

HD **SPECIAL REPORT-The power struggle behind China's corruption crackdown**

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* **Billionaire** faces verdict on murder, fraud other charges

* Hanlong group head Liu Han was connected to former security chief

* Former security tzar Zhou Yongkang targeted in graft probe - sources

* Zhou made behind-the-scenes power grab - sources

* Zhou was patron of disgraced Politburo member Bo Xilai

By Benjamin Kang Lim, David Lague and Charlie Zhu

BEIJING/**HONG KONG**, May 23 (Reuters) - Liu Han seemed to thrive in the **company** of officials.

Even a birthday party in 2011 for Liu's primary-school aged son drew a crowd of bureaucrats in Chengdu, the capital of **China**'s western Sichuan province where the flamboyant **mining** tycoon was based. "There was a mayor of a nearby city with a population of three or four **million**," recalls Australian political lobbyist John Halden who helped win approval for Liu's **mining** investments in Western Australia and was invited to the October 15 celebration. "There were senior people from the provincial treasury and about seven or eight officials from the city of Chengdu."

But Liu's close ties with officialdom didn't last. When **Chinese** President Xi Jinping was named President at the end of the annual parliamentary session in March last year, the 48-year-old Liu was detained and surrounded by a different class of public servants; corruption investigators and prison guards.

The **billionaire** head of the privately-held Sichuan Hanlong group of companies is the first high-profile casualty of a power struggle wrapped in a corruption crackdown that is convulsing the senior echelons of the ruling Communist Party. A verdict is expected Friday after Liu's sensational trial on charges of murder, gun-running, fraud, extortion, illegal gambling and a string of other offences. He has denied all the charges.

Liu's most serious offense, however, could well be political: He was caught up on the wrong side of a titanic power play, multiple sources say, because of his business partnership with the son of former domestic security chief, Zhou Yongkang. In a campaign unprecedented in modern **China**, Xi is determined to bring down Zhou for making a behind-the-scenes grab for power, the sources say.

PATRONAGE NETWORK

To get at Zhou, Xi last year began rolling up the strongman's extensive network of patronage, assembled over more than four decades in the **oil** industry, Sichuan provincial politics and the internal security services. More than 300 of Zhou's relatives, political allies, business associates, underlings and staff, have been arrested, detained or questioned, according to people briefed on the investigation. Liu was one of them.

Investigators have targeted the giant, state-owned **China** National Petroleum Corporation - where Zhou was once general manager and Communist Party Secretary - and its subsidiaries.

First, they detained six senior executives from the **oil** giant late last year. Then, late last year, Xi launched a probe into Zhou himself and people around him. Several of Zhou's men have been felled, including Jiang Jiemin, briefly the top regulator of state-owned enterprises, and former Vice Minister of Public Security Li Dongsheng.

Authorities seized assets worth at least 90 **billion** yuan (\$14.5 **billion**) from Zhou's family members and associates, two sources said. Liu's assets were included in these seizures. Ahead of his trial, the official Xinhua news agency reported that authorities had last year "seized and frozen enormous amounts assets of Liu Han and the Hanlong group".

Zhou is the most senior leader targeted in a corruption probe since the Communists took power in 1949. With the approval of **China's** two previous leaders, Hu Jintao and Jiang Zemin, as well as other senior officials, sources close to the leadership say, Xi broke with an unwritten rule that incumbent and retired members of the Standing Committee were immune from corruption investigations.

The Communist Party's Central Commission for Discipline Inspection, **China's** top anti-corruption watchdog, and the Ministry of Public Security declined to comment on the investigation when reached by telephone. The office of the Communist Party spokesman also declined to comment when reached by telephone.

Although he retired in late 2012 from the elite Politburo Standing Committee, the apex of political power in **China**, the 71-year-old Zhou wanted to rule from behind the scenes and had become a threat to leadership stability, according to multiple sources with leadership ties.

One of Xi's influential patrons, former vice president Zeng Qinghong, was the catalyst for the investigation into Zhou, three sources with ties to the leadership said.

"Zeng proposed to central (authorities) that Zhou Yongkang be investigated for posing a political risk to the collective leadership," one of the sources said.

Neither Zhou nor his representatives were available for comment. No evidence has emerged that Zhou or his relatives have violated any **Chinese** laws or used Zhou's influence to clinch deals.

"TIGERS AND FLIES"

As part of his vision for a rejuvenated **China**, Xi is preaching a return to the austerity of the Party's early years. An attack on corruption is at the core of this campaign. Xi pledges to go after "tigers and flies" in rooting out wrongdoing. He warns that popular disillusionment with rampant official graft threatens the Party's hold on power.

While there is little risk for Xi and his supporters in taking down Liu, a similar move against someone as senior as Zhou Yongkang will take much more political courage.

"If the leaders are using the corruption crackdown just to bring down their political rivals, there will be grim consequences, as many officials in **China** are believed to have corruption problems," says Zhao Guangbin, managing director of Shanghai and Toronto-based consulting **firm**, Gateway International Group.

The government and state media have not made any official statement about Zhou or the case against him. An announcement is expected around the fourth plenum of the party's elite 205-member Central Committee later this year, two sources said. Xi and other top leaders have yet to decide whether to put Zhou on public trial, according to multiple sources with leadership ties.

Investigators want "to make it an ironclad case", one of the sources said. If Zhou is charged, the authorities may avoid publishing detailed allegations to minimize any damage to the Party's image, the sources said.

Zhou was last seen in public at an alumni event at the **China** University of Petroleum in Beijing on Oct. 1. He has been under virtual house arrest since the investigation into his affairs began last year.

BUGGING LEADERS

Zhou is believed to have orchestrated the bugging of senior **Chinese** leaders. At Zhou's behest, Beijing's civilian intelligence chief Liang Ke ordered his most trusted men to bug the telephones of Premier Li Keqiang and his immediate predecessor, Wen Jiabao, their families and aides in the run-up to the party's 18th congress in 2012, said one source close to the current leadership and another who has been briefed about the surveillance.

The eavesdropping was aimed at "looking for evidence of (any) corruption", one source said. It was unclear how the authorities discovered the bugging. Liang was taken into police custody this year and is himself undergoing investigation for corruption.

Further alienating Xi and other top leaders, Zhou backed the now disgraced Bo Xilai to join the Politburo Standing Committee in the run-up to the 2012 Communist Party conference that would install a new leadership. The charismatic Bo, who was the former Party boss of Chongqing in Sichuan province, would have been beholden to Zhou (himself a former Sichuan Party chief) and a powerful rival to Xi had he succeeded in reaching the top level.

At the peak of his influence, Zhou Yongkang held one of the most powerful positions in **China**. As domestic security chief, he oversaw the police force, the civilian intelligence apparatus, the paramilitary People's Armed Police, judges and prosecutors. During his five-year watch, the budget for maintaining internal stability exceeded the public figure for military spending. The position, deemed too powerful, was downgraded after he retired.

To ensure his influence past retirement, Zhou had nominated Bo Xilai to succeed him as domestic security chief and tried to orchestrate the younger man's promotion to the Standing Committee, the sources with leadership ties said.

But Bo's rise was aborted in 2012 by the attempted defection of his Chongqing police chief, Wang Lijun, to the U.S. Consulate in Sichuan province. After apparently abandoning his bid for asylum, Wang implicated Bo's wife in the 2011 murder of British businessman, Neil Heywood. Bo's wife and his former police chief have been convicted and jailed. Bo himself was sentenced to life in prison last year for corruption and abuse of power.

PREMIER BO?

Zhou had envisioned himself as the power behind the throne in retirement if and when Bo took over, the sources said. "Zhou Yongkang wanted to be Cixi," a third source said, referring to the empress dowager of **China**'s last imperial dynasty who ruled from behind the scenes.

Zhou and Bo also toyed with the idea of Bo becoming premier and ranked number three in the Standing Committee behind President Xi and Li Keqiang, who would have been kicked upstairs and made head of parliament, three sources with ties to the leadership said.

This scenario never played out. But the leadership was shocked when it learned about the alleged plot, the sources said. It was unclear how it was uncovered. "This would have overturned the 17th congress resolution," one source told Reuters, referring to an unpublicised decision made at the party's five-yearly conclave in 2007 to make Li premier. "It would have been tantamount to a palace coup," a second source said.

Zhou also attempted to gain influence over a top aide to then President Hu Jintao, Ling Jihua, three sources said. Ling's son, Ling Gu, aged in his 20s, was killed driving a Ferrari in Beijing on March 18, 2012. One young woman was also killed and another injured. Soon after the crash, a Zhou ally, Jiang Jiemin, then chairman of state-owned **oil** giant **China** National Petroleum Corp (CNPC), sought to buy the silence of the dead victim's bereaved family and the surviving passenger, the sources said.

"**Millions** (of yuan) were paid," a third source said. "When (President) Hu Jintao found out, he was very disappointed." Jiang used CNPC funds to make the payments, sources said. Ling Jihua has been demoted to head a low-level ministry for attempting to cover up the crash. He could not be reached for comment. Jiang Jiemin was briefly elevated to be the top regulator of **China**'s state-owned enterprises, but was sacked soon afterwards. He is now in custody on suspicion of corruption, sources say.

Zhou Yongkang's son Zhou Bin, who has business interests in the **energy** sector, is also a key target of the corruption probe. In a sign of Zhou Yongkang's lingering influence in the security apparatus, Zhou Bin eluded a warrant for his arrest and fled to the United States early last year after receiving a tip-off from an ally, said one source with direct knowledge of the matter. "Central (authorities) were shocked and angry", the source said.

After negotiations with **Chinese** authorities, Zhou Bin returned to **China** via Singapore later in the year, the source said, adding that he has been detained and investigated for corruption and his links to gangsters. It has not been possible to reach Zhou Bin for comment.

From Zhou Bin, the investigation led to Liu Han. Two sources briefed on the investigation said the younger Zhou and Liu were business partners. They gave no further details but the well-connected **Chinese** magazine Caixin reported in February that Liu and Zhou Bin had worked together on deals in power generation and tourism in Sichuan. This has not been independently confirmed. Reports in

China's domestic media have noted that the rise of Liu Han's business empire coincided with Zhou Yongkang's posting as Sichuan Party secretary from 1999 to 2002.

Without mentioning Zhou Yongkang, Zhou Bin or the wider crackdown, the authorities in February acknowledged the probe into Liu was driven from the top. A 10-month investigation "under the strong leadership of the central committee of the Communist Party" had solved Liu's case, the official Xinhua news agency reported on February 20.

AUSTRALIAN MINES

Liu set up Sichuan Hanlong in 1997. With his younger brother, Liu Wei, the pair built a fortune from building materials, construction and property, according to reports in the official media and interviews with former employees.

He also had global ambitions. In 2009, Hanlong made its first major offshore investment, taking a \$200 million controlling stake in Perth-based Moly Mines, a company planning to develop one of the world's biggest molybdenum deposits in West Australia's Pilbara region. The company also paid \$40 million for a stake in another molybdenum play, Colorado-based General Moly Inc.

Hanlong also took stakes in two other Perth-based miners, Marenica Energy, which has rights to a uranium deposit in Namibia, and Sundance Resources Ltd, which has extensive iron ore deposits straddling the border of Cameroon and Congo. Hanlong eventually had 12,000 employees worldwide and annual revenues of \$2.5 billion, according to statements on the websites of its listed companies. It is unclear how the confiscation of Liu's assets has affected his stakes in Chinese and overseas companies. Hanlong Vice President Kang Huanjun declined to answer questions about the company. "Thanks but I'm not able to make any comment," he said when called on his mobile phone.

Former managers, staff and colleagues say the chain-smoking Liu made no secret of his love for expensive cars, banquets, fine French wines and heavy gambling. "All the meetings we had with him were pretty short, just one or two hours," says Collis Thorp, former chief operating officer at Moly Mines. "He was most interested in heading out to the local casino."

Aside from his business success and extravagance, Liu was known for his philanthropy, particularly to help victims of the devastating Sichuan earthquake in 2008. He also appeared to be a dedicated family man. On his regular visits to Australia, Liu sometimes travelled with his attractive, 37-year-old wife, Yang Xue, and their two young children, a boy aged about 10 and a girl slightly younger, according to former staff members and advisors who met the family.

An entirely different picture of Liu emerged before and during his 20-day trial in the central province of Hubei, which ended on April 19, according to lurid reports in the state-controlled media.

Far from a benevolent high-roller, Liu was portrayed as a violent and ruthless crime boss. He and his brother were accused of leading a gang responsible for nine murders, multiple assaults, harbouring criminals, obstruction of justice, loan fraud, kidnap and contract rigging.

At the time he was detained, his gang had stakes in 70 companies and had accumulated assets worth almost 40 billion yuan (\$6.4 billion), according to the official coverage of his arraignment and trial, which was closed to the public.

Ahead of his trial, state-run television broadcast an interview with his wife Yang, dressed in what appeared to be prison garb, where she described how Liu paid off government officials. "He would take me to dinner with them and during dinner he would give them lots of gold, jade and other precious gifts worth several hundred thousand to millions of yuan," Yang said. "Sometimes he bribed them through gambling." The pair appear to have been divorced since Liu was detained because Yang was described as his former wife in this interview and another televised excerpt of the trial carried on state television.

While Liu Han insists he is innocent, his brother Liu Wei has pleaded guilty and told the court he was ready to accept punishment for his crimes. All 36 defendants in the case are in custody and awaiting the trial verdict.

Only three relatively junior officials from Sichuan were tried alongside Liu. But Xinhua reports have quoted witnesses questioned as part of the investigation saying the tycoon had close ties with senior provincial and Beijing officials. Former Hanlong group executives and advisors say it was clear that Liu enjoyed close ties with senior government and party officials.

Visibly distressed and in tears at stages of his trial, Liu seemed to understand he would be lucky to escape a harsh penalty if found guilty. As Yang was escorted from the court after giving evidence in a

televised segment towards the end of his trial, a sobbing Liu called out to her. "Look after the children," he cried, "look after my mother." Yang promised she would.

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