FOCUS

The business of SUCCESSION

Illustration: Henry Wong

Li Ka-shing's foresight on succession planning stands in contrast to high-profile disputes over the transfer of family wealth. How can tycoons preserve their legacy?

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The fortunes they built up in the boom years of the 1960s and 1970s are immense, even legendary, but the city's ageing tycoons are now facing entirely new challenges that could wipe out billions from the businesses they built up from scratch.

Perhaps mindful of the squabbling that has befallen the families of gambling mogul Stanley Ho Hung-sun and the Kwok brothers who run Sun Hung Kai Properties, one of the city's biggest landlords, business titans are now mindful of the need to think about their legacies.

Li Ka-shing, Asia's richest man and the chairman of Cheung Kong (Holdings), last month set something of a precedent for his peers by publicly announcing his succession plans and his arrangements for dividing up his wealth between his two sons, in a move that has won praise from analysts.

"This is very good because [Li] has separated succession planning from estate planning," said Elsa Pau, chief executive officer of Estate Solutions Group, who believes that Li has set an example for other billionaire tycoons to follow by not forcing his children to work in his empire.

Li, who turns 84 tomorrow, was rated last year by *Forbes* magazine as the ninth-richest person in the world, with an estimated wealth of US$25.5 billion. Li and his family trust together own about 43.3 per cent of property developer Cheung Kong, which has a 49.97 stake in Hutchison Whampoa, one of the largest companies listed on the Hong Kong stock exchange, with a diverse portfolio covering telecommunications, retail chains and property development. At the end of April, companies in the Cheung Kong Group had a total market capitalisation of HK$823 billion.

On May 25 Li spelled out the division of his wealth. Speaking immediately after Cheung Kong's annual general meeting, he said that his elder son, 47-year-old Victor Li Tzar-kuoi, would take the helm both of Cheung Kong and Hutchison Whampoa. Currently, Li is chairman of both, and Victor his deputy.

"As for my other son [Richard Li Tzar-kai], there are some things that he is very interested in. He will have my full support ... now that he has already owned several sizeable companies. The asset values of the businesses that he owns will go up several times over, so he will also have a very successful career. And there will be no conflict among their businesses," Li Ka-shing said, without explaining whether Richard Li would remain a beneficiary of the family trust.

The younger Li controls PCCW, the media and information-technology services giant, which has announced plans to boost investment in its pay-television business and expand support for corporate data centres on the mainland.

Unlike his older brother, Victor, who has shunned the limelight since his kidnapping in May 1996, Richard Li is fairly visible; his relationship to actress Isabella Leong Lok-sze, the mother of his three children, is a rich source of fodder for the popular press. The two brothers' relationship is also reported to be beset by sibling rivalry.

Joseph Fan, a professor at Chinese University who for more than 20 years has studied family succession in Hong Kong, Singapore and Taiwan, said Li's announcement marked "the first time [a Hong Kong tycoon] has publicly announced a clear succession and wealth-splitting plan".

> **To make it simple, there are two ways of transiting fortune – combine or divide**
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> PROFESSOR JOSEPH FAN

Fan jointly studied 250 family companies in Hong Kong, Singapore and Taiwan between 1987 and 2005. He found that the five-year period in which there is a generational change in ownership and control tended to coincide with an average 60 per cent market-adjusted drop in companies' share prices.

That makes succession a crucial issue.

"If the younger Li is crossed out from the list of beneficiaries of the family trust that controls Cheung Kong, it will be a clean wealth split," said Fan of Chinese University. According to the Hong Kong stock exchange, the family trust – Li Ka-Shing Unity Trustee – owns 40.43 per cent of Cheung Kong.

This would minimise potential disputes with the listed companies, said Fan.

"Even though we do not have details of the plan, I assume that the younger son will get a similar amount of wealth to that of the elder son. Otherwise, conflicts may arise," said Timothy Lo, managing director of CIC Investor Services.

Li's foresight about succession planning within his business empire has seldom been matched by his fellow tycoons. In the past two years, Hong Kong has seen a number of dramatic disputes over the generational transfer of family wealth, most noticeably between the three Kwok brothers and within the family of Stanley Ho, whose four wives have borne him 17 children.

"The SHKP disputes came about as all three Kwok brothers are the beneficiaries of the family trust that controls Sun Hung Kai Properties, and all are decision makers. That easily creates conflicts," said Fan.

The fallout among the Kwok brothers – Thomas, Raymond and Walter – has been further complicated by the fact that all three have been arrested by the ICAC. Raymond Kwok Ping-luen and Thomas Kwok Ping-kwong were arrested on March 29 as part of an unprecedented investigation into allegations of bribery and misconduct in public office. Walter Kwok Ping-sheung was arrested early last month over the same case. None has been charged, but the arrests have raised concerns about succession planning at SHKP, where members of a new generation – the three brothers have 10 children – may be waiting to take over.

After a highly public dispute, replete with charges of mismanagement, questions about the undue influence of a woman friend, charges that eldest brother Walter suffered from a psychological disorder (after his kidnapping by the same gang that abducted Victor Li), media leaks and court injunctions, Walter Kwok was ousted as chairman in May 2008.

$823b

The market capitalisation in Hong Kong dollars of the companies in Li Ka-Shing's Cheung Kong Group on April 30. Li is Asia's richest man

The SHKP boardroom battle was reported to have been without precedent in Hong Kong's recent corporate history in terms of drama, intrigue and acrimony, and ended with their mother, the octogenarian Kwong Siu-hing being put in charge of the company created by her husband. In 2010, a source close to the Kwok family said that Kwong expressed her wish that the family trusts be divided into three equal parts, including one for the benefit of Walter's family.

Over at Stanley Ho's house, an acrimonious court battle for control of the mogul's multibillion-dollar gambling empire was waged between some of the children of his four wives. Ho, by then 89 years old, was last seen in public in May last year, when, looking frail and in a wheelchair, he appeared on TVB. The Cantonese-language video footage showed Ho reading in laboured breaths from a script on a large cue card at the home of third wife Ina Chan Un Chan who – with daughters Pansy, Daisy and Maisy – stood by and watched as he announced that he had withdrawn a lawsuit against family members whom he had accused of "improperly and/or illegally" seizing control of his empire.

The lawyer who had initiated the lawsuit on behalf of Ho on January 26 last year, Gordon Oldham of Oldham, Li and Nie, said that the tycoon had been pressured into doing the broadcast.

Fan believes that the spectacular disputes and fallouts among the Ho and Kwok families were not the only, nor the major incentive for Li to announce a succession plan.

"The Cheung Kong group of companies is so big its succession will have an impact on the mainland economy and the central and Hong Kong governments. Li also needs to tell stakeholders about his plan. He needs to do it," said Fan.

Following Li's announcement of his succession plan, real-estate and casino magnate Lui Che-woo as well as Wharf (Holdings) chairman Peter Woo Kwong-ching disclosed how they would distribute their wealth among family members.

Lui, the 82-year-old founder of developer K. Wah International Holdings and Galaxy Entertainment Group, which runs casinos in Macau, said last month that he intends to split his business empire among his five children, with his casino and property businesses to go to his eldest son, Francis Lui Yiu-tung, and third son, Alexander Lui Yiu-wah, respectively.

At Wharf, chairman Woo's daughter, Jennifer, is handling luxury retailer Lane Crawford, while son Douglas is managing director of its development arm, Wheelock Properties.

Henderson Land Development chairman Lee Shau-kee has not yet unveiled his succession planning. But a company spokeswoman said that for years his empire's businesses have been split geographically, with elder son, Peter Lee Ka-kit, responsible for the group's business in the mainland, while younger son, Martin Lee Ka-shing looks after the businesses in Hong Kong.

In March, tycoon Cheng Yu-tung resigned as chairman of New World Development, the company he found in 1970, to prepare for a takeover by a younger generation.

So what is the best succession planning?

Richard Norridge, a lawyer at Herbert Smith who specialises in trusts, succession and other matters of estates, said: "There is no 'one size fits all' approach to succession planning which can definitively avoid disputes, as there are all kinds of variables, including the personalities and approaches of the parties involved. However, trusts often provide for flexibility and can be a financially efficient way of devolving wealth to future generations."

Fan believes it can be easily dealt with: "To make it simple, there are two ways of transiting fortune – combine or divide. If you believe your children will not have family disputes over asset transfers in the next 50 years, you combine them to run the business. If not, you divide them."

In the West, some family businesses can last for more than 100 years without any disputes. Family governance was crucial to their sustainability, he said.

"But Chinese do not vote. The family listens to the father, and if the father dies the family will listen to the eldest son," Fan said.

Fan said the current corporate dynasties were mostly founded in the aftermath of the second world war. Their elderly founders were still grappling with how to hand over the reins to the next generation.

And even though some Chinese tycoons had good succession plans, some assets could not be transferred, Fan pointed out.

After all, he says: "Who can replace Li Ka-shing?"

Like father, like son? Galaxy Entertainment Group chairman Lui Che-woo (left, above) and his vice-chairman son Francis (left, below). Li Ka-shing (right) with elder son Victor, who will take the reins of his companies while younger son Richard (above) will continue running his own businesses.
Photos: May Tse, Jonathan Wong, SCMP Pictures, Bloomberg