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**A Domestic Enron<sup>1</sup>  
Embezzlement Case<sup>1</sup>**



# Seven family business groups and PEWC



Photo from June 15, 2006 Apple Daily

**Mr. Sun Fa-Min**

It all started with a whistleblower's letter on June 5<sup>th</sup>, 2003, reporting that properties belonging to Pacific Electric Wire and Cable Co. Ltd. (PEWC, 太平洋電線電纜公司) had been obtained using embezzled funds. Prosecutor Zhu YingXiang (朱應翔) opened an investigation that, step by step, unveiled Taiwan's own shocking "Enron" scandal.

The "father" of China's cable business, Sun FaMin (孫法民), established Yongguang Electric Wire Factory (YEFW, 永光電線廠) in Tianjin, China in 1933. He

moved YEFW's facilities to Taiwan in 1948 and two years later invited Lee Yu-Tian (李玉田), Jiao TingBiao (焦廷標), Lee HongWen (李鴻文), Zhen YiChou (鄭乙丑), Tong YaDong (仝迺東), and Yuan JingYao (苑景堯) to form the Pacific Electric Wire Factory (太平洋電線製造廠).

<sup>1</sup> 民國 93 年 11 月 15 日，臺北地檢署 92 年度偵字第 13991 號等案件認被告胡洪九、全玉潔、全清筠、孫道存、繆竹怡、黃靜琳等 6 人，均為太平洋電線電纜股份有限公司從事業務之人，為自己利益掏空公司近 200 億元，而以背信、偽造文書、偽造有價證券、洗錢等罪嫌起訴上開 6 人。臺北地方法院以 93 年度矚重訴字第 2 號判處主嫌即被告胡洪九 18 年有期徒刑、被告全清筠 6 年有期徒刑、被告孫道存 4 年有期徒刑。本案起訴檢察官朱應翔、公訴檢察官周懷廉、鄭深元、林勤綱。



**Pacific Sogo Department Store**

Photo from September, 2009 Fred Hsu, Wiki

Pacific Electric Wire Factory (太平洋電線製造廠), reorganized as PEWC in 1958, continued to expand. FaMin and his business partners launched other ventures together, including Pacific Trunk Cargo Transportation Company (太平洋汽車貨運公司), Walshin Lihua Wire and Cable Company (華新麗華電線電纜公司), Pacific Construction Company (太平洋建設公司), Pacific Real Estate (太平洋房屋), Pacific Sogo Department Store (太平洋崇光百貨公司), Ellis Electric Co. Ltd. (亞力電機公司), ZhongXiao Water and Electricity Company (忠孝水電公司), BaoCheng Investment Company (寶澄投資公司), Pacific Leasing Corporation (太平洋租賃公司), and Pacific Laser and Photo Electricity Company (PLPEC, 太平洋雷射光電公司).

As Taiwan's first and largest cable company, PEWC had ongoing technical

cooperation agreements with companies in the US, Japan, and Germany and overseas branches in Singapore, Thailand, and Malaysia. PEWC was listed on the Taiwan Stock Exchange in 1963.

FaMin retired in 1986, stepping down from his position as PEWC president but retaining a seat on the board of directors. FaMin's son, Sun DaoCun (孫道存) took over as PEWC General Manager, while Tong YaDong (仝逵東)'s son Tong YuJie (仝玉潔) took over the presidency. The two split PEWC's myriad businesses between them. Separately, PEWC partner Jiao TingBiao took Walshin Lihua Wire and Cable Company out of the PEWC Conglomerate. He would later use it to form the Walshin Lihua Conglomerate (華新麗華集團), which included Winbond Electronics Corporation (華邦電子公





### Taiwan Mobile Company

Photo from September 29, 2013 Solomon203 Wiki

司), Walshin Technology Corporation (華新科技公司), and Hannstar Display Corporation (瀚宇彩晶公司). Zhang MingQiang (章民強), the professional manager of Pacific Construction Company, separated that company, Pacific Real Estate, and Pacific Sogo Department Store from the PEWC Conglomerate. PEWC continued to be run together by the remaining six families.

Conglomerate General Manager DaoCun actively expanded PEWC into the telecommunications and high-tech fields. From 1990, PEWC won bids for fixed-line licenses in Thailand and Hong Kong and the CT2 license and GSM license in Taiwan and founded Pacific Telecommunication Company (太平洋電信公司, which later became Taiwan Mobile Company, 台灣大哥大公司). In 1997, PEWC integrated

its overseas subsidiaries and founded Asia Pacific Wire and Cable Company, registered in Bermuda and listed on the Nasdaq market in the US. Further, PEWC invested in the Taiwan High Speed Rail Company (THSR, 台灣高鐵公司) and the Taiwan Fixed Network Company (台灣固網公司).

Under DaiCun's management, PEWC had expanded into a NT\$40 billion (US\$1.3 billion) company by 2000 with a market value of over NT\$100 billion (US\$33 billion). PEWC was clearly the largest and most successful cable company in Taiwan.

However, there were scoundrels lurking within this high-flying Cable Empire.



# The Chief Financial Officer

Hu HongJiu ( 胡 洪 九 ) held a bachelor' s in physics from National Cheng Kung University a master' s in computer science from UCLA. He began working at PEWC in 1978 as an entry-level employee and was gradually promoted by FaMin, successively serving as PEWC' s Director, Vice General Manager, and Chief Financial Officer. He had been responsible for managing his firm' s overseas investments and finances since 1980. In 1992, HongJiu even temporarily served as President of Mosel Vitelic Inc. ( 茂矽電子股份有限公司 ), a PEWC-invested company. He was a trusted and important member of the PEWC Conglomerate even though he was not related to any of the founding families.

In retrospect, however, Hu HongJiu wasn' t satisfied with his responsibilities and authority at PEWC. He had bigger ideas. HongJiu planned to use his reputation and position at PEWC to funnel money out of the conglomerate.



**Mr. Hu Hong-Jiu**

# The President ”

Tong QingYun ( 仝清筠 ), the son of Tong YuJie ( 仝玉潔 ), began his career at PEWC in 1991 as Special Assistant to the General Manager. He was promoted to the position of Vice President and General Manager in 2000 and became PEWC President three years later, around the time that news of his company’ s embezzlement problems first broke. QingYun tried without the consent of the other founding families to separate PEWC’ s profitable business operations from those that were running in the red. The other founding families thus forced the Tong family to step down from its leading management position and installed Lee ChaoQun ( 李超群 ), the son of Lee HongWen ( 李鴻文 ), as PEWC President in December 2003. Tong QingYun and his father YuJie stayed on board directors only.



**Mr. Tong Qing-Yun**



## The Vice President

DaoCun, FaMin's eldest son, studied English and International Trade at Tamkang University, and began working for his father in the conglomerate's business and marketing departments. FaMin also appointed HongJiu as his son's assistant when DaoCun became PEWC Conglomerate General Manager. This capable and trusted employee, unfortunately, would lead the Sun's PEWC empire to ruin.

To further cement PEWC's political and business relationships, FaMin arranged his son to cultivate good political connections with important figures of the then ruling political party<sup>2</sup>. Sun's political estate was certainly a help to his business and the expansion of the conglomerate.

DaoCun was a generous person who worked to accommodate the priorities and opinions of the founding families. On their advice, he led PEWC investments

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<sup>2</sup> See "Profile" by Lin ShangZuo, China Times, Sep. 22, 2009.



in a diverse array of businesses ranging from satellites to coffee shops. However, these investments were in sectors that were unfamiliar to him and provided little in return to PEWC coffers. This problem of investment overreach would later contribute to PEWC's downfall.



Photo from June 26, 2015 Liberty Times

**Mr. Sun Dao-Cun**

# The Embezzlement”

Entrusted by the founding families, HongJiu began to implement his plans to embezzle from his employer. He set up PEWC affiliates in Hong Kong, the British Virgin Islands (BVI), and Bermuda, including Central Pacific Enterprises Limited (CPE, 中俊公司), All Dragon International Ltd., Blinco Enterprise Ltd., Patagonia, Moon View Company, CPL Holding Ltd. (中豐行)··· 146 in total. These affiliates then began taking out bank loans that were guaranteed by PEWC. However, none of these affiliates ever appeared on official PEWC financial reporting documents. HongJiu forged documents and the signatures of DaoCun and YuJie.

Between 1993 and 1999, HongJiu took out loans worth NT\$17.184 billion (US\$572.8 million). All of this was laun-

dered through the PEWC “affiliates” and some of the funds were used to purchase Marina Square Hong Kong (香港海怡廣場), and Win Win International Holdings, Ltd. (榮榮國際集團有限公司) Win Win later was renamed as PacMos Technology Holdings Limited (弘茂科技控股股份有限公司).

HongJiu even took advantage of his position to embezzle US\$61.5 million (NT\$1.845 billion) when PEWC sold the Conrad Hong Kong (港麗酒店).

Furthermore, after he finished using CPE (中俊公司) as PEWC’ s overseas financial center, HongJiu liquidated it for cash, leaving PEWC indebted to CPE’ s creditors for US\$251 million (NT\$7.53 billion).



**Mr. Hu Hong-Jiu**

Photo from October 02, 2005 TVBS

Only after HongJiu submitted his resignation and left the company on August 13<sup>th</sup>, 1999 did PEWC President Tong QingYun uncover his wrongdoings. Fearing that a full disclosure would both

incriminate his father, because he was president when the embezzlement happened, and result in a cancelation of outstanding bank loans and lead to PEWC' s bankruptcy, QingYun continued





**Tomson Golf Club**

Photo from January 28, 2015 GOLFPUNK2005

HongJiu' s practice of forging documents in order to cover up PEWC' s overseas losses. Moreover, he went further still by beginning to embezzle money from PEWC himself. He took advantage of a PEWC stock sale to Tomson Golf Ltd. ( 湯臣上海浦東高爾夫球公司 ) to embezzle US\$1.86 million (NT\$55.8 million) from his company. In addition, QingYun undertook 'non-arm's-length' transactions with companies controlled by Lian TaiSheng that were contrary to PEWC' s interests. In total, QingYun embezzled NT\$764.676 million (US\$25.5 million) as PEWC President.

PLPEC ( 太平洋雷射光電公司 ) President Miao ZhuYi ( 繆竹怡 ) forged transactions between his company and companies under his control, and benefited personally from selling company real estate. In total, ZhuYi embezzled NT\$1.554 billion (US\$51.829 million).

In the chaos, even PEWC General Manager' s secretary, Huang JingLin ( 黃靜琳 ), began embezzling. Using a paper consulting company, she signed bogus consulting contracts with PEWC, which earned her NT\$387,000 (US\$12,600) in direct payments.

DaoCun, YuJie, QingYun, and HongJiu met in secret before the latter' s departure from PEWC. All were by then fully aware of the financial disaster, but made the decision to cover it up as long as possible.

From that point forward, the three remaining PEWC executives continued to conceal PEWC' s losses and forged documents to cover the wrongdoings.

This one, simple decision was the flutter of a butterfly' s wings that created the full-on financial storm later on.

## ” The Investigation

After receiving the whistleblower’s letter on June 9<sup>th</sup>, 2003, Prosecutor Zhu YingXiang launched an investigation into PEWC’s overseas companies and investments and the inward and outward remittance records in the Central Bank. The prosecutor first identified fake investment and money flows. However, his speculation needed to be confirmed through a direct review of PEWC’s accounting books. As PEWC was a listed company, Prosecutor Zhu cautiously waited for the right time to make the raid.

When PEWC was delisted from the stock exchange on April 28<sup>th</sup>, 2004, Prosecutor Zhu immediately directed investigators from the Ministry of Justice’s Investigation Bureau (MJIB) to raid PEWC and related companies, confiscating over 130 boxes of evidence that required two trucks to ship it all back to the Taiwan High Prosecutors Office’s Financial Crime Prevention Center. Concurrently, the prosecutor issued restraining orders on PEWC’s three key executives, prohibiting their leaving the country.

Prosecutor Zhu located the accountants, Zhou QiPing (周齊平) and Lee JiaHui (李嘉惠), who had been responsible for auditing





**Hu Hong-Jiu was detained** , photo from July 03, 2005 TVBS

PEWC' s financial reports since 1998. They agreed to turn state' s witness and help interpret the confiscated documents. Over the next three months, Prosecutor Zhu and the accountants poured through the evidence and discovered a secret certificate deposit number, "1502\*\*" , indicating an overseas certificate deposit account. Prosecutor Zhu had a hunch that this was the password that PEWC had used to launder its money overseas.

Prosecutor Zhu then investigated the overseas certificate deposits made by PEWC between 1991 and 2003. The

documents showed that money had been wired to various foreign banks, including even paper banks established in Vanuatu. Why on earth would a listed company in Taiwan risk having business with paper banks located in a small island in the middle of the Pacific Ocean? Could be the detail that would unravel the embezzlement? Unsurprisingly, every certificate deposit was signed by PEWC Chief Financial Officer Hu HongJiu.

Based on this evidence, Prosecutor Zhu subpoenaed HongJiu again, who returned confidently from abroad for the meeting. However, HongJiu became agitated when asked about the certificate deposits. The prosecutor then issued a restraining order, forbidding HongJiu from leaving the country.

With the assistance from the two secret witnesses who had helped HongJiu process the deposit documents, Prosecutor Zhu made further breakthroughs in uncovering HongJiu's money laundering activities. Prosecutor Zhu also secretly flew to Hong Kong to gather more evidence on HongJiu's 146 paper companies.

On November 8<sup>th</sup>, 2004, Prosecutor Zhu subpoenaed HongJiu once again to present the evidence gathered. The first cracks in HongJiu's invariably calm countenance appeared. With court approval, HongJiu was detained by the prosecutor.

# The indictment ”

On November 15<sup>th</sup>, 2004, Prosecutor Zhu indicted 6 defendants for breach of trust, forgery, and embezzlement under the Criminal Law and for violations of the Money Laundering Control Act, Business Entity Accounting Act, and Securities and Exchange Act. The prosecutor, considering the damages that the defendants had caused and the malice behind their wrongdoings, asked the court to sentence HongJiu to 20 years' incarceration, QingYun to 7 years, Huang JingLin to 4 years, and ZhuYi to 10 years.



Photo from March 29, 2016 Liberty Times



# The Trial”

The tribunal first confirmed that the Taiwan Court had jurisdiction over this case even though much of the wrongdoing had taken place in Hong Kong. Furthermore, it was ruled that much of the photocopied evidence from Hong Kong was admissible, despite the fact that they were out-of-court statements.

HongJiu argued that he had reported everything to YuJie and Sun DaoCun. DaoCun denied the argument and YuJie had passed away during the trial. Thus, the Court did not accept HongJiu’s story.

Sun DaoCun argued that HongJiu was solely responsible for overseas financial management and that he had never given any instruction to HongJiu regarding the dealings in question.

Miao ZhuYi denied that he had knowingly forged documents, but said that he had received instructions to prepare the documents in question from QingYun. QingYun argued that he had no actual control over PEWC and had no idea of HongJiu’s wrongdoings. PEWC secretary Huang JingLin denied all of the charges against her, insisting that the contracted consulting services had been provided to PEWC as stated.

After a trial lasting nearly 6 years, the Taipei District Court on July 30<sup>th</sup>, 2010 sentenced Hu HongJiu to 18 years' incarceration and a fine of NT\$1 billion, Tong QingYun to 6 years, Sun DaoCun to 4 years, Huang JingLin to 18 months, and Miao ZhuYi to 3 years and 2 months.

The case was appealed to the Taiwan High Court. After another trial lasting 6 years, the High Court on March 29, 2016 reversed the lower court's decision in part and sentenced HongJiu to 14 years and 6 months and a fine of NT\$1 billion, QingYun to 23 months, DaoCun to 3 years, and Huang JingLin to 20 months.

Because the trial proceedings had exceeded 8 years, pursuant to the Criminal Speedy Trial Act, all defendants were entitled to further reductions in their sentence.

This case is still pending.

# The consequences”

PEWC suffered NT\$20 billion (US\$700 million) in losses through theft and embezzlement and subsequently reduced its capitalization from NT\$41.7 to 18 billion in 2009. PEWC filed a civil lawsuit against all of the defendants in the criminal case for compensation. The Taipei District Court Civil Division found HongJiu and DaoCun jointly liable for NT\$15 billion (US\$500 million) in lost funds and interest – a record high compensation amount for an embezzlement case in Taiwan.

In addition, PEWC filed a civil lawsuit in Hong Kong to acquire the properties bought by HongJiu with embezzled funds. The Hong Kong Summary Court

ruled in 2008 for PEWC and the case was appealed to the Hong Kong Commercial Court. After 4 years of trial, the Commercial Court found PEWC entitled to properties that HongJiu had hidden, including Marina Square Hong Kong (香港海怡廣場) and a 40% shareholding in PacMos Technology Holdings Limited (弘茂科技控股有限公司). The total amount of the recovered properties is estimated at around NT\$9.4 billion (US\$300 million), an unprecedentedly high amount recovered in an embezzlement case from overseas.



**Marina Square Hong Kong**

Photo from April 23, 2014 Apple Daily

# The Independent Director”

The position of independent director was first introduced in The Investment Company Act of 1940 in the United States. Pursuant to this act, the board of directors shall include no less than 40% independent directors for internal control. After the Watergate scandal in the US, the US Securities and Exchange Commission (SEC) promulgated a new law requiring companies to set up audit committees that are comprised of independent directors. Independent directors gradually have gradually become an important element in the principles of corporate governance.

In Taiwan, influenced by this shocking embezzlement case, the Financial Supervisory Commission in 2006 announced the “Regulations Governing Appointment of Independent Directors and Compliance Matters for Public Companies” under Article 14-2 of the Security Law. Pursuant to these new regulations, the boards of directors of listed companies shall be composed of at least 20% independent directors. Independent directors are further required to have professional knowledge and shall not have any prior relationship with their company.

PEWC installed independent directors in 2009 in an attempt to mend fences.



**Independent Director**

Photo from April 14, 2016 United Daily News

# The Enron Case”

Commentators often compare the PEWC case to the Enron case in the United States.

The Nasdaq-listed Enron Corporation was once the world's largest provider of electricity, natural gas, and telecommunication services, earning US\$101 billion in 2000. Before going bankrupt in 2001, it employed 21,000 and was Forbes' 'most innovative company' in the US for six consecutive years.

However, Enron's executive directors and managers used overseas affiliated companies to evade taxes and funnel money into their own pockets to support their luxury lifestyles. Thus, when the company profits started to falter, these executives began forging accounting documents and financial reports to conceal the loss while continuing to promise continued strong profitability to their shareholders. In addition, they began selling Enron shares to naïve shareholders in secret for cash. However, within months, the firm's share price had slumped from US\$90 to US\$42. Three months later, with all directors and managers safely divested of their shares, Enron disclosed the extent of their losses to the public, sending share prices into a freefall that didn't end until



**Annon**

Photo from July 09, 2009  
Anders Lagerås , Wiki



shares were trading for well under a dollar.

All of the executives were accused of fraud, insider trading, and forgery. The main defendant, Enron CEO Jeffrey Skilling, was sentenced by the United States Fifth Circuit Court of Appeals to 24 years and 4 months' incarceration plus a US\$45 million fine.

This case was the largest corporate bankruptcy case in history. Citibank, Morgan Stanley, and Bank of America were implicated in the financial fraud as well, and forced to cough up US\$4.269 billion in compensation for victims of the Enron scandal.

It is clear that greed has nurtured the same monster in both the East and the West. The best way to avoid the worst of its predations may ironically be the tried-and-true checks and balances approach. Hopefully, Taiwan's recent requirement of having independent directors on all corporate boards will work for PEWC and other companies, and those who wrought havoc on this company and society will pay the price in full for their misdeeds.



**A movie about the Enron corporation**  
Photo from March 31, 2006 K 麻, Flickr







Lungshan Temple , Taipei  
Photo from Harry Huang