

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 THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 31 MARCH 2017

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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 nine months and three months ended 31 March 2017, together with the unaudited comparative figures for the corresponding periods in 2016 as follows:

		Nine months ended 31 March		Three months ended 31 March	
	Notes	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)
Revenue	3	34,486	40,517	10,421	10,401
Cost of sales		<u>(24,008)</u>	<u>(23,951)</u>	<u>(8,433)</u>	<u>(6,321)</u>
Gross profit		10,478	16,566	1,988	4,080
Other revenue and other income		245	279	120	45
Selling and distribution expenses		(1,602)	(1,823)	(737)	(456)
Administrative expenses		(11,077)	(9,024)	(5,274)	(3,383)
Finance costs	4	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
(Loss)/Profit before tax	5	(1,956)	5,998	(3,903)	286
Income tax expense/(credit)	6	<u>(371)</u>	<u>(1,095)</u>	<u>38</u>	<u>(150)</u>
Net (loss)/profit for the period attributable to owners of the Company		<u>(2,327)</u>	<u>4,903</u>	<u>(3,865)</u>	<u>136</u>
Other comprehensive income					
<i>Items that may be reclassified subsequently to consolidated statement of profit or loss:</i>					
Exchange differences on translation of foreign operations		<u>53</u>	65	<u>(1)</u>	8
Other comprehensive income for the period		<u>53</u>	65	<u>(1)</u>	8
Total comprehensive income for the period attributable to owners of the Company		<u>(2,274)</u>	<u>4,968</u>	<u>(3,866)</u>	<u>144</u>
Earnings/(loss) per share attributable to owners of the Company	7				
Basic and diluted		<u>HK(0.58) cents</u>	<u>HK1.23 cents</u>	<u>HK(0.97) cents</u>	<u>HK0.03 cents</u>

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS:

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 ordinary shares (the "Shares") were first listed on 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 unaudited combined results of the Group for the nine months and three months ended 31 March 2016 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 nine months and three months ended 31 March 2017 and the unaudited comparative figures for the corresponding periods in 2016 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 unaudited 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 2016, 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 does not have significant effect on the financial results of the current periods and there is no change in the Group's significant accounting policies, thus, no prior period adjustment is resulted.

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

	Nine months ended 31 March		Three months ended 31 March	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interests on bank borrowing wholly repayable within a year	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. PROFIT/(LOSS) BEFORE TAX

The Group's profit/(loss) before tax is arrived at after charging:

	Nine months ended 31 March		Three months ended 31 March	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Depreciation of property, plant and equipment	<u>122</u>	<u>85</u>	<u>40</u>	<u>29</u>

6. INCOME TAX EXPENSES

Hong Kong Profits Tax is calculated at the rate of 16.5% (2016: 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 during 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% (2016: 25%) on their assessable profits.

	Nine months ended 31 March		Three months ended 31 March	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Current income tax:				
Hong Kong	292	1,087	(38)	150
Elsewhere: The PRC	<u>79</u>	<u>8</u>	<u>—</u>	<u>—</u>
Total income tax expense/(credit) for the period	<u><u>371</u></u>	<u><u>1,095</u></u>	<u><u>(38)</u></u>	<u><u>150</u></u>

7. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(Loss) per Share attributable to owners of the Company for the nine months and three months ended 31 March 2017 were calculated based on (i) the (loss) attributable to owners of the Company for the periods and (ii) the number of 400,000,000 Shares.

Earnings per Share attributable to owners of the Company for the nine months and three months ended 31 March 2016 were calculated based on (i) the profit attributable to owners of the Company for the periods and (ii) the number of 400,000,000 Shares.

The diluted (loss)/earnings per Share for the nine months and three months ended 31 March 2017 and 2016 are equal to the basic (loss)/earnings per Share as there were no dilutive potential ordinary Shares in issue.

8. DIVIDEND

The Company has not declared any dividends since its incorporation.

9. 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 2016 (audited)	39,782	208	276	100	17,506	57,872
(Loss) for the period (unaudited)	—	—	—	—	(2,327)	(2,327)
Other comprehensive income for the period (unaudited)	—	—	53	—	—	53
Total comprehensive (loss) for the period (unaudited)	—	—	53	—	(2,327)	(2,274)
At 31 March 2017 (unaudited)	<u>39,782</u>	<u>208</u>	<u>329</u>	<u>100</u>	<u>15,179</u>	<u>55,598</u>
At 1 July 2015 (audited)	<u>39,782</u>	<u>208</u>	<u>184</u>	<u>100</u>	<u>13,679</u>	<u>53,953</u>
Profit for the period (unaudited)	—	—	—	—	4,903	4,903
Other comprehensive income for the period (unaudited)	—	—	65	—	—	65
Total comprehensive income for the period (unaudited)	—	—	65	—	4,903	4,968
At 31 March 2016 (unaudited)	<u>39,782</u>	<u>208</u>	<u>249</u>	<u>100</u>	<u>18,582</u>	<u>58,921</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 nine months and three months ended 31 March 2017. During the nine months and three months ended 31 March 2016, no dividend was declared by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Reorganisation and Listing of the Company's Shares

The Company was incorporated in the Cayman Islands in 2014. In preparation for the Listing of its Shares on GEM by way of placing ("Placing") of 100,000,000 Shares at a placing price of HK\$0.55 per Share, the Group underwent the Reorganisation in 2014, pursuant to which the Company became the holding company of the subsidiaries now comprising the Group. The Shares were first listed on GEM on 12 February 2015. 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 31 March 2017, in line with the proposed applications set out in the Prospectus, as follows:

- (a) approximately HK\$2.3 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\$5.8 million for expansion of the Group's pre-production product development function;
- (d) approximately HK\$3.2 million for expansion of the Group's sourcing capability; and
- (e) approximately HK\$2.0 million for general working capital.

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 drop of approximately 15% from approximately HK\$40.5 million for the nine months ended 31 March 2016 to approximately HK\$34.5 million for the nine months ended 31 March 2017.

During the nine months ended 31 March 2017, the Group recorded a loss after tax of approximately HK\$2.3 million, representing a decrease of profit by approximately HK\$7.2 million as compared with the profit after tax of approximately HK\$4.9 million for the nine months ended 31 March 2016. The decrease is mainly attributable to: (i) the effect of decrease in gross profit arising from seasonal factors; and (ii) one-off professional fees associated with the general offer.

Revenue

The Group's revenue principally represents income derived from the manufacturing and sales of leather garment products. Revenue of approximately HK\$34.5 million and HK\$10.4 million was recognised for the nine months and three months ended 31 March 2017, respectively, which represented decreases of approximately 15% and 37% as compared to the corresponding periods last year, respectively. This is because lesser amounts per order were received from some customers for the second and third quarters of the financial year ending 30 June 2017 as the Directors reasonably believe these customers were more conservative on global fashion market predictions and so ordered smaller quantities for the coming season.

Cost of Sales and Gross Profit

Cost of sales mainly represents costs of raw materials, costs of accessories, labour costs and other manufacturing overheads.

The cost of sales amounted to approximately HK\$24.0 million and HK\$8.4 million for the nine months and three months ended 31 March 2017 respectively, representing increases of approximately nil% and 33%, respectively, as compared with the cost of sales for the corresponding periods last year. The increase on cost of sales (relative to the reduction in revenue) was due to the increase in cost of specialty leathers and raw materials to fulfill special orders made by customers and increase in labour costs during the three months ended 31 March 2017.

Gross profit margins for the nine months and three months ended 31 March 2017 were approximately 30% and 19%, respectively, representing decreases of approximately 11% and 20%, respectively, as compared with those in the corresponding periods last year. The decrease in the gross profit margin reflects seasonal factors in the leather garment business as well as increase in production labour costs during this period.

Other Revenue and Other Income

Other revenue and other income, which mainly include interest income, exchange gains and sales of scrap materials, amounted to approximately HK\$245,000 and HK\$120,000 for the nine months and three months ended 31 March 2017, respectively, representing a decrease of approximately HK\$34,000 and an increase of approximately HK\$75,000, respectively, as compared with those recognised in the corresponding period last year. The movements were mainly in relation to fluctuations in bank interest income and exchange gains between the periods.

Selling and Distribution Expenses

Selling and distribution expenses comprise mainly logistic expenses and marketing expenses.

The selling and distribution expenses decreased from approximately HK\$1.8 million for the nine months ended 31 March 2016 to approximately HK\$1.6 million for the nine months ended 31 March 2017, representing a decrease of approximately HK\$0.2 million arising from the decreased shipping and logistics costs from the lower sales volume. For the three months ended 31 March 2017, the increase in the selling and distribution expenses from approximately HK\$456,000 to HK\$737,000, was due to the increase in logistics expenses from bringing in specialty materials to fulfill special orders from customers.

Administrative Expenses

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

Administrative expenses have increased from approximately HK\$9.0 million for the nine months ended 31 March 2016 to approximately HK\$11.0 million for the nine months ended 31 March 2017, representing an increase of approximately 23%. Administrative expenses have increased from approximately HK\$3.4 million for the three months ended 31 March 2016 to approximately HK\$5.3 million for the three months ended 31 March 2017, representing an increase of approximately 56%.

The higher administrative expenses for the nine months ended 31 March 2017 and the three months ended 31 March 2017 when compared to the corresponding periods last year are mainly attributable to one-off professional costs attributed to the general offer and establishment of a new office premises.

Finance Costs

Finance costs last year represented trust receipt loan interests. There were insignificant amount of bank loan interests as there were no major outstanding bank loans, for both of the nine months ended 31 March 2017 and 2016 and thus the finance costs were insignificant for the periods under review.

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 the PRC.

Net Profit for the Period

During the nine months ended 31 March 2017, the Group recorded a loss after tax of approximately HK\$2.3 million, representing an decrease of profit by approximately HK\$7.2 million as compared with the profit after tax of approximately HK\$4.9 million for the nine months ended 31 March 2016. Same trend was noted for the three months ended 31 March 2017. The reason of the loss during nine months and three months ended 31 March 2016, is a combination of a few factors, being mainly (i) the lower gross margin from seasonality in the business; (ii) one-off professional fees expenses attributed to the general offer; and (iii) new office setup costs.

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 31 March 2017 totalling approximately HK\$48.7 million (30 June 2016: HK\$50.8 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 31 March 2017 and 30 June 2016 and thus gearing ratio is not applicable.

The Group's operations were mainly financed by its revenue and proceeds from the listing.

Charge Over Assets of the Group

As at 31 March 2017 and 30 June 2016, the Group's banking facilities were supported by pledged deposits of the Group of approximately HK\$1.0 million and HK\$3.0 million respectively.

Capital Commitments and Contingent Liabilities

As at 31 March 2017, the Group did not have any significant capital commitment (30 June 2016: nil) and any significant contingent liability (30 June 2016: nil).

Material Acquisitions and Disposals

During the nine months ended 31 March 2017, the Group did not have any material acquisition and disposal.

Business Review and Outlook

The Group specialises 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 falling under the high-end and middle-end categories. It has an operation history of more than 20 years and is proud of the in-depth knowledge of the production process of leather garment products. The Group's sales orders are dependent on number of customers and each customer's order quantity.

Continued competition compounded with relatively weak demand poses continued pressure to both revenue and gross margins. The Group continues to leverage off its strengths in its production and sourcing capabilities to produce high quality leather garments tailored to customers' requirements. The Group will continue to collaborate with its existing customers and develop new customers in key markets such as Australia, South Africa, Hong Kong and PRC.

On the 12 January 2017, Quality Century Limited, Design Vanguard Limited and Olson Global Limited (the "Vendors"), and the guarantors (Ms. Cheung Woon Yiu, Ms. Lam Wai Si Grace and Mr. Ching Wai Man, being the sole shareholder of Quality Century Limited, Design Vanguard Limited and Olson Global Limited, respectively), entered into a sale and purchase agreement with Power View Group (the "Offeror") to acquire the 300,000,000 shares held by the Vendors. This represented 75% of the total issued share capital of the Company. Subsequent to this, a mandatory unconditional cash offer was made by the Offeror on 24 February 2017. The offer closed on 17th March 2017.

The Company is actively exploring other business opportunities as to increase shareholder value.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

For the nine months ended 31 March 2017, 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.

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

During the nine months ended 31 March 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

COMPLIANCE ADVISER’S INTERESTS

As at 31 March 2017, as notified by the Company’s compliance adviser, Messis Capital Limited (the “Compliance Adviser”), except for the compliance adviser agreement entered into between the Company and the Compliance Advisor dated on 7 June 2016, neither the Compliance Adviser nor any of its directors, employees or close associates had any interests in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) or otherwise in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

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 nine months ended 31 March 2017.

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. During the current period, the Company is in compliance with the CG Code as set out in Appendix 15 to the GEM Listing Rules except provisions A.2.1 of the CG Code as detailed below:

Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Mr. Zhu Yongjun, the chairman of the Company, took up the role of Chief Executive Officer (“CEO”) since 17 March 2017. The Board has evaluated the current situation of the Group and taken into account of the experience and past performance of Mr. Zhu Yongjun, the Board was of the opinion that it was appropriate and in the best interest of the Company at the present stage for vesting the roles of the Chairman and the CEO of the Company in the same person as it helps to facilitates the execution of the Group’s business strategies and maximises the effectiveness of its operation. The Board will nevertheless review this structure from time to time and will consider the segregation of the two roles at the appropriate time.

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 Mr. Chui Man Lung, Everett (chairman of the Audit Committee), Mr. Cheung Kam Tong, Antonio and Mr. Han Chu, 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 nine months ended 31 March 2017, 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 nine months ended 31 March 2017 have not been audited.

By order of the Board
Odella Leather Holdings Limited
Zhu Yongjun
Chairman and executive Director

Hong Kong, 15 May 2017

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

Mr Zhu Yongjun and Mr. Tang Yau Sing as executive Directors; Mr. Shao Zuosheng as non-executive Director; Mr. Cheung Kam Tong, Antonio, Mr. Chui Man Lung, Everett and Mr. Han Chu 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.