

REPORT - HONG KONG 2008

Tycoons who aim to keep it in the family

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PERSONAL WEALTH

The thorny problem of succession is exercising dynastic chiefs, reports Justine Lau

Families loom large in corporate Asia, controlling two thirds of the region's 1,000 biggest companies.

Hong Kong is no exception. Families control or have substantial stakes in three-quarters of the territory's businesses, according to **Henry Yeung**, a professor at the National University of Singapore. He defines "family businesses" as those owned or managed by two or more family members.

While corporate family empires exist in every country, the situation in Hong Kong is different because of its short history of wealth creation. Because many first-generation tycoons are set to step down in the coming years, transition issues are at the forefront of many investors' minds.

Hong Kong is home to a large number of immigrants who fled to the territory from mainland China after 1949, when the Chinese Communist party seized power.

Many companies' founding fathers started their businesses in the 1950s **and** 1960s **and** are still in charge. It is almost time for the next generation to take the helm.

In Hong Kong, the 10 richest families have a total estimated net worth of more than US\$120bn, as calculated by Forbes. Half of them, including Li Ka-shing, Asia's richest man **and** chairman of Cheung Kong Holdings **and** Hutchison Whampoa, are over 70.

Hong Kong has always been captivated by the lavish lifestyles of its tycoons - many made their fortunes in the property sector, a backbone of the economy.

Glossy magazines carry page upon page of stories about where they live, whom they date, what they wear **and** which balls they go to.

There is also an increasing interest in a massive transfer of wealth currently under way in corporate Hong Kong.

Sir Run Run Shaw, the centenarian founder of Television Broadcasts, Hong Kong's dominant TV station, is in talks to sell a 26 per cent stake in the company.

Unlike most rich families in the territory, Sir Run Run's children have not displayed much interest in running the business.

Last year, the death of childless Nina Wang, once Asia's richest woman, triggered a highprofile inheritance battle between a reclusive businessman **and** the charitable foundation controlled by her siblings **and** executives at Chinachem, her property company.

In 2006, **Henry Fok**, a prominent pro-Beijing magnate, died at the age of 83. His assets were passed on to descendants including sons Timothy **and** Ian, who are ranked ninth on Forbes' Hong Kong rich list with an estimated net worth of US\$4.5bn.

Many more second-generation tycoons are now set to join the Brothers Fok **and** inherit their fathers' vast fortunes.

Mr Li, Hong Kong's most powerful businessman, turns 80 in July. The father-of-two, estimated to be worth US\$32bn, has indicated that Victor, his older **and** more conservative son, will take over the reins when he retires. Richard, his more entrepreneurial second son, struck out independently many years ago, **and** today controls Hong Kong's largest fixed-line telecommunications company, PCCW.

"Victor joined Cheung Kong when he was 22, starting at the bottom rung," Mr Li told the Financial Times last year. "Richard has his own business **and** will not likely return to Cheung Kong or Hutchison. However, I have personal businesses overseas, **and** Richard may help run those businesses when the time is right."

Handing over power to the next generation can be tricky, as the children are not usually as well connected or accomplished as their fathers, even if many have obtained MBAs from prestigious universities.

"Those who are not up to it are going to annoy professional managers, who may resign **and** join your competitors," says Mr **Yeung** at NUS. "Or they will burn all your money by making stupid investment decisions."

Family conflict is another danger. The three Kwok brothers took control of Sun Hung Kai Properties, the territory's biggest property developer, after their father died in 1990. Until recently, they had been hailed as a prime example of successful transition.

Then in May, SHKP's board removed Walter, the eldest, as chairman **and** replaced him with his 79-year-old mother, following a bitter power struggle pitting Walter against his two brothers, Raymond **and** Thomas.

Joseph Fan, a professor at the Chinese University of Hong Kong, has studied 217 family successions in Hong Kong, Singapore **and** Taiwan between 1987 to 2005. He found that companies' market-adjusted share prices dropped an average of 56 per cent in the five years preceding - **and** the one year following - a generational change in ownership **and** control.

"This extent of value destruction in succession is alarming," says Mr Fan.

Still, founders are likely to continue to transfer corporate wealth to their favourite sons **and** daughters in the hope that they will be able to inherit their long-standing business contacts **and** networks.

Although family succession is not unique to Asia, the longestablished significance of connections **and** relationships often brings additional complications for management transfers.

"The founders are not idiots," says Mr Fan. "They know their sons may not be the most capable ones, but they know their sons would be able to inherit those intangible assets."

Some tycoons' children have been taking on increasingly high-profile roles as they prepare to assume control of businesses **and** networks.

In January, Peter Lee, the eldest son of Lee Shau-kee, Hong Kong's third richest man, formed Centum Charitas Foundation.

Most of the charity's members are the sons **and** daughters of some of Hong Kong's most prominent business **and** political leaders.

This year, the Hong Kong government enlisted Kenneth Fok, grandson of **Henry, and** Tsang Chi-hung, son of pro-Beijing businessman Tsang Hin-chi, to be part-time members of the Central Policy Unit, an advisory body.

Notwithstanding all the difficulties, family succession can work. Brothers Victor **and** William Fung have transformed Li & Fung, a Hong Kong-based trading company founded by their grandfather, into one of the world's largest trade sourcing firms.

In doing so Victor **and** William have defied the rich man's curse - namely that "wealth", as the Chinese saying has it, "cannot survive three generations".

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