

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



2015

3rd Quarterly Report

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This report, 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 report 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 report misleading.

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 (“Listing”) of the Company’s shares (“Shares”) on GEM of the Stock Exchange by way of placing (“Placing”) of 100,000,000 Shares of HK\$0.01 each, the Company together with its subsidiaries (collectively, the “Group”) underwent a corporate reorganisation (“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 of the Company dated 5 February 2015 (“Prospectus”). On 12 February 2015, the Shares became 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 31 March 2015 and in line with the proposed applications set out in the Prospectus, as follows:

- (a) approximately HK\$0.1 million was used for strengthening the Group’s business development capability by expanding its marketing function; and
- (b) approximately HK\$0.1 million was used for expansion of the Group’s pre-production product development function;

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 periods under review, the revenue of the Group has recorded a mild growth of about 5% from about HK\$59.3 million for the nine months ended 31 March 2014 to about HK\$62.5 million for the nine months ended 31 March 2015. Revenue of approximately HK\$18.3 million and HK\$20.4 million was recognised for the three months ended 31 March 2014 and 2015 respectively, which represents an increase of about 11%. Significant growth was recorded as to the Group’s operating profit after tax (excluding listing expenses) of about 51% from about HK\$9.6 million for the nine months ended 31 March 2014 to about HK\$14.5 million for the nine months ended 31 March 2015. The Group would have recorded profit after tax (excluding listing expenses) of about HK\$4.4 million and about HK\$14.5 million for the three months ended 31 March 2015 and the nine months ended 31 March 2015, respectively. However, we reported loss of about HK\$0.3 million and HK\$3.9 million for the three months and the nine months ended 31 March 2015, respectively. This is mainly

MANAGEMENT DISCUSSION AND ANALYSIS

attributable to the one-off listing expenses in connection with the preparation for Listing of about HK\$4.7 million and HK\$18.4 million recorded during the three months and the nine months ended 31 March 2015, respectively.

Revenue

The Group's revenue principally represented income derived from the manufacturing and sales of leather garment products. Revenue of approximately HK\$18.3 million and HK\$20.4 million was recognised for the three months ended 31 March 2014 and 2015 respectively, which represents an increase of about 11%. Revenue of approximately HK\$59.3 million and HK\$62.5 million was recognised for the nine months ended 31 March 2014 and 2015, respectively, which represents a mild growth of about 5%.

The increase was mainly due to additional products being delivered in the second and third quarters of the financial year ending 30 June 2015 to customers based in Australia, South Africa, Hong Kong and the People's Republic of China (the "PRC").

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 about HK\$12.0 million and HK\$12.0 million in the three months ended 31 March 2014 and 2015, respectively. The costs of sales amounted to about HK\$39.0 million and HK\$35.2 million in the nine months ended 31 March 2014 and 2015 respectively, representing a drop of about 10%. The drop in costs of sales in the nine months ended 31 March 2015 is mainly due to lower costs of leather and accessories materials incurred.

Gross profit for the three months ended 31 March 2014 and 2015 were about HK\$6.3 million and HK\$8.4 million respectively, representing a growth of about 33%. Gross profit for the nine months ended 31 March 2014 and 2015 were about HK\$20.3 million and HK\$27.3 million respectively, representing a growth of about 34%.

Although the number of pieces of leather garments shipped during the nine months ended 31 March 2015 was with a mild growth comparing to the corresponding period in the previous year, orders in the nine months ended 31 March 2015 consist of a substantial amount of leather garments involving more sophisticated designs or made of high value materials (such as shearling and calf skin) which need exceptional extent of experienced craftsmanship. Accordingly, the Group was able to charge prices with higher gross margins. On average, we enjoyed higher margins from old and new customers in the nine months ended 31 March 2015, as compared with those for the corresponding period in the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Revenue and Other Income

Other revenue and other income represented mainly sundry income that are incidental to the Group's business principally including interest income and sales of scrap materials for the three months ended 31 March 2014 and 2015, and were about HK\$50,000 and HK\$24,000 respectively. Other revenue and other income for the nine months ended 31 March 2014 and 2015 were about HK\$54,000 and HK\$31,000 respectively.

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 about HK\$0.5 million for the three months ended 31 March 2014 to about HK\$0.6 million for the three months ended 31 March 2015.

The selling and distribution expenses have increased from about HK\$1.8 million for the nine months ended 31 March 2014 to about HK\$2.0 million for the nine months ended 31 March 2015, representing an increase of about 11%.

The higher selling and distribution expenses for the nine months ended 31 March 2015 is mainly attributable to higher marketing expenses as a result of more intensive marketing activities in that period.

Administrative Expenses

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

Administrative expenses have increased from about HK\$2.4 million for the three months ended 31 March 2014 to about HK\$2.9 million for the three months ended 31 March 2015, representing an increase of about 21%. Administrative expenses have increased from about HK\$6.9 million for the nine months ended 31 March 2014 to about HK\$8.0 million for the nine months ended 31 March 2015, representing an increase of about 16%.

The higher administrative expenses for the nine months ended 31 March 2015 are mainly attributable to higher rental and payroll expenses during the period.

Listing Expenses

During the three months and nine months ended 31 March 2015, the Group recorded listing expenses of about HK\$4.7 million and HK\$18.4 million, respectively, in connection with the preparation for Listing. Total listing expenses are about HK\$29.7 million. According to Hong Kong Accounting Standards, part of these expenses about HK\$11.3 million is available for offsetting against the Company's equity reserves.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance Costs

Finance costs represent bank loan and trust receipt loan interests. For both of the three months and nine months ended 31 March 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 profits tax at 25% for the Company's subsidiary in Foshan, the PRC. Listing expenses are not deductible for tax purpose.

Net (Loss)/Profit for the Period

For the three months and nine months ended 31 March 2014, the Group recorded profit for the period of about HK\$2.9 million and HK\$9.6 million respectively. For the three months and nine months ended 31 March 2015, the Group recorded loss of about HK\$0.3 million and HK\$3.9 million respectively. For the three months and nine months ended 31 March 2015, non-recurring listing expenses of about HK\$4.7 million and HK\$18.4 million were charged to the Group's income statement.

After taking out the effect of the one-off non-recurring listing expenses of about HK\$4.7 million and about HK\$18.4 million for the three months and nine months ended 31 March 2015 respectively, the Group would have recorded profit after tax of about HK\$4.4 million and HK\$14.5 million respectively.

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 2015 totalling about HK\$48.8 million (31 March 2014: HK\$18.4 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 2015 and 30 June 2014 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Charge Over Assets of the Group

At 30 June 2014, the Group's banking facilities were supported by the Special Loan Guarantee Scheme of the Government of Hong Kong. The trust receipt loan was not less than 80% guaranteed by the Government of Hong Kong and 100% personally guaranteed by an executive Director. During the nine months ended 31 March 2015, new banking facilities were arranged to replace the then existing banking facilities. The aforesaid personal guarantee by an executive Director had been released following the termination of the aforesaid banking facilities.

At 31 March 2015, the Group's banking facilities were supported by pledged deposits of the Group of approximately HK\$3 million.

Capital Commitments and Contingent Liabilities

At 31 March 2015, the Group did not have any significant capital commitment (30 June 2014: nil).

At 31 March 2015, the Group did not have any significant contingent liability (30 June 2014: nil).

Material Acquisitions and Disposals

Save for the Reorganisation, during the nine months ended 31 March 2015, the Group did not have any material acquisition and disposal (nine months ended 31 March 2014: nil).

Business Review

The Group has recorded similar level of revenue while much higher gross profit during the nine months ended 31 March 2015. As an observation of fashion trend, customers are more interested in shearlings, calf skin and double faced leather, which are of generally higher value in costs and require more complex and sophisticated craftsmanship. The Group has also further strengthened its marketing efforts to boost up sales to customers in Australia, South Africa, Hong Kong and the PRC.

We saw gradual recovery from the economic downturn, especially the U.S. market, which is one of our major markets. The management believe the demand for leather garments are expected to improve gradually. All these bring positive impact to the growth of our garments sale in the foreseeable future.

Looking ahead, the management believe that the Listing of the Shares on GEM will enhance the Group's corporate profile and image, and that the net proceeds from the Placing will strengthen its financial position.

DISCLOSURE OF INTERESTS AND OTHER INFORMATION

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

As at 31 March 2015, the interests and short positions of the Directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were, pursuant to Rule 5.46 of the GEM Listing Rules, notified to the Company and the Stock Exchange, were as follows:

Interests in the shares of the Company

Name of Director	Capacity	Notes	Long position	
			Number of ordinary Shares	Approximate percentage of total number of Shares (Note 1)
Cheung Woon Yiu	Interest in controlled corporation	2	204,000,000	51.00%
Lam Wai Si Grace	Interest in controlled corporation	3	51,000,000	12.75%
Ching Wai Man	Interest in controlled corporation	4	45,000,000	11.25%

Notes:

1. As at 31 March 2015, the Company had 400,000,000 Shares in issue.
2. As at 31 March 2015, QCL held 204,000,000 Shares, representing approximately 51.00% of the issued Shares. QCL is wholly owned by Ms. Cheung Woon Yiu. By virtue of the SFO, Ms. Cheung was deemed to be interested in the Shares held by QCL.
3. As at 31 March 2015, DVL held 51,000,000 Shares, representing approximately 12.75% of the issued Shares. DVL is wholly owned by Ms. Lam Wai Si Grace. By virtue of the SFO, Ms. Lam was deemed to be interested in the Shares held by DVL.
4. As at 31 March 2015, OGL held 45,000,000 Shares, representing approximately 11.25% of the then issued Shares. OGL is wholly owned by Mr. Ching Wai Man. By virtue of SFO, Mr. Ching was deemed to be interested in the Shares held by OGL.

DISCLOSURE OF INTERESTS AND OTHER INFORMATION

Save as disclosed above, as at 31 March 2015, none of the Directors and chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Substantial Shareholders' Interests in the Shares and Underlying Shares of the Company

As at 31 March 2015, shareholders (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Interests in the shares of the Company

Name	Capacity	Notes	Long position	
			Number of ordinary Shares	Approximate percentage of total number of Shares (Note 1)
Lam Andrew Hung Yun	Interest of spouse	2	204,000,000	51.00%
QCL	Beneficial owner	2	204,000,000	51.00%
Lee Ben	Interest of spouse	3	51,000,000	12.75%
DVL	Beneficial owner	3	51,000,000	12.75%
OGL	Beneficial owner	4	45,000,000	11.25%

Notes:

1. As at 31 March 2015, the Company had 400,000,000 Shares in issue.
2. As at 31 March 2015, QCL held 204,000,000 Shares, representing approximately 51.00% of the issued Shares. QCL is wholly owned by Ms. Cheung Woon Yiu. Mr. Lam Andrew Hung Yun is the spouse of Ms. Cheung and he is deemed to be interested in such Shares by virtue of the SFO.
3. As at 31 March 2015, DVL held 51,000,000 Shares, representing approximately 12.75% of the issued Shares. DVL is wholly owned by Ms. Lam Wai Si Grace. Mr. Lee Ben is the spouse of Ms. Lam and is deemed to be interested in such Shares by virtue of the SFO.
4. As at 31 March 2015, OGL held 45,000,000 Shares, representing approximately 11.25% of the then issued Shares. OGL is wholly owned by Mr. Ching Wai Man. By virtue of the SFO, Mr. Ching was deemed to be interested in the Shares held by OGL.

DISCLOSURE OF INTERESTS AND OTHER INFORMATION

Save as disclosed above, as at 31 March 2015, the Company has not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

Rights to Acquire Shares or Debentures

Saved as disclosed above, at no time during the nine months ended 31 March 2015, have the Directors and the chief executive of the Company and their respective close associates (as defined under the GEM Listing Rules) had any interest in, or had been granted, or exercised any rights to subscribe for shares or underlying shares of the Company and/or its associated corporations (within the meaning of the SFO).

Save as disclosed above and as provided in the Share Option Scheme (as defined below), at no time during the nine months ended 31 March 2015 was the Company, any of its subsidiaries, its associated companies, its fellow subsidiaries or its holding companies a party to any arrangements to enable the Directors or the chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company and/or its associated corporations (within the meaning of the SFO).

Directors' Interest in Competing Business

For the nine months ended 31 March 2015, none of the Directors, nor the substantial shareholders of the Company nor their respective close associates (as defined under the GEM Listing Rules) had any interests (other than their interest in the Company or (prior to completion of the Reorganisation) its subsidiaries) in any business which competed or may compete, either directly or indirectly, with the business of the Group or any other conflicts of interests with the Group.

Compliance Advisor's Interests

As notified by Halcyon Capital Limited ("Halcyon"), compliance advisor of the Company, neither Halcyon nor any of its close associates and none of the directors or employees of Halcyon had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities, if any) which is required to be notified to our Company pursuant to Rule 6A.32 of the GEM Listing Rules as at 31 March 2015.

DISCLOSURE OF INTERESTS AND OTHER INFORMATION

The compliance advisor's appointment is for a period commencing on 12 February 2015 (i.e. the 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 despatch 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 advisor agreement is terminated in accordance with its terms and conditions, whichever is earlier. Pursuant to the compliance advisor agreement entered into between Halcyon and the Company, Halcyon receives fees for acting as the Company's compliance advisor.

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.

The Shares were first listed on GEM on 12 February 2015. Each of Directors gave confirmation that he/she was in compliance with the Securities Code from the date of Listing to 31 March 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. The Company has complied with all the code provisions set out in the CG Code from the date of Listing to 31 March 2015.

Updates on the application to seek relief from the High Court pursuant to the Companies Ordinance

As disclosed in page 143 of the Prospectus, an application was made by Perline Company Limited ("Perline", a wholly-owned subsidiary of the Company) to the High Court of Hong Kong seeking relief in respect of the late presentation with the then shareholders of Perline of annual accounts at its annual general meetings within the prescribed period within the past three years. The hearing was initially held on 4 December 2014 and adjourned pending filing of further supporting affirmation by Perline.

In February 2015, the hearing was restored and an order was granted in terms of Perline's application.

DISCLOSURE OF INTERESTS AND OTHER INFORMATION

Audit Committee and Review of Financial Statements

The audit committee of the Company (“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. 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 primary duties of the Audit Committee include (without limitation to) (a) monitoring the integrity of the Company’s financial statements, (b) reviewing the Company’s financial controls, internal control and risk management systems, (c) reviewing the Group’s financial and accounting policies and practices.

The unaudited consolidated results of the Group for the nine months ended 31 March 2015 have not been audited.

The Audit Committee has reviewed with the management the unaudited consolidated results of the Group for the nine months ended 31 March 2015, this quarterly report, 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.

Share Option Scheme

A share option scheme was adopted and approved by the then shareholders of the Company on 28 January 2015 (the “Share Option Scheme”). No share options have been granted pursuant to the Share Option Scheme since its adoption.

Purchase, Sale or Redemption of the Company’s Listed Securities

The Shares were first listed on GEM of the Stock Exchange on 12 February 2015. During the nine months ended 31 March 2015, save for the Reorganisation and Placing disclosed in the Prospectus, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s securities.

By order of the Board

Cheung Woon Yiu

Chairman

15 May 2015

UNAUDITED CONSOLIDATED RESULTS

The board of Directors (the “Board”) of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the nine months and three months ended 31 March 2015 together with the unaudited comparative figures for the corresponding periods in 2014 as follows:

	Notes	Nine months ended 31 March		Three months ended 31 March	
		2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
REVENUE	3	62,502	59,300	20,445	18,275
Cost of sales		(35,178)	(39,042)	(12,029)	(12,014)
Gross profit		27,324	20,258	8,416	6,261
Other revenue and other income		31	54	24	50
Selling and distribution expenses		(1,990)	(1,773)	(645)	(504)
Administrative expenses		(8,010)	(6,911)	(2,853)	(2,383)
Listing expenses		(18,422)	—	(4,727)	—
Finance costs	4	(12)	(14)	—	—
(Loss)/profit before tax	5	(1,079)	11,614	215	3,424
Income tax expense	6	(2,792)	(2,019)	(557)	(565)
Net (loss)/profit for the period attributable to owners of the Company		(3,871)	9,595	(342)	2,859
Other comprehensive (expense)/income					
<i>Items that may be reclassified subsequently to consolidated statement of profit or loss:</i>					
Exchange differences on translation of foreign operations		10	(2)	13	(10)
Other comprehensive (expense)/ income for the period		10	(2)	13	(10)
Total comprehensive (expense)/income for the period attributable to owners of the Company		(3,861)	9,593	(329)	2,849
(Loss)/earnings per share attributable to owners of the Company	8				
Basic and diluted		HK(1.2) cents	HK3.2 cents	HK(0.1) cents	HK0.9 cents

NOTES TO THE 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 shares (the "Shares") were first listed on the GEM of the Stock Exchange 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 these unaudited consolidated results have been prepared by applying the principles of merger accounting as if the Reorganisation had been completed since 1 July 2013.

The unaudited consolidated results of the Group for the nine months and three months ended 31 March 2015 and 2014 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 in full.

2. Basis of Preparation

The unaudited 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 ("HKASs") and Interpretation issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and accounting principles generally accepted in Hong Kong. In addition, the unaudited 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. Basis of Preparation (continued)

The accounting policies applied in the preparation of the unaudited consolidated results are consistent with those adopted in the preparation of the annual combined financial information of the Group for the year ended 30 June 2014, 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 significant effect on the financial results of the current period. Accordingly, no change in significant accounting policies and 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 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 consolidated results have been reviewed by the audit committee of the Company ("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	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Interests on: Bank borrowing wholly repayable within a year	12	14	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. (Loss)/Profit Before Tax

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

	Nine months ended 31 March		Three months ended 31 March	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Depreciation of property, plant and equipment	97	78	32	25
Listing expenses	18,422	—	4,727	—

6. Income Tax Expense

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the periods.

The PRC Enterprise Income Tax (the "EIT") is provided on the assessable income of entity of the Group incorporated in the PRC. Pursuant to the PRC Corporate Income Tax Law, the EIT is unified at 25% for all types of entities effective from 1 January 2008.

The income tax expense is as follow:

	Nine months ended 31 March		Three months ended 31 March	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Current income tax:				
Hong Kong Profits Tax	2,211	1,930	557	578
The PRC Enterprise Income Tax	581	89	—	(13)
Total income tax expense for the period	2,792	2,019	557	565

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. Income Tax Expense (continued)

The income tax expenses for the periods can be reconciled to the (loss)/profit before tax per the consolidated statement of profit or loss as follows:

	Nine months ended 31 March		Three months ended 31 March	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
(Loss)/profit before tax	(1,079)	11,614	215	3,424
Tax calculated at the rates applicable to profits in the respective tax jurisdictions	(31)	1,866	12	526
Tax effect of:				
Expenses not deductible for tax purpose	2,833	153	545	39
Income not taxable for tax purpose	(1)	—	—	—
Tax losses utilised from previous periods	(9)	—	—	—
Income tax expense for the period	2,792	2,019	557	565

7. Dividends

The Company has not declared any dividends since its incorporation.

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

	Nine months ended 31 March		Three months ended 31 March	
	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2014 HK\$'000 (unaudited)
Dividend of Perline to the then shareholders of Perline of HK\$16 per Perline's share (2014: nil)	3,200	—	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. (Loss)/Earnings Per Share Attributable to Owners of the Company

For the purpose of this report, the calculation of the basic loss/earnings per Share attributable to owners of the Company was based on (i) the loss/profit attributable to owners of the Company for the periods and (ii) the weighted average number of 317,582,418 Shares, assuming 300,000,000 shares were in issue prior to the completion of the Placing of 100,000,000 Shares on 11 February 2015 (2014: 300,000,000 Shares (comprising 10,000,000 Shares in issued and 290,000,000 Shares to be issued under the capitalisation issue), as if these 300,000,000 Shares were outstanding throughout the period).

The diluted loss/earnings per Share for the nine months and three months ended 31 March 2015 and 2014 are equal to the basic loss/earnings per Share as there were no dilutive potential ordinary shares in issue.

9. Reserves

	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	Retained earnings HK\$'000	Reserves Sub-total HK\$'000	
At 1 July 2014 (audited) (note iii)	200	—	48	179	—	16,923	17,150	17,350
Effect of shares exchange (unaudited) (note iii)	(200)	—	—	—	200	—	200	—
Issue of shares on group reorganisation (unaudited)	100	—	—	—	(100)	—	(100)	—
Loss for the period (unaudited)	—	—	—	—	—	(3,871)	(3,871)	(3,871)
Other comprehensive expense for the period (unaudited)	—	—	—	10	—	—	10	10
Total comprehensive expense for the period (unaudited)	—	—	—	10	—	(3,871)	(3,861)	(3,861)
Appropriation of statutory reserve (unaudited)	—	—	160	—	—	(160)	—	—
Dividend of Perline to the then shareholders of Perline (unaudited)	—	—	—	—	—	(3,200)	(3,200)	(3,200)
Shares issued pursuant to the capitalisation issue (unaudited) (note iv)	2,900	(2,900)	—	—	—	—	(2,900)	—
Transaction cost attributable to issue of new Shares (unaudited)	—	(11,318)	—	—	—	—	(11,318)	(11,318)
Issue of new Shares through the Placing (unaudited) (note v)	1,000	54,000	—	—	—	—	54,000	55,000
At 31 March 2015 (unaudited)	4,000	39,782	208	189	100	9,692	49,971	53,971

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Reserves (continued)

	Attributable to owners of the Company							
	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	Retained earnings HK\$'000	Reserves Sub-total HK\$'000	Total HK\$'000
At 1 July 2013 (audited)	200	—	36	171	—	4,039	4,246	4,446
Profit for the period (unaudited)	—	—	—	—	—	9,595	9,595	9,595
Other comprehensive income for the period (unaudited)	—	—	—	(2)	—	—	(2)	(2)
Total comprehensive income for the period (unaudited)	—	—	—	(2)	—	9,595	9,593	9,593
At 31 March 2014 (unaudited)	200	—	36	169	—	13,634	13,839	14,039

Notes:

(i) Statutory reserve

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

(ii) Exchange fluctuation reserve

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. Reserves (continued)

Notes: (continued)

- (iii) The share capital as at 30 June 2014 represented the share capital of Perline, the then holding company of the Group amounted to HK\$200,000.

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. On 3 September 2014, one Share of HK\$0.01 was allotted and issued, nil paid, to Sharon Pierson (an officer of Codan Trust Company (Cayman) Limited, the provider of registered office of the Company), which was transferred to Quality Century Limited ("QCL") on the same date. On 3 September 2014, the Company further allotted and issued a total of 999,999 Shares, nil paid, to QCL, Design Vanguard Limited ("DVL") and Olson Global Limited ("OGL").

On 11 September 2014, Odella International Limited ("Odella BVI") was incorporated in the British Virgin Islands with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each. On 11 September 2014, 100 shares in Odella BVI were issued to the Company, and the subscription price of each share was US\$1 (i.e. the par value of such share).

On 4 December 2014, Odella BVI acquired from Ms. Cheung Woon Yiu, Ms. Lam Wai Si Grace and Mr. Ching Wai Man the entire 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 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.

- (iv) On 11 February 2015, the Company issued and allotted a total of 290,000,000 Shares of HK\$0.01 each to the 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 (the "Capitalisation Issue").
- (v) On 11 February 2015, the Company issued a total of 100,000,000 new Shares of HK\$0.01 each at a placing price of HK\$0.55 per Share pursuant to the Prospectus. The gross listing proceeds were HK\$55,000,000.

Interim Dividend

The Directors do not recommend payment of any interim dividend for the three months ended 31 March 2015.

Dividends declared and paid by Perline, a subsidiary of the Company, to the then shareholders of the Perline of HK\$16 per Perline's share (amounting to HK\$3,200,000) was declared and paid in December 2014 before the Listing (2014: nil).