

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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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 (the “Board”) of Directors of Odella Leather Holdings Limited is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months and three months ended 31 December 2016, together with the unaudited comparative figures for the corresponding periods in 2015 as follows, which are presented in Hong Kong dollars (“HK\$”):

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months and three months ended 31 December 2016

		Six months ended 31 December		Three months ended 31 December	
	Notes	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
REVENUE	2	24,065	30,116	13,546	10,520
Cost of sales		<u>(15,575)</u>	<u>(17,630)</u>	<u>(8,609)</u>	<u>(6,890)</u>
Gross profit		8,490	12,486	4,937	3,630
Other revenue and other income	3	125	234	107	106
Selling and distribution expenses		<u>(865)</u>	<u>(1,367)</u>	<u>(361)</u>	<u>(718)</u>
Administrative expenses		<u>(5,803)</u>	<u>(5,641)</u>	<u>(2,952)</u>	<u>(2,823)</u>
Profit before tax	4	1,947	5,712	1,731	195
Taxation	5	<u>(409)</u>	<u>(945)</u>	<u>(373)</u>	<u>(38)</u>
Net profit for the period attributable to owners of the Company		<u>1,538</u>	<u>4,767</u>	<u>1,358</u>	<u>157</u>
Other comprehensive income					
<i>Items that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation of foreign operations		<u>54</u>	<u>57</u>	<u>47</u>	<u>32</u>
Other comprehensive income for the period		<u>54</u>	<u>57</u>	<u>47</u>	<u>32</u>
Total comprehensive income for the period attributable to owners of the Company		<u>1,592</u>	<u>4,824</u>	<u>1,405</u>	<u>189</u>
Earnings per share attributable to owners of the Company	6				
Basic and diluted		<u>HK0.38 cent</u>	<u>HK1.19 cents</u>	<u>HK0.34 cent</u>	<u>HK0.04 cent</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	31 December 2016 HK\$'000 (unaudited)	30 June 2016 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		<u>417</u>	<u>498</u>
Current assets			
Inventories		7,507	6,202
Trade receivables	8	7,949	9,476
Deposits, prepayments and other receivables		893	1,571
Cash and cash equivalents		51,290	48,988
Pledged deposits		3,041	3,031
Tax receivable		<u>1,834</u>	<u>—</u>
Total current assets		<u>72,514</u>	<u>69,268</u>
Current liabilities			
Trade payables	9	2,149	1,496
Accruals, other payables and trade deposits received		7,036	5,179
Tax payable		<u>260</u>	<u>1,197</u>
Total current liabilities		<u>9,445</u>	<u>7,872</u>
Net current assets		<u>63,069</u>	<u>61,396</u>
Total assets less current liabilities		<u>63,486</u>	<u>61,894</u>
Non-current liability			
Deferred tax liability		<u>22</u>	<u>22</u>
Net assets		<u><u>63,464</u></u>	<u><u>61,872</u></u>
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		4,000	4,000
Reserves		<u>59,464</u>	<u>57,872</u>
Total equity		<u><u>63,464</u></u>	<u><u>61,872</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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 2016 (audited)	4,000	39,782	208	276	100	17,506	57,872	61,872
Profit for the period (unaudited)	—	—	—	—	—	1,538	1,538	1,538
Other comprehensive income for the period (unaudited)	—	—	—	54	—	—	54	54
Total comprehensive income for the period (unaudited)	—	—	—	54	—	1,538	1,592	1,592
At 31 December 2016 (unaudited)	<u>4,000</u>	<u>39,782</u>	<u>208</u>	<u>330</u>	<u>100</u>	<u>19,044</u>	<u>59,464</u>	<u>63,464</u>
At 1 July 2015 (audited)	4,000	39,782	208	184	100	13,679	53,953	57,953
Profit for the period (unaudited)	—	—	—	—	—	4,767	4,767	4,767
Other comprehensive income for the period (unaudited)	—	—	—	57	—	—	57	57
Total comprehensive income for the period (unaudited)	—	—	—	57	—	4,767	4,824	4,824
At 31 December 2015 (unaudited)	<u>4,000</u>	<u>39,782</u>	<u>208</u>	<u>241</u>	<u>100</u>	<u>18,446</u>	<u>58,777</u>	<u>62,777</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 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 underwent for the preparation of the listing of the Company's shares on GEM.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	For the six months ended 31 December	
	2016 <i>HK\$'000</i> (unaudited)	2015 <i>HK\$'000</i> (unaudited)
Net cash generated from operating activities	2,303	7,096
Net cash used in investing activities	(4)	(118)
Net cash generated from financing activities	<u>—</u>	<u>325</u>
Net increase in cash and cash equivalents	2,299	7,303
Effect on foreign exchange rate changes, net	3	(93)
Cash and cash equivalents at beginning of the period	<u>48,988</u>	<u>36,388</u>
Cash and cash equivalents at end of the period — represented by bank balances and cash other than pledged deposits	<u><u>51,290</u></u>	<u><u>43,598</u></u>

Notes:

1. BASIS OF PREPARATION AND BASIS OF PRESENTATION

The unaudited condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows of the Group for the six months and three months ended 31 December 2016 and 2015 include the results and cash flows of all companies now comprising the Group, or since the date when the subsidiaries first came under the common control, where this is a shorter period.

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

These unaudited financial statements of the Company 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 financial statements include applicable disclosures required by the GEM Listing Rules. All HKFRSs effective for the accounting period commencing from 1 July 2016, together with the relevant transitional provisions, have been adopted by the Group in the preparation of these financial statements throughout the periods covered in these unaudited financial statements.

These 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 unaudited 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 unaudited financial information is presented in Hong Kong dollars 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 newly effective during the period under review. Out of these new or revised HKFRSs, those relevant to the Group's operations affecting its significant accounting policies are set out below.

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle

The adoption of these new or revised HKFRSs had no change in significant accounting policies and no significant effect on the financial results of the current period. Also, no prior period adjustment is required.

HKICPA has issued a number of new or revised HKFRS (including their subsequent amendments) which are not yet effective during the period. The Group has not applied or early adopted these new or revised HKFRSs in the preparation of these unaudited condensed consolidated results. It is anticipated that all of the pronouncements will be adopted by the Group in its accounting policies when they first become effective. The Directors anticipate that the application of certain of these new or revised HKFRS in the future may impact the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

The unaudited condensed consolidated results have not been audited by the Company's auditor and have been reviewed by the audit committee of the Board ("Audit Committee").

2. 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, who is responsible for allocating resources and assessing performance of the operating segments that make strategic decisions, has been identified as the executive Directors. The chief operating decision-maker 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 customer contributing over 10% of the total revenue of the Group during the periods are as follows:

	Six months ended 31 December		Three months ended 31 December	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Customer A	8,100	6,212	3,525	2,250
Customer B	<u>3,332</u>	<u>5,086</u>	<u>3,332</u>	<u>1,524</u>

(b) Geographical information

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

Revenue from external customers

	Six months ended		Three months ended	
	31 December		31 December	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
United States of America	9,977	12,789	4,840	3,779
Australia	6,995	10,101	5,767	5,973
Hong Kong	2,952	2,475	722	538
Japan	2,013	752	382	—
Malaysia	1,642	1,679	1,353	—
South Africa	382	1,993	382	211
PRC	—	188	—	—
Others (note)	104	139	100	19
	<u>24,065</u>	<u>30,116</u>	<u>13,546</u>	<u>10,520</u>

Note: Other countries included Canada, Switzerland, French, New Zealand and the United Kingdom.

Non-current assets

	As at	As at
	31 December	30 June
	2016	2016
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Hong Kong	95	206
PRC	322	292
	<u>417</u>	<u>498</u>

3. OTHER REVENUE AND OTHER INCOME

	Six months ended 31 December		Three months ended 31 December	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Interest income	17	146	10	75
Sales of scrap materials	11	57	—	—
Exchange gains, net	97	31	97	31
	<u>125</u>	<u>234</u>	<u>107</u>	<u>106</u>

4. PROFIT BEFORE TAX

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

	Six months ended 31 December		Three months ended 31 December	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Staff costs (including directors' remuneration):				
— Salaries and bonus	7,598	6,021	4,229	2,555
— Pension scheme contributions	496	548	197	247
Total staff costs	<u>8,094</u>	<u>6,569</u>	<u>4,426</u>	<u>2,802</u>
Cost of inventories sold	12,122	13,834	7,148	5,503
Depreciation of property, plant and equipment	<u>82</u>	<u>56</u>	<u>41</u>	<u>26</u>

5. TAXATION

Hong Kong Profits Tax is calculated at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the periods. The rate of the PRC Enterprise Income Tax of the Group's subsidiary operating in the PRC during the periods 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 or jurisdictions in which the Group operates for the periods.

	Six months ended 31 December		Three months ended 31 December	
	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)	2016 HK\$'000 (unaudited)	2015 HK\$'000 (unaudited)
Current income tax:				
Hong Kong Profits Tax	330	937	294	30
PRC Enterprise Income Tax	79	8	79	8
Income tax expense for the period	<u>409</u>	<u>945</u>	<u>373</u>	<u>38</u>

6. EARNING PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculations of the basic earnings per Share attributable to owners of the Company were based on (i) the profit attributable to owners of the Company for the periods; and (ii) the number of 400,000,000 (2015: 400,000,000) share (the “Shares”) in issue during the periods.

The diluted earnings per Share for the six months and three months ended 31 December 2016 and 2015 are equal to the basic earnings per Share as there were no dilutive potential ordinary Shares in issue during the periods.

7. DIVIDENDS

The Company has not declared any dividends since its incorporation.

8. 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 ranged from 10 to 45 days (30 June 2016: 10 to 45 days).

Aging analysis

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

	As at 31 December 2016 HK\$’000 (unaudited)	As at 30 June 2016 HK\$’000 (audited)
Within 30 days	5,346	8,437
31 to 60 days	2,530	543
61 to 90 days	52	141
Over 90 days	<u>21</u>	<u>355</u>
	<u>7,949</u>	<u>9,476</u>

9. TRADE PAYABLES

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

	As at 31 December 2016 HK\$’000 (unaudited)	As at 30 June 2016 HK\$’000 (audited)
Within 30 days	1,737	94
31 to 60 days	173	1,202
61 to 90 days	—	21
Over 90 days	<u>239</u>	<u>179</u>
	<u>2,149</u>	<u>1,496</u>

10. EVENTS AFTER THE REPORTING PERIOD

On 12 January 2017, Power View Group Limited (the “Offeror”) entered into a sale and purchase agreement (the “S&P Agreement”) with, among others, Quality Century Limited (“QCL”), Design Vanguard Limited (“DVL”) and Olson Global Limited (“OGL”) (collectively referred to as the “Vendors”), pursuant to which the Offeror conditionally agreed to purchase and the Vendors conditionally agreed to sell the aggregate of 300,000,000 Shares (the “Sale Shares”), representing 75% of the entire issued share capital of the Company as at the date of the S&P Agreement, for a total consideration of HK\$350,760,000 (equivalent to HK\$1.1692 per Sale Share). The completion of the sales and purchase of the Sale Shares took place on 23 January 2017, in accordance with the terms and provisions of the S&P Agreement. For details, please refer to the announcements jointly issued by the Company and the Offeror dated 18 January 2017 and 23 January 2017, respectively.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 31 December 2016 (2015: nil).

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 December 2016, in line with the proposed applications set out in the prospectus (the "Prospectus"), as follows:

- (a) approximately HK\$1.8 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\$5.3 million for expansion of the Group's pre-production product development function;
- (d) approximately HK\$2.9 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 Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the industry.

Business strategy	Business objectives for the period from 1 July 2016 to 31 December 2016	Actual business progress during the period from 1 July 2016 to 31 December 2016
Strengthening business development capability	— Cost will be incurred as remuneration payable to the one to two additional marketing staff recruited for this business strategy — 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 the six months ended 31 December 2016, the Group had recruited two additional sales and marketing staff to develop relationship with existing and potential customers. In addition, the Group set up regular meetings with the quality control teams from its customers to enhance the communications and understanding with its customers' technical requirements and standards for business development purposes. During this period, the Group has attended customers' season order presentations, and paid marketing visits to customers in the PRC, United States of America and Australia.
Enhancing manufacturing facilities	— Payment for the remaining balance of the purchase price of the equipment and machinery ordered	The Group is currently in the process of identifying further production machines that enable the enhancement of the Group's production efficiency.

Business strategy	Business objectives for the period from 1 July 2016 to 31 December 2016	Actual business progress during the period from 1 July 2016 to 31 December 2016
Expansion of pre-production development function	— Cost will be incurred as remuneration payable to the one to two additional design and development staff recruited for this business strategy — Continue to expand and strengthen the design team and to develop and create more samples for presentation to existing and potential customers — Commence the development of 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	During the six months ended 31 December 2016, the Group had recruited two additional staff for the research and technical development of production technics and leather garment patters. The Group had also researched on new technology and technics in leather treatment and leather bonding. We had also worked with the development team of our customers and our own design consultant to develop more samples for presentation to existing customers and potential customers.

Business strategy	Business objectives for the period from 1 July 2016 to 31 December 2016	Actual business progress during the period from 1 July 2016 to 31 December 2016
Expansion of sourcing capability	— Cost will be incurred as remuneration payable to the two to four additional sourcing staff/ agent recruited for this business strategy — Make more frequent supplier visits to strengthen our quality control — 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	The Group recruited additional man power for our leather sourcing team as well as our accessories sourcing team. The Group paid regular visits to our major suppliers to obtain information about the latest leather treatment technologies as well as quality screening in the premises of the leather tannery.

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.

Financial Review

Revenue

The Group's revenue principally represented income derived from the manufacturing and sales of leather garment products.

The Group has recorded a revenue of about HK\$24.1 million for the six months ended 31 December 2016, represented a decrease of about 20% from about HK\$30.1 million for the six months ended 31 December 2015.

On the other hand, the Group has recorded a revenue of about HK\$13.5 million for the three months ended 31 December 2016, represented an increase of about 29% from about HK\$10.5 million for the three months ended 31 December 2015.

The decrease in sales in the six months period ended 31 December 2016 is mainly due to delays in placements of orders from Australian customers because of their anticipation of delay in winter season and deterioration of the business in some international brands in the first quarter ended 30 September 2016. Higher sales were recorded in the second quarter ended 31 December 2016 as orders from Australian customers were gradually picked up by the end of this quarter.

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 Group's cost of sales amounted to about HK\$15.6 million for the six months ended 31 December 2016. Cost of sales has been dropped by about 12% as compared with the cost of sales for the six months ended 31 December 2015. The drop in cost of sales was mainly due to the drop in revenue in the period under review.

On the other hand, the Group's cost of sales amounted to about HK\$8.6 million for the three months ended 31 December 2016. Cost of sales for the three months ended 31 December 2016 has increased by about 25% as compared to the three months ended 31 December 2015. The increase in cost of sales was mainly due to the increase in revenue for the three months ended 31 December 2016.

Gross profit margins for the six months and three months ended 31 December 2016 were about 35% and 36% respectively.

Gross profit margin of about 35% for the six months ended 31 December 2016 were slightly lower as compare to the gross profit margin of about 41% for the six months ended 31 December 2015. Lower profit margin was mainly due to lowered revenue but relatively stable fixed overhead costs.

Gross profit margin for the three months ended 31 December 2016 was comparable to that for the three months ended 31 December 2015.

Other Revenue and Other Income

Other revenue and other income, mainly sundry income which included incidental to our business principally including interest income, income from sales of scrap materials and net exchange differences. Total other revenue and other income was amounted to about HK\$0.1 million and HK\$0.1 million for the six months and three months ended 31 December 2016, respectively, which were in line with those for the corresponding periods last year.

Selling and Distribution Expenses

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

The selling and distribution expenses have decreased from about HK\$1.4 million for the six months ended 31 December 2015 to about HK\$0.9 million for the six months ended 31 December 2016, representing a drop of about HK\$0.5 million. The selling and distribution expenses have decreased from about HK\$0.7 million for the three months ended 31 December 2015 to about HK\$0.4 million for the three months ended 31 December 2016, representing a decrease of about HK\$0.3 million.

The lower selling expenses was mainly due to lower marketing expenses and lower quantity of goods delivered during the periods.

Administrative Expenses

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

Administrative expenses have increased from about HK\$5.6 million for the six months ended 31 December 2015 to about HK\$5.8 million for the six months ended 31 December 2016, representing an increase of about HK\$0.2 million. Administrative expenses for the three months ended 31 December 2016 of about HK\$3.0 million were slightly higher than that for the three months ended 31 December 2015 of about HK\$2.8 million.

The slightly higher administrative expenses were mainly attributable to higher staff costs.

Taxation

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

Profit for the Period

The Group recorded a profit for the period of about HK\$1.6 million for the six months ended 31 December 2016 and about HK\$1.4 million for the three months ended 31 December 2016.

The lower operating profit for the six months ended 31 December 2016, but the higher operating profit for the three months ended 31 December 2016 than the corresponding periods last year were mainly due to the fluctuation of revenue during the corresponding periods.

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.

The Group has maintained its funds at a sound and healthy financial resource level during the periods under review. As at 31 December 2016, included in net current assets were cash and bank balances (including pledged bank deposits) totalling approximately HK\$54.3 million (30 June 2016: HK\$52.0 million), the increase of which was mainly due to profit retained and lower level of trade receivables as comparing to 30 June 2016.

As at both 31 December 2016 and 30 June 2016, the Group did not have any outstanding bank borrowings. Thus, 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 31 December 2016 and 30 June 2016.

As at both 31 December 2016 and 30 June 2016, there was no seasonality as to the Group's borrowing requirements and no committed borrowing facilities.

Financial Management Policies

The Group in its ordinary course of business is exposed to market risks such as 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 with banks in Hong Kong and the PRC, which are denominated mostly in United States dollars and Hong Kong dollars. Hong Kong dollars are pegged to United States dollars under the current policy of the Government of Hong Kong.

As most of the Group's trading transactions, monetary assets and liabilities are denominated mainly in Hong Kong dollars, being the Group's operating and reporting currencies, United States dollars (to which Hong Kong dollars were pegged) and Renminbi, the impact of foreign exchange exposure to the Group was minimal and the changes in foreign exchange rates did not have a significant adverse effect on normal operations during the reporting periods.

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

Charge Over Assets of the Group

As at 31 December 2016, the Group's banking facilities were supported by pledged bank deposits of approximately HK\$3.0 million (30 June 2016: HK\$3.0 million).

Capital Commitments and Contingent Liabilities

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

Material Acquisitions and Disposals

The Group did not have any material acquisition and disposal during the six months ended 31 December 2016.

Events After the Reporting Period

Reference is made to the joint announcements dated 18 January 2017 and 23 January 2017 (collectively referred to as the "Joint Announcements") issued by the Company and the Offeror in relation to the mandatory unconditional cash offer by China Goldjoy Securities Limited on behalf of the Offeror to acquire all the issued Shares of the Company.

On 12 January 2017, the Offeror entered into the S&P Agreement with, among others, QCL, DVL and OGL, pursuant to which the Offeror conditionally agreed to purchase and the Vendors conditionally agreed to sell the aggregate of 300,000,000 Sale Shares, representing 75% of the entire issued share capital of the Company as at the date of the S&P Agreement, for a total consideration of HK\$350,760,000, (equivalent to HK\$1.1692 per Sale Share). The completion of the sale and purchase of the Sale Shares took place on 23 January 2017 in accordance with the terms and provisions of the S&P Agreement. For details, please refer to the Joint Announcements.

Further announcement(s) will be made by the Company and the Offeror in relation to the status and results of the offer as and when appropriate.

Employees and Remuneration Policy

As at 31 December 2016 the Group had a workforce of 109 employees (30 June 2016: 130). The decrease in number of employees was mainly due to natural loss in production workforce. Total staff cost for the six months ended 31 December 2016 was about HK\$8.1 million, representing an increase of about HK\$1.5 million as compared to the staff cost for the six months ended 31 December 2015.

The Group's remuneration policy is formulated by the remuneration committee of the Board with reference to the duties, responsibilities, experience and competence of individual employees. The same policy also applies to the Directors. In addition to salaries and discretionary bonuses relating to the performance of the Group, there are also employee benefits included pension scheme contributions.

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

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

Business Review and Outlook

The Group is specialised in the manufacture and sales of private label leather garments for its customers on original equipment manufacturer basis. The Group's major customers are mostly fashion brands with price range of leather garments fall under the high-end and middle-end categories. The Group's sales orders is dependent on number of customers and each customer's order quantity.

For the past six months ended 31 December 2016, the Group saw slow in orders picked up in the first quarter. It was mainly due to deterioration of business in some international brands and delays in orders until the second quarter from some brands in Australia. Such delays in orders were partially picked up in the second quarter, which resulted in higher revenue in the second quarter. There is no significant fluctuation saw in terms of selling price per unit. During this half year period, the Group has invested significantly in quality controls and technical researches on production quality and developed new samples for its customers to support their new developments. These efforts may not be able to crystallise into orders in the next month, however, it will definitely benefit the Group for the orders in the next season and/or next year and help the Group to maintain a long term stable business relationship with its customers.

Despite the currently soft confident on mid to high end consumer products, the Group is confident that it will continue to grow and stay strong in the market by maintaining its high product quality and working closely with its customers.

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

For the six months ended 31 December 2016, the Directors are not aware of any business or interest of the Directors, the controlling shareholders of the Company or their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

COMPLIANCE ADVISER'S INTERESTS

On 7 June 2016, Messis Capital Limited ("Mesis") was appointed as the compliance adviser of the Company pursuant to the requirements of Rule 6A.27 of the GEM Listing Rules.

The compliance adviser's appointment entered into between Messis and the Company is for a period commencing on 7 June 2016 and ending on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of the dispatch of its annual report of the financial results for the second full financial year commencing after date of Listing, i.e. for the year ending 30 June 2017, or until the compliance adviser agreement is terminated in accordance with its terms and conditions, whichever is earlier. Pursuant to the compliance adviser agreement entered into between Messis and the Company, Messis will receive fees for acting as the Company's compliance adviser.

Neither Messis nor any of their directors, employees or close associate who have been involved in providing advice to the Company, has or may have any interest in any securities of the Company or which is required to be notified to the Group pursuant to Rule 6A.32 of the GEM Listing Rules.

COMPLIANCE WITH CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTION

The Group has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. In response to specific enquiry made by the Company, each of the Directors gave confirmation that he/she has complied with the required standard of dealings and the code of conduct regarding securities transactions by the Directors throughout the six months ended 31 December 2016.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE REPORT

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of its shareholders. To accomplish this, the Company has adopted the principles and the code provisions of the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. The Company has complied with all the code provisions set out in the CG Code during the six months ended 31 December 2016.

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 July 2016 and up to 31 December 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 periods between 1 July 2012 and 30 September 2014, and 1 October 2014 to 30 June 2015, and 1 July 2015 to 30 June 2016, please refer to the Prospectus, the 2015 annual report, and the 2016 annual report, respectively, for details.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL STATEMENTS

The 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 committee has reviewed with the management this interim announcement, the accounting principles and practices adopted by the Group, financial reporting matters including a review of the unaudited consolidated results for the six months ended 31 December 2016 prior to recommending them to the Board for approval.

The consolidated interim financial statements for the six months ended 31 December 2016 have not been audited by the Company's auditors.

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

During the six months ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities.

PUBLICATION OF INTERIM REPORT

The interim results announcement is published on the websites of the Company (www.odella.com) and the Stock Exchange (www.hkexnews.com.hk). The interim report for the six months ended 31 December 2016 containing all the information required by Appendix 18 to the GEM Listing Rules will be dispatched to shareholders of the Company and available on the said websites in due course.

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

Hong Kong, 13 February 2017

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

Ms. Cheung Woon Yiu, Ms. Lam Wai Si Grace and Mr. Ching Wai Man as executive Directors; Ms. Ng Lai Hung as non-executive Director; and Dr. Wong Wai Kong, Mr. How Sze Ming and Mr. Philip David Thacker as independent non-executive Directors.

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