

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 FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2015

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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.

UNAUDITED CONDENSED CONSOLIDATED RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 30 September 2015 together with the comparative figures for the corresponding period in 2014 which have been audited as follows:

		Three months ended	
		30 September	
	<i>Notes</i>	2015	2014
		HK\$'000	HK\$'000
		(unaudited)	(audited)
REVENUE	3	19,596	22,244
Cost of sales		<u>(10,740)</u>	<u>(12,340)</u>
Gross profit		8,856	9,904
Other revenue and other income		128	2
Selling and distribution expenses		(649)	(735)
Administrative expenses		(2,818)	(2,383)
Listing expenses		—	(4,230)
Finance costs	4	<u>—</u>	<u>(12)</u>
Profit before tax	5	5,517	2,546
Income tax expense	6	<u>(907)</u>	<u>(1,224)</u>
Net profit for the period attributable to owners of the Company		<u>4,610</u>	<u>1,322</u>
Other comprehensive income/(expense)			
<i>Items that may be reclassified subsequently to consolidated statement of profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>25</u>	<u>(3)</u>
Other comprehensive income/(expense) for the period		<u>25</u>	<u>(3)</u>
Total comprehensive income for the period attributable to owners of the Company		<u>4,635</u>	<u>1,319</u>
Earnings per Share attributable to owners of the Company			
Basic and diluted (HK cents)	7	<u>1.15</u>	<u>0.44</u>

Notes:

1. GROUP 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 (as revised from time to time) of the Cayman Islands. The Company's shares (the "Shares") were first listed on the GEM on 12 February 2015 (the "Listing").

Pursuant to a group reorganisation (the "Reorganisation") which was completed on 4 December 2014 in preparation for the Listing, the Company became the holding company of the subsidiaries now comprising the Group on 4 December 2014, details of which are set out in the prospectus issued by the Company dated 5 February 2015 (the "Prospectus").

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. The Reorganisation brought no change to the principal business, management or the ultimate beneficial owners of the Group. Accordingly, the audited combined results of the Group for the three months ended 30 September 2014 have been prepared by applying the principles of merger accounting as if the Reorganisation had been completed since 1 July 2014.

The unaudited condensed consolidated results of the Group for the three months ended 30 September 2015 and the comparative figures for the corresponding period in 2014 (audited) include the results of all companies now comprising the Group from the earliest date presented or since the date when the subsidiaries first came under the common control, where this is a shorter period.

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

2. BASIS OF PREPARATION

The unaudited condensed consolidated results of the Group 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 and Interpretation issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. In addition, the unaudited condensed consolidated results include applicable disclosures required by the GEM Listing Rules.

These financial information have been prepared under the historical cost convention. The financial information are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand ("HK\$000") except when otherwise indicated.

The accounting policies applied in the preparation of the unaudited condensed consolidated results are consistent with those adopted in the preparation of the annual consolidated financial statements of the Group for the year ended 30 June 2015, except that the Group has adopted a number of new or revised HKFRSs, which are newly effective for the period under review. The adoption of these new or revised HKFRSs had no change in significant accounting policies and no significant effect on the financial results of the current period. Also, no prior period adjustment is required.

The Group has not applied or early adopted the new or revised HKFRSs (including their consequential amendments) which are relevant to the Group that have been issued but are not yet effective in the preparation of these unaudited condensed consolidated results. The Group is currently assessing the impact of these new or revised HKFRSs upon initial application but is not yet in a position to state whether these new or revised HKFRSs would have any significant impact on its results of operations and financial position. It is anticipated that all of the pronouncements will be adopted in the Group's accounting policies in the accounting periods when they first become effective.

The unaudited condensed consolidated results have been reviewed by the audit committee of the Board ("Audit Committee").

3. REVENUE

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

4. FINANCE COSTS

Three months ended 30 September	
2015	2014
<i>HK\$'000</i>	<i>HK\$'000</i>
(unaudited)	(audited)

Interests on bank borrowing wholly repayable within a year	<u>—</u>	<u>12</u>
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5. PROFIT BEFORE TAX

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

Three months ended 30 September	
2015	2014
<i>HK\$'000</i>	<i>HK\$'000</i>
(unaudited)	(audited)

Depreciation of property, plant and equipment	30	34
Listing expenses	<u>—</u>	<u>4,230</u>

6. INCOME TAX EXPENSE

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

The rate of the Corporate Income Tax of the People's Republic of China (the "PRC") of the Group's subsidiary operating in the PRC during the period was 25% (2014: 25%) on their assessable profits.

Three months ended 30 September	
2015	2014
<i>HK\$'000</i>	<i>HK\$'000</i>
(unaudited)	(audited)

Current income tax:		
Hong Kong Profits Tax	907	1,125
The PRC Corporate Income Tax	<u>—</u>	<u>99</u>
Total income tax expense for the period	<u>907</u>	<u>1,224</u>

7. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

For the purpose of this announcement, 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 for the periods and (ii) the number of 400,000,000 Shares (2014: weighted average number of 300,000,000 Shares, comprising 10,000,000 Shares then in issued and 290,000,000 Shares that were issued after 30 September 2014 under the capitalisation issue).

The diluted earnings per Share for the three months ended 30 September 2015 and 2014 are equal to the basic earnings per Share as there were no dilutive potential ordinary shares in issue.

8. RESERVES

	Attributable to owners of the Company					Total 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	
At 1 July 2015 (audited)	39,782	208	184	100	13,679	53,953
Profit for the period (unaudited)	—	—	—	—	4,610	4,610
Other comprehensive income for the period (unaudited)	—	—	25	—	—	25
Total comprehensive income for the period (unaudited)	—	—	25	—	4,610	4,635
At 30 September 2015 (unaudited)	<u>39,782</u>	<u>208</u>	<u>209</u>	<u>100</u>	<u>18,289</u>	<u>58,588</u>
At 1 July 2014 (audited)	—	48	179	—	16,923	17,150
Profit for the period (audited)	—	—	—	—	1,322	1,322
Other comprehensive expense for the period (audited)	—	—	(3)	—	—	(3)
Total comprehensive income/(expense) for the period (audited)	—	—	(3)	—	1,322	1,319
Issue of share on group re-organisation (audited)	—	—	—	(1)	—	(1)
At 30 September 2014 (audited)	<u>—</u>	<u>48</u>	<u>176</u>	<u>(1)</u>	<u>18,245</u>	<u>18,468</u>

Notes:

(i) Statutory reserve

Pursuant to the relevant laws and regulations for business enterprises in the PRC, a portion of the profits of the entity which is 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.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the three months ended 30 September 2015 (three months ended 30 September 2014: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Listing on GEM and Reorganisation

The Company was incorporated in the Cayman Islands on 3 September 2014 as an exempted company with limited liability. In preparation for the Listing of the Shares on GEM by way of placing ("Placing") of 100,000,000 Shares of HK\$0.01 each, the Group underwent the Reorganisation in 2014.

Pursuant to the Reorganisation which was completed on 4 December 2014, the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the section headed "History, Development and Reorganisation" of the Prospectus. On 12 February 2015, the Shares were first listed on GEM.

The total net proceeds from the Placing after deducting all related expenses was approximately HK\$25.3 million. The net proceeds were partially applied up to 30 September 2015, in line with the proposed applications set out in the Prospectus, as follows:

- (a) approximately HK\$0.4 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\$0.2 million for expansion of the Group's sourcing capability.

The Company intends to apply the remaining net proceeds in the manner as stated in the Prospectus. The unutilised proceeds are deposited with licensed banks and financial institutions in Hong Kong as short-term interest-bearing deposits.

Financial Review

Overview

During the period under review, the revenue of the Group has recorded a mild reduction of approximately 12% from approximately HK\$22.2 million for the three months ended 30 September 2014 to approximately HK\$19.6 million for the three months ended 30 September 2015. Significant growth was recorded as to the Group's operating profit after tax of approximately 249% from approximately HK\$1.3 million for the three months ended 30 September 2014 to approximately HK\$4.6 million for the three months ended 30 September 2015 as a net result of a mild reduction of gross profit of approximately HK\$1.0 million (representing a reduction of approximately 11%), an increase of administrative expenses of approximately HK\$0.4 million (representing an increase of approximately 18%), but decreased in listing expenses of approximately HK\$4.2 million, as compared to the three months ended 30 September 2014.

Revenue

The Group's revenue principally represented income derived from the manufacturing and sales of leather products. Revenue of approximately HK\$22.2 million and HK\$19.6 million was recognised for the three months ended 30 September 2014 and 2015 respectively, which represents a decrease of about 12%. This is because lesser amount per order were received from some customers as the Directors reasonably believe they are more conservative on global fashion market prediction and so ordered smaller quantity for the coming fall season.

Cost of Sales and Gross Profit

Costs of sales mainly represent costs of raw materials, costs of accessories, labour costs and other manufacturing overheads.

The costs of sales amounted to approximately HK\$12.3 million and HK\$10.7 million for the three months ended 30 September 2014 and 2015, respectively. The decrease in costs of sales is mainly in line with the decrease in revenue due to reduction in order size of the customers.

The gross profit margin remained stable and was approximately 45% for both the three months ended 30 September 2015 and 2014.

Other Revenue and Other Income

Other revenue and other income mainly represented sundry income that are incidental to the Group's business which principally including interest income and sales, from scrap materials for the three months ended 30 September 2014 and 2015, and were approximately HK\$2,000 and approximately HK\$0.1 million respectively 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. The selling and distribution expenses recorded a similar level, of approximately HK\$0.7 million for the three months ended 30 September 2014 and approximately HK\$0.6 million for the three months ended 30 September 2015.

Administrative Expenses

Administrative expenses comprise mainly payroll expenses, rent and rates and other office administrative expenses.

Administrative expenses have increased from approximately HK\$2.4 million for the three months ended 30 September 2014 to approximately HK\$2.8 million for the three months ended 30 September 2015, representing an increase of approximately 18%.

The higher administrative expenses for the three months ended 30 September 2015 are mainly attributable to higher payroll expenses as a result of recruiting additional staff for business development, production development and sourcing team according to the Group's planned use of Listing proceeds and additional legal and professional expenses incurred after the Company has become a listed company on 12 February 2015.

Finance Costs

Finance costs represent bank loan and trust receipt loan interests. For both of the three months ended 30 September 2015 and 2014, there were insignificant amount of bank loan interests as there were no major outstanding bank loans during such periods.

Income Tax Expense

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. Listing expenses may not be deductible for tax purpose.

Net Profit for the Period

For the three months ended 30 September 2015, the Group recorded profit for the period of approximately HK\$4.6 million. For the three months ended 30 September 2014, the Group recorded profit for the period of approximately HK\$1.3 million. The significant growth of operating profit after tax of approximately 249% is a result of decrease in listing expenses of approximately HK\$4.2 million netted off by a mild reduction of gross profit and an increase of administrative expenses.

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 and denominated mostly in United States dollars and Renminbi. Hong Kong dollars are pegged to United States dollars under the current policy of the Government of Hong Kong.

The Group has remained at a sound financial resource level. Included in net current assets were cash and bank balances (including pledged deposits) as at 30 September 2015 totalling approximately HK\$52.9 million (30 June 2015: HK\$39.7 million). Gearing ratio is calculated by dividing the net debt by total equity where net debt is calculated as bank borrowings and amounts due to directors less cash and bank balances. The Group did not have any outstanding net debt as at 30 September 2015 and 30 June 2015 and thus no gearing ratio is applicable.

Before the Company became listed on the Stock Exchange, the Group's operations were mainly financed by its shareholders' fund injections, loans and internal resources. Following the Placing and the Listing, the Group's operations were mainly financed by internal resources and the Group's liquidity position became stronger and this enables the Group to expand in accordance with its business directions.

Charge Over Assets of the Group

At 30 September 2015 and 30 June 2015, the Group's banking facilities were supported by pledged deposits of the Group of approximately HK\$3.0 million and HK\$3.3 million respectively.

Capital Commitments and Contingent Liabilities

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

Material Acquisitions and Disposals

During the three months ended 30 September 2015, the Group did not have any material acquisition and disposal.

Business Review and Outlook

The Group is specialised in the manufacture and sales of private label leather garments for its customers on original equipment manufacturer basis. The Group's major customers are mostly fashion brands with price range of leather garments fall under the high-end and middle-end categories. The Group's sales orders is depending on number of customers and each customer's order quantity. The Group has an operation history of more than 20 years and it is pride of the in-depth knowledge in the production process of leather garment products. The Group has gained a portfolio of approximately 50 customers which have confident on the product quality and have been repeating orders to the Group in the past. The Group has gained totally four new customers, one with orders in the first quarter of the financial year ending 30 June 2016 and another with orders to be delivered in the second quarter of the financial year ending 30 June 2016 and the remaining two with sample orders in progress. Customer order size, however, may vary from season to season depending on fashion trend and customers' prediction on global fashion market.

Looking ahead, the Group will continue to maintain its high-end and middle-end leather garments with existing business operation while has further strengthened its marketing efforts to boost up sales to customers in the markets of Australia, South Africa, Hong Kong and the PRC.

Directors' and Controlling Shareholders' Interest in Competing Business

For the three months ended 30 September 2015, the Directors are not aware of any business or interest of the Directors, the controlling shareholders of the Company or their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

COMPLIANCE ADVISER'S INTERESTS

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Halcyon Capital Limited ("Halcyon") as compliance adviser. Halcyon, being the sponsor to the Listing, had declared its independence pursuant to Rule 6A.07 of the GEM Listing Rules in connection with the Listing. Save as provided for under the underwriting agreement relating to the Placing of the Shares during the Listing, during the three months ended 30 September 2015, neither Halcyon nor any of its directors, employees or close associate who have been involved in providing advice to the Company, has or may have any interest in any securities of the Company or any other companies of the Group (including options or rights to subscribe for such securities) and/or any material benefit accrued to Halcyon or its close associates.

The compliance adviser's appointment entered into between Halcyon and the Company is for a period commencing on 12 February 2015 (i.e. date of Listing) and ending on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of the dispatch of its annual report of the financial results for the second full financial year commencing after that date, i.e. for the year ending 30 June 2017, or until the compliance adviser agreement is terminated in accordance with its

terms and conditions, whichever is earlier. Pursuant to the compliance adviser agreement entered into between Halcyon and the Company, Halcyon will receive fees for acting as the Company's compliance adviser.

COMPLIANCE WITH CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTION

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

Each of the Directors gave confirmation that he/she was in compliance with the Securities Code during the three months ended 30 September 2015.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of its shareholders. To accomplish this, the Company has adopted the principles and the code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. The Company has complied with all the code provisions set out in the CG Code during the three months ended 30 September 2015.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL RESULTS

The Audit Committee has been established by the Board on 28 January 2015 with written terms of reference in compliance with the GEM Listing Rules. Members of the Audit Committee comprise Dr. Wong Wai Kong (chairman of the Audit Committee), Mr. How Sze Ming and Mr. Philip David Thacker, all of them being independent non-executive Directors. The principal responsibilities of the Audit Committee include overseeing the Group's financial reporting system and internal control procedures, reviewing the Group's financial information and reviewing the Group's relationship with external auditors.

The Audit Committee has reviewed with the management the unaudited condensed consolidated results of the Group for the three months ended 30 September 2015, this announcement, the accounting principles and practices adopted by the Group, and other financial reporting matters. The Audit Committee was satisfied that such results complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures have been made.

The unaudited condensed consolidated results of the Group for the three months ended 30 September 2015 have not been audited.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the three months ended 30 September 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
Cheung Woon Yiu
Chairman

Hong Kong, 13 November 2015

As at the date of this announcement, the Board comprises:

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 Dr. 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.