behind the Scenes	85
<b>Chapter 9</b> Roller Coaster	97
<b>Chapter 10</b> Transition to Nowhere	107

<b>Chapter 11</b>	“Nut Case”	117
<b>Chapter 12</b>	Untying the Knot	127
<b>Part III</b>	<b>Transformation</b>	<b>141</b>
<b>Chapter 13</b>	Making History	143
<b>Chapter 14</b>	Righting the Ship	153
<b>Chapter 15</b>	Bank Repairman	169
<b>Chapter 16</b>	Game of Chicken	185
<b>Chapter 17</b>	Window of Opportunity	193
<b>Chapter 18</b>	Mariana Trench to Mount Everest	205
<b>Part IV</b>	<b>Exit</b>	<b>215</b>
<b>Chapter 19</b>	Coveted Prize	217
<b>Chapter 20</b>	Flavor of the Day	227
<b>Chapter 21</b>	Financial Tsunami	237
<b>Chapter 22</b>	Stars Align	251
<b>Chapter 23</b>	Turning Point	265
<b>Chapter 24</b>	A Deal That Shakes	277
Epilogue	The Kingdom of Freedom	293
Acknowledgments		301
About the Author		303
Index		305

# Foreword

## An Extraordinary Journey

**D**uring the Global Financial Crisis (GFC), banks around the world, including in America, Britain, and Europe, were supported by government cash injections and guarantees.

But there was one significant bank, deeply troubled before then, that worked through that time to strength and success, without *any* government funding or financial guarantees.

Where was this bank? In China! And who controlled the bank and guided it during this extraordinary recovery? A U.S.-based private equity firm!

How was all this possible? How was it possible that a U.S. firm took on leadership of a Chinese bank? How did a good-sized national bank, troubled and weak before the GFC, become strong, healthy, and successful, without a single dollar of government support? How did the team work with Chinese regulators to implement a series of unprecedented steps? How did the private-equity process proceed, in China, once the bank was so successful, to realize very substantial benefits for its investors, in U.S. dollars?

And there's more—all true, amazingly. A high-profile lawsuit filed in the United States, involving a Chinese bank and a Taiwanese-listed company, and of interest to the Chinese government at high levels. A board composed largely of Chinese businesspeople, with a U.S.-based major shareholder and an American chairman, making rapid change.

Weijian Shan tells this extraordinary success story, based on his own leadership role, in a fascinating insider's chronicle, including insights into the many challenges of business in China.

Shan led the complex process of establishing an American private equity firm as the lead shareholder. He led the bank through a uniquely challenging process of raising capital. And, once the bank was fully recovered to strength and profitability, Shan led another complex but highly successful process of the sale of the bank, finding a good home for its future, and rewarding investors handsomely.

I had the privilege of leading the management of the bank during most of that time, as its chairman and CEO. I was the only Western employee in the bank, the only one who did not speak Chinese. It was a very special experience. I am proud of my Chinese colleagues who worked diligently with me to take the strategic and tactical steps to turn the bank around, from weak and troubled to strong and successful. I still have many friends there.

Shan tells this extraordinary story from deep inside knowledge, with fascinating insights and perspectives. It's a great story for readers who want to understand more of how things can really work inside China's capital system, and for those who want to see how a private equity firm can add real value to a company, even in the face of exceptional challenges.

**Frank Newman**

Chairman and CEO, Shenzhen Development Bank (2005–2010)

Chairman and CEO, Bankers Trust (1996–1999)

Undersecretary/Deputy Secretary, United States Department of the Treasury (1993–1995)

October 31, 2021

## A Note from the Author

**T**his story involves several Chinese customs and systems that may not be familiar to Western readers. These involve names, Chinese currency, and the organization of the Chinese government. Here, I outline some important facts to help readers best understand the details of the story.

People in China present their names in the proper Chinese order: family name first, followed by their given name. For example, Mao, Zhou, and Chiang are surnames of, respectively, Mao Zedong, Zhou Enlai (China's former prime minister), and Chiang Kai-shek (former leader of China's Nationalist government). East Asian countries such as Japan, Korea, and Vietnam all present their names in this order. To my knowledge, Hungary is the only European country that uses this approach for names.

When I first arrived in the United States as a student in the 1980s, I wrote my name the Chinese way, family name first followed by the given name: Shan Weijian. Soon afterward, I learned that Americans put their given name first, followed by the family name; so they call the given name "first name" and the family name "last name." Needless to say, it was confusing to people that my first name is actually my last

name. Americans usually greet each other by their given, or first, names. So, my new friends called me Shan. I was totally fine with it, because my given name, Weijian, is harder to pronounce or remember. Now English-speaking people around me call me Shan, and I always sign my letters in English with just *Shan*.

To avoid confusion, I later conformed to the American way of writing my name: Weijian Shan.

This book presents Chinese names following the East Asian order: family name first, followed by the given name. If a Chinese person has taken a Western name—not uncommon for Western-educated Chinese—I present their names in the Western way, such as Alex Zhang, Daniel Poon, Fred Hu, Louis Cheung, and Rachel Kwok. And for Westerners, names are presented as usual: David Bonderman, Frank Newman, or Oprah Winfrey.

When people in the same passage share a name, I use their full names for clarity. In China, there are hundreds of common surnames but millions of given names, each of which may be unique. This is just the opposite of the Anglo-Saxon world in which there are numerous family names but a very limited number of given names. My firm, PAG, has so many Davids that we have to refer to them by their initials or full names.

A final note about names: In mainland China, a woman keeps her own family name after marriage, so there is no such concept as a maiden name. When I was growing up in China, there were no wedding rings, although some young Chinese people today adopt Western ways. How do you tell if a middle-aged Chinese woman or man is married? You just have to ask.

Now, let's talk briefly about Chinese currency. The Chinese currency is called *renminbi* (RMB), which roughly translates to “the people's money.” The unit of currency similar to the dollar is the *yuan*. In fact, the word *dollar* is translated in Chinese as *yuan*, so the U.S. dollar is *mei yuan* in Chinese (*mei* refers to the United States). The RMB is convertible into foreign currencies for the purposes of trade, services, and direct foreign investments. However, for investments in the securities markets, such as stocks and bonds, there are various restrictions. Therefore, at the time of this writing, and at the time the events of this book take place, the RMB was not fully convertible. The aim of the

Chinese government is to make its currency fully and freely convertible in the future.

Finally, the government system of China is that of a *unitary* state in which the central government has the ultimate power, and under it are provinces, cities, districts, and so forth. In contrast, the United States is a *federalist* state, a union of partially self-governing states under a federal government. The unitary state is the more common form of government—166 of the 193 United Nations members—have a unitary system of government. In China, there is another layer of governance. The central government, headed by the president, followed by the prime minister, is not the highest decision-making body.

The highest decision-making body in China is the political bureau, or the Politburo, of the Chinese Communist Party (the CCP). Therefore, the chairman or the general secretary of the CCP—not the prime minister or president—is the top leader (although in the past three decades, the party secretary has also been the president). Mao Zedong ruled China as the CCP chairman; he never took a position in the government and refused the title of president. After Mao's death, Deng Xiaoping was China's paramount leader, even though his position in the government had never been higher than that of vice premier. Within the CCP, Deng was not the chairman or general secretary, but he was the chairman of CCP's central military commission. Because the CCP is the ruling party, party secretaries at different levels within the government have more seniority than the highest government administrators who are not also party secretaries. For example, the party secretary of a province ranks higher than the governor of that province, and the party secretary of a city has a higher position than the mayor of that city.

Weijian Shan  
August 2022



Part I

---

# Courtship



# Chapter 1

## An Unexpected Question

From aboard the Star Ferry in Victoria Harbor, your view of Hong Kong Island builds, growing more dramatic as the boat makes its short trip across the water. From the Kowloon side, you can make out the bends in the Hong Kong waterfront, a mix of malls and parks, ferry landings and exhibition halls, all on flat land. But as the ferry nears its destination, the eye is drawn skyward, to the forests beyond the waterfront—actual forests of trees and fast-rising jungle, and forests of high-rises that wink and glitter in the shifting light, competing with one another as they reach for the sun. Depending on the time of year, the weather, and where you are in the harbor, those buildings really do seem to scrape against the clouds.

Coming into port with the Star Ferry, you land at Central Pier, where the choice lies at your feet. You will head into one forest or another—the natural or the man-made—on an island that boasts, among other things, one of the densest populations and some of the costliest real estate anywhere on Earth.

On this particular morning in 2002, Hong Kong was sweltering. The spring fog that shrouds Victoria Peak had burned off under a blazing sun. Warm as it was outside, I knew that in those skyscrapers the offices would feel cold. Hong Kong natives have a habit of blasting their air conditioning as if to overcompensate for the heat and humidity outside.

It was Monday, April 1, and I was on my way to my company's offices, which were located by the harborfront at One International Financial Centre in Central, a 688-foot office tower with 39 stories, connected with a sprawling shopping mall below and the Four Seasons Hotel beside it. Once I reached our conference room on the 20th floor, I really was chilled by the air conditioning. Waiting for a meeting to begin, I took in the blue sky dotted with a few white clouds. In the distance, looming behind the vast expanse of numerous low- and high-rises in the city of Kowloon was Lion Rock, whose shape resembles a crouching lion, in the middle of a range of lush green mountains.

It was a lovely day, and I thought for a moment that it might augur well for the city's air quality; for much of the winter, the city had suffered under a haze of smog. But April brings summer weather to Hong Kong, and with it comes a shift in the winds. On this morning you could already sense the change. The haze was gone, and fresh sea air from the south had taken its place.

Perhaps the fine weather would also be a harbinger of things to come in that conference room.

My firm was Newbridge Capital, a private equity investment partnership established in 1994 by Richard C. Blum and David Bonderman. Blum was also the founder and chairman of Richard C. Blum & Associates (later renamed Blum Capital Partners), and Bonderman was the chairman of Texas Pacific Group (later renamed TPG).

My visitor on this April morning was Alex Zhang, a partner at Dorsey & Whitney, an American law firm headquartered in Minneapolis, with a sizable office in Hong Kong. He was a friend of many years, a veteran lawyer in a firm whose partners boasted the likes of former U.S. vice president Walter Mondale. Zhang was handsome, about six feet tall, and to me he looked like Yao Ming, the NBA basketball star, albeit a foot and a half shorter. He was unmarried and 42, but looked younger, and it had occurred to me that he made for a highly eligible bachelor. He graduated from the Institute of International Relations in Beijing and went on to receive law degrees from the China University of Political Science and Law and from the University of Minnesota before he joined Dorsey & Whitney about a dozen years earlier.

Sitting there in our conference room, just the two of us, Zhang came right to the point. "Shan," he asked, "do you think Newbridge Capital

is interested in buying a Chinese bank?” The question was unexpected. I felt a shot of workplace adrenaline. He was smiling. I may have smiled in return.

★ ★ ★

This is a book about a bank deal, about how it happened, and the reverberations it sent across China and the world of high finance. More than that, it is the story of a deal that changed everything, not only for the people and institutions involved, but for many who, to this day, may have never heard of Newbridge Capital, the Shenzhen Development Bank, or the people who brought the deal to fruition. It is also very much a story about change in China, and how American private equity investors, at least some of them, have thrived there.

Countless pages have been written and speeches given about “the New China.” Depending on one’s frame of reference, China was “new” in 1992, again in 2002, in 2012, and so on. At all those moments the analyses and assessments of change have come from all corners. Those of us who have lived and worked in this “new” and growing China perhaps didn’t notice the changes the way that outsiders did—much the same way that a parent may not notice a child’s growth spurt the way a family friend might. Over the past few decades, China has seemed “new” to anyone who has not been in the country the previous year or so. Today, a first-time visitor will often be told, *Oh, you should have been here five years ago—and seen how things were*. Such is the nature and pace of change in the country.

But in any historical, tectonic shift, once in a while there are moments that really do shine a light on something more profound—events that with the benefits of reflection and hindsight contribute to a greater understanding of the turns of history.

Certainly I could not have imagined that Zhang’s April visit to our office might carry such significance. He was one more intermediary, bringing one more idea, and one can only imagine how many individuals were making a financial pitch in Hong Kong on any given day, trying to sell a concept or a company, or just a new way of doing things. How many people must have been doing exactly that along the Hong Kong harborfront on that very same morning? For all I know, others could have

been pitching their ideas in the same skyscraper where Zhang had come to make his case.

And yet, looking back, it is hard to dispute the fact that Zhang's question would change the trajectory of things—for a company, for a major bank, for my colleagues, and for China as well.

"Yes," I told him on that April morning. "We are interested to know more."

★ ★ ★

His question was not as abrupt as it might have sounded. Newbridge Capital was well known in Asia's financial markets. We had received a good deal of press just a few years earlier, after acquiring control of Korea First Bank (KFB) from the government of South Korea. For a time, KFB had been the largest bank in Korea, but during the 1997–1998 Asian Financial Crisis the bank had failed and been nationalized. We had come in soon after, and the ensuing transaction had taken months to negotiate and consummate. Our negotiations with the Korean government had read in the press like some never-ending soap opera, dragging on until the deal was done in January 2000. But the story had ended well for all concerned. (Those interested in learning more should read my book *Money Games: The Inside Story of How American Dealmakers Saved Korea's Most Iconic Bank*.) The deal had received enough good publicity that Newbridge was perceived in financial circles as a true turnaround specialist and a credible buyer of banks, especially the troubled ones. We seemed to know what to do with them.

So for Zhang to come to Newbridge with that question made sense. As for the question itself, of *buying a Chinese bank*—well, it had never been done. Foreign investors had taken small stakes in Chinese banks, but no institution, domestic or foreign, had ever bought outright control. That said, in those years, nearly every day brought some development in the Chinese economy that had never happened before.

I listened to Zhang, expressed our general interest, and then I chose my words carefully. There would be much to consider, I knew, but one point was paramount in my mind. "It will depend," I began, "on whether or not we'll be able to control the bank. We wouldn't be interested in being a passive investor."

Newbridge had managed to turn around KFB because we acquired full control. That had allowed us to appoint our own management team, install our own risk-management system, and create a credit culture—a set of beliefs and practices based on the credit and financial conditions of the borrower—that ensured asset quality. Without such control, we would never have been able to turn it around, nor win credibility in the media and financial circles. Chinese banks were a whole other matter. They were notorious for high levels of bad loans. No sophisticated investor would want to take a ride as a passive shareholder with banks of poor-quality assets.

“The bank in question is Shenzhen Development Bank,” Zhang said. “Do you know it?”

I knew this much about Shenzhen Development Bank (SDB): It was a nationwide bank based in Shenzhen, a booming city just across the border from Hong Kong. The city had become a kind of poster child for the explosive economic growth in southeastern China. It was also one of 13 joint-stock commercial banks in China. The largest Chinese banks were 100% owned and controlled by the government. Joint-stock banks had more diversified shareholding that included private ownership. We knew the model, but we did not know much about SDB itself.

Zhang filled in some blanks. SDB was controlled by the city government of Shenzhen, which was considering selling its controlling stake to a foreign investor. This much was not surprising. Since unleashing its economic reforms more than 20 years earlier, China had been moving toward a market economy, including the privatization, overhaul, and cleansing of state-owned enterprises—especially those in competitive industries. For this purpose, foreign direct investment had been strongly encouraged, not only for the capital but also for the expertise that came with it.

The city of Shenzhen had been China’s first Special Economic Zone, chosen by Deng Xiaoping (1904–1997), China’s paramount leader and architect of the market reforms. It was a grand experiment that had begun in 1978 to loosen the strictures of a centrally planned economy. In two decades, Shenzhen had morphed from a fishing village into a high-tech hub and a megalopolis of more than 10 million people. As such, it had adopted policies that were more market-friendly than those elsewhere in the country. Shenzhen was at the frontier of market-oriented reforms.

But for all the dizzying changes that had come to China, there was no precedent for foreign control of a Chinese national bank. Chinese regulations were generally designed to keep any single private investor from controlling a bank, while severely limiting foreign ownership. This was hardly a China-only phenomenon; banking regulations all over the world restrict foreign takeover of banks. And we knew that if there was to be a breakthrough, it could only happen in Shenzhen.

All of which we understood. And it all made sense. But to put our initial concerns mildly, buying a Chinese bank was not for the fainthearted. The market consensus was that China's banking system was technically insolvent and badly in need of wholesale reforms. The main issue was nonperforming loans (NPLs). These were loans with borrowers who had defaulted on their debt, or simply stopped making payments. Almost all Chinese banks were laden with NPLs, unable to stand on their own without government support.

How weak exactly was the banking sector? The numbers—to the extent they could be known—boggled the mind. The People's Bank of China (PBOC), China's central bank, estimated that in 2002, as much as 30% of the loans held by the country's four biggest banks—the Industrial and Commercial Bank of China, China Construction Bank, Bank of China, and Agricultural Bank of China—were nonperforming. According to Standard & Poor's, that 30% ratio was the figure *after* the banks had “significantly improved their credit and risk management controls in recent years.” S&P painted a grim picture in one of its reports:

*Standard & Poor's estimates that the country's banking sector, acting alone, will need at least 10 years and possibly as many as 20 to reduce its average nonperforming loan ratio to a more manageable 5%. The cost of the necessary write-offs could be equivalent to US\$518 billion or almost half of China's estimated gross domestic product of US\$1.1 trillion for 2001.*

Put differently, China's banking problem in 2002, when Alex Zhang came to my office, was almost certainly worse than South Korea's had been in 1998, in the trough of the Asian Financial Crisis. The difference then was that the Korean government was running out of money and had to be rescued by the IMF and the World Bank. The Chinese government,

by contrast, was financially quite strong and thus had the means to bail out the banks if necessary. This was why Chinese depositors had never had real concerns about the safety of their money. Although China had no deposit insurance system such as those common in the United States, South Korea, and most developed nations, the government was always there, standing behind the banks, should a bailout be required.

We sat there, Zhang and I, talking and drinking tea. I couldn't deny it: The opportunity to buy control of a bank in China, home to the fastest economic growth in the world, was certainly appealing. Tantalizing, even. If we at Newbridge could manage somehow to take control of a Chinese bank and turn it around—as we had done with KFB—we would stand to seize a rare and, maybe, profitable opportunity. My partners and I at Newbridge had always believed that investing in banks, if properly thought through and executed, was tantamount to placing a bet on the economic future of a country. And we weren't the only ones who believed, in April 2002, that a bet on growth in China was as smart a wager as one could make anywhere on the horizon of global finance. So we thought we had to take the suggestion seriously, even if we were highly skeptical that any Chinese bank could be saved without the kind of government assistance we had received in Korea.

*If. If. If!* The *ifs* danced in my mind.



## Chapter 2

# A License to Print Money

**A**u Ngai was the first colleague I picked to look at the Shenzhen Development Bank opportunity. Still in his mid-30s and carrying the title of vice president, Au had already accumulated much experience. He had joined Newbridge three years earlier than I did, after having worked at the consulting company A.T. Kearney and Bankers Trust. He had also earned an MBA from Canada's McGill University. He spoke Mandarin as well as Cantonese, the local dialect of Hong Kong and of Guangdong province, where Shenzhen is located.

A week later, Au and I went to Dorsey & Whitney's office on the 30th floor of One Pacific Place on Queensway, in the Central district of Hong Kong. Another skyscraper. Another chilly room on another warm and muggy morning. There, Alex Zhang introduced us to Zhou Lin, president of Shenzhen Development Bank.

Zhou was 51 years old. He had graduated from Nanjing University of Aeronautics and Astronautics and then obtained a master's degree from Tsinghua University, China's top engineering school. For about a decade, he had worked as a researcher in a think tank affiliated with China's State Council, the highest body of the government headed by the prime minister. Then he was appointed to be the deputy head of the Shenzhen branch

of the National Development and Reform Commission, a powerful body under the State Council for national economic planning, reform policies, and approvals of major development projects. Soon, he became a banker, as the Shenzhen branch manager of Guangdong Development Bank for a few years and then as the president of SDB, a position he had occupied for five years. Medium height with a somewhat stocky build, Zhou struck me from the start as warm and friendly, full of smiles. Over time we would also come to see him as being very shrewd.

We exchanged pleasantries, and then he explained that the Shenzhen city government had decided, as part of its reform policies, to bring in a qualified foreign investor to take control of Shenzhen Development Bank. And then he picked up where Zhang had left off.

“You understand banking and you understand China,” Zhou said. “Your firm will be a most qualified foreign investor for SDB.”

I nodded, thanked him, and Zhou then proceeded to give us a brief overview of his bank. He confirmed that the government wanted to sell about 20% of SDB’s shares, which were owned by several government-controlled entities. He was candid—unusually so for a Chinese banker in those days—about his bank’s bad loan problems and inadequacy of capital. After a while he threw out a number: 4 billion yuan, or about \$500 million, the amount of fresh funds he believed would be needed to properly recapitalize the bank. It didn’t surprise me that this bank was starved of capital. Which ones in China weren’t at the time? But the magnitude still surprised me, considering the modest size of this bank.

A big number. That was my initial take. Five hundred million dollars! Newbridge was not expected to invest this amount of capital, although, at the right price, we would have been happy to consider it. No. The opportunity presented to us was to buy secondary shares from existing shareholders. Our money would not go into the bank. But Zhou pressed on, either undaunted by the amount or wishing to appear so. He had a plan.

“We’ve engaged Haitong Securities to do a rights issue for us,” he said. “And that should raise enough capital for the bank in the stock market.”

Haitong, based in Shanghai, was one of the largest securities firms in the country. A “rights issue” is a special offer to existing shareholders to buy new shares issued by the company, typically at a discount to its current market price. Only existing shareholders have the right to buy, hence the term “rights issue.” The discount was supposed to make such