



Notes to Financial Statements (Cont'd)

31 December 2002

28. PROVISIONS

With respect to the Group's decision in August 2001 to curtail the operations of Qingdao Nanhai Tannery Co., Ltd. ("Qingdao Tannery") due to its continuous losses, provisions of HK\$3,000,000 was made as at 31 December 2001 for (a) staff redundancy payments of HK\$2,000,000; and (b) a compensation of HK\$1,000,000 to a PRC joint venture partner for early termination of the joint venture agreement of Qingdao Tannery. These provisions were determined based on the relevant employment contracts and the terms of the joint venture agreement.

As a result of the arbitration proceedings raised by the Group and the PRC joint venture partner, no payment was made and, accordingly, there was no movement in the provisions during the year. Details of the arbitration proceedings are set out in note 35(b) to the financial statements.

29. SHARE CAPITAL

	2002 HK\$'000	2001 HK\$'000
Authorised:		
700,000,000 ordinary shares of HK\$0.10 each	<u>70,000</u>	<u>70,000</u>
Issued and fully paid:		
524,154,000 ordinary shares of HK\$0.10 each	<u>52,415</u>	<u>52,415</u>

There were no changes in the ordinary share capital during the year.

30. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.



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30. SHARE OPTION SCHEME (Cont'd)

On 31 May 2002, the Company terminated its then share option scheme adopted on 26 November 1996 (the "Old Option Scheme") and adopted a new share option scheme (the "Share Option Scheme").

Pursuant to the Old Option Scheme, the exercise price of the share options as determined by the directors would be a price equal to the higher of the nominal value of the shares and an amount not less than 80% of the average of the closing prices of the shares as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of the option.

In response to the amendments by the Stock Exchange in connection with Chapter 17 (Share Option Schemes) of the Listing Rules, the Company terminated the Old Option Scheme and then adopted the Share Option Scheme on 31 May 2002 as follows:

The purpose of the Share Option Scheme is to provide incentives to the participants to contribute to the Group, to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis, to maintain good relationships with its consultants, professional advisers, suppliers of goods or services and customers and to attract human resources that are valuable to the Group. Eligible participants of the Share Option Scheme include the Company's Directors (including non-executive and independent non-executive Directors), employees or executives of the Group, consultants or advisers of the Group, suppliers of goods or services to the Group, customers of the Group, and substantial shareholders of the Group. The Share Option Scheme unless otherwise terminated or amended, will remain in force for 10 years from 13 January 2003.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be granted under the Share Option Scheme and any other schemes of the Company must not exceed 30% of its shares in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the shares of the Company in issue as at the date of adopting the Share Option Scheme, but the Company may seek approval of its shareholders in general meeting to refresh the 10% limit under the Share Option Scheme. As at 31 December 2002, there was no shares issuable for option granted under the Share Option Scheme because there was no share option outstanding at that date.

The total number of shares issued and to be issued upon exercise of the share options granted and to be granted to each eligible participant (including both exercised and outstanding options) in any 12-month period up to the date of grant must not exceed 1% of the shares in issue at the date of grant. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting of the Company.



Notes to Financial Statements *(Cont'd)*

31 December 2002

30. SHARE OPTION SCHEME (Cont'd)

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive Directors of the Company. In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in general meeting of the Company.

The offer of the grant of a share option may be accepted within 14 days from the date of the offer upon payment of a consideration of HK\$1.00 by the grantee. The exercise period of the share options granted is determinable by the Directors of the Company, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of grant of the share options.

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of the share options, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet for the five business days immediately preceding the date of grant of the share options; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

There were no share options granted to or exercised by the Directors of the Company under the Share Option Scheme during the year.



Notes to Financial Statements (Cont'd)

31 December 2002

30. SHARE OPTION SCHEME (Cont'd)

The following share options were outstanding under the Share Option Scheme during the year:

Name or category of participant	Number of share options			Date of grant of share options* (dd/mm/yyyy)	Exercise period of share options (dd/mm/yyyy)	Exercise price of share options** HK\$	Price of the Company's share at grant date of share options*** HK\$
	At 1 January 2002	Lapsed during the year	At 31 December 2002				
Directors							
Mr. Poon Kin#	500,000	(500,000)	–	15/01/1997	15/07/1997 – 14/01/2002	1.3936	2.05
Other employees							
In aggregate	3,900,000	(3,900,000)	–	15/01/1997	15/07/1997 – 14/01/2002	1.3936	2.05
	2,000,000	(2,000,000)	–	27/05/1997	27/11/1997 – 26/05/2002	2.2240	3.625
	<u>5,900,000</u>	<u>(5,900,000)</u>	<u>–</u>				
	<u>6,400,000</u>	<u>(6,400,000)</u>	<u>–</u>				

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The price of the Company's shares disclosed as at the date of grant of the share options is the closing price on the Stock Exchange on the business day on which the options were granted.

Mr. Poon Kin resigned as a Director of the Company on 7 September 2002.

If the last day of the option period is not a business day in Hong Kong, the option period expires at 5:01 p.m. on the business day preceding that day (Hong Kong time).



Notes to Financial Statements (Cont'd)

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31. RESERVES

Group

	Share premium account HK\$'000	General reserve fund HK\$'000 (Note)	Capital redemption reserve HK\$'000	Other reserve fund HK\$'000	Exchange translation reserve HK\$'000	Property revaluation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	412,116	12,478	445	553	487	39,626	(107,670)	358,035
Deficit arising on revaluation of properties	-	-	-	-	-	(1,448)	-	(1,448)
Release on disposal of leasehold land and buildings	-	-	-	-	-	(1)	1	-
Release of reserve arising from provision for the impairment of an associate	-	-	-	-	-	(2,554)	-	(2,554)
Release of goodwill in respect of impairment in value of an investment in a subsidiary	-	21,919	-	-	-	-	-	21,919
Loss for the year	-	-	-	-	-	-	(72,283)	(72,283)
Exchange adjustments	-	-	-	-	292	-	-	292
At 31 December 2001 and 1 January 2002	412,116	34,397	445	553	779	35,623	(179,952)	303,961
Surplus arising on revaluation of properties	-	-	-	-	-	722	-	722
Release of goodwill in respect of impairment in value of an investment in a subsidiary	-	133,349	-	-	-	-	-	133,349
Release on disposal of a subsidiary	-	-	-	(553)	(32)	-	553	(32)
Loss for the year	-	-	-	-	-	-	(205,201)	(205,201)
Exchange adjustments	-	-	-	-	222	-	-	222
At 31 December 2002	412,116	167,746	445	-	969	36,345	(384,600)	233,021
Reserves retained by:								
Company and subsidiaries	412,116	167,746	445	-	976	36,345	(382,983)	234,645
Associate	-	-	-	-	(7)	-	(1,617)	(1,624)
At 31 December 2002	412,116	167,746	445	-	969	36,345	(384,600)	233,021
Company and subsidiaries	412,116	34,397	445	553	786	35,623	(178,025)	305,895
Associates	-	-	-	-	(7)	-	(1,927)	(1,934)
At 31 December 2001	412,116	34,397	445	553	779	35,623	(179,952)	303,961



Notes to Financial Statements (Cont'd)

31 December 2002

31. RESERVES (Cont'd)

Company

	Share premium account HK\$'000	General reserve fund HK\$'000 (Note)	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2001	412,116	167,746	445	(27,820)	552,487
Loss for the year	—	—	—	(119,695)	(119,695)
At 31 December 2001 and 1 January 2002	412,116	167,746	445	(147,515)	432,792
Loss for the year	—	—	—	(456,633)	(456,633)
At 31 December 2002	<u>412,116</u>	<u>167,746</u>	<u>445</u>	<u>(604,148)</u>	<u>(23,841)</u>

Note: The general reserve fund of the Company is an undistributable reserve and may not be treated as realised profits.

On 25 November 1996, a court order confirming the reduction of the share premium account by HK\$133,349,000 was registered by the Registrar of Companies in Hong Kong and the credit arising therefrom was transferred to the general reserve fund against which goodwill arising on the acquisition of a subsidiary company was eliminated in the consolidated financial statements.

Pursuant to a special resolution passed in the Company's extraordinary general meeting held on 23 January 1998 and confirmed by the Order of the High Court of Hong Kong dated 2 March 1998, the share premium account was reduced by the amount of HK\$34,397,000 and, as undertaken by the Company, a general reserve fund was credited in the books of account of the Company in the same amount for the purpose of setting off, in the consolidated accounts of the Company and its subsidiaries, goodwill arising on consolidation in 1997.

The release of goodwill of HK\$133,349,000 during the year in respect of impairment of an investment in a subsidiary relates to the goodwill arising from acquisition of that subsidiary in 1996. Details of which are set out in note 15 to the financial statements.

In 2001, the release of goodwill of HK\$21,919,000 in respect of impairment of an investment in a subsidiary relates to the goodwill arising from acquisition of that subsidiary in 1997.



Notes to Financial Statements (Cont'd)

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32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustment

SSAP 15 (Revised) was adopted during the current year. Apart from those detailed in note 2 to the financial statements, the definition of “cash equivalents” under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading “Cash equivalents” in note 3 to the financial statements. This has resulted in the pledged bank deposits, which had original maturity of less than three months when acquired and were pledged for issuance of letter of credit, no longer qualifying as cash equivalents. The amount of cash equivalent in the consolidated cash flow statement at 31 December 2001 has been adjusted to remove the pledged bank deposits amounting to HK\$16,671,000, previously included at that date. The current year’s movement in pledged bank deposits and balances is now included in cash flows from investing activities and the comparative cash flow statement has been changed accordingly.

(b) Disposal of subsidiaries

	2002 HK\$'000	2001 HK\$'000
Net assets disposed of:		
Fixed assets	4,259	–
Trademarks	800	–
Cash and bank balances	1,945	–
Receivables, prepayments and deposits	4,409	–
Inventories	4,155	–
Trade payables, accruals and other payables	(4,782)	–
Minority interests	(3,994)	–
	<hr/> 6,792	<hr/> –
Release of exchange translation reserve	(32)	–
	<hr/> 6,760	<hr/> –
Gain on disposal of a discontinued operation (Note 6(a))	636	–
Gain on disposal of a subsidiary (Note 7)	550	–
	<hr/> 7,946	<hr/> –
Satisfied by:		
Cash (net of expenses of HK\$354,000)	<hr/> 7,946	<hr/> –



Notes to Financial Statements *(Cont'd)*

31 December 2002

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

(b) Disposal of subsidiaries (Cont'd)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2002 HK\$'000	2001 HK\$'000
Cash consideration (net of expenses of HK\$354,000)	7,946	–
Cash and bank balances disposed of	(1,945)	–
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	<u>6,001</u>	<u>–</u>

The results of the subsidiaries disposed of in the year ended 31 December 2002 had no significant impact on the Group's consolidated turnover or loss after tax for that year.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leased investment properties and certain plant and machinery under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years.

At 31 December 2002, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with their lessees falling due as follows:

	Group		Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year	1,742	1,613	239	954
In the second to fifth years, inclusive	2,936	960	–	260
	<u>4,678</u>	<u>2,573</u>	<u>239</u>	<u>1,214</u>



Notes to Financial Statements (Cont'd)

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33. OPERATING LEASE ARRANGEMENTS (Cont'd)

(b) As lessee

The Group leased certain of their office properties and retail units under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 2 years.

At 31 December 2002, the Group and the Company had total future minimum lease payments under non-cancellable operating lease falling due as follows:

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	340	5,285	340	916
In the second to fifth years, inclusive	113	1,352	113	153
	<u>453</u>	<u>6,637</u>	<u>453</u>	<u>1,069</u>

34. COMMITMENTS

At the balance sheet date, the Group had no outstanding contracted capital commitments in respect of property, plant and equipment (2001: HK\$259,000).

At the balance sheet date, the Company did not have any capital commitments (2001: Nil).

35. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following significant contingent liabilities:

- (a) Following the change in senior management of the Company in June 2002, it was discovered that certain former executives (the "Former Executives") of Nanhai Tannery & Leather Products Co., Ltd. ("Nanhai Tannery") (one of whom was also a former director of the Company) had been involved in certain irregularities. Nanhai Tannery is a wholly owned subsidiary of the Company established in Nanhai, Mainland China.

Upon discovery of the irregularities, an internal audit team of the Company's holding companies, working with the new management, conducted a preliminary investigation of the irregularities. The investigation revealed that the Former Executives apparently operated a business in parallel to the operations of Nanhai Tannery (the "Parallel Operation") for their own personal gain.