

NOW, ABOUT THOSE SHARE OPTIONS ...

Nearly every publicly listed company, quoted on The Stock Exchange of Hongkong Ltd, grants share options to certain senior employees and/or directors (in many cases, directors are employees, also).

But there has never been a single case of an employee, or a director, having left a publicly listed company, for whatever reason, proclaiming his rights, present and future, with regard to share options.

The reason: The share options, in nearly all cases that TARGET has tracked, are negated and determined null and void when the employee/director leaves the company.

But the worm may turn, one day, for it is only too apparent that many senior managers join publicly listed companies, not only looking at immediate salaries and other perquisites of office, but also because of the potential of cashing in on share options, granted to them.

Often, share options are demanded by incoming senior staff that sees more profit from exercising share options than in annual salary increases.

A perfect example of the above is the case of Mr Yu Fung, a Director of publicly listed [China Elegance International Fashion Ltd](#), who joined the company in September 1998 and who was granted, on joining the company in the capacity of a financial guru, 150 million share options in 2 tranches: 70 million shares at a price of 0.01472 cents per share; and, 80 million shares at a price of 0.01856 cents per share.

Within 7 months of being granted these lucrative share options, he had assigned the rights to the options to his wife, Ms Kwok Ki, and had earned a profit on the exercising of the share options and on immediate disposal of the China Elegance shares, allotted to him.

The profit was about \$HK5 million.

There are, no doubt, good reasons that China Elegance granted these share options to Mr Yu Fung in September 1998 because, after all, this company did receive \$HK2.50 million from Mr Yu Fung when he exercised his rights, under the share option agreements.

But what would have happened if China Elegance had terminated Mr Yu Fung's contract as an employee/Director, prior to his exercising his rights under the share option agreements?

Under the terms of his employment, no doubt, the share option agreements would have lapsed and would have been negated when he left the company due to the fact that there must have been an inducement to Mr Yu Fung to leave his former employer and to join China Elegance.

The hypothetical question arises: Could Mr Yu Fung have sued China Elegance for any notional lost profits in not having had the opportunity to exercise the China Elegance share option agreements and, then, to sell the shares, which would have been allotted to him, prior to his leaving the company?

This raises another question: Since the share option agreements must have been part and parcel of the terms and conditions for Mr Yu Fung's inducement to join China Elegance, should he be required to pay tax to the Government of the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC) on the profits, derived therefrom?

On salaries and other company benefits, Director Yu Fung would be required, by law, to file a Return with the Inland Revenue Department.... [CLICK TO ORDER FULL ARTICLE](#)

