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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 2016

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

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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 Odella Leather Holdings Limited is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 30 June 2016, together with the audited comparative figures for the year ended 30 June 2015 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 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue	3	55,847	81,947
Cost of sales		<u>(35,130)</u>	<u>(45,357)</u>
Gross profit		20,717	36,590
Other revenue and other income	4	289	154
Selling and distribution expenses		(2,379)	(2,676)
Administrative expenses		(14,439)	(11,875)
Finance costs		—	(12)
Listing expenses		<u>—</u>	<u>(18,422)</u>
Profit before taxation	5	4,188	3,759
Taxation	6	<u>(361)</u>	<u>(3,643)</u>
Profit for the year attributable to owners of the Company		<u>3,827</u>	<u>116</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>92</u>	<u>5</u>
Other comprehensive income for the year		<u>92</u>	<u>5</u>
Total comprehensive income for the year attributable to owners of the Company		<u><u>3,919</u></u>	<u><u>121</u></u>
Earnings per share attributable to owners of the Company	7		
Basic and diluted (HK cents)		<u><u>0.96</u></u>	<u><u>0.03</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		<u>498</u>	<u>303</u>
Total non-current assets		<u>498</u>	<u>303</u>
Current assets			
Inventories		6,202	2,243
Trade receivables	9	9,476	26,848
Deposits, prepayments and other receivables		1,571	2,778
Cash and cash equivalents		48,988	36,388
Pledged bank deposits		<u>3,031</u>	<u>3,348</u>
Total current assets		<u>69,268</u>	<u>71,605</u>
Current liabilities			
Trade payables	10	1,496	1,328
Accruals, other payables and trade deposits received		5,179	7,901
Tax payable		<u>1,197</u>	<u>4,720</u>
Total current liabilities		<u>7,872</u>	<u>13,949</u>
Net current assets		<u>61,396</u>	<u>57,656</u>
Total assets less current liabilities		<u>61,894</u>	<u>57,959</u>
Non-current liabilities			
Deferred tax liabilities		<u>22</u>	<u>6</u>
Net assets		<u>61,872</u>	<u>57,953</u>
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		4,000	4,000
Reserves		<u>57,872</u>	<u>53,953</u>
Total equity		<u>61,872</u>	<u>57,953</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

	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	
At 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
Appropriation of statutory reserve	—	—	160	—	—	(160)	—	—
Dividend paid (note 8)	—	—	—	—	—	(3,200)	(3,200)	(3,200)
Effect of shares exchange (note iv)	(200)	—	—	—	200	—	200	—
Issue of shares on Group reorganisation (note iv)	100	—	—	—	(100)	—	(100)	—
Shares issued pursuant to the capitalisation issue (note v)	2,900	(2,900)	—	—	—	—	(2,900)	—
Placing of new shares (note vi)	1,000	54,000	—	—	—	—	54,000	55,000
Transaction costs attributable to issuance of shares	—	(11,318)	—	—	—	—	(11,318)	(11,318)
As at 30 June 2015 and 1 July 2015	4,000	39,782	208	184	100	13,679	53,953	57,953
Profit for the year	—	—	—	—	—	3,827	3,827	3,827
Other comprehensive income for the year	—	—	—	92	—	—	92	92
Total comprehensive income for the year	—	—	—	92	—	3,827	3,919	3,919
As at 30 June 2016	<u>4,000</u>	<u>39,782</u>	<u>208</u>	<u>276</u>	<u>100</u>	<u>17,506</u>	<u>57,872</u>	<u>61,872</u>

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 foreign operations of the Group 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 (as defined below) 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 1 July 2014 represented the share capital of Perline Company Limited (“Perline”), the then holding company, amounted to HK\$200,000.

In preparation for the listing (the “Listing”) of the ordinary 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 and issued to QCL, DVL and OGL (as nominated by the vendors) 9,000,000 new Shares, all credited as fully paid. Since then, 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 of the Company dated 5 February 2015 (the “Prospectus”). 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. The Shares have been listed on the GEM with effect from 12 February 2015.

Reorganisation

The principal business of the Group was previously carried out by Perline, an indirect wholly owned 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, details of which are set out below.

- (i) On 3 September 2014, the Company was incorporated in the Cayman Islands as an exempted company with limited liability, with an authorised share capital of HK\$1,000,000 divided into 100,000,000 Shares of HK\$0.01 each. Upon incorporation, one Share of HK\$0.01 was allotted and issued at nil paid to the subscriber (being an officer of Codan Trust Company (Cayman) Limited, the provider of registered office of the Company). 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 QCL, 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 (the “BVI”) with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. 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. The principal business of the Group is conducted through Perline including its direct wholly owned subsidiary, 佛山市南海盛麗皮衣有限公司 (Foshan Nanhai Shengli Leather Garment Co. Ltd., being an English name for identification purpose only). Perline was directly owned by Ms. Cheung Woon Yiu, Ms. Lam Wai Si Grace and Mr. Ching Wai Man immediately prior to the Reorganisation. 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, the consolidated financial statements for the year ended 30 June 2015 have been prepared by applying the principles of merger accounting as if the Company had been the holding company of the Group throughout the year ended 30 June 2015.

The consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity of the Group for the years ended 30 June 2016 and 2015 include the results 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.

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) issued by the Hong Kong Institute of Certified Public Accountants, 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 (Cap. 622).

1.3 BASIS OF PREPARATION

These consolidated financial statements have been prepared under the historical cost convention. Historical cost is generally based on the 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. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 Inventories or value in use in HKAS 36 Impairment of Assets.

In addition, for financial reporting purpose, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The consolidated financial statements are presented in HK\$ and all values are rounded to the nearest thousand (“HK\$’000”) except when otherwise indicated.

2. APPLICATION OF NEW OR REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The accounting policies applied in the preparation of the audited financial statements for the year ended 30 June 2016 are consistent with those adopted in last year.

3. REVENUE AND OPERATING SEGMENT INFORMATION

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

	2016 HK\$'000	2015 HK\$'000
Customer A	10,012	22,319
Customer B	<u>6,521</u>	<u>*</u>

* The corresponding revenue did not contribute over 10% of the total revenue 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

	2016 HK\$'000	2015 HK\$'000
Australia	20,909	13,328
United States of America	20,340	33,441
Malaysia	6,429	5,187
Hong Kong	6,032	14,053
Japan	932	3,560
South Africa	708	1,648
PRC	150	7,663
Netherlands	—	1,150
Others (Note)	<u>347</u>	<u>1,917</u>
	<u>55,847</u>	<u>81,947</u>

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

Non-current assets excluding deferred tax assets

	2016 HK\$'000	2015 HK\$'000
Hong Kong	206	63
PRC	<u>292</u>	<u>240</u>
	<u>498</u>	<u>303</u>

4. OTHER REVENUE AND OTHER INCOME

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest income	226	127
Sales of scrap materials	63	10
Sundry income	—	17
	<u>289</u>	<u>154</u>

5. PROFIT BEFORE TAXATION

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Depreciation of property, plant and equipment*	125	130
Cost of inventories recognised as expenses (included in cost of sales)	27,916	38,426
Listing expenses	—	18,422
Staff costs (including directors' remuneration)*:		
— Salaries and bonus	13,857	13,096
— Pension scheme contributions	1,484	1,602
	<u>15,341</u>	<u>14,698</u>
Loss on disposal of items of property, plant and equipment	11	—
Impairment loss on trade receivables	<u>89</u>	<u>—</u>

* Included in cost of sales for the years ended 30 June 2016 and 2015 were depreciation charge of approximately HK\$53,000 and HK\$43,000 respectively and staff costs of approximately HK\$6,176,000 and HK\$6,017,000 respectively.

6. TAXATION

Hong Kong Profits Tax is calculated at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the years. The rate of the PRC Corporate Income Tax of the Group's subsidiary operating in the PRC during the year was 25% (2015: 25%) on its assessable profits. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries on jurisdictions in which the Group operates.

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current income tax:		
Hong Kong Profits Tax	808	3,444
PRC Corporate Income Tax	27	211
	<u>835</u>	<u>3,655</u>
Over-provision in prior years:		
Hong Kong Profits tax	(490)	(22)
Deferred tax	<u>16</u>	<u>10</u>
Income tax expenses for the year	<u>361</u>	<u>3,643</u>

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\$3,827,000 (2015: HK\$116,000) and (ii) the number of 400,000,000 Shares (2015: weighted average number of 338,356,164 Shares) in issue during the year.

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 years ended 30 June 2016 and 2015. The Company has not declared any dividends since its incorporation.

Prior to the completion of the Reorganisation in December 2014, Perline, an indirect wholly owned 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:

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Dividend of Perline to the then shareholders of Perline of nil (2015: HK\$16) per Perline's share	<u>—</u>	<u>3,200</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 (2015: 10 to 45 days). The Group does not hold any collateral over these balances.

Aging analysis

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 30 days	8,437	17,890
31 to 60 days	543	884
61 to 90 days	141	124
Over 90 days	<u>355</u>	<u>7,950</u>
	<u>9,476</u>	<u>26,848</u>

10. TRADE PAYABLES

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 30 days	94	672
31 to 60 days	1,202	308
61 to 90 days	21	105
Over 90 days	<u>179</u>	<u>243</u>
	<u>1,496</u>	<u>1,328</u>

FINAL DIVIDEND

The Directors do not recommend payment of any final dividend for the year ended 30 June 2016. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Overview

The Company is an investment holding. Its subsidiaries are principally engaged in manufacturing and sales of leather garment products to renowned customers based in the United States of America, Australia, Malaysia, Hong Kong and the PRC.

During the year, the revenue of the Group has recorded a drop of approximately 32% from approximately HK\$81.9 million for the year ended 30 June 2015 ("FY 2015") to approximately HK\$55.8 million for the year ended 30 June 2016 ("FY 2016"). This is because the customers become more conservative when they predict the trend of global fashion market.

During the FY 2016, the Group recorded a profit after tax of approximately HK\$3.8 million, represented an increase of approximately HK\$3.7 million as compared with the profit after tax of approximately HK\$0.1 million for FY 2015. This is mainly attributable to the non-recurring listing expenses of approximately HK\$18.4 million incurred last year in connection with the preparation for the Listing, the effect of which was partially offset by the decrease in its gross profit.

Revenue

The Group recorded revenue of approximately HK\$55.8 million for FY 2016, which represented a decrease of approximately 32% from approximately HK\$81.9 million for FY 2015. The decrease was mainly due to the fact that the customers have generally made prudent market prediction and thus have ordered smaller quantity for the coming seasons.

Cost of Sales and Gross Profit

Cost of sales mainly represents cost of raw materials, cost of accessories, labour costs and other manufacturing overheads. As a result of a decrease in order quantity, the Group's total cost of sales dropped from approximately HK\$45.4 million for FY 2015 to approximately HK\$35.1 million, represented a decrease of approximately HK\$10.3 million. Gross profit for FY 2016 was approximately HK\$20.7 million, represented a decrease of approximately HK\$15.9 million from approximately HK\$36.6 million for FY 2015.

Gross profit margin for FY 2016 was approximately 37% which represented a drop of approximately 8% from the gross profit margin in FY 2015 of approximately 45%. This was mainly attributable to a higher overhead per unit as a result of lower total quantity of production in the current year.

Other Revenue and Other Income

Other revenue and other income mainly represent sundry income that are incidental to the Group's business such as interest income and sales of scrap materials.

Other revenue and other income for FY 2016 amounted to approximately HK\$0.3 million (2015: HK\$0.2 million), represented an increase of approximately HK\$0.1 million. The increase was mainly attributable to the increase in interest income of approximately HK\$0.1 million from deposits of Listing proceeds and surplus working capital for FY 2016.

Selling and Distribution Expenses

Selling and distribution expenses mainly comprise logistic expenses and marketing expenses. Selling and distribution expenses decreased from approximately HK\$2.7 million for FY 2015 to approximately HK\$2.4 million for FY 2016, represented a decrease of approximately HK\$0.3 million which was in line with the decrease in revenue.

Administrative Expenses

Administrative expenses (excluding Listing expenses as separately discussed below) mainly comprise payroll expenses, rent and rates and other office administrative expenses. Administrative expenses increased from approximately HK\$11.9 million in FY 2015 to approximately HK\$14.4 million in FY 2016, represented an increase of approximately 21%.

The higher administrative expenses for FY 2016 was mainly attributable to the higher professional costs incurred subsequent to the Listing of the Shares on GEM last year.

Finance Costs

Finance costs represent interests for bank loan and trust receipt loans. For both FY 2016 and FY 2015, there were insignificant amount of interests as there were no major outstanding bank loans nor heavy reliance on trade finance facilities.

Listing Expenses

During FY 2015, the Group recorded Listing expenses of approximately HK\$18.4 million. There was no such expenses for FY 2016.

Taxation

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.

Lower effective tax rate for FY 2016 than that for FY 2015 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 2016, the Group recorded profit for the year of approximately HK\$3.8 million. For FY 2015, the Group recorded profit for the year of approximately HK\$0.1 million, which was 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 maintained its fund at a sound and healthy financial resource level during the year under review. As at both 30 June 2016 and 2015, 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.

As at 30 June 2016, included in net current assets were cash and bank balances (including pledged deposits) totalling approximately HK\$52.0 million (2015: HK\$39.7 million), the increase of which was mainly due to profit retained and lower level of trade receivables as comparing to last year.

No gearing ratio (which is calculated by dividing the net debt by total equity where net debt comprise borrowings less cash and bank balances) was presented as the Group did not have net debt as at both 30 June 2016 and 2015.

Charge Over Assets of the Group

As at 30 June 2016, the Group's banking facilities were supported by pledged deposits of the Group of approximately HK\$3.0 million (2015: 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 2016, no related hedges were made by the Group (2015: 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 2016 was minimal and there was no significant adverse effect on normal operations.

Capital Commitments and Contingent Liabilities

As at 30 June 2016, the Group did not have any significant capital commitment (2015: nil) and contingent liability (2015: nil).

Listing of the Company's Shares and Use of Proceeds

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. As a result of the Reorganisation to prepare for the Listing, the Company became the holding company of its subsidiaries.

The Shares were first listed on the GEM on 12 February 2015. The total net proceeds from the Placing after deducting all related expenses was approximately HK\$25.3 million. Up to 30 June 2016, the Group has applied the proceeds as follows:

- (a) approximately HK\$1.0 million for strengthening the Group's business development capability by expanding its marketing function;
- (b) approximately HK\$0.3 million for enhancing the Group's manufacturing facilities through purchasing new production equipment and machineries;
- (c) approximately HK\$3.4 million for expansion of the Group's pre-production product development function;
- (d) approximately HK\$1.2 million for expansion of the Group's sourcing capability; and
- (e) approximately HK\$1.8 million for general working capital.

The business objectives, future plans and planned use of proceeds as stated in the Company's 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 objectives for the period since the date of Listing up to 30 June 2016

Actual business progress for the period since the date of Listing up to 30 June 2016

A. Strengthening business development capability

Cost will be incurred as remuneration payable to one to two additional marketing staff recruited for this business strategy

Strengthening our marketing coverage in the PRC market

Continue to participate in more trade fairs and fashion shows to increase the market presence of our Group

Arrange additional marketing trips to visit our customers in Hong Kong and overseas

Cost will be incurred as remuneration payable to the additional staff recruited for the organisation of training programs and meetings with the quality control team from our customers for this business strategy

During FY 2016, the Group recruited one high caliber sales and marketing staff to develop relationship with existing and potential customers; recruited another sales and marketing staff to develop the PRC market; and recruited an additional staff to organise training programs to new staff and less experienced staff. Moreover, the Group set up regular meetings with the quality control teams from its customers to enhance the communication and understanding with its customers' technical requirements and standards for business development purposes. The Group has arranged additional marketing trips to visit its customers in the PRC, United States of America and Australia. The Group is currently in the process of identifying relevant and popular trade fairs to increase its market presence.

B. 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

Examine the state and condition of the existing production facilities to ascertain and develop time schedule for replacement of old equipment and machineries

The Group is currently in the process of identifying further production machines that enable the enhancement of the Group's production efficiency.

Business objectives for the period since the date of Listing up to 30 June 2016

Actual business progress for the period since the date of Listing up to 30 June 2016

C. Expansion of pre-production product development function

Cost will be incurred as remuneration payable to one to two additional design and development staff recruited for this business strategy

Continue to develop and create more samples for presentation to existing and potential customers

Plan for developing a database with comprehensive and updated data and information of different leather accessories, fashion samples, fashion design photos and other historical information related to leather garments

Research on and search for new technologies and technics on leather garments

Research on new technologies, organise training and visit fabric factories to enhance the technics and skills of manufacturing leather garments blended with fabrics and textiles

D. Expansion of sourcing capability

Cost will be incurred as remuneration payable to two to four additional sourcing staff/agent recruited for this business strategy

Arrange business trips to visit our major suppliers to update our staff with the latest leather treatment technologies and so that our staff can learn the proper skills of handling leather with the latest leather technologies

Cost will be incurred as remuneration payable to the leather garment specialists recruited and expenses for the organisation of training on the effects of different leather treatments, technics on handling different types of leather to enhance the knowledge of our staff on different types of leather for this business strategy

During FY 2016, the Group recruited one experienced staff for the research and technical development of production technics and leather garment patterns. The Group has also developed and created more samples for presentation to existing and potential customers during the FY 2016. To update the new technology and technics in leather treatment, the Group have visited its suppliers' factories regularly.

The Group recruited one additional sourcing staff as well as one leather garment specialist for expanding the Group's sourcing capability. Additional training on the effects of different leather treatments and technics on handling different types of leather were organised for existing staff in order to enhance the knowledge of our staff on different types of leather. The Group visited its major suppliers to obtain information about the latest leather treatment technologies.

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.

Material Acquisitions and Disposals

Save for the Reorganisation, during FY 2015, the Group did not have any material acquisition and disposal. There was no material acquisition and disposal during FY 2016.

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. Its major customers are mostly fashion brands with price range of leather garments fall under the high-end and middle-end categories. During FY 2016, there was a significant drop in order quantity from its international fashion brand customers. The Directors believe this is mainly attributable to the softer confidence of the Group's customers in forward prediction due to the sluggish luxury retail market and the instability of the global economy.

Nevertheless, the Group has never stopped its efforts in market developments. It has strengthened its marketing activities by paying more visits to its customers and invested in development of pre-production sampling and production techniques. During FY 2016, the Group has successfully gained four new customers.

During FY 2016, the Group has also reported increase in administrative expenses mainly due to the increase in professional fees subsequent to the Listing of the Shares on the GEM. The decrease in gross profit and increase in administrative expenses resulted in significant drop in operating profit as comparing to the operating profit before Listing expenses in last year.

Currently, the Group sees that customers' confidences on market trend are still on the weak side. Nevertheless, the Group will continue to strengthen its marketing efforts and its investments in technical research and development and product quality controls to ensure a high standard of quality will be offered to its customers. The Group has confidence that it will continue to enjoy its customers' support and gain more orders when the market recovers.

Looking forward, the Group does not have any concrete plan for material investments or capital assets in the near future. Nonetheless, if potential investment opportunity arises which fits 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 2016, the Group had a workforce of 130 employees (2015: 158). The decrease in number of employees was mainly due to natural loss in production workforce. Nevertheless, total staff costs for FY 2016 was approximately HK\$15.3 million, represented an increase of approximately HK\$0.6 million as compared to that for FY 2015 disputing the decrease in headcount because the Group recruited a number of experienced staff with higher salary.

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. The same policy also applies to 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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s securities during the FY 2016.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company 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 complied with the required standard of dealings and the code of conduct regarding securities transactions by the Directors throughout the FY 2016.

CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has complied with the applicable code provisions in the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules during the year ended 30 June 2016 except that one of independent non-executive Directors, Dr. Wong Wai Kong, could not attend the annual general meeting of the Company held on 24 November 2015 due to other business commitments which was a deviation from Code Provision A.6.7.

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 2016, 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 Dr. 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, risk management and other financial reporting matters.

The Group’s consolidated financial statements for the year ended 30 June 2016 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 2016 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 2016 will be dispatched to the shareholders and published on the websites of the 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, 21 September 2016

As at the date of this notice, the Company's board of Directors 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 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 Announcement" 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.