
Jude Shao Case History

A request for help for an U.S. Citizen
unjustly imprisoned in China

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Executive Summary

Jude Shao, an American citizen, is unjustly held in Shanghai Qing Pu prison after wrongly being convicted for Tax Evasion and falsely issuing VAT invoices. He is serving a 16-year sentence.

Background

Jude Shao is a naturalized American citizen who started China Business Ventures (CBV) in 1993. CBV focused on exporting American medical equipment (CAT scans, MRIs, X-rays) to China, and by 1997, had offices in San Francisco and Shanghai with 15 employees.

In July 1997 local Tax Auditors arrived at CBV's Shanghai office and took CBV's accounting records, immediately focusing on 53 invoices for Value Added Tax (VAT) that CBV had received from two Chinese government owned import companies. CBV, an American owned company, had worked with the Chinese import companies to bring the medical equipment into China and to pay the VAT.

Jude was twice solicited for a bribe to stop the investigation, but he refused. In April of 1998, Jude was arrested and told by the police that they were asked to "teach him a lesson." He was held incommunicado for the next 26 months. In June 1999, a trial was held in Shanghai No. 1 Intermediate Court, but Jude was unable to prepare a meaningful defense because he was never able to meet with his attorney, who was only hired 10 days prior to the start of the trial. Neither Jude nor his attorney was able to review the evidence against him. In March 2000, the Court issued a ruling convicting Jude of two tax crimes and sentencing him to 16 years in jail. Appeals to the Shanghai High Court have been ineffective because they refuse to hear Jude's exculpatory evidence and the Court has been blocking his appeal to the Supreme Court of China.

Justification for Release

Jude's conviction was based on the following four findings, which could be easily rebutted in an impartial judicial process:

1. CBV underpaid VAT of about \$119,000. However, Jude's accounting records recovered from his San Francisco office show he paid the required amount.
2. CBV evaded sales taxes owed of \$253,000. Obvious and simple errors in the Judicial Audit Report show this calculation is incorrect and CBV is owed a refund!
3. Jude "confessed" to the crimes. Jude never made the "confession" and Shanghai police interrogation records have no record of the "confession." Also, Jude's accounting records contradict this "confession."

4. CBV had never imported medical equipment to China. CBV's accounting and shipping records refute this finding. Additionally, the equipment imported by CBV is still being used in Chinese hospitals.

Request For Help

The Chinese judicial system is politicized and consequently, Jude has no hope of receiving due process. Additionally the sentence given Jude is far in excess of what any criminal code in any other industrial country in the world would provide. The U.S. government needs to support a citizen unfairly imprisoned and lobby for Jude to be released by writing the Chinese Ambassador to the United States (contact information and sample letter are in Appendix A.)

Jude Shao Case Chronology

Background

Jude was born in Shanghai, China in 1962, the last of four children. His mother was a minor communist party official in charge of the Shanghai Zoo, but Jude's father was more entrepreneurial and was involved in Shanghai's international trade industry. During China's Cultural Revolution, Jude has memories of battles taking place in the streets of Shanghai and his father was targeted for re-education and was sent to the countryside to work on a farm.

Jude continued his education in China and graduated from Shanghai Jiao Tong University in 1984 with a Bachelor of Science in Computer Science. After graduation, he went on to the beginnings of a successful career working at the Bank of China and developing a real-time commercial banking transactions clearing system. However, Jude had a desire for more. Based on the insanity he witnessed in his childhood and the political repression that continued to that day, Jude dreamed of coming to America.

In 1986 Jude was able to pursue his dream and came to the United States (Boston, MA) to take English classes and work at Digicom Computers, helping to develop and install computer networks. Jude worked there for 5 years, and then in the fall of 1991, he matriculated at the Stanford Graduate School of Business, one of the most difficult and prestigious MBA programs in the world. Jude excelled at Stanford, enjoying the company of people from around the world, and made many lasting friendships. In his second year at Stanford, Jude started to contemplate what he would do next. He decided he wanted to start a trading company that would take advantage of his knowledge of both China and the U.S., and benefit both countries.

In the spring of 1993, Jude began to form China Business Ventures (CBV), a trading company focused on international trade between China and the U.S. He solicited investment from his classmates and a total of 16 different people invested to capitalize the company. In June CBV Trading (Shanghai) Co., Ltd. was registered in Shanghai as an American owned company and in November the articles of incorporation were signed.

From 1994 to 1996 CBV focused on exporting American medical equipment (X-ray machines, CAT Scans, and MRIs) to hospitals throughout China. Sales increased each year and by 1997 CBV had 15 employees in Shanghai to help sell, install and service the equipment.

During this time Jude traveled frequently between the U.S. and China, keeping an apartment in SF and sleeping in his office in Shanghai. Jude also accomplished his dream of becoming a U.S. citizen in July of 1997.

The Case

In July 1997 three tax auditors from the local Shanghai tax bureau came to the CBV office and started a surprise “special tax audit”. The auditors immediately picked out 53 Value Added Tax (VAT) invoices that CBV had received for paying the VAT to two different Chinese state-owned import agent companies (companies that CBV had to work through to export to China). According to the tax auditors, the two import agent companies had not paid the proper VAT on the CBV invoices. Instead of pursuing the two Chinese import agent companies that had committed the alleged tax crimes, the tax auditors took CBV’s accounting books back to their office for “further study”.

A few days later when Jude called to ask for his company’s accounting books, the lead tax auditor asked to meet with him. At the meeting the lead auditor said that if CBV agreed to post a RMB 500,000 “special tax audit bond” (about US \$60,000) he would return CBV’s accounting books and the “special tax audit” would stop.

Jude was angered by what he perceived to be blackmail and a blatant request for a bribe. He went back to his offices to verify his facts. He discussed the issues with CBV’s accountants and with Mr. Sinuo Chen, the manager of the two Chinese state-owned import agent companies to which CBV had paid the VAT. Both assured him that the invoices had been issued by the Chinese state-owned company for the 53 batches of imported medical equipment and CBV had paid all of the import duties and VAT owed. Jude called the lead tax auditor and told him that CBV was not going to pay the dubious “special tax audit bond” and accused him of trying to gouge the company.

Two months later the lead tax auditor showed up at CBV again and froze the company’s bank accounts, crippling CBV’s ability to do business. Jude argued with the lead auditor that CBV had paid all the taxes and if any money was owed or missing they should talk with the Chinese state-owned companies, but the auditor did not care.

Friends told Jude that the lead auditor had just returned from a trip to Macao, Asia’s Las Vegas, and a company being audited had paid for the trip. They suggested to Jude that he should pay for a free trip to the U.S. for the tax auditor and everything would be ok. Given the escalating nature of the situation and the previous solicitation of a bribe, this would have been the expedient path. However, Jude had become a U.S. citizen and he took his citizenship and the laws of the U.S. seriously. More importantly, Jude believed strongly in the American ideal of fairness and the idea of paying a bribe sickened him. Knowing he was innocent of any misdoings, Jude refused to pay any bribe. A few months later, CBV was forced to shut down because they did not have access to their accounting books or bank accounts.

In April 1998 two investigators from the Shanghai police detained Jude. These investigators told Jude that the lead tax auditor had asked the police to “teach him a lesson” because Jude had been disrespectful. These investigators had previously been focused on street-crimes before being assigned to the case and therefore had very limited knowledge of tax law and accounting, consequently they believed whatever the lead auditor told them. These investigators again asked Jude to pay the tax bond and when he refused they threw him in jail, where he stayed completely incommunicado, while they tried to build a case against CBV

Seven months later, the police turned the case over to the prosecutor, but a month later the prosecutor returned the case to the police because of “unclear facts and insufficient evidence.” Two months later the police resubmitted the case, but it was again returned for the same reason. Finally, in May 1999, over a year after Jude had been arrested, the police commissioned a so-called “Judicial Accounting Audit Report” whose results were based on incomplete accounting records and fabricated confessions. A few days later, using the “Judicial Accounting Audit Report” as the main evidence, the prosecutor charged CBV with the crimes of “falsely issuing VAT invoices” and “tax evasion”. A month later the case went to trial.

Two Trials: Unfair and Corrupt

The first trial of the case was held before the Shanghai No. 1 People’s Intermediate Court on June 16-18th, 1999. Jude received the indictment papers only three weeks prior to the start of the trial. With the help of the U.S. Consulate, he was able to hire a defense attorney, Mr. Charles Duan, only 10 days prior to the start of the trial. However, there was no way for Jude to prepare any defense because he had been held incommunicado since his arrest; he was not even allowed to meet with Mr. Duan or review any of the evidence, including the “Judicial Accounting Audit Report” before the trial.

Not surprisingly in March 2000, 8 months after the 3-day trial, the Shanghai No. 1 People’s Intermediate Court found CBV guilty of both charges (falsely issuing VAT invoices and tax evasion) and sentenced Jude to 16 years in prison. Jude and his attorney immediately appealed this decision and the second trial was held on May 11, 2000, by the Shanghai People’s High court. However, Jude’s attorney, Charles Duan, was prohibited from presenting defense evidence. The court refused to hear all of the exculpatory evidence, including the CBV accounting and shipping records. Not surprisingly, on June 6, 2000, the high court rejected Jude’s appeal and sent him to Shanghai Qing Pu prison. Jude still resides there today, over five years after being arrested.

The courts in Shanghai have blocked Jude’s appeals to the People’s Supreme Court of China repeatedly. Therefore, he has no judicial recourse left in China.

Justification For Release

Jude's conviction was based on the following four findings, which in an impartial judicial process would be easily rebutted:

1. The court found that CBV had paid the two import agent companies only RMB 988,000 (about US \$119,000) in import fees, which would be much less than required by law. This finding was based upon the "Judicial Accounting Audit Report". Yet, a year later when Jude was able to get a copy of the report and to recover the CBV accounting records from the San Francisco office, it became obvious that the report had omitted three import-fee payment records for CBV that totaled RMB 715,000 (about US \$86,100). Had all the payment records been accounted for, the court's calculation would have shown that CBV had paid RMB 1,703,000 in import fees, an amount that covered the full 6% duty, 17% VAT and other importation charges. CBV had paid all the import taxes in full.
2. The court found that CBV had evaded \$253,000 of sales taxes owed and the basis of this finding was the "Judicial Accounting Audit Report" of CBV's accounting records. This finding is so incorrect, it is wrong twice: A) When calculating the sales tax owed by CBV, the authors of the "Judicial Accounting Audit Report" included Sales Orders that were not yet recognized as revenue. CBV offered its clients Terms of 30-70% upfront and 1 to 2 years to pay the rest. Chinese and International accounting rules state that taxes are not paid on unrecognized revenue and companies should not recognize revenue until they are paid. Given CBV's real revenue, it had paid the full 17% VAT. B) Because CBV was a Foreign owned company it received a 12% rebate of VAT as an incentive from the Chinese government. When this is taken into account CBV's effective sales tax rate would be 5% and CBV is actually OWED A REFUND by the Chinese government as opposed to having evaded any taxes.
3. The court found that Jude had "confessed" the crimes to the police. Again, the courts based this finding on the "Judicial Accounting Audit Report". On pages 3 and 7 of the report, two paragraphs of Jude's alleged confession were included. They "showed" that Jude had told the police the following: "I (Jude Shao) paid 8% fees to Mr. Sinuo Chen for the invoices" and " I paid about 6.5% to Mr. Sinuo Chen for the invoices." If the contents of those statements were true, then Jude and CBV certainly would be guilty of the crimes charged since the VAT rate is 17%. However, Jude *never* made those statements, which were fabricated by the police to bolster their case. At the trial the police interrogation records for the case were examined, but there was no record of Jude making these statements. After the trial, several defense attorneys, acting upon

the requests of Jude and the U.S. Consulate, continued to ask the court to produce the original police interrogation records, but the court repeatedly refused without any explanation. Additionally, as noted above, CBV's accounting records contradict the statements allegedly made by Jude.

4. The court found that CBV had not imported the relevant medical equipment from the U.S. and all the transactions between CBV and the import agent companies had been forged. This finding was based on the testimony of Mr. Sinuo Chen, the General Manager of the Chinese state-owned import companies, who was being tried for providing forged VAT receipts. There was no factual basis for this finding and it is contradicted by the following evidence:
 - a. CBV shipping records documenting the shipping of medical equipment from San Francisco to Shanghai
 - b. CBV inventory control sheets proving that the company had taken receipt of the imported equipment from the import agent companies
 - c. CBV payment records proving they had paid the import fees to the import agent companies
 - d. Most simply and concretely, the medical equipment imported by CBV is still being used in hospitals in China

Jude Shao is guilty of two things: 1) unknowingly working with corrupt Chinese state-owned companies and 2) not "playing the game" and refusing to bribe an official of the Chinese government. For these "crimes" a U.S. citizen will spend 16 years of his life in a Chinese prison.

The real culprits in the case were obviously the Chinese state-owned companies that had stolen the taxes from the government after being paid the appropriate amount by CBV. The tax auditors, the police investigators, and the courts did not dare touch those companies; after all, the Shanghai Police Bureau owns one of the companies. Instead, the court arbitrarily found CBV guilty of having had "instructed" the import agent companies to steal the taxes. CBV had paid all the taxes to the import agent companies, so why would Jude instruct them to steal the taxes for themselves? Essentially, CBV and Jude were convicted for being the victim of a fraud.

Additionally there were three times when Jude or his family was explicitly asked for a bribe to make the case go away: 1) the meeting with the lead tax auditor after CBV's accounting books had been taken; 2) during the interrogation by the Shanghai Police and 3) after Jude's arrest his sister and mother were asked twice by the Shanghai police for a RMB 300,000 cash payment to "make the case easier to handle." If Jude and CBV were knowingly involved in illegal activity, it would have been smart to make the payment. However, since Jude knew he was innocent, he refused and thereby insulted these officials. Consequently, Jude was "taught a lesson" about the political nature of the courts,

trials and lack of due process in China. Given this, Jude has no hope of receiving due process from the Chinese judicial system.

The U.S. government needs to support a citizen unfairly imprisoned and lobby for Jude to be released.

Table 1
CBV Tax Reconciliation

Conviction 1: Falsely Issuing 53 VAT Invoices to secure \$140,000 in Tax Rebates

Judicial Audit Report (JAR)

	<u>(RMB)</u>
Amount CBV Trading had paid to Shanghai Venel Company	1,260,646 (see Exhibit V of JAR)
Amount CBV Trading had received from Shanghai Venel Company	(100,000) (See Exhibit VI of JAR)
Amount CBV Trading had received from Mr. Sinuo Chen	(311,192) (See Exhibit VII of JAR)
Amount CBV had paid to Shanghai Shen-Yu Import / Export Corp.	135,000 (See Exhibit XIV of JAR)
Total CBV Tax Payments (according to JAR)	<u>984,454</u> (1)
Total Taxes Owed by CBV (according to JAR)	1,554,951 (388,414+1,166,537) (See Exhibit XVII of JAR)
Over / (Under) Payment By CBV (according to JAR)	<u>(570,497)</u>

Payments Not Included In Judicial Audit Report (2)

CBV Trading had paid Shanghai Venel Company	400,564 (New Evidence I - Appeal Petition of 1/28/02)
CBV Trading had paid Shanghai Shen-Yu Import/Export Corp.	135,336 (New Evidence II - Appeal Petition of 1/28/02)
CBV Trading had sent a check to Shanghai Shen-Yu Import / Export	180,000 (New Evidence III - Appeal Petition of 1/28/02)
Total Payments Not Included in JAR	<u>715,900</u>
Total Payments Included in JAR	<u>984,454</u>
Total Taxes Paid By CBV	<u>1,700,354</u>
Total Taxes Owed by CBV (according to JAR)	<u>1,554,951</u>
Over / (Under) Payment By CBV	<u><u>145,403</u></u>

(1) This number is 3,546 less than the 988,000 listed in the First Trial Judgement. Not sure where the discrepancy lies.

(2) JAR mentions that they could not find or verify all of CBV's payment slips (page 13 line 20)

Table 2
CBV Tax Reconciliation

Conviction 2: "Tax Evasion" For Under-Reporting \$253,000 in Sales Tax

Judicial Audit Report (JAR)

	<u>(RMB)</u>	
Reported CBV Trading Sales (1/95 - 7/97)	16,577,944	(See Exhibit XX of JAR)
Reported CBV Trading Tax Paid	2,818,250	
Sales Tax Rate	17%	
"Unreported" CBV Trading Sales (1/95 - 7/97)	12,944,722	(See Exhibits XVIII & XIX of JAR)
Taxes Owed	2,200,602	@ 17% VAT
Taxes Paid On "Unreported" Sales	<u>99,021</u>	
Taxes Evaded According To JAR	<u>(2,101,581)</u>	

CBV Trading Accounting Records

Total Sales Orders Recorded	29,522,666	
Total Revenue Recognized (1)	16,577,944	56.2%
Sales Orders, But Not Recognized Revenue	12,944,722	
Taxes Owed Using 17% Tax Rate (2), (3)		
Taxes on Recognized Revenue	2,818,250	17% of 16,577,944
Sales Orders, But Not Recognized Revenue	<u>0</u>	
Total Taxes Owed	2,818,250	
Taxes Paid	2,818,250	
Over / (Under Payment) By CBV	<u><u>0</u></u>	
Taxes Owed Using 5% Tax Rate (4)	828,897	5% of 16,577,944
Taxes Paid	2,818,250	
Over / (Under Payment) By CBV	<u><u>1,989,353</u></u>	

(1) CBV Trading offered customers Terms with anywhere from 30-70% upfront and 1-2 years to pay

(2) According to both Chinese and International accounting rules taxes are not paid on unrecognized revenue

(3) CBV was never able to pay more tax because the company was shut down in July 1997

(4) According to Chinese tax laws, as a foreign invested company registered in China before December 31, 1993

CBV Trading could enjoy a preferential tax policy which gave the company a 12% Value-Add Tax rebate.

So CBV's effective tax rate would only be 5% and CBV is actually owed a tax refund!!!!

APPENDIX A
SAMPLE LETTER TO CHINESE AMBASSADOR FOR CONGRESSPERSON'S
LETTERHEAD & OTHER CONTACT INFORMATION

June 3, 2003

Ambassador Yang Jiechi
Ambassador Extraordinary and Plenipotentiary of the People's Republic of China to the United States
Embassy of the People's Republic of China in the United States of America
2300 Connecticut Ave., NW
Washington, D.C. 20008

Dear Ambassador Yang:

I am writing to request your help on a matter important to the U.S. Government. An U.S. Citizen, Jude Shao, has been imprisoned in Shanghai's Qing Pu prison since April of 1998. Mr. Shao is serving a 16-year sentence for Tax Evasion and falsely issuing VAT invoices. However, evidence developed by Mr. Shao subsequent to his conviction indicates that he is innocent and should be released.

On behalf of the U.S. Government, I am asking you to review this case and to consider releasing Mr. Shao because:

1. The evidence indicates Mr. Shao is innocent
2. The 16 year sentence is far in excess of what any criminal code would provide for in any other industrial country in the world
3. Concern for Mr. Shao's health

I will call to follow-up with your office. In the meantime, please feel free to contact me if you have any questions or want copies of any documents that might be useful in the evaluation of this request. Thank you in advance for your consideration.

Sincerely,

Congressperson

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Other Contact Information for Chinese Ambassador:
Phone 202 328 2500
Fax: 202 588 0032
Email: chinaembassy_us@fmprc.gov.cn

APPENDIX B SUMMARY CASE CHRONOLOGY

Jude Shao Case Facts & Chronology

YEAR	EVENT
1993	<ul style="list-style-type: none"> • In June, Jude Shao graduates from the Stanford Graduate School of Business and registers China Business Ventures (CBV) in Shanghai as an American owned company. • Article of Incorporation signed in November.
1994-1996	<ul style="list-style-type: none"> • Company focuses on exporting American medical equipment (CTs and MRIs) to hospitals throughout China. • 15 employees in Shanghai.
1997	<ul style="list-style-type: none"> • July: three local tax auditors arrive at CBV to conduct a "special tax audit." • Take all CBV accounting ledgers, check books and invoice books for "further study." • Next day, Lead Tax Auditor offers to stop "special audit" immediately if CBV posts "tax audit bond" of \$60,000. Jude Shao refuses.
1998	<ul style="list-style-type: none"> • April: The Shanghai Police arrest Jude Shao on charges of tax evasion. • Held incommunicado for the next 26 months.
1999	<ul style="list-style-type: none"> • June 16-18: Trial held in Shanghai No. 1 Intermediate Court. • Jude is not allowed to review the evidence or meet with his attorney before the beginning of the Trial.
2000	<ul style="list-style-type: none"> • March: Shanghai No. 1 Intermediate Court issues judgment saying CBV had committed two tax crimes: 1) Falsely issuing VAT Invoices and 2) Tax Evasion by under-reporting sales. • Verdict is based on "Judicial Accounting Audit Report" that was commissioned by Chinese police and which Jude Shao never had a chance to review. • Jude Shao is sentenced to 16 years in prison and taken to Shanghai Qing Pu prison where he is today.
2001	<ul style="list-style-type: none"> • CBV accounting records are recovered from the San Francisco office. • With help of a Shanghai attorney Jude gets a copy of the "Judicial Accounting Audit Report" in March. • CBV accounting records show that "Judicial Accounting Audit Report" ignores three tax payments totaling the amount CBV had been convicted of under paying for VAT. Additionally the report makes serious errors when calculating the Sales Tax owed by CBV. • Jude appeals to the Shanghai High Court to overturn the original verdict. • Shanghai High Court refuses to hear the exculpatory evidence.
2002	<ul style="list-style-type: none"> • The Shanghai High Court blocks Jude's appeal to the Supreme Court of China.
2003	<ul style="list-style-type: none"> • Six Chinese Legal scholars in Beijing review Jude's case and conclude there is insufficient evidence to convict him.

	<ul style="list-style-type: none">• Jude is still in Jail after more than 5 years.
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APPENDIX C
WALL STREET JOURNAL ARTICLE

April 9, 2002

LAW

Chinese Tax Case Raises Questions About Due Process for U.S. Citizen

By **KARBY LEGGETT**
Staff Reporter of THE WALL STREET JOURNAL

SHANGHAI, China -- Jude Shao returned to China nearly a decade ago with visions of wealth and success. Today, the U.S. businessman languishes in a prison outside Shanghai -- a stunning reversal of fortune that highlights the sometimes dangerous downside of doing business in China.

Two years ago, Mr. Shao, a 40-year-old naturalized U.S. citizen, was convicted in a Shanghai court of defrauding the government of \$393,000 in taxes and sentenced to 16 years in prison. Yet today, Mr. Shao still insists he is innocent. Court and police officials, he and his family say, denied him the opportunity to gather evidence that would have exonerated him. Instead, according to court records, his conviction was based on two pieces of evidence: testimony from a Chinese individual implicated in a wider tax scandal, and a confession that prosecutors say Mr. Shao made in detention but that Mr. Shao denies ever happened.

After poring over reams of court, banking and accounting records for the past year, Mr. Shao says he can now prove his innocence. But he's bumping into another problem: China's Supreme Court appears reluctant to grant a retrial, he and his family members say, because it could reveal embarrassing mistakes made by the Shanghai court.

BEHIND BARS

Some U.S. citizens and permanent U.S. residents serving time in Chinese jails:

NAME	CHARGE	SENTENCE (STATUS)
Li Xiaoyuan U.S. citizen	Bank fraud	Life (in prison)
Fong Fuming U.S. citizen	Illegally obtained state secrets; bribery	Five years (in prison)
Liu Yaping Perm. U.S. resident	Unspecified economic crimes	Pending (detained)
Li Shaomin U.S. citizen	Espionage	Ten years (released)
Tang Chunyan* Perm. U.S. resident	Espionage	Three years (in prison)

*Ms. Tang is also known as Hanna Li; she was charged with illegally gathering intelligence for Falun Gong, a spiritual sect officially outlawed by China.

NOTE: For privacy reasons, the U.S. State Department declined to make public a list of all U.S. citizens in jail in China.

Sources: U.S. State Department; WSJ research

"At the trials, I couldn't defend our company or myself at all because I was held in total incommunicado all the time," Mr. Shao wrote in a recent letter to the U.S. Consulate in Shanghai, which forwarded it to President Bush. "There was no fair trial, no due process to speak of."

Officials from the city's tax bureau and police department both declined to comment on the case. Dai Youwen, the Shanghai High Court judge who rejected Mr. Shao's attempt to appeal, also declined to answer questions about the case.

As China becomes an ever larger magnet for foreign investment, Mr. Shao's plight provides a timely reminder of the dangers of operating in a country where judicial independence is spotty and where vague or frequently amended tax and legal codes can catch people unaware. Thirty-nine U.S. citizens are currently in Chinese prisons, convicted on charges ranging from illegally obtaining state secrets to bribery and tax evasion. Like Mr. Shao, most of those are of Chinese descent.

But almost any individual arrested in China faces a range of problems. Access to legal counsel, though guaranteed by Chinese law, is frequently restricted and sometimes denied, say Chinese and Western lawyers. Chinese police also often use methods to gather

evidence that wouldn't be permitted in the U.S. And because many alleged crimes involve the Chinese government at one level or another, strong political undercurrents often run through court hearings, skewing evidence and influencing judges, say Chinese trial lawyers. Though authorities at the Qingpu Prison, which houses all foreign prisoners in Shanghai, declined a request for a face-to-face interview with Mr. Shao, his tale can be pieced together from notes he has written from prison, interviews with family members in Shanghai and a review of court records.

Born and raised in Shanghai, Mr. Shao left for the U.S. in 1986 after finishing college in Shanghai. He attended Stanford University's Graduate School of Business, and after graduating says he and a group of Stanford alumni set up a trading company, called CBV Trading Co., around 1993. Mr. Shao was responsible for the company's Shanghai subsidiary, which specialized in importing medical equipment.

The first sign of trouble came in July 1997, when tax auditors showed up at Mr. Shao's downtown office for a "special audit" and confiscated his accounting books. When Mr. Shao appealed at the local tax bureau, he says he was told the audit would continue unless his company posted a \$60,000 tax bond. Mr. Shao says he refused, believing a mistake had been made.

Mr. Shao continued to travel between the U.S. and China. But when he returned to China one day in April 1998, police arrested him shortly after landing at Shanghai's airport. He was held at a local hotel for more than a month and not allowed to call his family or contact a lawyer,

according to Mr. Shao, his family members and a lawyer Mr. Shao later hired. Chinese authorities did contact the U.S. Consulate in Shanghai after his arrest.

A month into his confinement, Mr. Shao was formally arrested on tax-fraud charges and moved to a Shanghai jail, where police pressed their investigation for nearly a year. During that time, Mr. Shao communicated with his family through single-sentence notes written on pieces of paper, his sister and parents say. He says he wasn't allowed to meet with a lawyer.

In June 1999, Mr. Shao's fate was sealed at a courthouse in Shanghai. The presiding judge, Zhou Zhiguo, found him guilty of underreporting \$253,000 in sales tax on medical equipment he sold in China and of using forged tax receipts to secure \$140,000 in tax rebates from the local government. Nine months later, the verdict came down: Mr. Shao was given 16 years in prison -- among the lengthiest terms ever handed to a U.S. citizen in China.

Chinese legal experts say Shanghai police and court authorities violated at least one of their own regulations in Mr. Shao's case. Mr. Shao wasn't allowed to see a lawyer until a week before his trial, even though he should have been granted legal counsel months earlier according to Chinese law. The court's conviction was also based on evidence his family and lawyer have questioned. First, a self-confession that Mr. Shao denies making but that prosecutors say he made while in confinement. Second, the testimony of Chen Sinuo, a local businessman who was tried side-by-side with Mr. Shao, for providing Mr. Shao with forged value-added tax receipts. At the trial, Mr. Chen claimed the U.S. businessman had asked for the forged receipts. Mr. Shao denies that claim, but Mr. Chen was found guilty of issuing forged VAT receipts to Mr. Shao and sentenced to 12 years in jail.

Also troubling, Mr. Shao's sister and mother say, police and government officials requested on two separate occasions a cash payment of some \$300,000, which they said would "make the case easier to handle." Government and police declined to comment on the allegations.

After being moved to the Qingpu Prison more than a year ago, Mr. Shao recovered an old laptop that his family says contained important evidence. Among the records he's collected: transaction slips for the sales tax payments the court says he never made. Those payments, he says, are equal to the sales tax he was charged with evading.

"The court," Mr. Shao says in a letter written recently from prison, "has made simple accounting errors."

Write to Karby Leggett at karby.leggett@awsj.com¹.

URL for this article:

<http://online.wsj.com/article/0,,SB101830593354754000.djm,00.html>

Hyperlinks in this Article:

(1) <mailto:karby.leggett@awsj.com>

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APPEDIX D
LIST OF DETAILED DOCUMENTS AVAILABLE

1. Chronology of contacts and resulting action
2. Jude's letter dated 9/8/02 to Ambassador Clark Randt
3. WSJ article dated 4/9/02
4. Greg McDonald's email outlining legal/political action dated 11/7/01
5. Proposal from Washington D.C. lobbyist dated 10/8/02
6. Jude Shao letter to GSB '93 class, "An innocent American citizen calling for justice in China" dated July 2002
7. Chuck Hoover's "Jude Shao Case Facts & Chronology" dated 11/26/02
8. Chuck Hoover's sample letter requesting political assistance
9. Email Correspondence from Jude: 12/1/00 - 10/11/02
10. List of CBV Investors & Officers (found in old file)
11. Written Correspondence from Jude to Chuck Hoover
12. Correspondence To and From Government Officials
 - Jude to Ambassador Randt
 - Chuck to Senator Boxer
 - Senator Boxer to Hoover
 - Senator Boxer to State Department
 - State Department to Hoover
 - Hoover to Feinstein's office
 - Representative Baldwin to Ambassador Randt
13. Jude's denial of "confessions" used as evidence in Trial
14. Judicial Accounting Audit (document used to convict Jude)
 - Chinese version
 - English Version
 - Jude's rebuttal to Audit
15. Court Documents (English & Chinese)
16. Relevant Laws of China (English & Chinese)