The Competitive Strategy of an Ethnic Chinese Corporate Group under the Hong Kong Economic Development — With Special Emphasis on the Cheung Kong Group —

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Abstract

This paper discusses about the competitive strategy of an ethnic Chinese corporate group under the Hong Kong economic development, with special emphasis on the Cheung Kong group. First, Hong Kong economy, its industrial development and the economic relationship between Hong Kong and the mainland China is historically examined. Second, the growth strategy of a Hong Kong corporate group, the Cheung Kong group, is discussed how to diversify its business in adapting to Hong Kong economic environment. Third, the characteristics of its corporate governance and accounting management are discussed as a family-owned corporate group.

Keywords:

Competitive Strategy, Ethnic Chinese Corporate Group, the Hong Kong Economic Development, the Cheung Kong Group

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RITSUMEIKAN INTERNATIONAL AFFAIRS Vol.12, pp.21–38 (2014).
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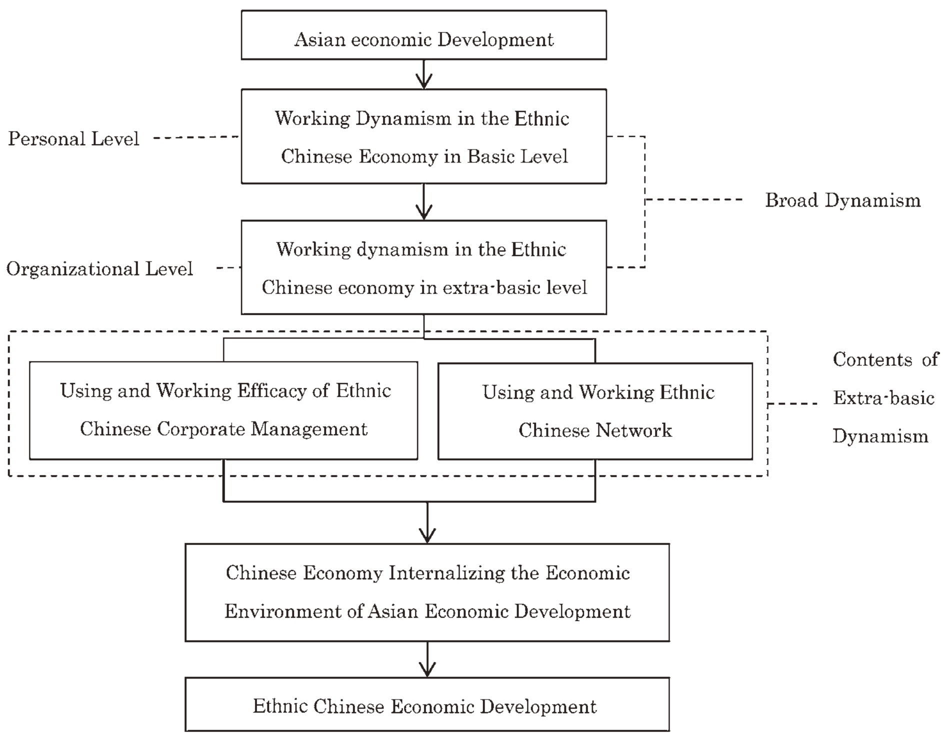
1. INTRODUCTION

This paper examines the Competitive Strategy of an ethnic Chinese corporate group under the Hong Kong economic development, through a case study of the Cheung Kong Group. The focus herein is on corporate governance and accounting management within family enterprises. You Zhongxun (1998) proposes that "The reason for the economic prosperity of ethnic Chinese…is largely attributable to Asia's economic development. Ethnic Chinese took an opportunity of Asian economic development, and used it for their own personal prosperity…" (You, 1998, p.11). He also explains that "they use their networks and companies as weapons. These weapons could only gain effectiveness if Asian economy had developed. If not for Asia's economic development, those networks and companies would not have been so meaningful." (ibid., p.11). You further claims that there are two main reasons why ethnic Chinese were able to aggressively use the economic development of Asia for their own prosperity: "First, their economic dynamism and vitality, or in other words, their business savvy and entrepreneurial spirit", and "second, the organizational dynamism of their networks and companies." (ibid., p.13) (Figure 1). In other words, You indicates that while ethnic Chinese companies had a mechanism that enabled them to internalize the economic environment of "Asia's economic development", this was a growth mechanism for ethnic Chinese companies, and that growth mechanism included the unique "Chinese merchant" entrepreneurial spirit of ethnic Chinese entrepreneurs, ethnic Chinese networks at an organizational level, as well as management of ethnic Chinese companies.

This chapter applies a competitive strategy framework to examine ethnic Chinese companies in Hong Kong from the perspective of an individual company and the perspective of each country of origin. Specifically, the country of origin perspective will focus on the unique economic environments of Hong Kong and China, particularly the economic growth and development of Hong Kong, and the economic relationship between Hong Kong and China. The individual company perspective will include influential ethnic Chinese companies in leading industries, with particular attention paid to the unique entrepreneurial spirit of ethnic Chinese, their networks, the creativity of ethnic Chinese entrepreneurs, and the dynamic relationship these factors have with the creation of corporate strategy. Furthermore, we observe the competitive strategies of ethnic Chinese companies and the skillful application of those strategies to the industrial, trade, and investment policies of their host countries within an environment of economic growth. We then compare the perspective of the individual company and its capability to formulate strategy that creates competitive advantage while taking into account the unique managerial resources (networks, and the complementarity of information acquisition and management resources between companies via the networks) and entrepreneurial spirit of each ethnic Chinese entrepreneur. Special mention is also made of the characteristics of ethnic Chinese companies while considering corporate governance and accounting management within family enterprises.

Figure 1 Dynamism of Ethnic Chinese Economic Development & Pass



Sources : You Zhongxun(1998), “Chugokukei no seiki’ ni tachimukau”, Tu Zhaoyan et al., *Kajin keizaiken to Nihon,* Yushindo: Tokyo, Japan, p.12.

Table1 Top 10 of Chinese Companies in Hong Kong (in 2011)

Rank	Company name	Market capitalization (million $)	Sales (million $)	Net income (million $)	Collective assets (million $)	Dividend to stockholders (million $)
1	Hutchison Whampoa Ltd.	49,657.30	26,817.90	2,569.00	92,458.60	39,679.10
2	Sun Hung Kai Properties Ltd.	39,077.80	8,019.60	6,166.30	52,974.00	39,354.50
3	Cheung Kong (Holdings) Ltd.	35,366.10	3,074.70	3,394.60	42,132.40	34,063.60
4	Bank of China (Hong Kong) Holdings Ltd.	31,582.80	4,550.80	2,076.40	212,953.80	14,766.80
5	The Wharf (Holdings) Ltd.	22,272.70	2,484.60	4,583.30	31,054.50	20,908.80
6	Hong Kong Exchanges and Clearing Ltd.	22,256.30	970.00	645.80	6,139.00	1,112.40
7	MTR Corporation Ltd.	19,615.20	3,784.40	1,546.00	23,290.40	15,019.20
8	The Hong Kong and China Gas Company Ltd.	19,326.00	2,484.00	716.00	9,315.90	5,283.20
9	Belle International Holdings Ltd.	18,447.20	3,501.50	505.80	3,077.00	2,527.90
10	China Overseas Land & investment Ltd.	18,335.80	5,681.20	1,586.30	20,801.10	7,017.30
11	Power Assets Holdings Ltd.	17,648.70	1,329.60	922.30	11,885.00	7,197.10
15	Cheung Kong Infrastructure Holdings Ltd.	13,462.60	360.80	644.60	8,238.50	5,855.50

Note: Companies filled with ash color are affiliated companies of the Cheung Kong Group.
Source: *Yazhou Zhoukan,* Vol.25 No.48(Dec. 4th, 2011).

The subject of our study is the Cheung Kong Group, founded by Li Ka-shing, and the largest conglomerate-type corporate group in Hong Kong. According to "Asian Week," 4 of the top twenty ethnic Chinese companies listed on the Hong Kong stock market were part of the Cheung Kong Group: Hutchison Whampoa Limited was first; Cheung Kong (Holdings) Limited was third; Power Assets Holdings Limited was eleventh; and Cheung Kong Infrastructure Holdings Ltd was fifteenth (Table 1).

2. Hong Kong Economic Environment and Industrial Development

2.1 The 1950s Transition from an Intermediate Trade Base to a Processing Trade Base

Hong Kong was a British colony for approximately 150 years, and prior to its return to China, British companies monopolized the economy of Hong Kong in every field. Hong Kong first developed as an intermediate trading base connecting all of Asia, and ethnic Chinese were limited to conducting business with local Chinese merchants through foreign company representatives known as "compradors". In the 1950s, however, Hong Kong's position as an intermediate trading base was being threatened. Due to economic sanctions levied on China due to the Chinese Civil War and Korean War, manufacturing industries rose to prominence in an effort to make up for the loss in China trade, and the region exported products to Europe and the United States.

The leaders of Hong Kong's industrialization were capitalists who escaped from Shanghai because they detested life under communist rule. Capitalists in the textile industry immigrated to Hong Kong from Shanghai to escape civil war, and brought capital and many skilled laborers. At the same time refugees from China provided the cheap and abundant labor required for Hong Kong's industrialization. These circumstances were the impetus for Hong Kong's transition from an industrial structure that up until that point had relied on Hong Kong as an intermediary trade base to an industrial structure that centered on production, and more specifically processing industries. Moreover, ethnic Chinese companies also maintained a presence in the shipping industry, which is relevant to the export business.

2.2 1960s–1970s: Industrial Diversification and the Development of Tertiary Industries (Finance, Real Estate, and Logistics)

In the 1960s and 70s industrialization continued apace. Electronics assembly began in the 1960s, and parts production began in the latter half of the 1970s. Diversification was beginning to take place in light industries such as electronics, toys and watches.

The 1960s ushered in an era of real estate development. As a result of a bank failure-induced finance crisis in the 1960s, the Cultural Revolution in 1966, and anti-British riots in 1967, a large amount of Hong Kong capital was diverted overseas, and land prices in Hong Kong plummeted. Some ethnic Chinese companies ventured into real estate by purchasing large amounts of land and buildings at fire sale prices. Faced with rising labor costs and a shortage of suitable industrial land toward the latter half of the 1970s, production companies began transitioning production bases to the Pearl River Delta in the 1980s, beginning with Guangdong, Shenzen, and Dongguan. China became the hinterland as Hong Kong transitioned into a financial center and logistics base.

In the 1970s, large British corporate groups began transferring capital investments and their focus of development overseas and away from Hong Kong due to political and economic instability in China and economic stagnation in Hong Kong. Ethnic Chinese companies rose to prominence in their stead.

2.3 1980s: Hong Kong as an Intermediate Trade Base and the Rise of Ethnic Chinese Companies

The beginning of the 1980s saw the start of liberalization reforms in China that had a major influence on Hong Kong. First, with the expansion of imports and exports to and from China, Hong Kong quickly regained its role as the intermediate trade port for China. With Hong Kong as intermediary, exports to China of raw materials and unfinished products increased while commissioned manufactured products made their way from China through Hong Kong for re-export to the United States. Due to rising labor costs in Hong Kong and the designation of neighboring Shenzen as a Special Economic Zone, Hong Kong manufacturers began to transition production bases to Shenzen.

On the other hand, the early 1980s also saw a return of social unrest and economic turmoil in Hong Kong. Unease over the future began in 1981with British and Chinese negotiations for the reversion of Hong Kong to China, and bank failures and a precipitous decline in the Hong Kong dollar led to a financial crisis ensued 1982–83. After Sino-Anglo negotiations concluded in December 1984 and the reversion of Hong Kong to China was announced, some British companies, concerned with post-transition risk, began moving business bases overseas while others reduced business interests in Hong Kong. Many ethnic Chinese companies took advantage of this opportunity to purchase British companies and expand their businesses.

2.4 1990s: Transition from Production to Service Industries and the Reversion of Hong Kong

Hong Kong played a major role in the designation of the Guangdong's Pearl River Delta region of as a Special Economic Zone and the subsequent economic growth of this region. When Hong Kong was reverted to China in 1997, Hong Kong was able to maintain its economic system of capitalism while strengthening ties with mainland China under the One Country, Two System regime.

In the 1990s, manufacturers gradually decrease production in Hong Kong by transitioning labor intensive industries to the Pearl River Delta region, and focusing on high tech and high value-added industries such as new materials, and biosciences and technologiess. At the same time, the overall proportion of service industries increased to 83%. In 1995, Hong Kong became the world's eighth largest trade region, much of it as intermediate trade with China. Furthermore, Hong Kong had become an international financial and logistics/transport center, and in the field of information and communications, Hong Kong boasted one of the most advanced and efficient electronic networks in the world.

2.5 21st Century: Development by the Economic Integration between Hong Kong and the Pearl River Delta Region

Hong Kong has become China's window for capital, technology, and logistics, and has formed a close economic collaboration with the Huanan region. In order to further promote economic integration between Hong Kong and the Huanan region, CEPA was signed between Hong Kong and mainland China in 2003. With the signing of CEPA, tariffs for goods exported into China from Hong Kong were eliminated. In addition to taking advantage of Hong Kong's strength in capital, information technology, and corporate management, the treaty combined the superiority of China's scientific research capabilities and abundant human resources and gave priority to the formation of new industries. Moreover, China's markets were also opened to Hong Kong companies in service industries such as finance, retail, logistics, and telecommunications.

Furthermore, the "12th Five Year Plan" was adopted at the National People's Congress in March 2011, which established Hong Kong and Macau as autonomous regions for the first time. This showed the importance of Hong Kong's role in China's development strategy, and promoted the Pearl River Delta's development strategy.

These economic policies formed the cornerstone of collaboration and the basis for integration between Hong Kong and China, particularly with Guangdong province in the Pearl River Delta region. Hong Kong became China's gateway for capital, technology, and logistics with expectations for closer economic collaboration with the Huanan region.

3. Competitive Strategies of Ethnic Chinese Companies and the Cheung Kong Group in Hong Kong

3.1 Overview of the Cheung Kong Group

In order to analyze the Competitive Strategies of ethnic Chinese companies within the economic development in Hong Kong, we will review the Cheung

Kong Group as a case study, analyzing its formation and history. Li Ka-shing founded the Cheung Kong group in 1950 as “Cheung Kong Industrial Company Limited” and built it to fill a position of leadership within Hong Kong’s subsequent development. Cheung Kong Limited was listed on the Hong Kong stock exchange in 1972 as one of Hong Kong’s largest real estate development companies, and it occupied an important position in industries such as investments, life sciences, information technology, hotels, and communications.

3.2 Cheung Kong Group Competitive Strategy

3.2.1 Company Founding – From Plastics to Real Estate

Li Ka-shing, the founder of Cheung Kong Group, was born in 1928 in Chao’an, Guangdong Province, China. He immigrated to Hong Kong at the age of 12, but due to the death of his father when he was only 14, he began working from this young age as a server in a tea house. After working his way up from sales for a plastics factory at the age of sixteen, Li Ka-shing was put in charge of the factory itself. With his plastics manufacturing and market knowledge, he went independent in 1950 at the age of 22. With 70,000 Hong Kong dollars, he established “Cheung Kong Industries” and began the production of small plastic toys and household items. When plastic artificial flowers became popular in Europe and the United States, Li began the production of fine and delicate artificial flowers that matched the quality of those produced in Europe. Because of the superior quality at a price that was lower than those from Italy, Li’s flowers were well accepted in the market and were exported to Southeast Asia and Europe, and Hong Kong’s share of the world’s artificial flower market expanded to 80%. The name of Cheung Kong Industries became famous in Europe, and “Li Ka-shing” became known as the “Flower King.”

Next, Li Ka-shing expanded into the real estate industry. Seeing that the growth in the real estate market was keeping pace with Hong Kong’s increasing population, Li purchased land in a corner of Hong Kong’s North Point industrial district and built a twelve story industrial building, a portion of which he leased out. Using personal capital accumulated from the artificial flower business to invest in real estate, he continued purchasing industrial real estate in areas such as Wan Chai avoiding dependence on bank financing as much as possible.

Although in 1962 the Hong Kong government tightened regulations for new real estate construction, real estate developers took out enormous bank loans to build at the last minute before these regulations took effect in 1966. However, a financial crisis at the beginning of 1965 spurred a precipitous fall in housing and commercial real estate prices. The downward trend in real estate prices was exacerbated by anti-British riots in 1967 that became known as “The 1967 Riots in Hong Kong.” Furthermore, rumors of the Chinese government taking Hong Kong by force caused a liquidation of real estate by the wealthy class, and market prices plummeted. Because Li Ka-shing purchased real estate with his own funds, he incurred fewer losses from the financial crisis and was able to use the opportunity to become a full-fledged developer through the purchase of large amounts of real estate at fire sale prices. 1968 saw the stabilization of social systems within Hong Kong. The real estate market also recovered and a building rush ensued. At this time, Li Ka-shing had acquired a total of 1.91 million square meters of Hong Kong real estate that was producing 4 million US dollars per year in lease income alone.

In 1971, Cheung Kong Realty was established. The company specialized in real estate development and leasing. In 1972 its name was changed to “Cheung Kong Holdings Limited” and in November of that year the company was listed on the Hong Kong Stock Exchange. The company subsequently went public in London, England and Vancouver, British Columbia and embraced a new strategy of “listing shares, raising the share price, issuing new stock, raising funds, and investing in real estate.” In 1977, the company competed with the largest real estate company at the time, the British-owned Hong Kong Property, and won the bid for MRT building station projects at Central and Admiralty stations, subsequently building the World-Wide House located above Central station, as well as the Admiralty Centre located above Admiralty station. Due to these business ventures, Cheung Kong Holdings Limited became recognized both in name and in reality as the top company in Hong Kong’s real estate development industry, rapidly approaching the Hong Kong Shanghai Banking Corporation (hereinafter referred to as “HSBC”).

3.2.2. Diversification through Acquisition

Cheung Kong Holdings began diversifying its businesses through acquisitions of Hong Kong’s foreign companies. First, the company entered the hotel industry by purchasing the American capitalized Winco Corporation, the owner of the Hilton Hotel in Hong Kong’s Central district, for 230 million Hong Kong dollars in 1977. In 1978, the company purchased the British manufacturing company Green Island Cement. Green Island Cement was the top producer of cement products in Hong Kong and currently accounts for approximately one-third of the total market share in Hong Kong.

Hutchison Whampoa[1)], a leading British conglomerate, has diverse businesses in retail, real estate development, and telecommunications, and maintains a focus on shipping and retail within Hong Kong's port operations, the second largest in the world. The company experienced operational difficulties due to continued investment expansion after the oil shock of 1974, and obtained 150 million Hong Kong dollars of support from HSBC in exchange for 33.7% of Hutchison Whampoa stock. With the cooperation of HSBC, Cheung Kong Holdings purchased 22.5% of Hutchison Whampoa's stock in 1979. With total capitalization of 693 million Hong Kong dollars, Cheung Kong Holdings had managed to gain control over 6.2 billion Hong Kong dollar's worth of Hutchison Whampoa stock. In 1980, Cheung Kong Holdings increased its share of Hutchison Whampoa's stock to 39.6% and Li Ka-shing assumed the position of Chief Representative Officer in 1981. Hutchison Whampoa had officially become a subsidiary of Cheung Kong Holdings. After acquisition, Li performed a restructuring of Hutchison Whampoa and reaped further benefits by developing land held by Hutchison Whampoa.

Through Hutchison Whampoa, Li Ka-shing purchased 34.6% of Hongkong Land Holdings Limited's Hongkong Electric for 2.9 billion Hong Kong dollars in 1985. In 1987, Hutchison Whampoa split off Hongkong Electric's non-electrical divisions and listed the shares as Jiahong International Group Ltd. Jiahong International held the 23.5% of Hongkong Electric's shares held by Hutchison Whampoa and became the holding company for Hongkong Electric. Through this grouping of companies, Li Ka-shing owned 33.4% of Cheung Kong Holding's stock while Cheung Kong Holdings held 36.55% of Hutchison Whampoa and 42.9% of Green Island Cement. In turn, Hutchison Whampoa held 53.8% of Jiahong International with Jiahong International holding 23.5% of Hongkong Electric's stock. Moreover, in 1985 Hongkong Electric and Hutchison Whampoa jointly purchased Guoji Chengshi, a real estate concern listed on a

1) Hutchison Whampoa was originally 2 companies, Hong Kong and Whampoa Dock, Limited established in Hong Kong in 1863, and Hutchison International established in 1877. In the 1960s, Hutchison International, under the direction of Douglas Clague, gained control of Hong Kong and Whampoa Dock by acquiring all of the company stock in 1977 to form Hutchison Whampoa, Limited.

British stock market, and made it a wholly-owned subsidiaries. In this manner, Cheung Kong Holdings was able to create a structure of corporate governance.

3.2.3 New Business Expansion in China

Li Ka-shing transitioned his investment focus to China. In May of 1992, Cheung Kong Holdings and Hutchison Whampoa, represented by Li Ka-shing, jointly established the Shenzen Cheung Ho Holding Company in China. Plans were made for a series of investments in China and this company became the flagship company for Li's business in China. In addition, the company aggressively expanded into domestic businesses in China in areas such as real estate and port infrastructure. In October of the same year, a Hong Kong financial consortium led by Cheung Kong Holdings signed on in Beijing to develop the port of Yantian in Guangdong Province and contracted to construct the international cargo wharf there. Hutchison Whampoa similarly contracted the construction of large-scale cargo wharfs in ports such as Shanghai, Xiamen, and Jiangmen.

At the dawn of the 1990s, Cheung Kong Holding's investments included both listed and non-listed companies. The company purchased Kwong Sang Hong in 1989, Chi Shing and HeJiHong in 1991 and over 38 listed companies thereafter. Hutchison Whampoa expanded into retail, and currently operates the following five businesses: Watsons drugstores, PARKnSHOP supermarkets, home electronics retailer Fortress, Nuance-Watson duty-free stores, and food and cookware specialty shop Great. Among these businesses, PARKnSHOP is the largest supermarket chain in Hong Kong with over 200 stores and Fortress is Hong Kong's largest home electronics retail chain with over 60 stores. Drugstore chain Watson's presence is not limited to Hong Kong; it operates stores in Taiwan, Macau, Singapore, Malaysia, and China.

Hutchison Whampoa began aggressively investing in overseas telecommunications in 1990. They established a mobile phone company known as "Orange" in the U.K. in 1994, and this company subsequently grew to be the number three operator in the U.K., listing on the U.K. stock market in 1996. With operating rights for 3G mobile phones in Europe and the U.K., Hutchison Whampoa continued its expansion.

In March of 2000, Cheung Kong and Hutchison Whampoa listed the Internet portal site Tom.com on the market. Tom Group Limited was established in Hong

Kong in October of 1999. With regional headquarters in both Beijing and Taipei, Tom Group is the integrated media company of Cheung Kong Holdings with Chinese language media businesses in over 20 cities in publishing, outdoor advertising, portal services, etc. In 2001, Tom purchased Taiwan's fourth largest printing and publishing group, which included companies such as PCHome and Cite Publishing, to become the largest magazine and book publishing group in Taiwan. In 2002, Cheng Kong began expansion into advertising, printing, and publishing industry in China through a joint venture formed with China's Joint Publishing.

Moreover, Hutchison Whampoa set their sights on traditional Chinese medicine and further expanded into businesses that connected Hong Kong with China. Following the return of Hong Kong, the government of Hong Kong's Special Administrative Region announced the "Chinese Medicine Port" initiative in 1998 that designated Hong Kong as a major industrial base for traditional Chinese medicines. Afterwards, China's traditional Chinese medicine company, Tongrentang and Hutchison Chinese Medicine, a wholly owned subsidiary of Hutchison Whampoa, invested 50% and 40% respectively to establish Tongrentang Hutchison Medicinal Development Company. Furthermore in 2003, Beijing Tongrentang International, under the umbrella of Beijing Tongrentang, and Hutchison Whampoa established Beijing Tongrentang Chuan Chiong Limited in Hong Kong. Through such alliances, these companies are expanding into the retail of traditional Chinese medicines abroad into order to sell Tongrentang's traditional Chinese medicine through Hong Kong to markets overseas.

4. Cheung Kong Group's Business Network and Organizational Management Style

4.1 The Family Business Network of Li Ka-shing

To ethnic Chinese companies, the business networks to which an entrepreneur has access are valuable managerial resources for the operation of the company. For the Cheung Kong Group, the most important opportunity in the growth strategy of the company was the use of Li Ka-shing's network with Yue-Kong Pao in the purchase of Hutchison Whampoa.

In 1978, Li Ka-shing was accumulating stock for a hostile takeover bid of

Wharf, whose largest shareholder was Hong Kong Land, a subsidiary of top British conglomerate Jardine. In order to prevent the takeover, Wharf began working toward the abandonment of the acquisition through HSBC. At the end of negotiations with the managing director of HSBC, Yue-Kong Pao (a global shipping magnate also known as "The Onassis of the East"), the family of Yue-Kong Pao would acquire 20% of Wharf stock and Li Ka-shing was able to realize a huge gain on the sale of the stock. Afterwards, Li Ka-shing was able to purchase Britain's oldest building materials supplier, Green Island Cement, and Britain's largest conglomerate, Hutchison Whampoa. It has been said that behind these purchases was a promise from HSBC to cede Hutchison Whampoa, of whom HSBC had become a large shareholder, to Li Ka-shing as a concession for his relinquishing Wharf.

Table 2 Lee Ka Shing's Network with the Chinese Government

1979	Assuming an executive of the Hong Kong branch of CITIC
1982	Meeting with the prime minister Zhao Zhiyang at Zhongnanhai
1984	Being invited the signing ceremony of the Sino-British joint declaration
1985	Meeting with Dong Xiaoping Assuming the member of the Drafting Committee for the Basic Law of the HKSAR
1986	Meeting with Dong Xiaoping and Zhao Zhiyang
1990	Meeting with Jiang Zhemin, Yang Shangkun, Dong Xiaoping and Li Peng Honored an honorary citizen of Shantou
1991	Meeting with the general secretary of the Chinese communist party, Jiang Zhemin at the ceremony for the 10th anniversary of Shantou special economic zone
1992	Being appointed a Hong Kong affair advisor by the State Council Meeting with Jiang Zhemin Receiving an honorary doctorate of Beijing university Participating the signing ceremony for Shenzhen Yantian port development Agreement with the prime minister, Li Peng
1993	Being honored an honorary citizen of Guangzhou Praised as "a Read Patriot" by the General Secretary of the Chinese Communist Party, Jiang Zhemin at a press conference
1995	Being assigned the member of the preparatory committee for the HKSAR
1999	Meeting with Jiang Zhemin
2000	Meeting with Jiang Zhemin

Source: Made based on Zhu Chunting and Xing Lei, (2009), *Li Jiacheng Jiazu Quanchuan,* Phoenix Publishing & Media Group, pp.284-290.

Moreover, Li Ka-shing had a strong relationship with the Chinese government. One example of the confidence he was accorded was his 1979 appointment as managing director of the Hong Kong branch of China International Trust Company, the investment company of the Chinese government. In addition, he often met with officials of the Chinese government (Table 2), and was appointed as a member of the preparatory committee for the Hong Kong Special Administrative Region. His relationship with the Chinese central government was especially important in public works projects such as real estate development and infrastructure projects during his full-fledged expansion of business interests into mainland China beginning in the 1990s.

4.2 Accounting Management and Corporate Governance at the Cheung Kong Group

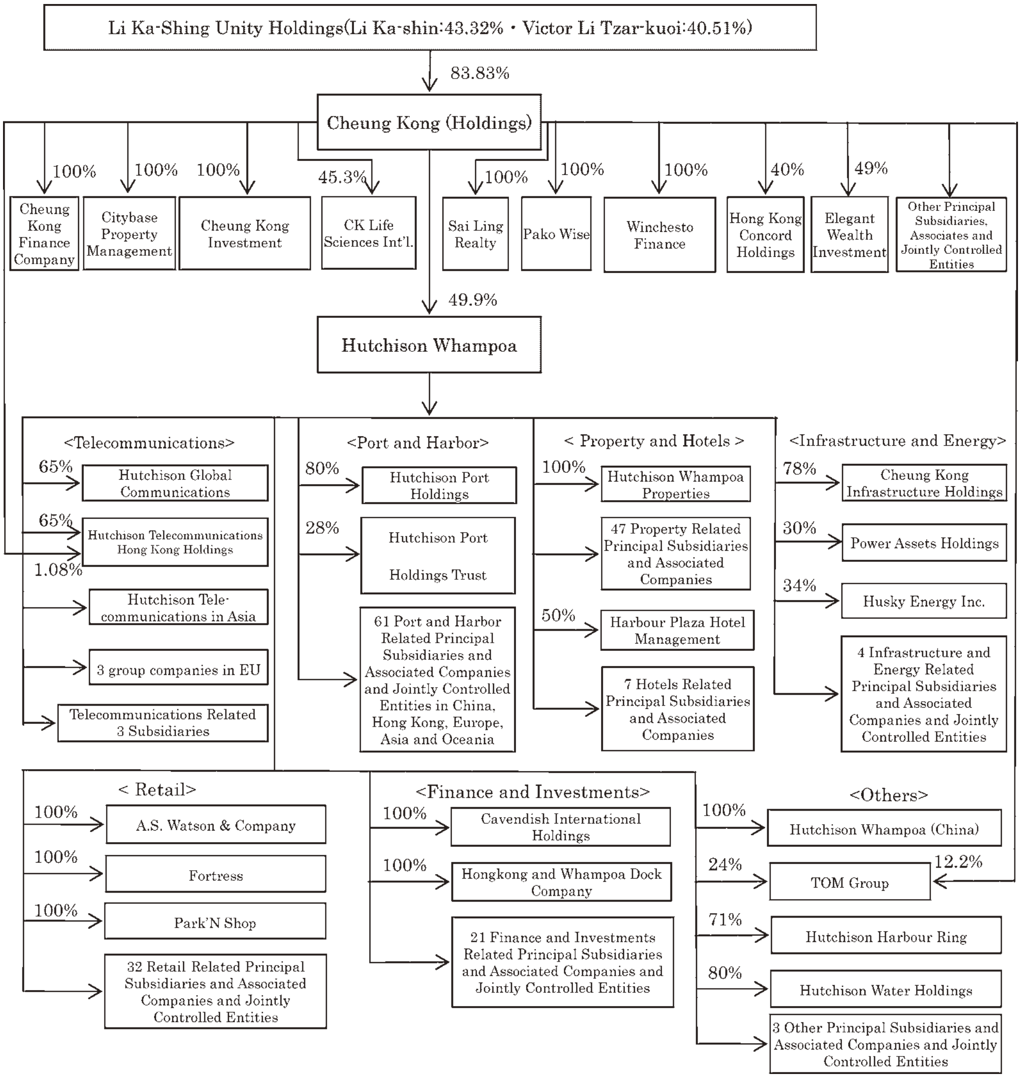
Management by the founder's family members with ownership concentrated in the hands of Li Ka-shing's family is characteristic of corporate governance at the Cheung Kong Group (Figure 2). 83.83% of Cheung Kong Holding's (Group) stock is owned by Li Ka-shing Unity Holdings, which is the asset managing company of Li's family. Furthermore, 49.97% of Hutchison Whampoa is held by Cheung Kong Holding (Group). Shares of the group's major subsidiaries are held by either Cheung Kong Holding's (Group) or Hutchison Whampoa in such a way that the Li Ka-shing family maintains controlling influence over management of both the group as a whole and its major subsidiaries.

As for types of businesses, Cheung Kong Holdings (Group) concentrates on real estate and related investments with Hutchison Whampoa focusing in other areas such as ports, energy, infrastructure, communications, hotels, retail, and medicine (Figure 2). This is a governance structure wherein Cheung Kong Holdings (Group) concentrates on the stable development of the core real estate business over the long term, while the diversified purchases are developed under the aegis of Hutchison Whampoa.[2)]

With regard to accounting management, risk is managed as appropriate for the real estate business, and a structure has been created that performs group management with an eye to long-term stability(Table3). Upon examination of the 2011 year-end reports of Cheung Kong Holdings (Group) and Hutchison

2) Nishihara, Tetsuya, (2008), *Hiroku Kajin Zaibatsu,* NNA: Tokyo, Japan, pp.117–118.

Figure 2 Main Principal Subsidiaries of the Cheung Kong Group(2012)



Sources: *Cheung Kong (Holdings) Ltd. Annual Reports 2012 & Hutchison Whampoa Ltd. Annual Reports 2012.*

Whampoa, falling real estate prices attributable to the global financial crisis limited the operating profit of Cheung Kong Holdings to 9 billion Hong Kong dollars. On the other hand, pure profit from related subsidiaries such as Hutchison Whampoa rose to 28.2 billion Hong Kong dollars, which served to bolster Cheung Kong Holding's (Group) pretax profit. The 2011 profit from

Hutchison Whampoa was largely derived from oil concerns in Canada with a large percentage from the Hong Kong retail business. These percentages served to compensate for the instability in real estate. Hence, the group is structured in such a manner that a steady rise in profits was derived from diversified businesses with Hutchison Whampoa at the core. Conversely, when a diversified business of Hutchison Whampoa slumps, it can be sold at any time from company holdings, and the accounting structure is such that it can also be completely divested from Cheung Kong Holdings (Group). This type of solid profit structure and risk management are also a characteristics of the Cheung Kong Group.

Table 3 The Earnings Structure of Cheung Kong (Holdings) & Hutchison Whampoa

(million HK$)	Cheung Kong (Holdings) Ltd.	Hutchison Whampoa Ltd.
Group turnover	32,971	233,700
Operating costs	−23,905	−213,179
Operating profit	**9,066**	**20,521**
Investment and other income	1,567	**43,147**
Share of net profit of jointly controlled entities	5,211	5,877
Increase in fair value of investment properties	4,010	
Interest expenses and other finance costs		−8,415
Operating profit	**19,854**	**61,130**
Share of net profit of associates	28,238	13,819
Profit before taxation	**48,092**	**74,949**

Sources: *Cheung Kong (Holdings) Ltd. Annual Reports 2011 & Hutchison Whampoa Ltd. Annual Reports 2011*.

Moreover, as a result of the transfer of 1/3 of the entire stock of Li Ka-shing Unity Trustee Company Ltd. from second son Richard Li to the eldest son Victor Li, the ownership and management authority of Cheung Kong group are currently in the process of transfer as Li Ka-shing holds one-third of the stock with Victor Li holding the remaining two-thirds.

5. CONCLUSION

This paper examined the economic strategy of ethnic Chinese corporate groups in the economic development of Hong Kong through a case study of the Cheung Kong Group. First, we examined the competitive strategy of the Cheung Kong Group. From its founding in 1950 to the present day, the business development of Cheung Kong Group, led by Li Ka-shing, has kept pace with the economic development of Hong Kong. It started as a labor-intensive production company manufacturing plastic flowers, and subsequently used fluctuations in real estate prices to acquire real estate and set the foundation for expanding its businesses. The group subsequently diversified into other industries (hotels, port operations, construction, infrastructure, mass communications, and traditional Chinese medicine) while acquiring British corporations. After the reversion of Hong Kong to China, the group began full-fledged business expansion into mainland China, engaging in the development of cities, real estate, and infrastructure and port construction. In other words, the group skillfully took advantage of external economic environments by melding the economic development pattern of Hong Kong into a close relationship between Hong Kong and China. Next, the group expanded by establishing new companies and purchasing existing companies. This expansion facilitated corporate diversification and expansion into China.

With Cheung Kong Holdings (Group) at its center, the Cheung Kong Group became a conglomerate business group by expanding chiefly through Hutchison Whampoa into other industries such as real estate, hotels, ports, energy, infrastructure, communications, retail, and media. Next, the development of Cheung Kong Group was accelerated largely due to the business network of Li Ka-shing. Relationships were built with other ethnic Chinese companies in Hong Kong and Chinese government officials, which resulted in the acquisition of British enterprises and business expansion into China.

Lastly, we touched on corporate governance and accounting management. With regard to ownership, the Cheung Kong Group is structured in such a way that ownership and management control is maintained by Li Ka-shing and his son Victor Li thus facilitating the continuance of the family business into the foreseeable future. As to governance and accounting management of the corporate group, accounting management is being performed by skillfully managing risk and enabling hedges, in spite of involvement with businesses that are easily influenced by the economy and business sentiment. At the same time, the group is diversifying into businesses that are synergistic with real estate such as ports, construction, energy, hotels, and retail (store operations). In that sense, we can safely say that Cheung Kong Group management is solid.

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This article is a part of the outcomes of the 2013 research project on "The Management of Ethnic Chinese Enterprises in the Chinese Market" in the Institute of International Relations and Area Studies (IIRAS) at Ritsumeikan University.