



Press Release

Taipei District Prosecutors Office

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**The investigation on Defendant Chang and the others
suspected for misappropriating the assets of Far
Eastern Air Transport (FAT) and illegal loan-granting
has ended, as briefly stated below:**

Charges

1. Defendant Chang is indicted for violation of (a) Misrepresentation of Publicly Disclosed Financial Reports, Securities and Exchange Act Enforcement Rules, article 20, paragraph 2; article 171, paragraph 1, subparagraph 1; (b) Breach of Trust with Proceeds over NT\$100 Millions, Securities and Exchange Act Enforcement Rules, article 171, paragraph 1, subparagraph 3, paragraph 2; (c) False Statements within The Scope of Inspector or Reorganizer Duties, Company Act, article 313, paragraph 3; (d) Forgery, Criminal Code, article 216, 210, 215; (e) Fraud, Criminal Code, article 339, paragraph 2; (f) Embezzlement, Criminal Code, article 336, paragraph 2; (g) Breach of Trust, Criminal Code, article 342, paragraph 1; (h) Knowingly Making False Information in Accounting Documents and Causing Untrue Results, Business Entity Accounting Act, article 71, paragraph 1, 5; (i) Tax Evasion by Fraud, Tax

Collection Act, article 47, paragraph 1, article 41; (j) Unapproved Termination of Civil Air Transportation, Civil Aviation Act, article 110-3.

2. **Defendant Cheng** is indicted for violation of (a) Securities and Exchange Act Enforcement Rules, article 20, paragraph 2; article 171, paragraph 1, subparagraph 1; (b) Securities and Exchange Act Enforcement Rules, article 171, paragraph 1, subparagraph 3, paragraph 2; (c) Business Entity Accounting Act, article 71, paragraph 1, 5; (d) Criminal Code, article 216, 215; (e) Criminal Code, article 342; (f) Tax Collection Act, article 47, paragraph 1, article 41.
3. **Defendant Chen(Cho)** is indicted for violation of (a) Securities and Exchange Act Enforcement Rules, article 20, paragraph 2; article 171, paragraph 1, subparagraph 1; (b) Securities and Exchange Act Enforcement Rules, article 171, paragraph 1, subparagraph 3, paragraph 2; (c) Business Entity Accounting Act, article 71, paragraph 1, 5; (d) Criminal Code, article 216, 215.
4. **Defendant Liao, Huang, Chen(Chin), Lin, Sun and Lu** are indicted for violation of (a) Breach of Trust by Staff Member of Bank, Banking Act, article 125-2, paragraph 1, 2; (b) Accessory of Breach of Trust with Proceeds over NT\$100 Millions, Securities and Exchange Act Enforcement Rules, article 171, paragraph 1, subparagraph 3, paragraph 2; Criminal Code, article 30.
5. **Defendant Liu** is indicted for violation of Forgery, Criminal Code, article 216, 215.

Facts of the offenses

1. Regarding FAT

(1) Defendant Chang is the actual director of FAT (publicly issued on Dec. 21, 1981; voided on Aug. 15, 2016) and the Huafú Groups (including Huayi Leasing Co., Ltd, Minghan Construction Development Co., Ltd, Jinyohua Investment Co., Ltd, Huafú Enterprise Co., Ltd, Huafù Construction Development Co., Ltd, Ganjun Investment Co., Ltd, and Hanfong Asset Management Co., Ltd.) Defendant Cheng is the vice president of FAT and responsible for fund-management of the Huafú Groups. Defendant Chen(Cho) is the associate manager of the finance department and responsible for verifying accounting documents and preparing financial statements of FAT.

(2) Fraud on Reorganization of FAT:

Due to illegal behaviors conducted by nominal director, FAT had been caught up with serious financial difficulties, the board of FAT applied for reorganization and was approved by Taipei District Court for reorganization on Apr. 30, 2009. To take prospective advantages of the reorganization of FAT, Defendant Chang knowingly cheated on the court by stating that the Fuhua Groups would be funding FAT with their own sufficient funds, therefore got assigned as the organizer (along with Huayi Leasing) on Aug. 17, 2010. After being assigned for the position and in charge of the re-operation of FAT, Defendant Chang had committed offenses as followed:

a. Filing false reorganization plans and hiding the source of funds which were actually combined with high interest to get the

permission of the re-operation:

On Jun. 11 and Jul. 22, 2008, Civil Aeronautics Administration(CAA) suspended the operation permission of FAT because of its financial crisis possibly leading to security concerns. In order to re-operating, one of the conditions was complying with the minimum of statutory capital limit. However, the Fuhua Groups were all in financial crisis and nearly bankrupted, and thus unable to fund FAT. Defendant Chang then borrowed NT\$500 million from loan sharks which charge the interest rate of 30%, in order to get the permission for re-operation. Without knowing the source of funds, CAA finally approved the re-operation on Apr. 13, 2011. To pay for the interest, Defendant Chang had misappropriated the profits from FAT, reaching the amount of NT\$ 489,780,822. He also borrowed NT\$ 780 million from Entie Commercial Bank for interest payment. The debt eventually fell on FAT after it completed the reorganization on Oct. 1, 2015.

b. Embellishing financial reports with misrepresentation of revenues:

To get the permission of the reorganization from the court, Defendant Chang knowingly embellished the financial reports (the Year 2012-2014) of FAT with false maintaining income NT\$ 175,589,000, commission income NT\$ 54,643,000, and commercial income NT\$ 32,381,000.

c. Deceiving the court into believing that the rate FAT being responsible for was zero or less than 2.5%:

According to the reorganization plan reported to the court by

Defendant Chang, Huayi and Minghan would pay off the debts for FAT through loans from Entie Commercial Bank(NT\$ 800 million, NT\$ 550 million). However, Defendant Chang hid the fact that FAT was the joint guarantor of the loans, and claimed that Huayi and Minghan paying off the debts would only produce zero or less than 2.5% rate of charge for FAT, thus making the reorganization supervisor and the court to granted the reorganization to be continuously executed.

d. With the offenses mentioned above, Defendant Chang successfully deceived the court that FAT had followed the reorganization plan. The court ruled a recognition of the reorganization completion of FAT on Oct. 1, 2015, diminishing 97% unwarranted claims which were transferred into reorganization profits NT\$ 10,459,944,000, turning worthless shareholder's equity into valuable ones. Defendant Chang thus took great advantages from the reorganization, including the management power and shareholder's interest of newborn FAT.

(3) Embezzlement:

To escape from the compulsory execution procedure aiming FAT at the beginning of 2014, Defendant Chang instructed Defendant Cheng and Chen(Cho) to "secure" funds of FAT by moving money to Huayi Leasing Co., Ltd. However, since FAT had already completed the reorganization on Oct. 1, 2015, it was apparently unnecessary to "secure" the funds any more. With the knowledgement of such fact, Defendant Chang kept moving money to Huayi for Huayi and his personal use, embezzling NT\$

1,365,695,000, dating from Oct. 13, 2015, till Dec. 31, 2016.

(4) Leaving debts to FAT:

To leave all the debts of the Huafú groups to FAT, Defendant Chang borrowed NT\$ 2,250 million loans from Taiwan Cooperative Bank in the name of FAT with the help of Defendant Liao and others in 2016 to pay off the debts (NT\$2,080,315,000) owed to Entie Commercial Bank by Huafú Enterprise Co., Ltd and other relative companies.

(5) Breach of Trust:

In 2016, one year after the reorganization, the receivables and long-term liabilities of FAT were over NT\$ 3.1 billion and 2.2 billion. Hence, CAA requested FAT to retrieve bank loans from Huafú Enterprise Co., Ltd and other relative companies for its own operational use. To avoid penalties from CAA, and for easing the pressure brought by CAA and solving the difficulties caused by those assets as well, worthless fixed assets located at Damsui District were transferred from Huafú and Defendant Chang to FAT on Dec. 29, 2017, even though Defendant Chang and Cheng were fully aware that those assets were totally unnecessary to FAT and difficult to be converted into cash. NT\$ 2,927,955,000 receivables were written off after such deal was done. However, the deal didn't ease the financial difficulties of FAT at all; instead, FAT took over lots of worthless assets which led to even much severe financial damages.

2. Regarding Taiwan Cooperative Bank

(1) Staff of the bank:

Defendant Liao: President

Defendant Huang: Associate and Vice General Manager of Department of Credit Management

Defendant Chen: Associate Manager of Department of Credit Management

Defendant Lin: Associate Manager of Department of Credit Management (Taipei Branch)

Defendant Sun: Person in Charge (Taipei Branch)

Defendant Lu: Person in Charge (Head Office)

(2) Backgrounds:

In September of 2014, Defendant Chang got loans from Entie Commercial Bank (NT\$ 780 million, Entie-Huafú program) for operation uses of Huafú. Meanwhile, Huayi Leasing Company (parent company of FAT) also got loans from Entie (NT\$ 800 million, Entie-Huayi program) for paying off the reorganization debts of FAT. In April of 2015, Minghan Construction Development Company got loans from Entie (NT\$ 550 million, Entie-Minghan program) for paying off the reorganization debts of FAT. After FAT completed the reorganization, as suggested by Entie, Entie-Huayi and Entie-Minghan program were converted into “Entie-FAT program” on Feb. 3, 2016; FAT became the debtor and responsible for NT\$ 1,350 million debts. FAT was later requested to pay off the debts within 6 months, using loans from other financial entities. However, FAT was rejected by Cathy United Bank and Land Bank of Taiwan because of its lack of credit. Defendant Chang then turned to his

old friend Defendant Liao, CEO of Taiwan Cooperative Bank, for helping through loan applications.

- (3) Defendant Liao and Huang then instructed persons in charge to evaluate the applications; the applications were later suspended due to some concerning facts found (i.e., related parties transactions without reasonable explanations) in the financial reports (December, 2015). In May of 2016, Defendant Chang asked Defendant Liao to proceed with the applications anyways. After discussed with Defendant Chang, Cheng, Huang, and Chen, Defendant Liao instructed Defendant Lin to take charge of and to proceed with the applications as soon as possible. Defendant Lin then instructed Defendant Sun to evaluate securities for loans even before credit evaluation was completed. According to the evaluation result of securities, Defendant Lin suggested Defendant Huang to credit FAT NT\$ 2,100 million. However, Defendant Huang asked Defendant Lin to raise the credit for FAT since "President Liao cares about the case a lot". Hence, Defendant Lin finally suggested to credit NT\$ 2,250 million, including NT\$ 754 million for Entie- Huafú program, NT\$ 1,350 million for Entie-FAT program, and NT\$ 146 million for operational working funds. Approved by Defendant Liao, the applications then proceeded as urgent ones within the credit.
- (4) Instructed by Defendant Lin, knowing that Entie- Huafú program was not related to the operation of FAT at all, and that FAT had already paid back what Huayi and Minghan paid off for FAT (disclosed in the financial reports December, 2015), therefore the loans should not be granted for paying off Entie- Huafú and Entie-FAT program, Defendant Sun completed the phony credit

evaluation just to meet Defendant Liao's demand. The applications were later approved by Defendant Lin, Lu, Chen, and Huang who also ignored the flaws of the evaluation, without any further investigation or any verification by comparing financial reports. On Jul. 25, 2016, hosted by Defendant Liao, the board of the bank finally granted the loans of NT\$ 2,250 million (NT\$ 2,226,315,000 were virtually used). On Dec. 12, 2019, FAT shut down the business without warning and couldn't pay back the loans from Taiwan Cooperative Bank.

- (5) During the audit procedure in February of 2017, Taiwan Cooperative Bank was questioned about transaction details with FAT. Defendant Liu, the person in charge of the deposit department of Taiwan Cooperative Bank(Taipei Branch) who had the fiduciary duty to reply to the questions based on facts and GAAS, knowing that FAT only had limited access to its account, however purposely left the "Withdraw Limit" checkbox blank and replied without her supervisors' approval, therefore caused damages to the accuracy of accounting audit procedure and financial reports management of the authorities.

Suggestions for sentencing

1. Defendant Chang

Defendant Chang illegally took great advantage of FAT reorganization, hollowing out the assets of FAT for the Huafú Groups and his personal use in return for worthless ones. Besides, Chang shifted his responsibilities of NT\$ 2,100 million debts through a government-owned bank to the public. Even

worse, without sufficient funds, FAT couldn't renew its aircraft, engines, and flight management systems. With only 8 obsolete planes (MD type, average service year: 22; longest: 26) and 14 engines, it had been difficult for FAT to secure flight and public safety. Since 2011, CAA had found several concerning problems that might endanger flight safety, such as overheating engines, damaged thrust reversers, etc. FAT was fined by CAA at least 12 times due to flight regulation violations. Because of the offenses committed by Defendant Chang, FAT couldn't provide safe and secure service to the public as expected; the offenses severely damaged our transportation safety. Showing no sense of guilt and introspection to his crime, Defendant Chang claimed that it was legal and appropriate to mix the funds and accounts of FAT and the Huafú Groups. Based on the circumstances mentioned above, we believe that Chang deserves punishment as severe as it could be.

2. Defendant Liao

Defendant Liao had been working in the financial business for a long time. Liao was very experienced and entrusted to be the president of a government-owned bank; he was responsible for Taiwan Cooperative Bank and its shareholders' best interest. However, Defendant Liao put his fiduciary duty aside just to meet the demands of his friend, Defendant Chang. Knowing that Entie and other private banks had already turned FAT loan applications down, Defendant Liao put pressure on persons in charge and helped FAT to get through the evaluation. As a result, Defendant Chang successfully shifted unrelated debts to FAT, forced the government-owned bank to take over all the mess he

made, and then finally damaged public interest. Showing no sense of guilt and introspection to his crime, Defendant Liao claimed that he was not aware of the offenses at all and that it was the persons in charge who should take the responsibility. Based on the circumstances mentioned above, and to urge people who are in the same positions to abide by rules, we believe that Laio deserves punishment as severe as it could be.

3. Defendant Cheng and Chen(Cho)

Defendant Cheng and Chen(Cho) were both instructed to commit the offenses by Defendant Chang. However, Defendant Cheng and Chen(Cho) had confessed and explained in detail about the execution of the offenses that had been greatly helpful to the investigation. Furthermore, Cheng and Chen(Cho) hadn't benefited from the offenses; they had to take orders from Defendant Chang and had no authority to refuse Defendant Chang's demands. Based on the circumstances mentioned above, we believe that Cheng and Chen(Cho) deserve punishment as light as it could be.

4. Defendant Sun and Lu

Defendant Sun and Lu were persons in charge of entry levels. To support themselves with only meager incomes, Defendant Sun and Lu had no choice but to follow Defendant Liao and other supervisors' demands and eventually committed the offenses; they were piteous and relatively less imputable. (Also, Defendant Sun had confessed and testified in details during the investigation.) Based on the circumstances mentioned above, and to encourage potential whistleblowers, we believe that Sun

and Lu deserve punishment as light as it could be.

Proceeds of the offenses

Defendant Chang kept moving money from FAT in the name of “for Hauyi”, embezzling NT\$ 1,365,695,000, dating from Oct. 13, 2015, till Dec. 31, 2016. Besides, Defendant Chang got loans from Taiwan Cooperative Bank and virtually used NT\$ 2,226,315,000 of the credit. Defendant Chang then shifted the debts to FAT. Those proceeds of the offenses shall be confiscated.