

ODELLA LEATHER HOLDINGS LIMITED

愛特麗皮革控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8093)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2015

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This announcement, for which the directors (the “Directors”) of Odella Leather Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

FINANCIAL RESULTS

The board of directors (the “Board”) of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 30 June 2015, together with the audited comparative figures for the year ended 30 June 2014 as follows, which are presented in Hong Kong dollars (“HK\$”):

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2015

	<i>Notes</i>	2015 HK\$'000	2014 HK\$'000
Revenue	3	81,947	80,586
Cost of sales		<u>(45,357)</u>	<u>(53,217)</u>
Gross profit		36,590	27,369
Other revenue and other income	4	154	110
Selling and distribution expenses		(2,676)	(2,478)
Administrative expenses		(11,875)	(9,295)
Finance costs		(12)	(14)
Listing expenses		<u>(18,422)</u>	<u>—</u>
Profit before tax	5	3,759	15,692
Income tax expenses	6	<u>(3,643)</u>	<u>(2,796)</u>
Profit for the year attributable to owners of the Company		<u>116</u>	<u>12,896</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>5</u>	<u>8</u>
Other comprehensive income for the year		<u>5</u>	<u>8</u>
Total comprehensive income for the year attributable to owners of the Company		<u><u>121</u></u>	<u><u>12,904</u></u>
Earnings per share attributable to owners of the Company	7		
Basic and diluted (HK cents)		<u><u>0.03</u></u>	<u><u>4.30</u></u>

Detail of the dividends are set out in note 8.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2015

	Notes	2015 HK\$'000	2014 HK\$'000
Non-current assets			
Property, plant and equipment		303	283
Deferred tax assets		—	4
Total non-current assets		<u>303</u>	<u>287</u>
Current assets			
Inventories		2,243	8,236
Trade receivables	9	26,848	9,806
Deposits, prepayments and other receivables		2,778	431
Cash and cash equivalents		36,388	15,133
Pledged deposits		<u>3,348</u>	<u>—</u>
Total current assets		<u>71,605</u>	<u>33,606</u>
Current liabilities			
Trade payables	10	1,328	1,811
Accruals, other payables and trade deposits received		7,901	5,918
Amounts due to Directors		—	4,824
Tax payable		<u>4,720</u>	<u>3,990</u>
Total current liabilities		<u>13,949</u>	<u>16,543</u>
Net current assets		<u>57,656</u>	<u>17,063</u>
Total assets less current liabilities		<u>57,959</u>	<u>17,350</u>
Non-current liabilities			
Deferred tax liabilities		<u>6</u>	<u>—</u>
Net assets		<u><u>57,953</u></u>	<u><u>17,350</u></u>
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		4,000	200
Reserves		<u>53,953</u>	<u>17,150</u>
Total equity		<u><u>57,953</u></u>	<u><u>17,350</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2015

	Attributable to owners of the Company							Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Statutory reserve HK\$'000 (note i)	Exchange fluctuation reserve HK\$'000 (note ii)	Other reserve HK\$'000 (note iii)	Retained earnings HK\$'000	Reserves Sub-total HK\$'000	
As at 1 July 2013	200	—	36	171	—	4,039	4,246	4,446
Profit for the year	—	—	—	—	—	12,896	12,896	12,896
Other comprehensive income for the year	—	—	—	8	—	—	8	8
Total comprehensive income for the year	—	—	—	8	—	12,896	12,904	12,904
Appropriation of statutory reserve	—	—	12	—	—	(12)	—	—
As at 30 June 2014 and 1 July 2014	200	—	48	179	—	16,923	17,150	17,350
Profit for the year	—	—	—	—	—	116	116	116
Other comprehensive income for the year	—	—	—	5	—	—	5	5
Total comprehensive income for the year	—	—	—	5	—	116	121	121
Effect of shares exchange (note iv)	(200)	—	—	—	200	—	200	—
Issue of shares on Group reorganisation (note iv)	100	—	—	—	(100)	—	(100)	—
Appropriation of statutory reserve	—	—	160	—	—	(160)	—	—
Dividend paid (note 8)	—	—	—	—	—	(3,200)	(3,200)	(3,200)
Shares issued pursuant to the capitalisation issue (note v)	2,900	(2,900)	—	—	—	—	(2,900)	—
Transaction cost attributable to issue of shares	—	(11,318)	—	—	—	—	(11,318)	(11,318)
Placing of new shares (note vi)	1,000	54,000	—	—	—	—	54,000	55,000
As at 30 June 2015	4,000	39,782	208	184	100	13,679	53,953	57,953

Notes:

(i) Statutory reserve

Pursuant to the relevant laws and regulations for business enterprises in the People's Republic of China (the "PRC"), a portion of the profits of the entities which are registered in the PRC has been transferred to the statutory reserve which is restricted as to use. When the balance of such reserve reaches 50% of the capital of that entity, any further appropriation is optional. The statutory reserve can be utilised, upon approval of the relevant authority, to offset prior years' losses or to increase capital. However, the balance of the statutory reserve must be maintained at a minimum 25% of capital after such usage.

(ii) Exchange fluctuation reserve

Exchange fluctuation reserve represents exchange differences relating to the translation of the net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. Hong Kong dollars) that are recognised directly in other comprehensive income and accumulated in the exchange fluctuation reserve. Such exchange differences accumulated in the exchange fluctuation reserve are reclassified to profit or loss on the disposal of the foreign operations.

(iii) Other reserve

Other reserve represents the difference between the nominal value of the shares issued by the Company in exchange for the nominal value of the share capital of its subsidiary arising from the Reorganisation (as defined below).

(iv) Reorganisation

The share capital as at 30 June 2014 represented the share capital of Perline Company Limited ("Perline"), the then holding company amounted to HK\$200,000, which is the then holding company.

In preparation for the Listing of the shares of the Company ("Shares") on GEM, the Group underwent a corporate reorganisation (the "Reorganisation") as below. Further details of the Reorganisation are set out in note 1.1 below.

On 3 September 2014, the Company was incorporated in the Cayman Islands with one subscriber Share issued at nil paid. On the same date, the subscriber Share was transferred to Quality Century Limited ("QCL") and 999,999 Shares were further allotted at nil paid to QCL, Design Vanguard Limited ("DVL") and Olson Global Limited ("OGL"), companies solely owned by each of the then shareholders of Perline.

On 4 December 2014, Odella International Limited ("Odella BVI"), a wholly owned subsidiary of the Company, (as a purchaser) acquired from the then shareholders of Perline (as the vendors) the entire share capital of Perline. In consideration the Company credited as fully paid the 1,000,000 nil-paid Shares which were first issued on 3 September 2014, and issued to QCL, DVL and OGL (as nominated by the vendors) 9,000,000 new Shares, all credited as fully paid. On completion, Odella BVI became the sole shareholder of Perline, and the number of issued shares in the Company was increased to 10,000,000.

(v) Capitalisation issue

On 11 February 2015, the Company issued and allotted a total of 290,000,000 Shares of HK\$0.01 each to the Company's shareholders whose names appeared on the Company's register of members on 28 January 2015 by capitalising an amount of HK\$2,900,000 standing to the credit of the Company's share premium account which was created pursuant to the Placing (as defined below) (the "Capitalisation Issue").

(vi) Placing

On 11 February 2015, the Company issued a total of 100,000,000 new Shares of HK\$0.01 each at a placing price of HK\$0.55 per Share pursuant to the prospectus (the "Prospectus") of the Company dated 5 February 2015 (the "Placing"). The gross Listing proceeds were HK\$55,000,000.

Notes:

1.1 GENERAL, REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 3 September 2014 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Shares of the Company have been listed (the “Listing”) on GEM with effect from 12 February 2015.

Reorganisation

The principal business of the Group was previously carried out by Perline, a subsidiary of the Company incorporated in Hong Kong with limited liability. Perline was then owned by Ms. Cheung Woon Yiu as to 68%, Ms. Lam Wai Si Grace as to 17% and Mr. Ching Wai Man as to 15%. In preparation for the Listing, the Group underwent the Reorganisation in 2014 as set out below.

- (i) Upon incorporation of the Company, on 3 September 2014, one Share of HK\$0.01 each was allotted and issued at nil paid to the subscriber. On the same date, the subscriber Share was transferred to QCL (a company solely owned by Ms. Cheung Woon Yiu) and the Company further allotted and issued 999,999 Shares at nil paid, to DVL (a company solely owned by Ms. Lam Wai Si Grace) and OGL (a company solely owned by Mr. Ching Wai Man).
- (ii) On 11 September 2014, Odella BVI was incorporated in the British Virgin Islands. Upon incorporation, 100 shares in Odella BVI of US\$1 each were issued to the Company at par value.
- (iii) By an agreement dated 4 December 2014, Odella BVI (as a purchaser) acquired from the then shareholders of Perline (as vendors) the entire issued share capital in Perline. In consideration of and in exchange for such acquisition, the Company credited as fully paid the 1,000,000 nil-paid Shares which were first issued on 3 September 2014, and issued to QCL, DVL and OGL (as nominated by the vendors) 9,000,000 new Shares in the proportion of 68%, 17% and 15% respectively, all credited as fully paid. On completion, Odella BVI became the sole shareholder of Perline, and the number of issued shares in the Company was increased to 10,000,000. The shareholding percentage of QCL, DVL and OGL in the Company remained the same immediately before and after the completion of the above agreement.

Basis of presentation

Immediately prior to and after the Reorganisation, the principal business of the Group remained under the control of Ms. Cheung Woon Yiu, Ms. Lam Wai Si Grace and Mr. Ching Wai Man. Pursuant to the Reorganisation, the Company became the holding company of the companies now comprising the Group on 4 December 2014. The Reorganisation was merely reorganisations of the principal business of the Group with no change in management of such business and the ultimate owners of the business. Accordingly these financial statements have been prepared by applying the principles of merger accounting as if the Company had been the holding company of the Group throughout the years presented.

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the years ended 30 June 2015 and 2014 include the results and cash flows of all companies now comprising the Group, or since the date when the subsidiaries first came under the common control, where this is a shorter period. The consolidated statement of financial position of the

Group's subsidiaries as at 30 June 2014 have been prepared to present the assets and liabilities of the subsidiaries using the existing carrying values of the principal business of the Group for the period presented. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

All intra-group transactions and balances have been eliminated on consolidation in full.

1.2 STATEMENT OF COMPLIANCE

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints")) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the GEM Listing Rules and the disclosure requirements of the Hong Kong Companies Ordinance.

1.3 BASIS OF PREPARATION

These consolidated financial statements have been prepared under the historical cost convention. Historical cost is generally based on fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristic of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand ("HK\$000") except when otherwise indicated.

2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies applied in the preparation of the audited financial statements for the year ended 30 June 2015 are consistent with those adopted in last year except that the Group has applied the following new and revised HKFRSs which are relevant to the Group issued by the HKICPA for the first time in the current year.

HKAS 19 (Amendments)	Defined Benefit Plans: Employee Contributions
HKAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendments)	Recoverable Amount Disclosures for Non-Financial Assets
HK(IFRIC)-Int 21	Levies
Annual Improvements to HKFRSs 2010–2012 Cycle	
Annual Improvements to HKFRSs 2011–2013 Cycle	

The adoption of these new and revised HKFRSs has no significant impact on the results and financial position of the Group.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective which may be relevant to the Group.

HKFRS 9	Financial Instruments ³
HKFRS 15	Revenue from Contracts with Customers ²
HKAS 1 (Amendments)	Disclosure Initiative ¹
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation ¹
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements ¹
Annual Improvements to HKFRSs 2012–2014 Cycle ¹	

¹ Effective for annual periods beginning on or after 1 January 2016.

² Effective for annual periods beginning on or after 1 January 2017.

³ Effective for annual periods beginning on or after 1 January 2018.

The Directors are in the process of assessing the potential impact of the new and revised HKFRSs but are not in a position to determine whether they will have a significant impact on the Group's results of operations and financial position and their presentation and disclosures. It is anticipated that the Group will adopt these new and revised HKFRSs in its accounting policies in the accounting periods when they first become effective.

3. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue, which is also the Group's turnover, represents the aggregate of the net invoiced value of leather products sold, after allowances for returns.

The Group has only one single operating segment as the Group is principally engaged in the manufacturing and sales of leather products which is the basis to allocate resources and assess performance.

The chief operating decision-maker has been identified as the management. The management reviews the Group's internal reporting in order to assess performance and allocate resources. The Group focuses primarily on manufacturing and sales of leather products during the periods. Information reported to the chief operating decision-maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

(a) Information about major customers

Revenues from customers contributing over 10% of the total revenue of the Group during the years are as follows:

	2015 HK\$'000	2014 HK\$'000
Customer A	22,319	10,289
Customer B	*	18,267
Customer C	*	13,099

* The corresponding revenue did not contribute over 10% of the total sales of the Group for the respective year.

(b) Geographical information

The following tables set out information about geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets excluding deferred tax assets. The geographical location of customers is based on the location to which the goods are delivered. The geographical location of non-current assets excluding deferred tax assets is based on the physical location of the assets.

Revenue from external customers

	2015 HK\$'000	2014 HK\$'000
United States of America	33,441	36,670
Hong Kong	14,053	13,424
Australia	13,328	14,713
PRC	7,663	263
Malaysia	5,187	4,420
Japan	3,560	2,627
South Africa	1,648	466
Netherlands	1,150	6,477
Others (<i>note</i>)	1,917	1,526
	<u>81,947</u>	<u>80,586</u>

Note: Other countries included Canada, France, United Kingdom, Italy, South Korea, Mexico, Singapore, New Zealand, Brazil and Cambodia.

Non-current assets excluding deferred tax assets

	2015 HK\$'000	2014 HK\$'000
Hong Kong	63	54
PRC	240	229
	<u>303</u>	<u>283</u>

4. OTHER REVENUE AND OTHER INCOME

	2015 HK\$'000	2014 HK\$'000
Interest income	127	4
Sales of scrap materials	10	13
Sundry income	17	93
	<u>154</u>	<u>110</u>

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Depreciation of property, plant and equipment*	130	122
Cost of inventories recognised as expenses (included in cost of sales)	38,426	45,597
Listing expenses	18,422	—
Staff costs (including directors' remuneration)*:		
— Salaries and bonus	13,096	12,372
— Pension scheme contributions	1,602	1,212
	14,698	13,584

* Included in cost of inventories sold for the years ended 30 June 2015 and 2014 were depreciation charge of approximately HK\$43,000 and HK\$43,000 respectively and staff costs of approximately HK\$6,017,000 and HK\$6,679,000 respectively.

6. INCOME TAX EXPENSES

Hong Kong Profits Tax is calculated at the rate of 16.5% on the estimated assessable profit for the years. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries or jurisdictions in which the Group operates.

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current income tax:		
Hong Kong Profits Tax	3,422	2,734
PRC Corporate Income Tax	211	61
	3,633	2,795
Deferred income tax	10	1
Total income tax expenses for the year	3,643	2,796

The rate of the PRC Corporate Income Tax of the Group's subsidiary operating in the PRC during the year was 25% (2014: 25%) on its assessable profits.

7. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic earnings per Share attributable to owners of the Company was based on (i) the profit attributable to owners of the Company of approximately HK\$116,000 (2014: HK\$12,896,000) and (ii) the weighted average number of 338,356,164 Shares, assuming 300,000,000 Shares were in issue prior to the completion of Placing of 100,000,000 Shares on 11 February 2015, as if these 300,000,000 Shares were outstanding throughout the year (2014: 300,000,000 Shares, comprising 10,000,000 Shares in issue and 290,000,000 Shares to be issued under the capitalisation issue).

The diluted earnings per Share is equal to the basic earnings per Share as there were no diluted potential ordinary Shares in issue during the years.

8. DIVIDENDS

The Directors do not recommend any dividend for the year ended 30 June 2015. The Company has not declared any dividends since its incorporation.

Prior to the completion of the Reorganisation in December 2014, Perline, a subsidiary of the Company, declared a dividend of HK\$3,200,000 to its then shareholders in October 2014. Such dividend was fully paid by way of cash in December 2014. The dividend declared for the years are as follows:

	2015 HK\$'000	2014 HK\$'000
Dividend of Perline to the then shareholders of Perline of HK\$16 per Perline's share (2014: nil)	<u>3,200</u>	<u>—</u>

9. TRADE RECEIVABLES

Majority of the Group's sales are based on letters of credit and advances before delivery, and the remaining sales are made with credit terms ranging from 10 to 45 days (2014: 10 to 45 days). The Group does not hold any collateral over these balances.

The following table sets out an aging analysis of trade receivables of the Group, presented based on the invoice date:

	2015 HK\$'000	2014 HK\$'000
Within 30 days	17,890	8,329
31 to 60 days	884	1,197
61 to 90 days	124	70
Over 90 days	<u>7,950</u>	<u>210</u>
	<u>26,848</u>	<u>9,806</u>

The following table sets out an aging analysis of trade receivables of the Group which are past due but not impaired. These related to a number of independent customers for whom there is no recent history of default.

	Group	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	1,836	8,086
31 to 60 days	740	425
61 to 90 days	1,158	44
Over 90 days	885	179
	<u>4,619</u>	<u>8,734</u>

10. TRADE PAYABLES

The following table sets out an aging analysis of trade payables of the Group, presented based on the invoice date:

	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	672	1,740
31 to 60 days	308	35
61 to 90 days	105	7
Over 90 days	243	29
	<u>1,328</u>	<u>1,811</u>

FINAL DIVIDEND

The Directors do not recommend payment of any final dividend for the year ended 30 June 2015. The Company has not declared any dividend since its incorporation.

Prior to the completion of the Reorganisation in December 2014, a dividend of HK\$3,200,000 for the year ended 30 June 2015 (represented of HK\$16 per Perline's share) declared and paid by Perline, a subsidiary of the Company, to the then shareholders of Perline (2014: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Reorganisation and Listing of the Company's Shares

The Company was incorporated in the Cayman Islands on 3 September 2014 as an exempted company with limited liability. In preparation for the Listing on GEM by Placing of 100,000,000 Shares of HK\$0.01 each at a placing price of HK\$0.55 per Share, the Group underwent the Reorganisation which was completed on 4 December 2014. Details of the Reorganisation are set out in the section headed "*History, Development and Reorganisation*" of the Prospectus. Since then, the Company became the holding company of the subsidiaries now comprising the Group.

On 12 February 2015, the Shares first became listed on GEM. The total net proceeds from the Placing after deducting all related expenses was approximately HK\$25.3 million. Up to 30 June 2015, the Group has applied the proceeds as follows:

- (a) approximately HK\$0.3 million for strengthening the Group's business development capability by expanding its marketing function;
- (b) approximately HK\$0.1 million for enhancing the Group's manufacturing facilities through purchasing new production equipment and machineries;
- (c) approximately HK\$0.1 million for expansion of the Group's pre-production product development function; and
- (d) approximately HK\$0.1 million for expansion of the Group's sourcing capability.

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry.

Business strategy	Business objectives for the period since the date of Listing up to 30 June 2015 (“Review Period”)	Actual business progress during the Review Period
Strengthening business development capability	Increase marketing team with about one to two additional staff to visit, make presentations to, and develop relationship with existing and potential customers	Two additional marketing staff were recruited to visit, make presentations to, and develop relationship with existing and potential customers
	Participate in more trade fairs and fashion shows to increase the market presence	During the period, marketing plan was developed and extra visits were made to customers in the North America and Australia
	Develop marketing plan for further expansion of North America market	
Enhancing manufacturing facilities	Making payment for the purchase of automatic flat press machine, sewing machines with special functions, computerised pattern cutting machine and automated button-attaching machines	An automatic flat press machine was purchased during the period. The Group will identify and further invest in production machineries which will enhance the Group’s production technology and efficiency
	Examine the state and condition of the existing production facilities to ascertain and develop time schedule for replacement of old equipment and machineries	
Expansion of preproduction development function	Recruit about one to two staff to strengthen the design and development team	An experienced leather garment development specialist was recruited to strengthen the Group’s product development capability
Expansion of sourcing capability	Recruit about one to two staff/agents to expand the Group’s geographical coverage of suppliers and make more frequent supplier visits to strengthen the Group’s quality control	Two additional staff were recruited to support and enhance the Group’s sourcing function. Physical visits were also made to leather suppliers to strengthen the Group’s quality control

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, the Group intends to deposit the net proceeds in short-term demand deposits. The Group will continue to review and evaluate the business plan critically and will make an appropriate announcement if there is any change to the above proposed use of proceeds or if any amount of the proceeds will be used for general corporate purpose.

Business Review

The Group produces leather garment products according to its customers' specifications and under their brands or labels. It is considered that the customers' orders, including the types, specification and design of the products, were made based on consumer preference, market trend, seasonality and their fashion style for a particular season, and the Group discusses the price of each order with the customers with reference to the cost of sales such as the cost of raw materials, labour costs, the size of the order, the complexity of the product design and the manufacturing process, the packaging and transportation costs, the customer's relationship with the Group, the customer's approximate retail price of the products and mark-up.

The management believes that the Group has earned its reputation and enjoyed a competitive advantage over its competitors as it has in its employ skilled and experienced workers, especially sewing workers and cutter workers who can produce products which conform to its customers' stringent product design specifications and aesthetic requirements. Unlike other manufacturers who purely produce garments on original equipment manufacturer basis, the Group also offers a range of ancillary pre-production product development services to certain of its international and regional fashion brand customers at the early stage of their pre-production product development. It is considered that these international and regional fashion brands customers highly appreciate the Group's craftsmanship, dedication in the value-added pre-production product development services and experience in the leather garment manufacturing industry and they are willing to pay higher prices for the Group's products.

The Group has recorded similar level of revenue while much higher gross profit for the year ended 30 June 2015 ("FY 2015") compared to the year ended 30 June 2014 ("FY 2014"). As an observation of fashion trend, customers are more interested in shearlings, calf skin and double faced leather, which are of generally higher value in costs and require more complex and sophisticated craftsmanship. The Group has also further strengthened its marketing efforts to boost up sales to customers in markets of Australia, South Africa, Hong Kong and the PRC.

Outlook

Upon Listing, the Group has stronger financial and liquidity position. The Group has recruited additional technical expertise to strengthen the design and development capability of the Group. This will help the Group to better support its high-end fashion brand customers and will allow the Group to attain a reputation and ability to win the trust and orders from other high-end fashion brands.

The Group sees gradual recovery from the economic downturn, especially the United States market, which is one of the Group's major markets. The management believes that the demand for leather garments is expected to improve gradually. All these bring positive impact to the growth of the Group's garment sales in the foreseeable future.

In August 2015, subsequent to FY 2015, the Group saw a mild drop in the exchange rate of Renminbi against the Hong Kong dollar. The Group may enjoy slightly lower production cost as its production base is in the PRC. Nevertheless, as most of the Group's purchases of raw materials are denominated in United States dollar and EURO, the mild devaluation of Renminbi will not result in significant cost saving in the overall costs of goods sold.

Financial Review

Overview

Principal activities of the Group are manufacturing and sales of leather garment products to renowned customers based in the United States of America, Australia, Hong Kong and the PRC markets.

During the year, the revenue of the Group has recorded a mild growth of approximately 2% from approximately HK\$80.6 million for FY 2014 to approximately HK\$81.9 million for FY 2015.

The Group has recorded growth in operating profit after tax (excluding listing expenses) of approximately 43% from approximately HK\$12.9 million for FY 2014 to approximately HK\$18.5 million for FY 2015, primarily attributable to the improvement in gross profit.

However, the Group reported profit after tax of approximately HK\$0.1 million for FY 2015 mainly as a result of the listing expenses incurred during the year of approximately HK\$18.4 million, which is non-recurring and non-operating in nature.

Revenue

The Group recorded revenue of approximately HK\$81.9 million for FY 2015, which represents an increase of approximately 2% from approximately HK\$80.6 million for FY 2014.

The increase was mainly due to additional products being delivered in the second and third quarters of FY 2015 to customers.

Cost of Sales and Gross Profit

Cost of sales mainly represent cost of raw materials, cost of accessories, labour costs and other manufacturing overheads. Cost of sales for FY 2015 amounted to approximately HK\$45.4 million (2014: HK\$53.2 million), representing a decrease of approximately HK\$7.8 million. Gross profit for FY 2015 was approximately HK\$36.6 million, representing an increase of approximately HK\$9.2 million from approximately HK\$27.4 million for FY 2014.

Gross profit margin for FY 2015 was approximately 45% which represented an increase of approximately 11% from that of FY 2014. Although the quantity of leather garments shipped during FY 2015 only grew mildly comparing to the previous year, orders received in FY 2015 consisted of a substantial amount of leather garments involving more sophisticated designs or made of high value materials (such as shearling and calf skin) which needed exceptional extent of experienced craftsmanship. Accordingly, the Group was able to charge prices with higher gross profit margins.

On average, the Group enjoyed higher margins from old and new customers in FY 2015, as compared with those in the previous year.

Other Revenue and Other Income

Other revenue and other income mainly represented sundry income that are incidental to the Group's business principally including interest income and sales of scrap materials.

Other revenue and other income for FY 2015 amounted to approximately HK\$0.2 million (2014: HK\$0.1 million), representing an increase of approximately HK\$0.1 million as a result of increase in bank interest income from deposits of unutilised Listing proceeds.

Selling and Distribution Expenses

Selling and distribution expenses comprise mainly logistic expenses and marketing expenses. Selling and distribution expenses have increased from approximately HK\$2.5 million for FY 2014 to approximately HK\$2.7 million for FY 2015, representing an increase of approximately HK\$0.2 million.

The higher selling and distribution expenses in FY 2015 was mainly attributable to higher marketing expenses as a result of more intensive marketing activities in the year.

Administrative Expenses

Administrative expenses (excluding Listing expenses as separately disclosed below) comprise mainly payroll expenses, rent and rates and other office administrative expenses. Administrative expenses have increased from approximately HK\$9.3 million in FY 2014 to about approximately HK\$11.9 million in FY 2015, representing an increase of approximately 28%.

The higher administrative expenses in FY 2015 was mainly attributable to higher rental and payroll expenses and additional legal and professional expenses such as annual listing fee and other corporate services and advisory services fees.

Listing Expenses

During FY 2015, the Group recorded listing expenses of approximately HK\$18.4 million in connection with the Listing. Total expenditures for Listing were approximately HK\$29.7 million. According to Hong Kong Financial Reporting Standards, part of these expenditures of approximately HK\$11.3 million was available for offsetting against the Company's equity reserves.

Finance Costs

Finance costs represent interests for bank loan and trust receipt loans. For both FY 2015 and FY 2014, there were insignificant amount of interests as there were no major outstanding bank loans nor heavy reliance on trade finance facilities.

Income Tax Expenses

Income tax represents Hong Kong Profits Tax at 16.5% for the Company's subsidiary in Hong Kong and PRC Corporate Income Tax at 25% for the Company's subsidiary in Foshan, the PRC.

Higher effective tax rate for FY 2015 as compared to FY 2014 was recorded because the listing expenses which were only incurred in FY 2015 mainly consisted of certain expenditures which may not be tax deductible.

Profit for the Year

For FY 2014, the Group recorded profit for the year of approximately HK\$12.9 million. For FY 2015, the Group recorded profit for the year of approximately HK\$0.1 million, which is the net effect of recurring operational profit after tax for the year of approximately HK\$18.5 million and non-recurring listing expenses of approximately HK\$18.4 million incurred for the preparation of the Listing during FY 2015.

Financial Position, Liquidity and Financial Resources

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimise the costs of funds, the Group's treasury activities are centralised and cash is generally deposited with banks in Hong Kong and the PRC.

The Group has remained at a sound and healthy financial resource level during the year under review. In previous years before the Company's Shares became listed on GEM, the Group's operations were mainly financed by funds injected by the then shareholders (who are also Directors) of Perline, a subsidiary of the Company which was the then holding company before the Reorganisation, bank borrowings and internal resources. As at 30 June 2014, the amounts due to Directors amounted to approximately HK\$4.8 million. The amounts due to Directors were fully settled before the Placing. As at both 30 June 2015 and 2014, the Group did not have any outstanding bank borrowings. There was no seasonality as to the Group's borrowing requirements and no committed borrowing facilities.

Following the Placing, the Group's liquidity position became stronger and this enables the Group to expand in accordance with its business directions. As at 30 June 2015, included in net current assets were cash and bank balances (including pledged deposits) totalling approximately HK\$39.7 million (2014: HK\$15.1 million).

No gearing ratio (which is calculated by dividing the net debt by total equity where net debt comprise bank borrowings and amounts due to Directors less cash and bank balances) was presented as the Group did not have net debt as at both 30 June 2015 and 2014.

Charge Over Assets of the Group

As at 30 June 2014, the Group's banking facilities were supported by the Special Loan Guarantee Scheme of the Government of Hong Kong. The facility in respect of trust receipt loans was not less than 80% guaranteed by the Government of Hong Kong and 100% personally guaranteed by an executive Director. During FY 2015 and prior to the Listing, new banking facilities were arranged to replace the then existing banking facilities. The aforesaid personal guarantee by an executive Director has been released following the termination of the aforesaid banking facilities. As at 30 June 2015, the Group's banking facilities were supported by pledged deposits of the Group of approximately HK\$3.3 million.

Financial Management Policies

The Group in its ordinary course of business is exposed to market risks such as foreign currency risk and interest rate risk. The Group's risk management strategy aims to minimise the adverse effects of these risks on its financial performance.

Cash is generally deposited at banks in Hong Kong and the PRC and denominated mostly in Hong Kong dollar, United States dollar and Renminbi. As at 30 June 2015, no related hedges were made by the Group (2014: nil).

As most of the Group's trading transactions, monetary assets and liabilities are denominated in United States dollar, Renminbi and Hong Kong dollar, the impact of foreign exchange exposure to the Group during FY 2015 was minimal and there was no significant adverse effect on normal operations.

The Group noted that Renminbi has been devalued as compared with Hong Kong dollars recently. Though the production base of the Group is located in the PRC, the Group's cost of sales mainly comprised raw materials costs which are mainly denominated in United States Dollar and EURO. Thus, the management believes that such devaluation of Renminbi will not cause significant impact to the financial performance of the Group. However, the management will closely monitor the foreign currency changes on a continuous basis and may adjust the Group's treasury policies accordingly.

With the current interest rates staying at relatively low levels, the Group has not entered into any interest rate hedging contracts or any other interest rate related derivative financial instrument. However, the Group continues to monitor its related interest rate exposure closely.

Capital Commitments and Contingent Liabilities

As at 30 June 2015, the Group did not have any significant capital commitment (2014: nil) and contingent liability (2014: nil).

Material Acquisitions and Disposals

Save for the Reorganisation, during FY 2015, the Group did not have any material acquisition and disposal (2014: nil).

Looking forward, the Group does not have any concrete plan for material investments or capital assets for the coming year. Nonetheless, if potential investment opportunity arises which fit the Group's development strategy, the Group will consider such opportunity for the overall benefits to the Group and the Company's shareholders as a whole.

Employees and Remuneration Policy

As at 30 June 2015, the Group had a workforce of 158 employees (2014: 114). The increase in number of employees was mainly due to increase in production and administrative workforce. Total staff costs for FY 2015 was approximately HK\$14.7 million, representing an increase of approximately HK\$1.1 million as compared to the staff costs for FY 2014.

The emolument policy of the employees of the Group is formulated by the remuneration committee of the Board ("Remuneration Committee") with reference to the duties, responsibilities, experience and competence of individual employees and Directors. In addition to salaries and discretionary bonuses relating to the performance of the Group, employee benefits included pension scheme contributions. The emoluments of the Directors are reviewed annually by the Remuneration Committee.

As incentives and rewards for their contributions to the Group, the employees of the Group and all the Directors (including the independent non-executive Directors and non-executive Director) may also be granted share options by the Company from time to time pursuant to the share option scheme adopted on 28 January 2015.

The Group provides various training to its employees to enhance their technical skills and knowledge relevant to the employees' responsibilities. The Group also provides its employees with quality control standards and work safety standards training to enhance their safety awareness.

During the year under review, the Group did not experience any strikes, work stoppages or significant labour disputes which affected its operations in the past and it did not experience any significant difficulties in recruiting and retaining qualified staff.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Shares were first listed on GEM on 12 February 2015. During FY 2015, save for the Reorganisation and the Placing disclosed in the Prospectus, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules.

In response to specific enquiry made by the Company, each of the Directors gave confirmation that he/she has complied with the required standard of dealings and the code of conduct regarding securities transactions by the Directors throughout the Review Period.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, during the Review Period, the Company has complied with the applicable code provisions in the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules.

COMPLIANCE WITH THE REQUIREMENT OF TIMELY LODGMENT OF TRADE DECLARATIONS UNDER THE IAE REGISTRATION REGULATIONS

As disclosed in the Prospectus, the Company will, for the first two years after Listing, report its compliance with the requirement of timely lodgement of trade declarations under the Import and Export (Registration) Regulations (“IAE Registration Regulation”, Chapter 60E of the Law of Hong Kong) in its annual and interim reports. Since 1 October 2014 and up to 30 June 2015, all trade declarations lodged by the Group were lodged within the prescribed 14-day period under the IAE Registration Regulation. For compliance status during the period between 1 July 2012 and 30 September 2014, please refer to the Prospectus for details.

AUDIT COMMITTEE

The audit committee of the Board (“Audit Committee”) has been established in accordance with the GEM Listing Rules. Members of the Audit Committee comprise Mr. Wong Wai Kong (chairman of the Audit Committee), Mr. How Sze Ming and Mr. Philip David Thacker, all of them are independent non-executive Directors.

The Audit Committee had reviewed and discussed with the management of the Group and the external auditors the accounting principles and practices adopted by the Group, as well as internal controls and other financial reporting matters.

The Group’s consolidated financial statements for the year ended 30 June 2015 have been audited by the Company’s auditors, HLB Hodgson Impey Cheng Limited (“HLB”) and reviewed by the Audit Committee.

The figures in respect of this annual results announcement of the Group for the year ended 30 June 2015 have been agreed by the Company’s auditors, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by HLB in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by HLB on this preliminary announcement.

PUBLICATION OF ANNUAL REPORT

The annual report of the Company for FY 2015 will be dispatched to the Shareholders and published on the websites of GEM (www.hkgem.com) and the Company (www.odella.com) respectively in due course.

By order of the Board
Odella Leather Holdings Limited
Cheung Woon Yiu
Chairman and executive Director

Hong Kong, 23 September 2015

As at the date of this announcement, the Company's Board comprise: Ms. Cheung Woon Yiu, Ms. Lam Wai Si Grace and Mr. Ching Wai Man as executive Directors, Ms. Ng Lai Hung as non-executive Director; and Mr. Wong Wai Kong, Mr. How Sze Ming and Mr. Philip David Thacker as independent non-executive Directors.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the day of its posting and on the Company's website at www.odella.com.