

China arrests former Bank of China HK chief

By Scott Hillis

BEIJING, Feb 20 (Reuters) - Liu Jinbao, the former chief of the Bank of China's Hong Kong branch, has been arrested, the latest senior financial official to be toppled over corruption.

Bank of China said on Friday Liu had been formally arrested and sacked as vice chairman. The bank is the country's largest foreign exchange lender and is seeking to list shares next year.

"He was formally arrested, but I have no other details," a Bank of China spokesman in Beijing said when asked about Liu's whereabouts.

"We have received notice from the relevant departments that Bank of China Vice Chairman Liu Jinbao is suspected of economic crimes and that legal agencies are currently investigating," the bank said in a statement on its Web site.

It was the latest development in a string of scandals that have hit China's banks and listed firms in recent weeks, and underscores risks facing investors eager to tap one of the world's fastest-growing major economies.

The Bank of China spokesman said the case would not derail the bank's efforts to reform and list shares, however.

"The Chinese banking sector has been extremely corrupt and chaotically managed for many years, and the Chinese government is now finally cleaning it up," said **Peter Humphrey**, a China-based risk management expert.

"You can be sure that there isn't just one Liu Jinbao in China. You can be sure he won't be the last one to get arrested as well; this is a trend," **Humphrey** said. "This case is probably only the tip of the iceberg."

Separately on Friday, state media and court officials said another former Bank of China official, Liang Xiaoting, had gone on trial for taking bribes totalling HK\$2.95 million (\$379,500).

And China's sole private lender, Minsheng Bank <600016.SS>, confessed on Friday to tampering with a routine document required for its domestic listing.

Earlier this month, China's biggest life underwriter, China Life Insurance Co Ltd <LFC.N><2628.HK>, was hit after auditors said they found irregularities involving 5.4 billion yuan up to 2002.

CLEANING OUT THE RANKS

Bank of China has struggled to clean out its ranks as it seeks to transform itself into a modern financial house that can compete with healthier and more sophisticated foreign banks.

In December, Wang Xuebing, former head of Construction Bank of China, was sentenced to 12 years in prison for taking bribes. He was sacked in January 2002 over problem loans made during his earlier tenure as head of Bank of China.

Late last year, the bank won a \$22.5 billion bail-out from the government to help it recapitalise, and it is aggressively cutting bad loans.

Liu was suddenly replaced last May as head of BOC Hong Kong (Holdings) Ltd <2388.HK> and placed under investigation over loans made when he headed the Bank of China's Shanghai

branch.

Liu had enjoyed a high profile in Hong Kong banking circles after he was made head of the bank's overseas flagship in 1997.

Hong Kong media reports recently said Liu had failed to account for huge personal holdings and loans made to a Shanghai-based property tycoon.

Alex Wong, research director at Rexcapital Asset Management, said Liu's firing and arrest would probably not affect demand for the bank's IPO as investors were still interested in the sector.

"Investors have already discounted this, and this is not a very surprising event," Wong said. "In China, the loan quality and corporate governance concerns are an issue, but I think people will discount this in the valuation."