

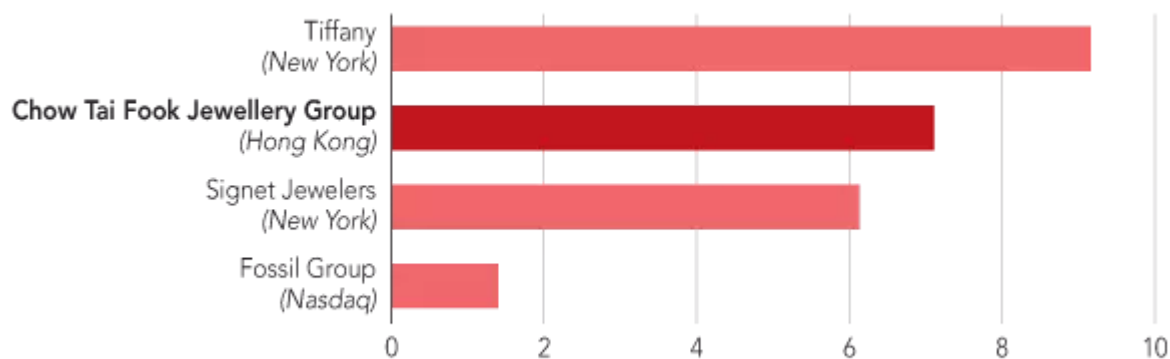
Prospects not so bright for Hong Kong jewelry mogul's successors

JENNIFER LO, Nikkei staff writer

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HONG KONG -- When the powerful and wealthy flocked to the Hong Kong Funeral Home on Oct. 12 and 13 to pay respect to Cheng Yu-tung, who had died aged 91, they were marking the loss of the first of a generation of rags-to-riches businessmen whose acumen and diplomatic savviness is almost unrivalled by their successors.

Market capitalization of major jewelry chains (in billions of dollars)



As of Oct. 13

Source: QUICK-FactSet

As the founder of **Chow Tai Fook Jewellery**, the world's largest jeweler by market capitalization with the exception of Tiffany & Co., Cheng earned a reputation for tact in forging ties with heavyweights in Hong Kong and beyond. His investment in a diamond business backed by Wen Jiabao's wife brought him close to the family of the former Chinese premier, the New York Times reported.

Cheng's funeral was a rare gathering of the business elite and Hong Kong dignitaries. His poker partner, billionaire Lee Shau-kee of **Henderson Land Development**, and Hong Kong's richest man, Li Ka-shing of **CK Hutchison Holdings**, were among the pallbearers. The funeral hall, decorated with white orchids, was filled with bouquets from mourners such as Zhang Dejiang, chairman of the standing committee of the Chinese National People's Congress, and Pony Ma Huateng, founder and chairman of Chinese internet giant **Tencent Holdings**.



Cheng Yu-tong's funeral was a rare gathering of Hong Kong dignitaries. Tycoons Li Ka-shing of CK Hutchison Holdings and Lee Shau-kee of Henderson Land Development carried the coffin, along with Leung Chun-ying and Tung Chee-hwa, the territory's current and former heads of government. (Courtesy of New World Development)

Condolences included a message from Chinese Vice President Li Yuanchao. "Long live his contribution to the development of Hong Kong and the mainland," Li said in a statement on Oct. 3. "His voice and smile will stay forever in our hearts."

Observers said that Li's gesture was more than common courtesy. The reason: Li, a prominent political figure in the Chinese Communist Party, was reportedly a beneficiary of a Cheng program that sponsored mainland officials studying at Harvard University between 1998 and 2000.

Cheng began as an apprentice at a gold shop owned by a friend of his father in Macau after fleeing his hometown of Shunde in southern China during World War II. Three years later, in 1943, he married his boss's daughter, Chow Tsui-ying.



New World Development's founder, Cheng Yu-tung (Photo by Kenji Kawase)

The jewelry business that Cheng inherited has since diversified into a vast empire that includes its flagship real estate conglomerate **New World Development**, bus franchises in Hong Kong, department stores in China and casino resorts in South Korea, Australia and Vietnam. At the time of his death, Cheng was estimated to be worth about \$13 billion, making him the third-richest man in Hong Kong.

Nicknamed "Gutsy Tung," Cheng was known for his appetite for risks. He capitalized on the Chinese market for wedding gifts with 999.9% fine gold jewelry, which became an international standard for purity. When market confidence tumbled during Sino-British talks on Hong Kong's future in the early 1980s he spearheaded a project to build the landmark Hong Kong Convention and Exhibition Centre, where the territory's 1997 handover ceremony was later held.

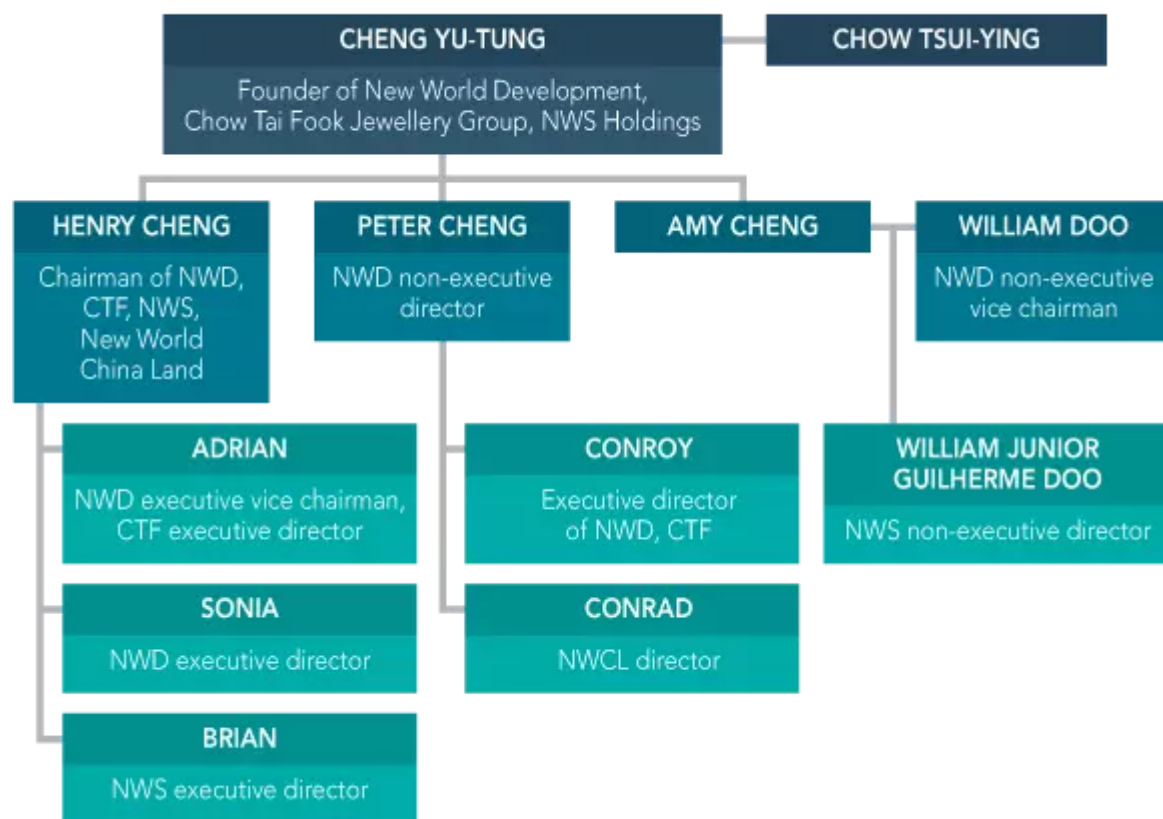
The tycoon was also praised for his insight into succession. While most of his ageing peers retained a firm grip on their businesses, Cheng decided that he would let his eldest son Henry Cheng Kar-shun try his hand as managing director at New World from 1989. He officially handed control to his son months before he suffered a stroke in 2012 and withdrew from public appearance.

Growing skepticism

Nonetheless, it is far from a bright new world for Cheng's successors, who face growing skepticism over their ability to navigate the rising economic and political complexities in Hong Kong and mainland China.

"I expect the new generation to be more ambitious as we all know that [Henry] Cheng has invested recklessly when he was in charge of New World at first," said Alvin Cheung, associate director at Hong Kong-based Prudential Brokerage. "But I think it's a very good experience for him and now he is more mature."

Cheng family members in power



Unlike his father, who was a school dropout, Henry Cheng was educated overseas, and has a liking for Western literature. He made an impression quoting Charles Dickens and German philosopher Johann Wolfgang von Goethe in New World's annual reports, but his track record of overexpansion unnerved investors. His bets on international hotel chains Renaissance and Ramada, and on Hong Kong's now defunct broadcaster Asian Television, led to losses and piled up debts for the group in the 1990s.

His political bets were no better. In the 2012 election for Hong Kong's chief executive -- the territory's political leader -- he initially supported Henry Tang Ying-yen but abruptly switched his loyalty to the eventual winner, Leung Chun-ying. Asked whether he would back the unpopular Leung for another term in the upcoming 2017 election, Cheng said he would support whoever became the chief executive.

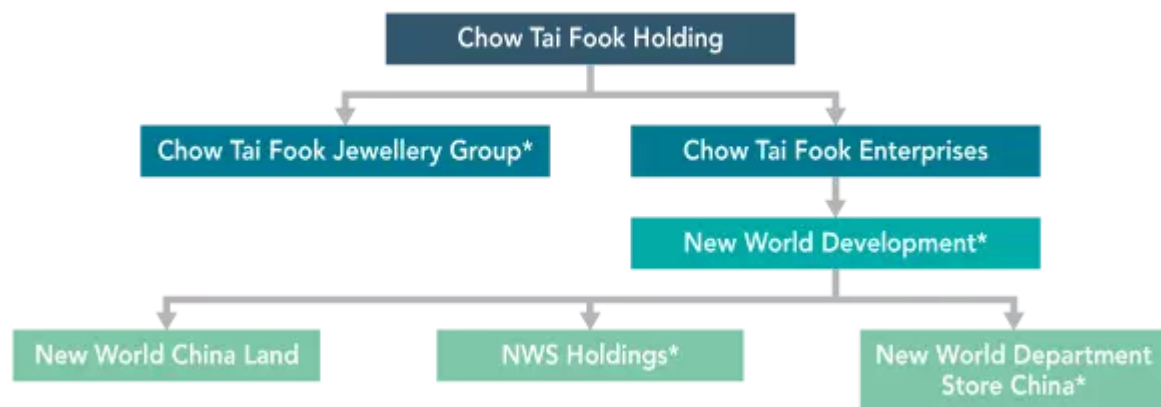
"Henry is just incomparable with his father when it comes to political calculation. He is too shaky in his bets ... it gives the impression that the next generation of leadership is still finding its way," said Simon Lee, a senior lecturer at the Chinese University of Hong Kong's business school.

Last year, Henry Cheng's oldest son, Adrian Cheng Chi-kong, took the job of executive vice-chairman at New World. The apparent heir hopes to carve a niche with his fledgling K11 art malls, which combine artistic exhibits with retail space.

Adrian's younger brother Brian Cheng Chi-ming oversees the family's listed infrastructure arm NWS Holding, while his sister Sonia Cheng Chi-man is tasked with growing the hotel business. She led an \$800 million deal in 2011 to take over U.S.-based Rosewood Hotels, which owns 19 properties, including the Carlyle in New York.

"The younger Chengs have tried to prove themselves, but whether they are able to make epoch-making decisions like their grandfather remains to be seen," said Lee. "K11 is far from mainstream ... and Rosewood hardly competes with major global hotel chains."

Cheng family's business empire

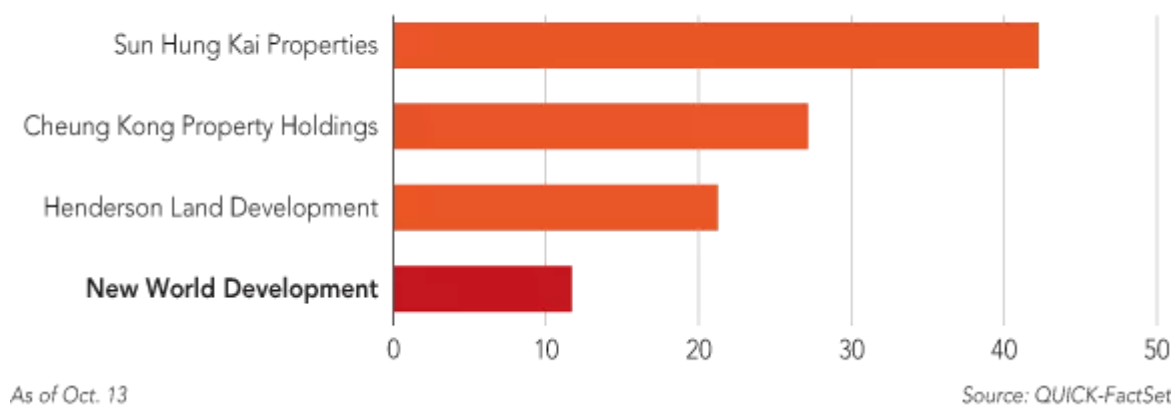


**Companies listed in Hong Kong*

Recently, New World was embroiled in a highly publicized saga over a development in the rural area of Wang Chau, in Hong Kong's New Territories, which revealed a cozy relationship between the government, rural landlords and local developers. The government is now investigating allegations that a consultancy that had been employed by the government and New World for separate projects around the area wrongly provided data gathered during the government project to New World.

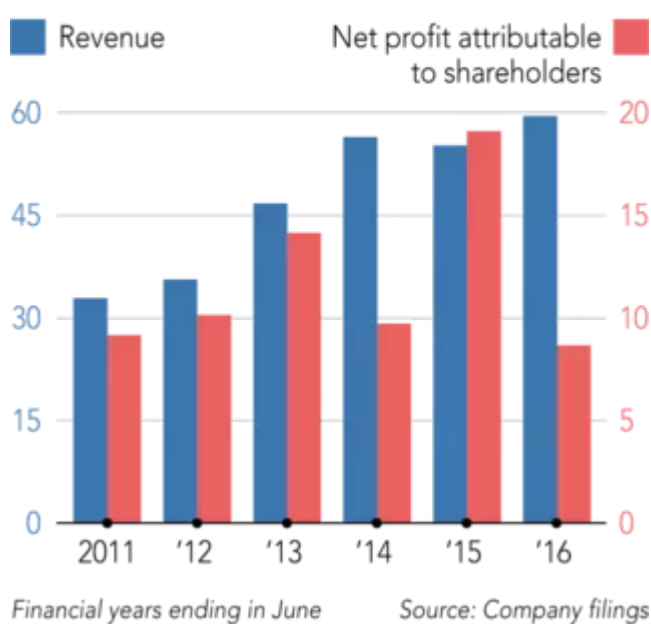
In an attempt to distance New World from damaging controversy over the development Henry Cheng claimed in September that the company was a victim in the affair, stressing that the group had failed in multiple attempts to have the site rezoned for building luxury houses, while the government had taken about 40% for public housing.

Market capitalization of major Hong Kong developers (in billions of dollars)



Still, New World is one of Hong Kong's major developers, with a market capitalization of \$11.7 billion -- about half the level of Henderson Land and a quarter of **Sun Hung Kai Properties**. A strong project pipeline has buoyed the company's stock price recently, but sales of mainland assets could not check a decline in its net profit, which plunged 55% for the year ended in June.

Revenue, net profit of New World Development (in billions of Hong Kong dollars)



In December, the developer offloaded assets worth 34 billion yuan (\$5.05 billion) in two deals with Guangzhou-based developer Evergrande, arousing fears that it would withdraw from the mainland amid uncertainty about China's economic prospects. New World assured investors that the move was intended to shift its focus to gateway cities such as Beijing and Shanghai by shedding assets in lower tier cities that are plagued by supply gluts.

Ostentatious spending

The stock performance of Chow Tai Fook Jewellery has been poor for several years. Since the elder Cheng's retirement in 2012, the shares have shed 57% of their value, falling far below the level of the company's initial public offering in 2011. The jeweler's heavy reliance on the mainland market is mostly to blame. With a network of 2,300 retail outlets, of which more than 90% are in China, it has struggled as the country's economic slowdown and austerity measures stifle ostentatious spending.

Share price movement of major jewelry chains



Net profit for the year ended in March plunged 46% -- the steepest decline since its listing, although the pace of sales contraction eased somewhat in the April-June quarter. "Fiscal 2017 will still be a very challenging year," said Chow Tai Fook's managing director Kent Wong Siu-kee, adding that the group would be selective in mainland expansion and shut some stores in Hong Kong and Macau, where fewer wealthy Chinese are visiting.

Henry Cheng dismissed worries that the elder Cheng's death would deal a further blow to stock prices. "How will there be an impact? Absolutely not," he told reporters, adding that the patriarch had been confined to his sick bed for four years and had remained unconscious after brain surgery in 2012.

Analysts at Macquarie and Credit Suisse in Hong Kong agreed that Cheng's passing would have minimal impact on the family businesses, including New World, reiterating their "outperform" ratings for the developer. Last year, the elder Cheng transferred his personal stakes in six listed companies valued at \$400 million to a family vehicle -- Chow Tai Fook Holding, in a move widely seen by analysts as an attempt to iron out succession matters.

"I believe it is fair to say Henry is not the [same] kind of entrepreneur as his father, and their network is also different," said Alfred Lau, a Hong Kong-based property analyst at Bank of Communications International. But Lau said the developer was set to receive a boost from a legacy project.

Situated on Hong Kong's harbor front, the half-decade old New World Centre is now being redeveloped into a 60-story complex with a mall, hotel, grade A offices and serviced apartments in the bustling tourist hub of Tsim Sha Tsui. Calling the leasing of the skyscraper a "key upcoming catalyst," Deutsche Bank said it expects the group's rental revenue to double.

The project is scheduled for completion next year, but its key progenitor will not be there to see it. It was the savvy Cheng Yu-tung who got it approved by the government before building height restrictions were rolled out in the territory.

Even with the founding father disappearing from the scene, the business empire he created shall hold together at least in the short term. However, the days when mainland Chinese consumers would lavishly spend in his jewelry outlets seem to be over and the family's real estate business is facing ever more competition in both Hong Kong and mainland. It is now up to Henry and the younger Chengs to find a new formula for long-term growth to open up a whole new world for themselves.

Nikkei staff writer Joyce Ho in Hong Kong contributed to this story.