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Hong Yuan's Illicit Deposit -Bilking Empire¹ ”





Raid
Photo from editors

On August 23rd, 1990, investigators of the Ministry of Justice's Investigation Bureau (MJIB) acting under prosecutor-issued search warrants raided 33 locations of the Hong Yuan Group, including 25 corporate offices nationwide and the residences of 8 senior executives, on suspicion of illegal deposit activity. A total of 28 suspects were interrogated on the same day and 7 were detained to prevent their concealing or tampering with evidence. On December 18th, 1990, prosecutor Zhuang Chun-Shan (莊春山) indicted 81 defendants from Hong Yuan for violations

of the Banking Law, Corporate Law, and Criminal Law, rapidly accelerating the unraveling of a financial empire once valued at US\$3.15 billion (NT\$130 billion).

¹ 民國 79 年 12 月 18 日，臺北地檢署 79 年度偵字第 5579 號等案件，以違反銀行法、公司法及刑法詐欺罪嫌起訴被告沈長聲等 81 名被告，就其等成立公司但未經許可經營銀行業務，以高利息收入吸引一般民眾加入並繳錢取得單位權利，每月依單位權利領取利息。若介紹他人加入，尚可領取介紹獎金。公司成立八年間共吸金新台幣 961 億 9805 萬元，後公司資金不足倒閉，被害人數多達 16 萬餘人。為國內第一個違法吸金案件。臺北地方法院後以 79 年度訴字第 2617 號案件判決主嫌被告沈長聲有期徒刑 7 年，併科罰金新台幣 300 萬元。本件起訴與公訴檢察官均為莊春山。

“ The Birth of the Money Empire



Photo from March 29, 1991 CTS



Photo from August 11, 2011 CTS

The early 1980s was a time of unprecedented economic prosperity in Taiwan, well earned through four decades of social frugality and industriousness. Although the general public was better off than ever in living memory and many family began accumulating significant savings, there were few private investment opportunities to be had. The Taiwan stock market was small and foreign exchange rates were controlled; overseas investment opportunities, particularly in the booming Mainland Chinese economy, were unsecured and thus highly risky.

However, Taiwan's minimal social infrastructures in terms of healthcare and security in old age were tenuous. Concerns for the future coupled with available cash let many Taiwanese into short-term speculations and dreams of making it rich overnight. Speculative investors such as Shen Chang-Sheng (沈長聲) and Yu Yong-Ming (於勇明) took advantage of this situation and built an unprecedented money empire out of the savings of countless Taiwanese.

The Iron Triangle of Hong Yuan Group² ”



Shen Chang-Sheng .Yu Yong-Ming.Liu Tie-Qiu , photo from October 03 , 2015 CTI

The Hong Yuan Group, run by a triumvirate known as the “Iron Triangle” , was Taiwan’ s first deposit-based investment firm. In just 8 years, the group had grown into a powerful investment corporation worth more than US\$3 billion.

² See “ Hong Yuan Storm Files” , Zhang Meng-Qi, Reading times publication, 2006



Photos from Hong Yuan Storm Files

The **Cultish Leader**

--Shen Chang-Sheng

Shen Chang-sheng, a former juvenile delinquent, joined Taiwan's investment frenzy via the futures market in 1979, founding a futures trading firm called Yuan Jing. In 1984, when the government launched a crackdown on futures trading, he pulled the plug on Yuan Jing and reorganized it as the Hong Yuan Group. Chang-sheng, a discreet and superstitious perfectionist, carefully controlled all group decision-making. His esoteric Buddhist beliefs, which led him to set up Buddhist chapels in every division, lent

him an aura of religious 'trustworthiness' and 'solidity' that encouraged even more to invest their money in his organization.



The God of Wealth

--Yu Yong-Ming

Backed by his bachelor's degree from National Chung Hsing University's Department of Mathematics, Yu Yong-ming had his sights set on making it rich on easy money. He leapt into Taiwan's lightly regulated, highly speculative stock market and in 1979 had already gotten himself in trouble in an illegal negotiation using bad letters of credit, which defrauded the First Commercial Bank out of US\$5 million. Unlike his future partner, Chang-sheng, Yong-ming was a high-profile, outspoken, and arrogant swin-

dlar. Within the Hong Yuan organization, Yong-ming was responsible for the group's investment decisions.



Photo from Rong Hsiao

The **Golden Solicitor**

--Liu Tie-Qiu

Mr. Liu was a longtime key figure in Taiwan's criminal Four Seas Gang. However, he withdrew from the gang after a brutal revenge attack left him severely wounded and, after recovering, shifted his focus to real estate sales. His success led to his promotion to general manager of his firm, which led to his 1985 introduction to Chang-sheng and Yong-ming. He joined the Hong Yuan Group, where he took an active role as the main speak-

er at the group's investor recruitment seminars. His quick wit and charisma won a continuous and growing stream of investors, making him the group's public face and highly successful "money vacuum" .

鴻源人

The **Rise** of the **Money Empire**

Hong Yuan International Investment Consulting (HYIIC) Company opened its doors and officially started soliciting funds in November 1982. The group solicited investments in units of US\$5,000 (NT\$150,000), with US\$300 (NT\$9,000) payable monthly from the group in interest. This interest rate of 9% was both higher than that offered by banks and perceived as safer than either the stock or futures markets³. Moreover, an investor could join the group as a solicitor with an initial investment of 6 units. Once trained, group solicitors received a steady income stream by selling at least

6 units each month, including a basic salary of US\$267 (NT\$8,000), an investment bonus of US\$1,200 (NT\$36,000), and introduction fees of US\$200 (NT\$6,000) for every 6 new units sold. This gave solicitors an annual income of at least US\$20,000 (NT\$600,000) at a time when the average annual household income in Taiwan was slightly over US\$9,000 (NT\$275,250) and the average annual individual income was US\$2,300 (NT\$69,000)⁴. In other words, an entry-level solicitor at HYIIC could earn 9 times more than the national average and even an entry-level investor with just

³ Later, the interest rate was revised downward to 6% and 4% monthly and then finally to 1.4% per month by 1990.

⁴ See “Report on the Survey of Personal Income distribution in Taiwan Area”, Directorate-General of Budget Accounting and Statistics, the Executive Yuan, 1982.

Item Type	Solicitor				Average People
	Basic Salary	Investment Bonus	Introduction Fee	Total Income	Personal Salary
Monthly	267	1200	200	1667	192
Yearly	3200	14400	2400	20000	2301

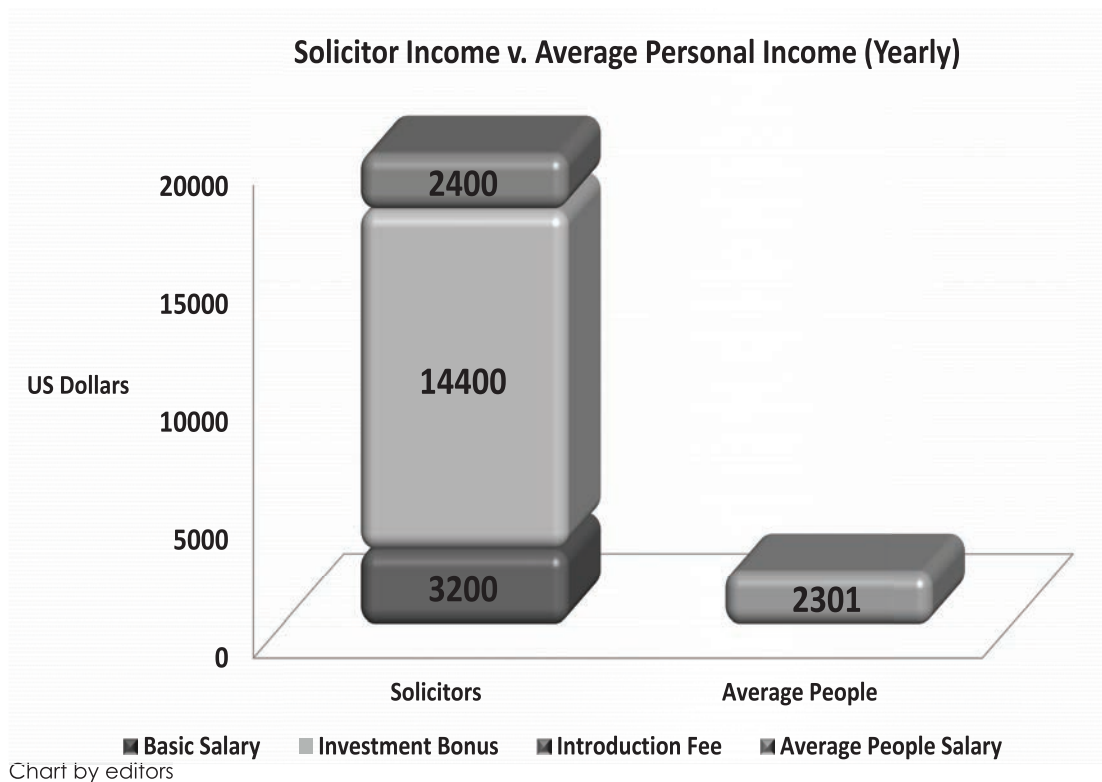


Chart by editors

1 unit could earn interest from the group equal to 1.6 times the salary of an average employee. The deal offered by HYIC sounded almost too good to be true.

The public was initially hesitant, doubtful of the group's too-good-to-be-true interest rate and reward scheme claims. However, once hesitant investors saw a neighbor or colleague getting regular group payments and saw the consistently positive stream of news about the group's seemingly unstoppable success, they gave

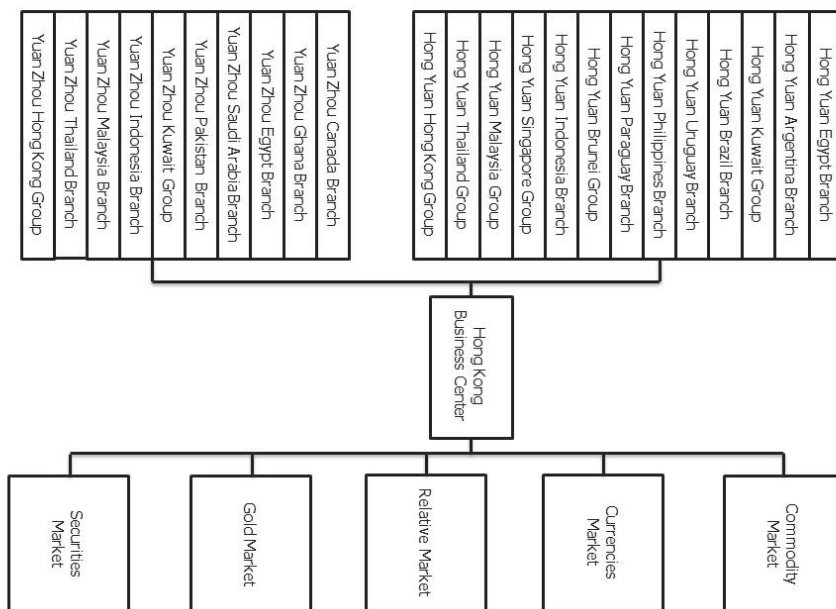
in to the temptation and added their savings to the group's coffers. At its peak, the group held US\$4.4 billion (NT\$130 billion) in funds from 220,000 investing members – an amount equivalent to the entire 1990 tax revenue of the Taiwan Government. Every single dollar of this amount was under the exclusive control of the Iron Triangle.

The Territory of the Money Empire ”

The group required a top-notch investment scheme to justify its regular interest payouts. Thus, Hong Lai Construction Company was created in July 1983 to invest in domestic property development and construction projects, real estate brokering, and housing presales.

In 1984, the group set up the interior design firm Yi Deng Limited and Hong Ann Computer Company, which supplied the group's hardware and software needs. The group then launched its presence overseas by establishing Hong Kong-based Yuan Zhou Industry, a company that made ready-made garments, conducted international commerce, and bought and sold bulk grains.

Hong Yuan Overseas Branches and Hong Kong Business Center Chart



Photos from Hong Yuan Storm Files



Photo from Hong Yuan Storm Files



Mr. Shen Chang-Sheng
Mrs. Shi Si

Photo from Rong Hsiao

In 1985, Yong Yuan Group opened Le Qi Industry, an importer / exporter of automotive accessories, leather products, groceries, textiles, and canned foods; Yuan Zhou Real Estate; and Hong Kong-based Yuan Zhou International Investment Limited Company, which traded in sugar and red beans.

The group set up Hong Fu Restaurant in Kaohsiung City in March and Hong Tai Film Industry' s Taipei office in July 1986. Hong Tai' s Hong Kong office opened nine months later Hong Kong. Hong Tai released

7 films over the next several years. Shen Chang-Sheng even met his wife, the film and television actress Shi Si (施思), through his film-industry connections. In addition, the group soon founded Yuan Kuo as an importer of wood and cooper furniture and opened the Yonghe outlet of Hong Yuan Department Store. More Hong Kong companies were also created.

1986

1986 remained a busy year, with Hong Da Company opened as a stock, bond, and securities trader, Yuan Zhou International Finance Limited Company opened to provide loans and letters of credit, Xian Mei opened to provide export services, and Yuan Zhou opened to conduct gold transactions. Furthermore, four companies were set up in Kuwait, Saudi Arabia, and Indonesia, including the Financial Trade Center in Kuwait, P.T.B. Financial Trade Center in Indonesia, and the Financial Trade Center in Saudi Arabia and Kuwait. All were involved in handling gold, currency and/or stock transactions.

1987

In 1987, the group opened Hong Yuan Real Estate Brokerage in January to invest in overseas real estate and other assets, the Taipei outlet of Hong Yuan Department Store in June, the Hong Yang Advertisement Company in July to promote the group's public image and messages, and the Hong Yuan Employee Education Center in August to provide orientation training, on-the-job training, and other professional training for the group. Overseas expansion during that year included the Yuan Zhou Limited Company in Kuala Lumpur in June, the Yuan Zhou Limited Company in Bangkok in August, and the Yuan Zhou Interest Limited Company in Hong Kong in December. All three focused on gold forward rates and transactions.

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體育館 困脫人餘

【本報訊】台北體育館在昨晚發生大火，造成多人傷亡，目前仍有數百人被困在體育館內。消防人員正在全力搶救中，預計需要一段時間才能將被困人員救出。起火原因正在調查中，初步懷疑是電線短路所致。體育館內存放有大量物資，損失情況嚴重。目前，體育館已封鎖，周邊交通受到影響。有關部門已啟動應急預案，全力開展救援工作。



勸阻一度被阻 進入恰逢起火

【本報訊】台北體育館昨晚發生大火，起火原因正在調查中。據悉，起火前曾有人試圖進入體育館，但一度被勸阻。起火後，消防人員迅速趕到現場，展開搶救工作。目前，仍有數百人被困在體育館內，救援工作正在緊張進行中。起火原因初步懷疑是電線短路所致，但最終調查結果還需要進一步確認。

如不能復舊 可改建大樓

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Photos from
November 21, 1988 United Daily News

由於飛機墜地引發的巨響，引起多處房屋倒塌。

一十四年 逾齡建築物
勉强使用 早就不安全

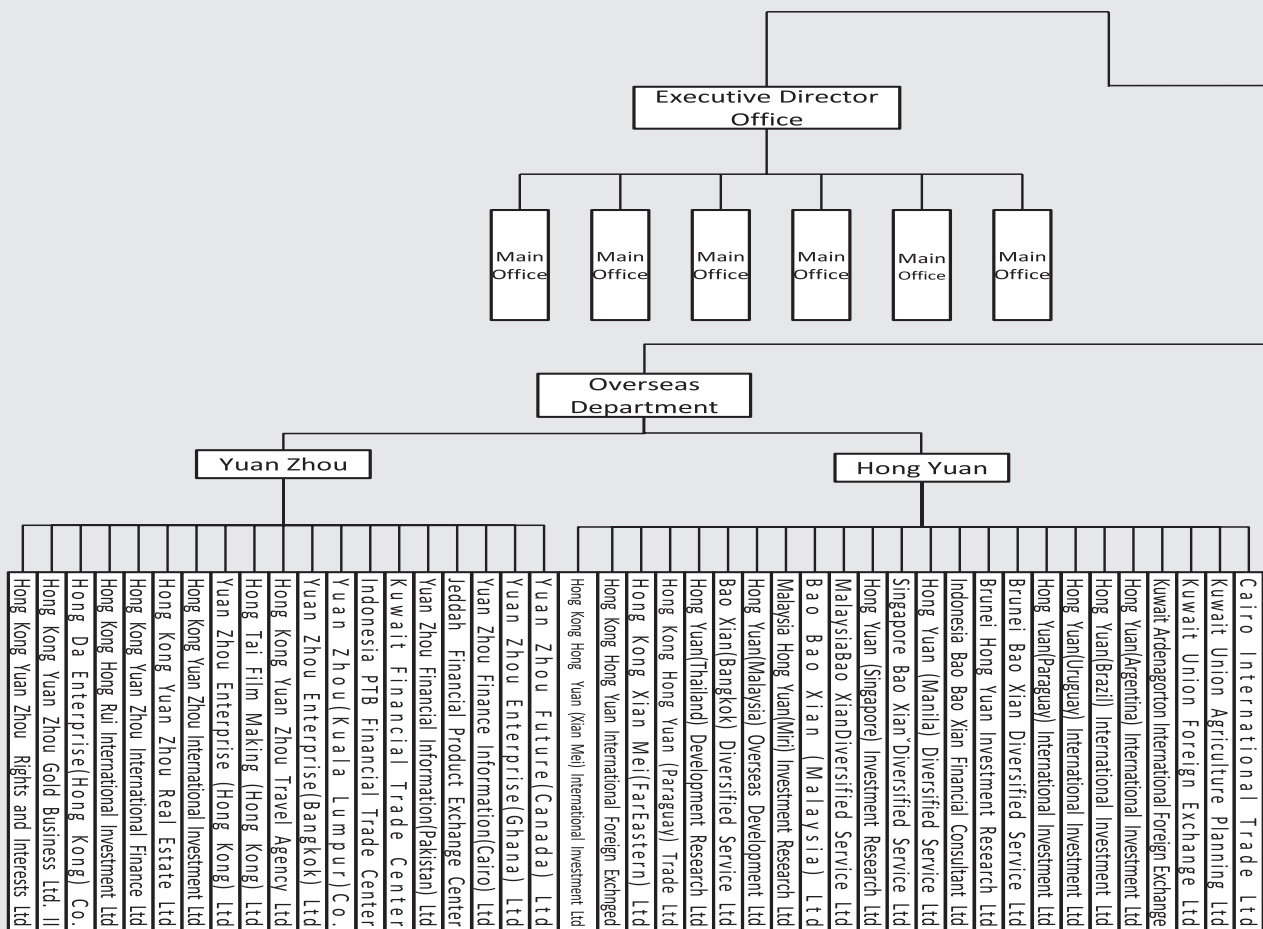
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1988



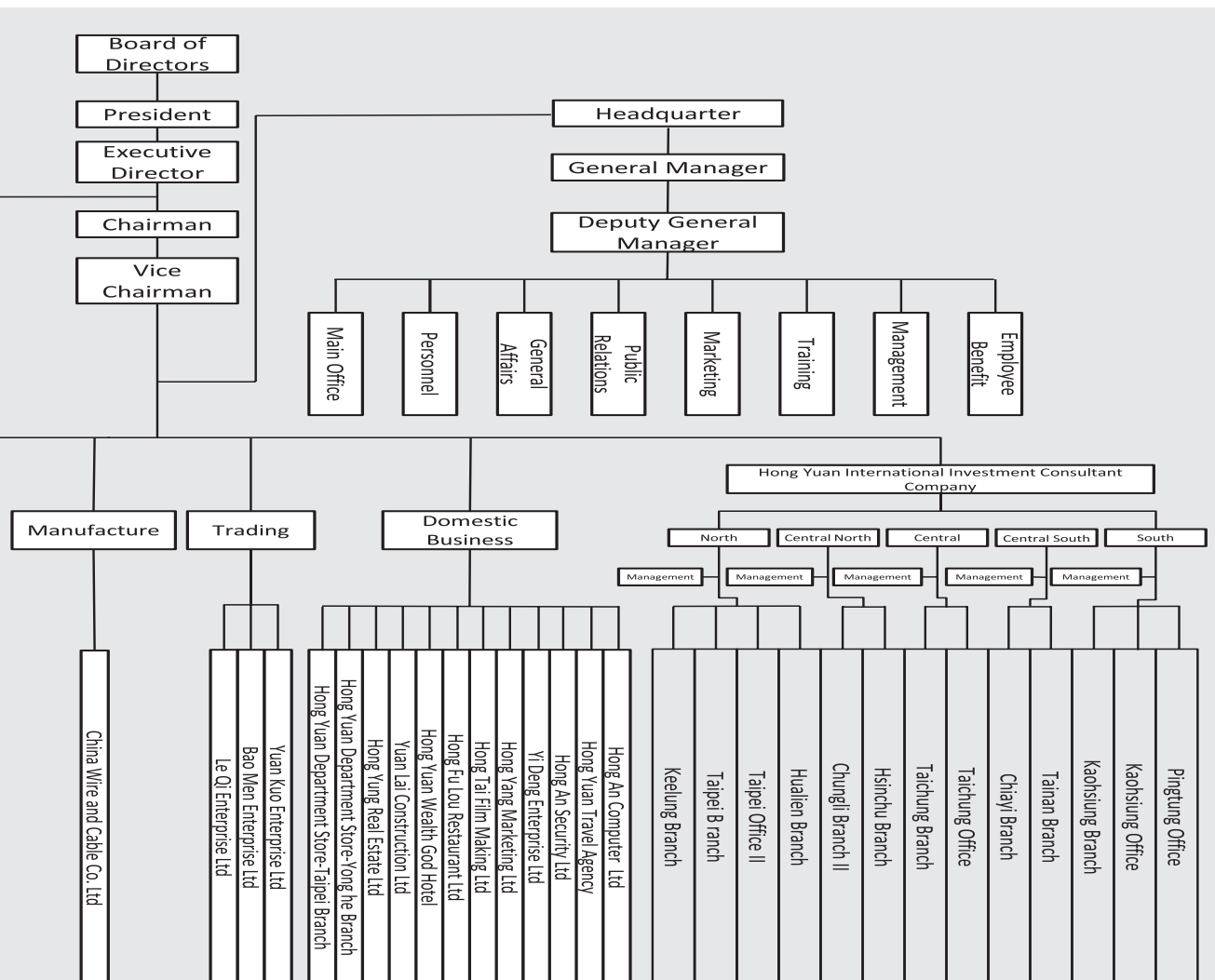
The group also founded the Chang Si Welfare Foundation in April 1989 as well as sponsored men' s and women' s competitive basketball teams.

Organization chart , see *Supra Note 2*



The group's total investments were estimated at nearly US\$800 million (NT\$23 billion) at the time the group filed for bankruptcy. However, even today, the total amount of funds sent overseas by the group over its 8 years in business remains unknown to all, with the possible exceptions of Chang-sheng and Yong-ming.

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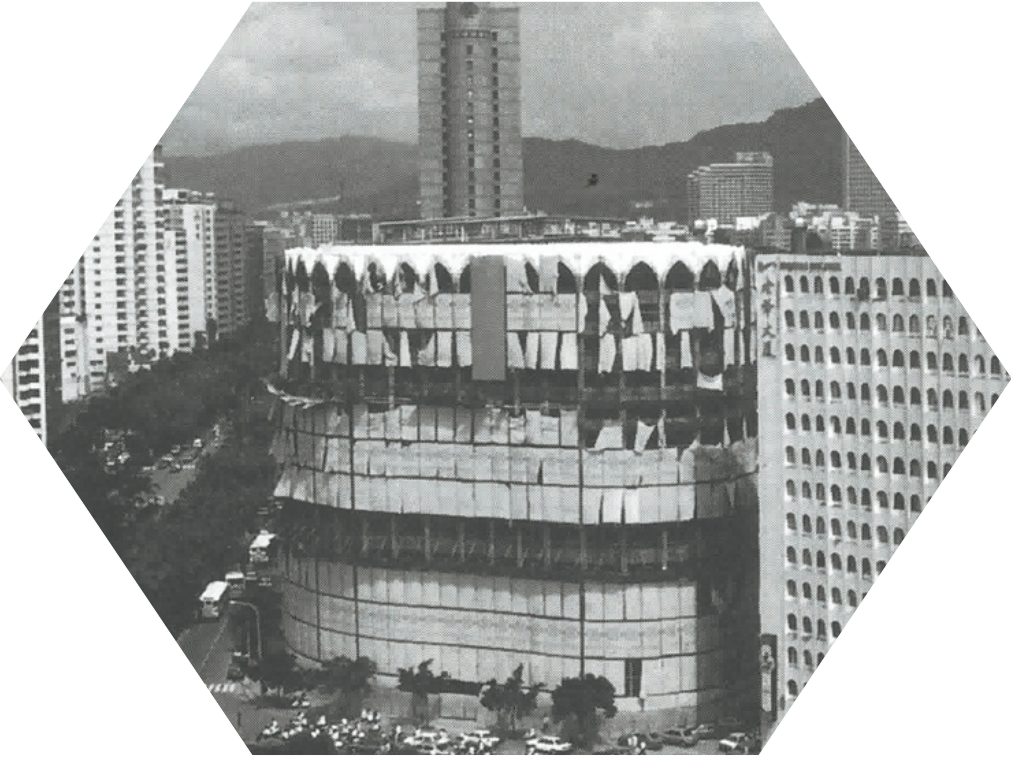


Photo from China Times

Group Dynamics ——— “

On October 18th, 1985, reporters began targeting the group with accusations that it was an illegal deposit fund. Public confidence waned and crowds queued up at group branch offices demanding to cash out their investments. Within three days, the group refunded nearly US\$7 million (NT\$21 billion) in investor funds. Group Vice President Yu Yong-ming made a public statement explaining the group's investment situation and promising to resolve its questionable legal status soon.

As members continued to receive their monthly interest payments through this crisis, the group emerged with their reputation enhanced and, ironically, money poured into the group on a scale that was even larger than before.



Photo from China Times

The group faced its second bank run on August 18th, 1986, but made it through by suspending investment refunds while committing to continuing all monthly interest payments. In December 1987, Taiwan's skyrocketing stock market triggered the group's third run, which lasted for three harrowing months. Although Yong-ming announced that no new members had been admitted or funds accepted by the group since March 1986, in fact, deposits continued to flow

in. This deposit scandal became public in 1988.

The group announced in June 1988 its intention to transfer its funds overseas, and thus asked members to transfer their domestic unit certificates into overseas fund certificates. That same year, the group set up ten overseas companies to deal with the funds to be transferred from Taiwan.



Ministry of Finance , photo from editors

Later in August, the group announced that it would reduce its offered interest rate to 2%. In September 1988, the Ministry of Finance (MOF) filed a complaint with evidence to the Taiwan High Prosecutors Office and the MJIB, asking for an investigation into the group on suspicion that it had violated the Bank Law. On November 20th, 1988, the group held a gala member reception at Zhong Hwa Gymnasium in Taipei City. Group President Chang-sheng arrived in the arena in a luxury Cadillac sedan to members excitedly chanting his name. In the excitement, fireworks set off by group members set multiple fires indoors that eventually burned the gymnasium to the ground. Observers at the time questioned whether this accident might signal the decline of this money empire.



Photo from Hong Yuan Storm Files

Amendments to the Bank Law promulgated on June 30th, 1989 made banks the only organizations that could lawfully accept deposits from the general public. On July 1st, the government announced a ban on illegal investment companies and targeted the group. The group then faced its fourth bank run for 3 weeks straight, returning to members US\$700 million (NT\$20 billion) in invested funds. The Group stopped refunding investments, but continued distributing interest starting on July 13th. In September 1989, the group held its gala member reception in Changhua County's Ba Gua Shan Gymnasium, attempting to restore members' confidence in the group. However, only days later, Group Vice President Liu

Tie-qiu suffered a stroke that left him paralyzed. He passed away that November. Unable to restore confidence, the group drifted further toward a roiling storm. By the end of 1989, the group had refunded US\$1.3 billion (NT\$40 billion) in investor funds.

On January 10th, 1990, the group announced that it was suspending both refunds and interest distributions due to its mounting debts. An assets supervision committee was formed on February 20th, 1990 to assess the current value of the group's assets. However, bad faith and poor accounting practices led to the committee ending their effort in failure.



Investigation of the Group

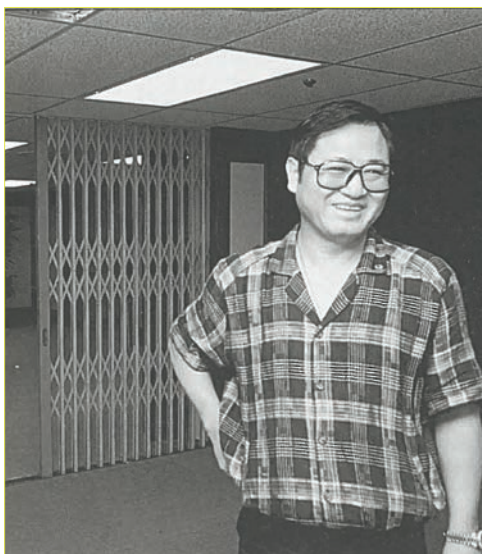
The government finally began taking action against the Hong Yuan Group. On March 2nd, 1990, 25 legislators moved for a resolution asking that the MOF, Ministry of Economic Affairs, Ministry of Justice, and Ministry of National Defense jointly resolve the problem of companies illegally accepting deposits. In October 1990, the National Assembly heard a resolution by 31 representatives requesting a ban on illegal deposit taking companies. On October 12th, 1990, the Control Yuan censured the MOF, Ministry of Economic Affairs, and Ministry of Justice for their earlier hesitance to regulate these companies.



Mr. Yu Yong-Ming, Mr. Shen Chang-heng



The secretary Ms. Chen, Yun



Hu, Jian-Fen



Mrs. Fu, Yun-Mei

Photo from

The lower left : Rong Hsiao
Others : China Times



The indictment

Following 4 months of intensive investigation, Prosecutor Zhuang Chun-Shan of the Taipei District Prosecutors Office indicted 81 defendants from the Hong Yuan Group on December 18th, 1990. These included its nominal directors and shareholders, board of directors, and other important group executives. The indictment said that the group had defrauded investors with promises of impossibly high interest rates and had taken deposits of US\$3.197 billion (NT\$95.9 billion). Defendants used these illegal funds to invest in 24 domestic and overseas companies and other assets and were found to have wired at least US\$57 million (NT\$1.7 billion) overseas. Prosecutor Zhuang tried his best to confiscate the traceable assets, including real estate, chattels, stocks, bonds, and rights totaling around US\$767 million (NT\$23 billion). Additional sums were suspected of being sent overseas and concealed by the defendants. Therefore, defendants were charged for violations of the Banking Act, Company Act, and Criminal Law.

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The indictment
Photo from Taipei district prosecutors
office



The Trial

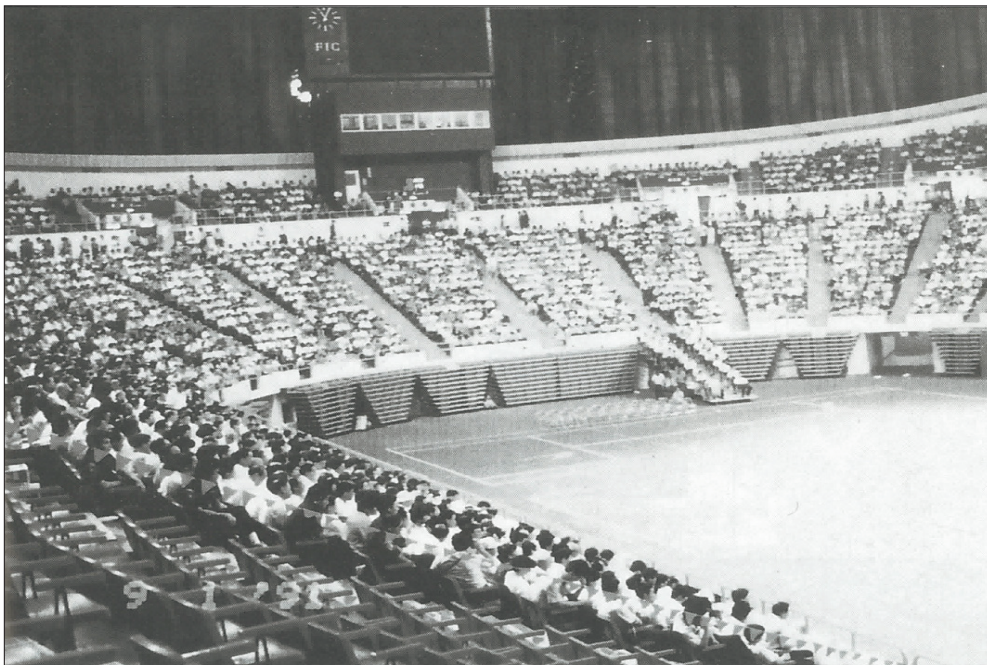


Judge Mrs. Cheng Li-Yen

Photo from March 29, 1991 CTI

In the Taipei District Court courtroom, the defendants argued against the charges. While admitting to receiving investor funds, Group President Shen Chang-sheng argued that, as the government hadn't previously prohibited companies from accepting deposits, the defendants should not be subject to prosecution. Other defendants argued that they did not defraud investors because the group invested in various profit-generating projects. The trial closed the case on March 21st, 1991, meting out multiple sentences. For his part, Group President Shen was sentenced to 7 years' incarceration and a fine of NT\$3 million (US\$100,000).

Investors, prosecutors, and defendants were unsatisfied by the district court ruling and an appeal was made to the Taiwan High Court. Chang-sheng again argued that because the group did regularly distribute interest, no fraudulent activity was involved. He restated that the group's activities were not illegal prior to the 1989 revision of the Bank Law and that the deceased Vice President Liu Tie-qi had been solely responsible for fund solicitation. The group, he continued, had gone bankrupt only because of the government ban and would have continued functioning well otherwise.



The meeting of Creditors summoned by court

Photo from China Times

The high court decision upheld Chang-sheng's original 7-year sentence and fine. For his part, Group Vice President Yu Yong-ming received a sentence of 5 years and 6 months and a fine of NT\$2 million (US\$70,000). However, the two served only 4 years of their sentences, and were released on parole on February 7th, 1994. Investors were very much disappointed by their mild punishments for actions that had resulted in the fraudulent acquisition of nearly NT\$100 billion.

Outside the Trial



The Hong Yuan Group filed for bankruptcy on May 8th, 1991. Although creditors were owed US\$2.4 billion (NT\$73.1 billion), only US\$120 million (NT\$4 billion) in assets were at the court's disposal. The civil court had found Shen Chang-sheng and Yu Yong-ming jointly liable for the debt. However, no further assets were found in their possession. Investors recovered only a pittance of the vast funds that the Group had acquired. Yong-ming passed away in 2010, making the hope of finding funds for compensation even more remote.

Conclusion

The Hong Yuan Group, Taiwan's first deposit-taking investment company, inspired the subsequent launch of some 200 similar companies in the years that followed. However, none came close to achieving the success or creating the chaos that Hong Yuan did. The Hong Yuan Group has since become an important case study on illegal banking and multilevel marketing.



七十九年度訴字第二六一七號

臺灣臺北地方法院刑事判決
公訴人 臺灣臺北地方法院檢察署檢察官
被告 姚鼎龍 男，

九十一年度訴緝字第一四四號 瑞股

字第一二〇九、二三九〇、一

公訴要旨？

郭整璽等人合謀，於民國十

一二五 台北地方法院刑

九二、

一九二	選任辯護人
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被告

選任辯護人

20

被告 曹 刚

十八歲


十一歲

被 告 萬青選 鄭子殷 男五十四歲	委任辯護人 朱昭勳 律師 男六十一歲	李炳民 男四十八歲	臺灣台北地方法院刑事判決 公訴人 臺灣臺北地方法院 被告 高福千 男五十八	選任辯護人 徐進樞 劉永安	被 告 劉永安	選任辯護人 張德銘 徐進樞	被 告 阿不都拉	選任辯護人 宿文堂
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上訴人 彭春長 男 四十八歲
即被告

通 任 景玉鳳 律師
辯護人 簡超群 律師

右上新人，因違反銀行法等案件，不服台灣台北地方法院，七十九年度新字第二六一七號，中華民國八十年三月廿八日第一審判決（起訴書號：台灣台北地方法院檢察署八十年度偵字第第七十九年度偵字第五五七九、五八一三、七一九八、七八八三、九二二一、九七四九、一〇五九六一〇八八四、一二〇八三、一二三四三、一二四七四、一二四七五、一二四七九、一二五四三、一二五七〇、一二五七一、一二五七二、一二六二四、一二六四五、一二九五八、一三三〇六、一三五一二、一三四二〇、一三四二一、一三九三八、一四一五八、一四二一〇、一四二一三、一四二二〇、一四六五五、一四六六六、一五〇九一、一五〇九二、一五五一九、一五六五五、一五八〇七、一五八〇八、一六〇五六、一六二〇二、一六三六三、一六五六八、一六五六

台灣台北地方法院刑事判決	七十九年度訴字第二六一七號
公訴人 臺灣臺北地方法院檢察署檢察官 被告 沈長聲 男四八歲	
選任辯護人 施智謀 莊展宏 施正國	律師 律師 律師
被告 潘啓元	
選任辯護人 宿文堂 阿不都拉	
選任辯護人 張德銘 徐進福 劉水安	
臺灣臺北地方法院刑事判決	
公訴人 臺灣臺北地方法院檢察署檢察官 被告 沈 應 男 六十八歲	右列被告因違反銀行法案件，經檢察官提起公訴（七十九年度偵字第五五〇一三、七一九八、七八八三、九二二一、九七四九、一〇五九六、一〇四八三、一二三四三、一二四七四、一二四七五、一二四七九、一二五四七〇、一二五七一、一二五七二、一二六二四、一二六四五、一二九五五八、一三三一二、一三四二〇、一三四二一、一三九三八、一四一五八八、一四二一三、一四二二〇、一四六五五、一四六七六、一五〇九一、一五一五九、一五六六五、一五八〇七、一五八〇八、一六〇五六、一六六三三、一六五六八、一六五六九、一六七九五、一八一五四、一八三二四四四、一八四六二、一八九二六、一九一〇一、一四二四〇、一九二四四、一四八號），本院判決如左：
主文	
本件免訴 	

<p>臺灣臺北地方法院檢察官</p> <p>被告 姚鼎龍 男</p>	<p>公訴人 臺灣臺北地方法院檢察署檢察官</p>	<p>臺灣臺北地方法院刑事判決</p> <p>九十一年度訴字第一四四號</p>	<p>右列被告因違反銀行法等罪案件，經檢察官提起公訴（七十八年度偵字第一五八五一、一六二六四、一六二九六、一六五〇八、一六五四八、一七二六七號，七十九年度偵字第一二〇九、一二三九〇、一二七〇九、一二八五七、一二八七七、二九七五、二九八五、二九八八、二九八九、三〇四〇、三六八五號），本院判決如左：</p>	<p>主文</p> <p>被告犯詐欺罪，處以無期徒刑。</p>	<p>檢察官聲請處罰被告已滿十八歲之陶曉明、姚鼎龍、高顯千、蔡繼興、黃崇智、李炳民、陳鳳山、萬青連、鄭子殷、陳清源、吳桂生、鄭啟雄、孔度杰、黃白虹、胡廉、郭整璽等人合謀，於民國七十四年六、七月間，在臺北市南京東路二段二號十樓，設立福祥商業有限公司，明知該公司並非銀行，不得經營收受存款之業務，竟以</p>	<p>三、一、二五 八、一三三〇 一四二一〇 五〇九二</p>	<p>台北地方法院刑事判決</p> <p>公訴人 臺灣臺北地方法院檢察署檢察官</p> <p>被告 沈長聲 男 四八歲</p>	<p>選任辯護人 施智謀 律師 莊展宏 律師</p>	<p>被告 潘啓元</p>	<p>臺灣高等法院刑事判決</p> <p>上訴人 臺灣臺北地方法院檢察官</p>	<p>七十九年度</p>
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檢察官 八十二年度上更(一)字第三二六號	訴 字 第 二 六 一 七 號	臺灣臺北地方法院刑事判決 94年度訴緝字第57號 臺灣臺北地方法院檢察署檢察官 陶曉明 男 63歲
	被 告	上列被告因違反銀行法等罪案件，經檢察官提起公訴（78年度偵字第15851、16264、16296、16508、16549、17267號，79年度偵字第1209、2390、2949、2709、2857、2877、2975、2985、2988、2989、3040、3685號），本院判決如下：
	主 文 本件免訴	記 登 文 字 號 第 二 六 一 七 號

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Taipei Dadaocheng Wharf
Photo from Yang An-Sheng