



Press Release

Taipei District Prosecutors Office

Release Date: July 10, 2018

Media Contact: Deputy Chief Prosecutor Chou

Contact number: (02)23146881

The investigation over sale of KMT assets has been finalized today and the conclusions are as follows

1. The result of investigation

- (1) Defendant Ma Ying-jiu 、 Zhang Zhe-chen 、 Wang Hai-qing and other defendants are indicted for illegal insider trading and breach of trust of Securities and Exchange Act, and for breach of trust of the Criminal Law.
- (2) Defendant Tsai Zhen-yuan, Hung Lin-yin, and Hung Hsin-hsing are indicted for embezzlement, breach of trust, money laundering, and untrue documenting of the Business Entity Accounting Act.

2. Abbreviated indictment (divided in five parts)

(1) Indictment fact one: stock trade of Huaxia Company in 2005

Defendant Ma Ying-jiu took advantage of the time limit on political party withdrawing control over media to sell KMT's controversial assets in low prices and under illegal

insider trading. Defendant Ma, while knowing the fact that Chairman Yu Jian-xin of the China times Group was financially insufficient to make a purchase, directed Zhang Zhe-chen and Wang Hai-qing sell stocks of **Huaxia** company to Chairman Yu, in violation of the Securities and Exchange Act for illegal insider trading, and of Civil Association Act for without reporting to the central standing committee of the KMT, to the Central Investment Company, and to the board of directors of Guanghua Company. Defendant Ma, without implementing the abovementioned process of assets evaluation pursuant to regulations of the Central Investment Company and Guanghua Company, intended to sell stocks of **Huaxia** Company in low price to Chairman Yu and therefore set trade price as 4 billion NTD but sold only for 2.15 billion NTD. To cover the illegality, Defendant Ma designed an illegal trading pattern as assets swap, which changed guarantee from **Huaxia** Company's stocks to the high risk property of litigated assets between Broadcasting Corporation of China and Ministry of Transportation and Communications Guanghua Company. Defendant Ma also agreed to reserve the 1.35 billion NTD debts from **Huaxia** Company to Guanghua Company until Broadcasting Corporation of China obtained the abovementioned litigating assets; in

so doing to extend the guarantee liability for **Huaxia** Company. Defendant Ma knew that Rongli Company did not perform an on-site examination to **Huaxia** Company before trade and both parties have not reached an agreement regarding material matters, agreed to sign the stock transfer contract before the deadline pursuant to Radio and Television Act and with reserve clause to execute the contract. Defendant Ma, in violation of no arm's-length transaction, transferred stocks and management right of **Huaxia** Company owned by Central Investment Company and Guanghua Company, and management rights of Central Motion Picture Corporation, China Television Company, and Broadcasting Corporation of China to Rongli Company, before Guanghua Company was paid a dime and received any guaranteed promissory note from Rongli Company.

(2) **Indictment fact two: stock trade of China television Company in 2006**

Defendant Ma, Defendant Zhang, and Defendant Wang, in order to cover the illegal sale of KMT's assets and to pave the way for Defendant Ma to reinstate the power to rule the country, took advantage the time limit for political power withdrawing from media regulated by Radio and Television Act and made the abovementioned deal with Chairman Yu. However, due to multiple reasons

mentioned above, the deal broke out controversies. Defendant Ma, in order to avoid imperilment to his personal image, directed Defendant Zhang and Defendant Wang to negotiate with Chairman Yu but yielded to Yu's pressure to narrow the deal target to China Television Company only. Defendant Ma understood that the deal regarding China Television Company would benefit Chairman Yu for 5 billion NTD, and the deal regarding **Huaxia** Company was nulled due to the lapse of time. However, considering the "harmony" with Yu and maintaining Ma's personal image, Defendant Ma directed Defendant Zhang and Wang to trade the management right of China Television Company with Chairman Yu for returning the management right of **Huaxia** Company. Later on, after Defendant Wang had explained the "eight-layers-of-transaction-like-Dragon-traces" financial design of transaction and its possible illegality to Defendant Ma, Ma still directed Defendant Zhang and Wang to execute the eight-layers' transaction to cover the fact that Ma sold stock of China Television Company at an unreasonable price of 6.5 NTD per stock to benefit Rongli Company and as to trade for Chairman Yu agreed to hand stocks of **Huaxia** Company to appointed attorneys by Central Investment Company for the purpose of trust. Under the arrangement of trust, Defendant Ma, Zhang,

and Wang were able to control and sell stocks and properties of Central Motion Picture Corp and Broadcasting Corporation of China belonged to **Huaxia** Company. In this deal, Central Investment Company and Guanhua Company suffered the loss of 494 million 4 thousand 3 hundred and 97 NTD.

(3) **Indictment fact three: stock trade of Central Motion Picture Corporation and trade of the old central building of the KMT in 2006**

Defendant Ma, Defendant Zhang, and Defendant Wang all knew that the Central Motion Picture Corporation is not a radio/television business under the Radio and Television Act; therefore, it is not necessary to sell China Television Company, Broadcasting Corporation of China, and the Central Motion Picture Corporation together. In addition, the issue unsolved was whether the Japanese –government-owned theaters run by the Central Motion Picture Corporation should be returned to our government. Defendant Ma, Defendant Zhang, and Defendant Wang intended to sell the controversial properties and to expand political influence by making deal with Mr. Zhang Rong-fa, a wealthy and politically influential businessman. Defendant Ma thus arbitrarily reached an agreement with Mr. Zhang Rong-fa, which sold the old central building of KMT and Huaxia building

owned by the Central Motion Picture Corporation for a low price of 4.3 billion NTD. Defendant Ma, Zhang, and Wang in an attempt to cover up the abovementioned sale of disposing assets and to benefit the buyer group represented by Defendant Tsai, agreed to sell stocks of the Central Motion Picture Corporation for 65 NTD a share, for exchange from the buyer to cooperate to dispose the Huaxia Building. However, the contract price was a serious underestimation for the three real estates owned by the Central Motion Corporation and the value of movies owned by the company was not included. Defendant Ma breached the duty of care and the duty of loyalty, disregarded the maximum interest of the Central Investment Holding and shareholders and in violation of the regular business practices, and resulted in damage the Central Investment Holding for 1.8 billion NTD. Defendant Zhang and Defendant Wang followed the instruction of Defendant Ma to help Evergreen Group obtain Huaxia Building at a price of 2 billion or less, knowing that Mr. Guo Tai-qiang, a member of the buyers' group, had no intent to invest, and Mr. Zhuang, another member of the buyers' group, was financially insufficient. They even transferred the management right and stocks to the buyers' group when the Central Investment Holding only received a small amount of down payment. The

buyers' group thus reduced company's capital to obtain benefit. Mr. Zhuang, taking advantage of the position as the vice chairman of China Film Corporation, misappropriated funds of Central Motion Picture Corporation, which resulted in disputes over the operational rights of the Central Motion Picture Corporation. The profit sharing mechanism of real estate disposal was never realized. Central Investment Holding was unable to request to buy three real estate back for the purchase clause in the contract did not effect to the Central Motion Picture Corporation. Defendant Ma, Defendant Zhang, and Defendant Wang neither considered the interest of the Central Holding Company and its shareholders, nor to comply with the business practice rules. They only want to achieve the goal that to sell a package to Mr. Zhang of the Evergreen Group. In addition, they did not undergo an open selling procedure as described in the property sale rules of the KMT, but to make deal with one specific person, Mr. Zhang, in the sale of the KMT headquarters building. In so doing, KMT suffered losses up to 497 million NTD. Later, in a failure to comply with the promise to sell Huaxia Building for 2 billion NTD, Mr. Zhang Yung-fa Foundation refused to pay the last 100 million NTD. KMT therefore suffered losses up to 597 million NTD.

(4) **Indictment fact four: stock trade of Broadcasting Corporation of China in 2006**

Defendant Ma, Defendant Zhang and Defendant Wang disposed the stock rights of Broadcasting Corporation of China before the expiration of the trust period of the Hua-Hsia Company's stock rights to Mr. Zhao despite knowing that Mr. Zhao did not have enough money to make a purchase amounted to 5.7 billion NTD. They did this to actually control the huge asset profits of the non-broadcasting department of the Broadcasting Corp of China and to expand media influence. Defendant Ma was found to have instructed Mr. Zhang and Mr. Wang to exclude Mr. Gao and sell the company's stock rights to Mr. Zhao without having brought the proposal to the KMT's central Standing Committee or the Board of Directors of the Central Investment Holding for discussion. They were found to have violated the Company Act, Business Mergers and Acquisitions Act, and the business practice rules about the procedure of disposing the property of the four companies. Pursuant to the rules, a sale can be made only after the assets had been separated. However, before the radio department was separated from the whole assets of the Broadcasting Corp of China, they sold it to Mr. Zhao for 1 billion NTD. They also designed the payment terms favorable to Mr. Zhao and agreed that Mr.

Zhao gained 96.95% future earnings of the Broadcasting Corp of China. By lacking a securitized trade mechanism, the Central Investment Holding and Guanghai Company suffered high transaction risk. They proposed the “TIAN LONG Eight-Step” financial scheme and decided the total price as 57 billion NTD. After that, they asked the Everlance Co., Ltd to submit a transactional price analysis report with major defects. Hua Hsia Company and Mr. Zhao the signed the stocks transfer contract to sell Broadcasting Corp. of China on Dec. 22, 2006. The Central Investment Holding transferred the management right to Mr. Zao after only received 100 million NTD upfront payment from Mr. Zhao. Without receiving any further payment, they transferred 96.95% stock rights of the Broadcasting Corp of China owned by Huaxia Company to Mr. Zao’s company. The Central Investment Holding and Guanghai Company suffered losses of 15 billion NTD as a result. Mr. Zhao, on the other hand, enjoyed the use and interest while the Central Investment Holding and Guanghai Company could not buy back the non-broadcasting department with a specific price. Guanghai Company though received collectible debts worth 28 billion NTD from Mr. Zao’s company, the rights had never realized.

(5) **Indictment fact five: defendant Tsai Zhen-yuan, the**

**former legislator, and other defendants committed
breach of trust and embezzlement**

(A) Defendant Tsai was indicted for embezzlement of Apollo Company's (hereinafter, APL) fund
Defendant Tsai was APL's chairperson who managed the company's fund. When the Central Motion Picture Company traded stock via APL, Defendant Tsai embezzled 35 million 858 thousands 9 hundred and 78 NTD from July, 2007 to Jan. 2008, to pay off his personal mortgage loans, expenses to establish the Leading Foundation, house renovation fees, and legislator campaign advertisement expenses.

(B) Defendant Tsai, Defendant Hong A. (Legislator Tsai's Office head and his spouse) and Defendant Hong B. (Hong A.'s father and the nominal responsible person of APL) in violation of breach of trust, conversion of trust account and money laundering:
Defendant Tsai, taking advantage of APL's role as the stock exchange platform of the Central Motion Picture Company, sold 110 million shares of the Central Motion Picture Company owned by APL to ChinShi Company and received more than 400 million NTD. He further entered a trust contract with APL and designated himself as the trustee. Afterwards, during the period between March 2009 and August 2013, Defendant Tsai, Defendant Hong A and Defendant Hong B embezzled funds from the trust account for 242,473,471 NTD to exercise their unlawful control over the said account. In addition, Defendant Hong B. instructed a third party to cash APL's check for him to disguise and conceal his massive illicit gains. Defendant Hong B. also gave a third party APL's checks

and cash in exchange for another check in order to pay off their house renovation fees.

(C) Defendant Tsai and Defendant Hong A in violation of Business Entity Accounting Act:

In order to cover up embezzlement, Defendant Tsai and Defendant Hong A. intentionally not to record APL's accounting events on trust account transactions, and thus caused APL's financial statements to become untrue from 2007 to 2010.

(D) Defendant Tsai and Defendant Hong A in violation of breach of trust and embezzlement of funds of Leading Foundation During his position as the chairperson of the Central Motion Picture Company between May 8, 2006 and July 29, 2007, Defendant Tsai applied to National Youth Commission of Executive Yuan to establish Leading Foundation.

Later on February 28, 2011, Defendant Tsai purchased two units of Sun Moon Mansion from Taiwan Fertilizer Company. Though the two units were designed for private housing, not for office use, Defendant Tsai and Defendant Hong A breached their duties to Leading Foundation by falsely registering one of the said unit under the name of the Foundation and embezzled 21 million 428 thousand 200 NTD from the Foundation.

3. laws breached

(1) **Fact Two:**

Defendant Ma, Defendant Zhang, and Defendant Wang have violated Subsection 2 and 3, Section 1 of Article 171 of Securities and Exchange Act (Non-Arm's Length Transaction and the Breach of Trust) due to their involvement in the stock exchange project between Huaxia Company 、 China Television Company 、 the Central Motion Picture Company 、 China

Broadcasting Company. In addition, they have also committed the Offenses of Breach of Trust due to their involvement in selling KMT's previous headquarter. Defendant Ma, as KMT's chairperson, held the actual power to instruct and decide in the abovementioned stock exchange project. Even though Defendant Ma was not the director or manager of Central Investment Company and GuangHua Company, he made the final decision for KMT was the sole stockholder of the two companies at that time. Therefore, Defendant Ma, Defendant Zhang and Defendant Wang had joint intention and collaboration of acts in the abovementioned offenses. They are considered as co-offenders according to Section 1 Article 31 of Criminal Code.

(2) **Fact Three:**

(A) Regarding Fact III 2. (1), Defendant Tsai was indicted for embezzlement.

(B) Regarding Fact III 2. (2), Defendant Tsai, Defendant Hong A. and Defendant Hong B. were indicted for embezzlement and breach of trust. Further, by concealing the illicit gains, Defendant Hong B. was indicted for his violation of Section 1 Article 11 of the Money Laundering Control Act.

(C) Regarding Fact III 3, Defendant Tsai and Defendant Hong A. were indicted for intentionally omitting accounting events and failing to record transactions causing financial statements untrue under the Subsection 4, Article 71 of Business Entity Accounting Act.

(D) Regarding Fact III 4, Defendant Tsai and Defendant Hong A. were indicted for embezzlement in public welfare.

4. opinions to sentences

Defendant Ma received his bachelor's degree from National Taiwan University, Department of Law, LL.M. degree from the Law School of New York University, and his S.J.D. degree from Harvard Law School. He was the associate professor of Law School of National Chengchi University, legal advisor of Credit

Suisse First Boston, deputy secretary general of KMT's central committee, director of Research, Development and Evaluation Commission of Executive Yuan and Minister of Justice.

Defendant Zhang received his bachelor's degree from Department of Economics, National Taiwan University and the M.A. in Accounting from Central Michigan University in the United States. He was previously served as adjunct associate professor in Department of Accounting, National Taiwan University, deputy controller of Directorate General of Budget, Accounting and Statistics, member of Research, Development and Evaluation Commission of Executive Yuan, member of Public Construction Commission of Executive Yuan, deputy minister of Accountant Inspection Committee, Examination and Approval Department, deputy secretary general of Executive Yuan, director of Directorate-General of Personnel Administration, Executive Yuan, Chief of Finance of KMT Reconstruction Committee, vice president, president and deputy controller of Bureau 1 of Directorate General of Budget, Accounting and Statistics. During his course of crime committed, Defendant Chang was KMT's deputy secretary general of, the chairperson of KMT's administrative committee and the president of Central Investment Company and CMC Company. Defendant Wang received his bachelor's degree from the Department of Finance and Taxation and his M.A. from Department of Public Finance from National Chengchi University. His previous work experience includes Bank SinoPac, Pan Asia Bank and Central Investment Company. During his wrongdoings, he was the vice president of KMT's administrative committee and general manager of Central Investment Company.

As the mayor of Taipei City and the Minister of Justice, Defendant Ma had great exposure in administration. During the merger of the Taipei Bank and Fubon Bank, Defendant Ma, as the Taipei City mayor, had been questioned and investigated. He should have been very familiar with the merger and acquisition related rules and procedures, especially in any potential controversies. Holding the highest power over KMT's assets as mentioned above, Defendant Ma should have complied with the law. Nevertheless, he was engaged in the transactions that caused

massive loss of the KMT and the society as a whole. Defendant Ma also claimed that this was “way too absurd” himself. Considering his motives of winning the reputation and/or avoiding the potential risk of controversial KMT assets taken by the government, Defendant Ma consulted legal, financial and accounting experts and converted assets secretly by means of complicated procedures and instruments. Moreover, he had prepared 60 million NTD for the preparation of the upcoming litigation.

In conclusion, Defendants have violated the Subsection 2 and 3, Section 1 of Article 171 of Securities and Exchange Act. The prosecution recommends strict sentencing considering their conducts after the commission of the offence, their ordinary conducts, living conditions, damages caused by the offences to the country and the society as a whole. As for Defendant Tsai, Defendant Hong A and Defendant Hong B’s, are in violation of breach of trust, embezzlement, and money laundering, the prosecution recommends proper sentencing.