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Corruption cloud hangs over Hong Kong

By Kent Ewing

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HONG KONG - In the short term, the sensational arrests last week on corruption allegations of two of this city's richest tycoons and a former top government official with close ties to Chief Executive Donald Tsang Yam-kuen represent yet another damaging blow to Hong Kong's reputation for clean business and governance.

In the long term, however, it may be exactly what the city needs.

For years now, ordinary people have been angered by the perception that there are two sets of laws in Hong Kong - one, for them, that is tough, fair and non-negotiable and another, for the tycoon class, that is lax, skewed and eminently malleable depending on who you know and how much you are willing to pay.

The arrests on Thursday of former chief secretary Rafael Hui Si-yan and of Thomas Kwok Ping-kwong and Raymond Kwok Ping-luen - brothers who control Sun Hung Kai Properties (SHKP), Hong Kong's biggest real-estate empire - may well turn that widespread perception into a damning, undeniable reality.

They follow revelations in February that Tsang himself had accepted favors from Hong Kong tycoons - from a special seat on their private yachts and jets to a discount price on a lavish penthouse apartment across the border in the mainland city of Shenzhen. Tsang has since given up the penthouse and apologized to the public for his poor judgment.

With what Forbes magazine estimates to be a fortune of US\$18.3 billion, the Kwoks are Hong Kong's second-richest family; only Li Ka-shing, whose net worth of US\$25.5 billion makes him the wealthiest Chinese person in the world, surpasses them.

SHKP has built and manages a number of the landmarks that contribute to Hong Kong's world-renowned skyline, including the 88-story International Finance Center, which stands 1,378 feet (420 meters) tall and contains 22 trading floors.

Hui was the top strategist in Tsang's 2005 election campaign for chief executive before taking the post of chief secretary, the second most powerful political position in Hong Kong.

In the run-up to the March 25 election to choose Tsang's successor, Hui backed loser Henry Tang Ying-yen - another former chief secretary who, despite being heavily favored by the business elite, was defeated by Leung Chun-ying, a millionaire surveyor who promised a fairer, more people-friendly government.

Leung's pre-election pledges included a vow to make housing more affordable in a city where, with SHKP leading the way, property prices have become so high that owning a home is now a lost dream for the average person in Hong Kong.

Leung won 689 of the 1,193 Election Committee votes while the scandal-plagued Tang - who confessed to marital infidelity during the campaign and admitted to building a massive illegal structure, dubbed an "underground palace", beneath one of his homes - garnered only 285 votes; the token pan-democratic candidate, Albert Ho Chun-yan, received 76 votes.

If last week's arrests lead to formal charges and convictions, Hui, 64, and the Kwoks - Thomas, 60, and Raymond, 58 - will be by far the biggest fish ever netted by the city's Independent Commission Against Corruption (ICAC), which was established in 1974 and immediately went about cleaning up a police department then notorious for malfeasance.

The ICAC had an 88% conviction rate for the 443 people it prosecuted in 2010, but recently has been seen to lose its teeth due to staff shortages and bungled investigations.

Details of the investigation that led to the arrests of Hui and the Kwoks have not been revealed. But the city's leading English-language newspaper, the South China Morning Post, reported that a luxurious 4,000-square-foot (371.6 square meter) apartment that Hui rents from SHKP figures prominently in the probe.

Hui also is alleged to have accumulated debts of "more than HK\$100 million" (US\$12.9 million), including a unsecured loan of HK\$50 million (US\$6.4 million), and to have been involved in illegal land deals with SHKP.

The three men have been released on bail, but they are expected to be summoned again for further questioning.

Less than two weeks ago, ICAC agents arrested long-serving SHKP executive director Thomas Chan Kui-yuen and four others as part of the same investigation.

Charges of corruption at the very top of the SHKP hierarchy prompted panicky investors to jump ship on Friday, erasing HK\$38 billion (US\$4.9 billion) from the company's market value - the biggest sell-off of SHKP shares in 14 years.

After their bail was granted, the Kwok brothers, whose family controls 42% of SHKP, returned to work at the company's headquarters, which had been raided Thursday night by ICAC investigators. There they issued a statement intended to reassure investors.

"Don't worry," their statement said, "everything will be normal and fine ... we will work together with our colleagues at SHKP, and the company's growth will not be slowed because of some temporary turmoil."

As the case against them develops, the Kwoks will continue to serve as joint chairmen and managing directors of SHKP. A company statement said, however, that they would abstain from voting on any matter related to the charges against them.

Neither of these statements dissuaded Moody's Investment Service from downgrading from stable to negative the outlook for SHKP's A1 rating. Meanwhile, Standard & Poor's placed the company's A+ rating on its negative watch list.

This is not the first time questionable corporate governance has been spotlighted at SHKP. In 2008, after a prolonged and highly public family feud, Walter Kwok Ping-sheung, 62, elder brother of Thomas and Raymond, walked away from his position as SHKP chairman and non-executive director, apparently ousted by his brothers, and was replaced by his then 79-year-old mother, Kwong Siu-hing, the company's largest shareholder.

Kwong and her younger sons were reportedly upset by Walter's determination to bring his long-time mistress, Ida Tong Kam-hing, into company affairs. Walter later sued his brothers for libel, saying that they had attempted to discredit him among investors with claims that he had been diagnosed with bipolar disorder.

Now speculation is rife that the snubbed Walter, who has not been named as a target of the ICAC probe, is a key source in the allegations against Hui and his brothers.

Coming on the heels of a scandal-ridden election campaign for chief executive and revelations about Tsang's jet-setting and shoulder-rubbing with tycoons, the case against Hui and the Kwoks, no matter how it turns out, can only further tarnish Hong Kong's image as an international financial center where the rule of law prevails.

There is hope, however, that the case may signal the beginning of the end of a privileged business class that lives and works above that law.