

## Supreme Prosecutors Office News Release



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The Special Investigation Division (“SID”) of the Supreme Prosecutors Office has completed its investigations regarding former general manager Chen ○-jung of China Steel Corporation (“CSC”) and others being suspected of committing special breach of fiduciary duty under the Securities Exchange Act in the de-sulfur slag sale process, and former Kaohsiung County Councilor Tsai Chang-ta (now Deputy Speaker of the Kaohsiung City Council) being suspected of attempts to blackmail de-sulfur slag businesses. The process and results of the investigations are as explained below:

### **I. Background**

The SID was investigating the corruption case involving former Secretary-General Lin Yi-shi, and discovered in the course of the investigations that the funds for bribery used by Chen ○-hsiang, the responsible person of De ○ Mineral Election Co., Ltd. (“De ○”), had come from profits of selling de-sulfur slag; the SID had therefore opened a separate case to further investigate. The criminal proceeds in this case exceeded \$2.4 billion, and was therefore particularly significant; the people involved included not only high level personnel from CSC, but also people’s representatives at the central and local levels, which made this case special. On May 30, 2013 Prosecutor-General Huang of the SPO determined that this matter constituted a special and significant economic crime case under Article 63-1, Paragraph 1, Subparagraph 3 of the Court Organization Act.

### **II. Chen ○-jung of CSC et al sold de-sulfur slag in a manner that violated the special breach of fiduciary duty offense under the Securities Exchange Act:**

Chen ○-jung, Ou ○-hua, Chen ○-hao, Chang ○-lung, Huang ○-chang and Kang ○-kun were respectively the former general manager, deputy general manager for production, deputy general manager for sales, head of work safety and environmental protection department (later reformed as Environmental Protection Office, “EPO”), engineer of the Industrial Engineering Office, and manager of the operating sales office of CSC. A number of de-sulfur slag business operators – that is Cheng ○-chiang, the responsible person of Da De Liang Environmental Protection Limited (“DDL”), Chen ○-hsiang, the responsible person of De ○, and Chang ○-Hsi, the general manager of Tai ○ Chemicals Co., Ltd. (“Tai ○”) – felt that the price of de-sulfur slag may continue to rise with the rising of international steel and iron prices; furthermore, neighborhood leaders in the Xiaogang area had announced that they would protest against the pollution caused of de-sulfur slag, which may make it more difficult for these operators to obtain de-sulfur slag material in the future. They therefore indicated to CSC their hope that CSC may sell its de-sulfur slag on a “price negotiation” basis (originally price competition basis) and to deduct a water weight of 20% (in other words, a price deduction of at least 20%). It was estimated that the price could be reduced by around \$150 per ton. In return, they were willing to pay half of the price reduction, that is around \$80 per ton, to the neighborhood leaders of Xiaogang area each month to settle any potential protests.

Chen ○-jung et al were aware that the problem of de-sulfur slag work pollution should be handled by the operators themselves, and the work of pacifying the neighborhood must not be handled by paying money to certain individuals. However, out of a common intention to injure the interests of CSC, and based on criminal communication of intentions for the illegitimate interests of the de-sulfur slag operators, the EPO first changed its sale method to “price negotiation”; afterwards, when the Industrial Engineering Office and the Operating Sales Office were carrying out estimation of the base price, they sent along with their superiors’ fraudulent intentions and calculated the base price of de-sulfur slag with the percentage of slag iron at 16.3% (the de-sulfur slag testing previously conducted by CSC had failed to analyze the slag iron content for as much as 83.69% of the de-sulfur slag, resulting in the percentage of slag iron being seriously under-estimated at 16.3%), and valuing the slag iron at the “grade 1 scrap iron” price, despite knowing that the slag iron percentage of

the de-sulfur slag must have been at least 40% and that the value of the slag iron should have been equal to Feng Hsin Iron & Steel Co., Ltd's "first industrial iron" price, approximately 2.4 times the price of the Economic Daily's "grade 1 scrap iron". In addition, although they were aware that the sale of de-sulfur slag was a sales procedure and not a collaborative environmental protection procedure, they violated internal regulations by approving a 20% environmental protection public relations cost discount, so that the base price was under-estimated at \$540 per ton, veering away from the then prevailing upward market trends for scrap steel and scrap iron prices, which seriously injured the interests of CSC. Subsequently CSC indeed finalized the transaction with the operators at \$546 per ton (in comparison with the 2004 prices, after allowing for differences in the setting of water weight, there was an accumulated discount of 38%), and the de-sulfur slag operators also separately paid Liang ○-nan and Xu ○-lung every month for as long as 2 to 3 years.

Chen ○-jung et al had intentionally injured the interests of CSC for the illegitimate interests of the operators, discounted the selling price for de-sulfur slag by 20% on the false pretext of "environmental protection public relations cost" while actually passing such benefit on to the operators; they had also under-estimated the value of the de-sulfur slag (including under-estimating the percentage and value of the slag iron), in order to meet the operators' request for price deduction. They had caused CSC to sustain a damage of \$2,423,148,999.

### **III. Kaohsiung City Council Deputy Speaker Tsai Chang-ta et al sought to blackmail Di O:**

Tsai Chang-ta, the current Deputy Speaker of Kaohsiung City Council, was previously a Kaohsiung County Councilor. During that time, he became aware through one Yen ○-cheng, a major shareholder of Tian ○ Materials Co., Ltd. ("Tian ○"), that CSC had made substantial profits from selling de-sulfur slag, that only 3 operators were permitted to take away such product at a low contract price, which meant huge profits were there to be made. February to April 2010 happened to be the period for renewal of the contract; he therefore asked Chen ○-hsiang et al whether they were interested in selling out. As Chen ○-hsiang had just been blackmailed by Lin Yi-shi for \$63 million, he bluntly refused; Tsai Chang-ta therefore

asked several people's representatives to ask CSC on his behalf, but they did not receive any response, nor did CSC notify Tsai Chang-ta to go and sign the contract. When Tsai Chang-ta knew of this, he immediately telephoned CSC to express his discontent, and during a subsequent dining occasion with the public relations office of CSC, he indicated bluntly: "I want Tian Shan to buy CSC's de-sulfur slag. I will question De ○ during the council meeting. Tian Shan would be permitted to join in so long as De ○, Tai ○ and DDL agreed, but only De ○ refuses still." Afterwards, during a general county administration questions session on May 25, 2010, Tsai Chang-ta indeed asked the unknowing Wang ○-song, the former director of the Kaohsiung County Environmental Protection Bureau ("EPB"), to immediately investigate and sanction De ○. The EPB therefore conducted large-scale audits on 7 premises of De ○ on June 2, and issued 7 penalty notices, which caused Chen ○-hsiang to be fearful. Tsai Chang-ta then had several people make inquiries with Chen ○-hsiang as to whether he was willing to sell the de-sulfur slag. Chen ○-hsiang knew that they were acting on behalf of Tsai Chang-ta, but although he was already fearful after being audited and sanctioned, he still refused to sell out to Tian ○ on the ground that the de-sulfur slag contract had expressly prohibited transfers. Therefore Tsai Chang-ta never succeeded. If Tsai Chang-ta and Yen ○-cheng had been able to obtain de-sulfur slag from CSC, it was estimated that if slag iron selling price was \$8,000 per ton and slag iron percentage was 40% (according to the meeting records of Tian ○), they could have made a profit of \$1,095,325,000 over a period of 5 years.