

**CHINA ELEGANCE INTERNATIONAL FASHION LTD :
IT IS IN TROUBLE, TO BE SURE,
BUT HOW BAD IS THE SITUATION ?**

The situation at publicly listed China Elegance International Fashion Ltd is critical.

Of that statement, there can be no question.

But questions may soon be asked as to whether or not the Company can continue to manufacture and trade in leather garments in view of the latest admission from Management, as contained in the 1999 Annual Report.

It has been more than 3 years since TARGET has published any kind of a report on this Company, the last one, being on September 19, 1996 when we questioned whether or not the shares of this Company were worth \$HK4.50 each.

Today, the question is whether or not the shares are worth anything, with the exception of the value of the scrip, based on the market value of the listed corporate shell, only, of course.

On October 15, a total of 131.69 million shares in the Issued and Fully Paid-Up Share Capital of China Elegance changed hands on The Stock Exchange of Hongkong Ltd, with the closing price, being 0.05 cents per share.

While the share price is a long way from the September 19, 1996 level of \$HK4.50, even at 0.05 cents per share, it could be throwing money down the sink for those people who buy into this Company at this late stage in the game.

The only rationale that TARGET can ascribe, to the recent share-trading activity, is that '*certain employees*' of the Company are cashing in while there are still some people, willing to take a gamble on these shares.

The logic behind TARGET's reasoning is that, on March 16 and April 26, 1999, 150 million share options were granted to certain Company employees, entitling them to subscribe to 150 million shares in the Share Capital of the Company at a price of 0.01472 cents for per share, for the March 16, 80-million share option, and 0.01856 cents per share, for the April 16, 70-million share option.

The period of time for the exercise of these options was within 10 years.

On June 8, 1999, however, a total of 150 million share options were exercised at the stated option prices, bringing in \$HK2.50 million to the coffers of China Elegance.

The mathematics, in this case, is very simple:

80 million shares at a price of 0.01472 cents per share equals \$HK1,176,6000;
80 million shares at a price of 0.05 cents per share equals \$HK4 million; therefore,

PROFIT: \$HK2,823,400

70 million shares at a price of 0.01856 cents per share equals \$HK1,299,200;
70 million shares at a price of 0.05 cents per share equals \$HK3.50 million; therefore,

PROFIT: \$HK2,200,800

So, within a period of 7 months, between the date of the share options and the date of the sales of the 150 million China Elegance shares, some '*certain of the Company's employees*' managed to pocket a net profit of about \$HK5,024,200.

Not bad going! Good luck to '*certain of the Company's employees*'!

TARGET notes that the surplus, obtained over the option price of the 150 million shares, is a little more than double that which China Elegance received from granting the share options to '*certain of the Company's employees*.'

[\(More about this matter later in this report\)](#)

How Much Is China Elegance Worth ?

According to the 1999 Annual Report of China Elegance, the financial situation is desperate, without question....

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