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The First Government Takeover of an Insurance Company¹



The Insurance Company

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Guohua Insurance Company
Photo from April 24, 2008 Apple Daily

Weng Da-Ming (翁大銘) bought a controlling interest in Guohua Insurance Company (國華人壽) in 1979 and took over as its president. At its peak, Guohua's NT\$200 billion (US\$7 billion) in assets and over 100 million policyholders made it the 8th largest insurance provider in Taiwan. Da-ming's younger brother Weng Yi-Ming (翁一銘) was a former Guohua president and holder of 43% of the firm's shares. After Da-Ming's successful takeover, Guohua was subsumed under Hua-lon Conglomerate (華隆集團).

¹ 民國 94 年 4 月 15 日，臺北地檢署 92 年度偵字第 10304 號等案件，以偽造文書與背信罪起訴 16 人，認被告翁大銘等翁家四兄弟分別擔任華隆集團與國華人壽負責人或董事，卻使用幾無殘值的抵押品偽造鑑價報告提高價值，再向國華人壽違法超貸，共計超貸新台幣 50 億元，另用轉手買賣裕昌公司土地方式虛增土地價值超貸 20 億元。臺北地方法院以 94 年度重訴字第 36 號案件判決被告梁清雄有期徒刑 5 年，國華人壽放款部人員 2 年以下不等有期徒刑。本案主嫌翁大銘於判決前死亡，共有 5 名被告因死亡為不受理判決，2 名被告尚通緝中。本件起訴檢察官俞秀端，公訴檢察官張安箴。



Mr. Weng Ming-Chang
Photo from National Central Library

The Hualon Conglomerate

(華隆集團)

DA-Ming' s father Weng Ming-Chang (翁明昌) was a highly successful entrepreneur. Ming-Chang was a cofounder and, later, General Manager of Chiahsin Cement Corporation (嘉欣水泥公司). His other credits include Yihsin Textile Company (義新紡織公司) Managing Director, Walshin Lihua Wire and Cable Company (華新麗華電線電纜公司) President, Rebar Group (力霸集團) President, Hsinhsin Chemical Fiber Company (鑫新化學纖維公司) President, and Hualon Company (華隆公司) Managing Director. In 1967, he set up

Chiahsin Flour Plant (嘉新麵粉廠). He founded Chiahsin Livestock Corporation (嘉新畜產公司) and Yihsin International Trade Corporation (義新國際貿易公司) in 1973 and served as presidents of both. Ming-Chang later amalgamated all of these companies under Yihsin Business Conglomerate (義新企業集團).

China Artificial Fiber Company (中國人造纖維公司), established in 1955 in Miaoli County, was the first company in Taiwan to produce



artificial fibers (in 1957). A Japanese entrepreneur spun off the company's compound fiber department in 1967 as Hualon Textile Company (華隆紡織公司), a specialist maker of silk and cotton fibers. Weng Ming-Chang (翁明昌) took charge in 1977, boldly merging five artificial fiber manufacturers into a significantly expanded Hualon Textile Company. This merger, unprecedented in Taiwan's textile sector, consolidated resources in order to realize economies of scale and other competitive advantages. Once the merger was complete, Hualon was brought under the Yihsin Business Conglomerate umbrella. It was the last addition that Ming-Chang would make to his new business empire.

Ming-Chang passed away unexpectedly in 1977. Da-Ming, his eldest son, was only 27 at the time and ill-equipped to handle or defend his father's empire. Ming-Chang's business partners Wang You-Zeng (王又曾) and Jiao Ting-Biao (焦廷標) thus took advantage of the moment and assumed control of Yihsin Business Conglomerate, leaving Da-Ming (翁大銘) in control of only the Chiahsin Flour Plant and 8,000 pigs



Photo from United Daily News

Mr. Weng Da-Ming

The **vengeful prince**

- Weng Da-Ming



Da-Ming, born in 1950 and the oldest of 7 siblings, held a degree in Banking from National Chengchi University. After suddenly losing most of his father's business in 1977, he vowed to win back what he saw to be his rightful inheritance. He founded Chinese Security Investment Company (中華證券投資公司) in 1978 and began manipulating stocks in order to build wealth. He purchased enough stocks in 1978 to take over Guohua Insurance. Next, taking advantage of Hualon Textile Company's internal disarray and tumbling stock price, Da-Ming began in 1980 buying up significant quantities of that company's stocks. He had bought enough to formally take back control of the company two years later. The "Prince" had wrought his revenge.



Da-Ming returned Hualon to profitability within two years. Looking to expand globally, he orchestrated new Hualon investments in Hong Kong in 1982, established a new Malaysia subsidiary in 1989, opened a textile factory in Northern Ireland in 1994, purchased an artificial fiber factory in Vietnam in 1995, registered Hualon in the Czech Republic in 1995, and purchased an interest in the Japanese Textile Company in 1997.

While focused on external expansion, labor disputes in Hualon's Taiwan facilities got out of hand, forcing his reluctant resignation in 1989. He was replaced by his younger brother, Weng You-Ming (翁有銘).

The newly liberalized Taiwan Stock Market broke 10,000 in 1989 - the first time it had done so in 27 years. Riding this wave, Hualon Conglomerate, including its Hualon Textile, Guohua Insurance, Taiwan Agriculture and Forest (臺灣農林公司), Hualon Microelectronics (華隆微電子公司), and Guohwa Security (國華證券公司) subsidiaries, had a market value topping NT\$150 billion (NT\$3 billion). Hualon Conglomerate was suddenly one of Taiwan's largest enterprises. Da-Ming had done more than make a comeback. He had surpassed even the far-reaching business dreams of his father.

However, Da-Ming's surreptitious sale in 1990 of Guohua Insurance stock to the daughter of a Taiwan Government



Minister for NT\$120 per share (vs. the current market price of over NT\$1,000 per share), triggered Prosecutor Xu A-Gui (許阿桂) to open an investigation. After being detained for questioning for about a month, Hualon Textile President Weng You-Ming fled upon his release to Malaysia, never to return. Da-Ming and other defendants were indicted two months later.

This investigation into illicit share trading was the first domino to fall in a chain that would ultimately sink the once-mighty Hualon Conglomerate.

Outraged at the investigation and his indictment, he announced his intention to run in the 1992 Legisla-

tive election just one month before polling. He won the seat and, soon after being sworn in, he formed the “Hualon Group” within the Legislative Yuan along with He Zhi-Hui (何智輝), Wang Su-Yun (王素筠), Yu Mu-Ming (郁慕明), and 20 other legislators. He seemingly had escaped his accusers unscathed and once again turned his focus on building his businesses. However, his shadier side was once more exposed when he was caught illegally trading Hosheng Company (厚生公司) stock in 1992.

This was the second domino to fall.

In 1994, an illegal stock trading scandal involving Honfu Security Company (洪福證券公司) came to light. The illegal fund used to make the deals was tied to Guohua Insurance, which suffered a significant drop in share price and market value as a result.

This was the third domino to fall.

Behind the scenes, Da-Ming had long been siphoning funds from Guohua Insurance to pay off his many personal debts and obligations, fund his family's expenses, support his active political and business relationships, and cover losses incurred elsewhere in the family of Hualon Conglomerate companies. Therefore, the crash in Guohua Insurance's share value pinched Da-Ming's finances significantly. As the cash flow narrowed, Da-Ming turned to arranging illegal loans.



Embezzling under the guise of loans

Da-Ming, Xiao Xin-Ming (蕭新民), Zhang Zhen-Song (張貞松), and Weng Yi-Ming (翁一銘) served sequentially as President of Guohua Insurance. However, even after they had stepped down, Da-Ming and Xin-Ming wielded significant influence as Guohua Insurance Board Directors.

From 1985 onward, Da-Ming had arranged Guohua Insurance loans to five Hualon Conglomerate companies totaling NT\$2.085 billion (US\$70 million). All were guaranteed using unlisted Yishin Company (義新公司) stock. Da-Ming and his youngest brother, Weng De-Ming (翁德銘), were jointly liable for the loan. However, assessing the value of the unlisted stock was problematic, as it was based only on the one-time Guohua Insurance – Yishin transaction. Although the price was assessed as excessively high, Guohua's Loans Department ignored this in order to comply with Da-Ming's request. The loan was extended in 1995 but the guarantee was not reevaluated as required by

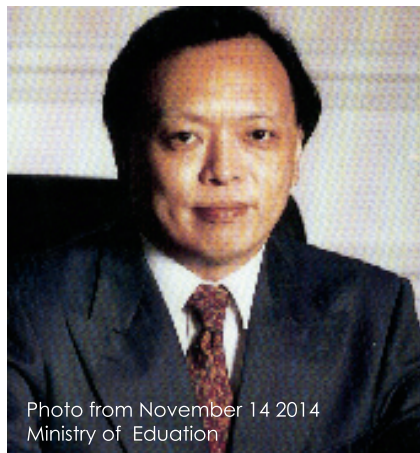


Photo from November 14 2014
Ministry of Education

Mr. Weng Yi-Ming

internal regulations. Yishin Company (義新公司) subsequently canceled its corporate registration in 1997 and, although Guohua's Loans Department knew about this and the danger now posed to the security of their loans, no one asked any of the loan recipients to repay. The debt was quietly relisted as a nonperforming loan in 2001.

In 1985, Da-Ming sold 15 parcels of land owned by Chiahxing Livestock Corporation to Hualon Textile. He sold the same parcels to Guohua Insurance three years later and then, five



months afterward, bought the parcels from Guohua Insurance for NT\$40 million more. Less than four years later, Da-Ming sold the parcels back to Guohua Insurance for NT\$1.365 billion (US\$45.5 million) and three years after, had Guohua Insurance sell the parcels to Yuchang Company (裕昌公司) for NT\$3.36 billion (US\$112 million). Yuchang then cooperated with Hualon Conglomerate company Hwarui (華瑞公司) to build the Zhonghe building using a loan from Guohua Insurance that was guaranteed by the value of the land. Subsequently, Da-Ming drastically escalated the value of these parcels again by trading them

among conglomerate companies. These parcels now had a paper value that was 12 times higher than the original purchase price paid by Guohua Insurance.

Da-Ming was particularly hard pressed for cash in 1997 and 1998. He arranged six companies within the Conglomerate to borrow a total of NT\$2.328 billion (US\$77.6 million) from Guohua Insurance, backing these loans with real estate that had not only already been mortgaged to other banks but were also overvalued by co-conspiring real estate assessors Zhang Shi-Ru (張世儒) and Hong Wen-Long (洪文龍). Moreover, the loans weren't used for their stated pur-

poses but rather by Da-Ming for himself, his family, and Hualon Conglomerate. Guohua Insurance would never see even as much as a penny returned from this loan.

As both the head of Hualon Conglomerate and Director of Guohua Insurance, Da-Ming was able to freely embezzle cash from the latter under the guise of legitimate loans. His behavior ultimately sank both.

The Investigation”



Mr. Weng Da-Ming
Photo from November 02, 2009 Liberty Times

In 1997, Hualon Textile canceled wage increases for employees and, in 1999, both shuttered two of its domestic factories and cancelled traditional year-end bonuses. In 2001, employee salaries went unpaid when the company's checks bounced. Hualon reduced its capitalization in the following year from NT\$24.3 billion to NT\$6.4 billion and then delisted completely from the Taiwan Stock Exchange the year after. The court subsequently ordered Hualon Textile to seal its factories, effectively ending all business operations in 2003.

The Taipei District Prosecutors Office concurrently launched a formal investigation into loan history of Hualon Conglomerate. In early December 2003, Prosecutor Yu Xiu-Duan (余秀端) directed the Taipei City Branch of the Investigation Bureau of the Ministry of Justice to raid Guohua Insurance as well as conglomerate companies that had received Guohua loans, confiscating accounting ledgers and related materials. Prosecutor Yu then subpoenaed witnesses and suspects in order to begin making sense of the details.

The investigation identified Hualon Conglomerate as being owned by the four Weng family brothers Da-Ming, Yi-Ming, You-Ming, and De-Ming. They cross-held stocks of Hualon Conglomerate companies and controlled the Board of Directors for both Guohua Insurance and Hualon Textile Company. They put up junk assets that were over-mortgaged and over-valued as collateral for loans from Guohua Insurance, which, due to Weng-family control, failed to impartially evaluate conglomerate loan applications prior to approval. In total, the Weng family embezzled NT\$7 billion (US\$233 million) from Guohua Insurance.

In June 2005, Prosecutor Yu indicted 16 defendants, including the abovementioned 4 brothers, various directors and managers from Guohua Insurance and Hualon Textile, and Guohua Insurance's Loans Department employees. Guohua Insurance Director Xiao Shin-Ming (蕭新民) and ex-Guohua Insurance President Zhang Zhen-Song (張



貞松) were indicted along with Hualon Textile's Director Weng De-Ming (翁德銘) and General Manager Liang Qing-Xiong (梁清雄). Prosecutor Yu accused them of breach of trust and of forgery under the Criminal Law.

Trial in limbo”



The Taipei District Court received the case on June 21st, 2005 and assigned it to the designated judge on the same day. Pursuant to the Criminal Procedure Law, the designated judge is required to conduct pretrial proceedings in order to confirm the prosecutor's indictment, defendants' arguments, and the evidence that would be presented at trial. However, this designated judge summoned 13 pretrial hearings between June 21st, 2005 and September 3rd, 2012. During this extraordinarily long preparation period, four of the defendants passed away, including Ye Zong-Xian (葉宗憲), Weng Yi-Ming, Chen Dong-Chen (陳東

城), and Xiao Shin-Ming. The designated judge issued further warrants for Weng You-Ming and Weng De-Ming on September 27th, 2007 and for Zhang Zhen-Song on July 25th, 2011. Nevertheless, the case did not go to trial for seven whole years.

A new judge was assigned to this case on September 3rd, 2012 when the previous judge was promoted to the High Court. The new judge was determined to wrap up this case. He ordered an intensive schedule of 28 pretrial proceedings and 25 trial dates and subpoenaed 18 witnesses.



During the trial, five Loans Department employees and one of the assets assessors, Zhang Shi-Ru, pleaded guilty. However, the main defendants, Weng Da-Ming and Liang Qing-Xiong, pleaded not guilty.

Da-Ming' s defense counsel took a scorched-earth policy, disputing the admissibility of investigation statements made by Huang Shou-Mei, who managed Guohua Insurance' s Loans Department during the period of interest. The court held 25 pretrial hearings in the short span of three months, examining all of the recording tapes related to the investigation of Shou-

Mei. Although the defendants tried their best to delay the trial, the court closed the case on January 8th, 2015 and scheduled the judgment announcement for May 8th, 2015.

In her closing argument, Prosecutor Chang An-Chen (張安箴) condemned the main defendants, especially the members of the Weng family, for ignoring the interests of Guohua Insurance and Hualon Conglomerate shareholders, disobeying corporate governance principles, using public funds to indulge their personal greed, and bankrupting Guohua Insurance. Prosecutor

Chang thus asked the court to sentence Weng Da-Ming to 12 years' incarceration, Liang Qing-Xiong to 10 years' incarceration, and Hong Wen-Long to 2 years' incarceration. She continued that the other defendants who had pleaded guilty should be sentenced based on their wrongdoings and their attitude taken since committing their crimes.

On March 6th, 2015, just two months before sentencing, Da-Ming was found dead in his sauna chamber at home.

Had his strategy to delay trial and punishment worked? The answer to this question may be known only to God.

On May 8th, 2015, the District Court sentenced Liang Qing-Xiong to 5 years'

incarceration, Huang Shou-Mei and her colleagues in the loan department to between 1.6 and 2 years' incarceration, Zhang Shi-Ru to 10 months' incarceration, and Hong Wen-Long to 1 year of incarceration. The court dismissed the case against Weng Da-Ming, Weng Yi-Ming, Ye Zong-Xian, and Xiao Shin-Ming due to their deaths before sentencing. Weng You-Ming, Weng De-Ming, and Zhang Zhen-Song are missing and remain wanted by the court.

An appeal of the case is now pending in the High Court.

The Consequences

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Like Hualon Textile, Guohua Insurance was delisted from the Taiwan Stock Exchange in 2003. Under the weight of its non-performing loans, the company was no longer able to operate effectively.

However, when it rains ... it often pours.

When Guohua Insurance President Weng Yi-Ming passed away in 2006, its reins were picked up by his inexperienced daughter, Weng Shi-Chia (翁世佳). Uncomfortably out of her depth, she quickly resigned and former President of the Control Yuan, Chen Lu-An (陳履安), took over as Guohua Insurance President in 2008. Facing a net value of his company of -NT\$18.5 billion (-US\$0.6 billion)², Mr. Chen invested aggressively in the stock market in hopes of leveraging investment profits to reinvigorate the company's coffers. However, the global financial crisis in 2008 collapsed stock markets and share prices worldwide. The result simply worsened the debt quagmire in which Guohua Insurance seemed inextricably stuck.



Photo from
April 24, 2008 Apple Daily

Ms. Weng Shi-Chia

² See http://www.wealth.com.tw/article_in.aspx?nid=537

The Financial Supervisory Commission announced on August 4th, 2009 that it would assume control of Guohua Insurance. At the time of takeover, the company's net value was -NT\$57.9 billion (-US\$1.93 billion). The FSC's takeover of Guohua Insurance was the first government takeover of an insurance company in 40 years.

Transglobe Life Insurance Company (全球人壽保險公司) placed the winning bid for what was left of Guohua Insurance. At the time, the company was assessed at a net value of -NT\$75.3 billion (-US\$2.51 billion), and the Taiwan Insurance Guarantee Fund agreed to pay Transglobe Life NT\$88.368 billion (US\$2.946 billion) as a condition of the purchase.

Although the Weng family business empire had created a taxpayer nightmare, no member of the Weng family received punishment for their deeds under the law.



Transglobe Life Insurance Company

QUOTE FROM PROSECUTOR

Yu Xiu-Duan

When I investigated this case, the most difficult breakthrough was to prove the evaluation reports made by some defendants were incorrect and improper. At the time, we didn't have expert examiners on real estate evaluation; therefore, I had to go through real estate information and even on-site check to satisfy my burden of proof. Now, with the assistance from expert examiners on real estate evaluation, I believed it would be a lot easier for prosecutors to prove the illegality. I also felt struggled when deciding to indict employees in the financial company, for I could sympathize their vulnerability when receiving illegal loan orders from the boss. However, I overcame my sympathy to indict them to show the society an example. At last, I never read newspapers when I investigated a crime to avoid unnecessary influence from the press.



天府宮

天府宮可協文以成文

關心系萬古綱常史跡顯美

崇義大廟昭烈廟祀全蜀諸公

聖哲誕生古存忠孝三才天下



Hsing Tian Kong , Taipei
Photo from Sweet Dumpling Studio