

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 2015

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.

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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.

FINANCIAL RESULTS

The board (the “Board”) of Directors 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 2015, together with the audited comparative figures for the corresponding periods 2014 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 2015

		Six months ended 31 December		Three months ended 31 December	
	Notes	2015	2014	2015	2014
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(unaudited)	(audited)	(unaudited)	(audited)
REVENUE	2	30,116	42,057	10,520	19,813
Cost of sales		<u>(17,630)</u>	<u>(23,149)</u>	<u>(6,890)</u>	<u>(10,809)</u>
Gross profit		12,486	18,908	3,630	9,004
Other revenue and other income	3	234	7	106	5
Selling and distribution expenses		(1,367)	(1,345)	(718)	(610)
Administrative expenses		(5,641)	(5,157)	(2,823)	(2,774)
Listing expenses		—	(13,695)	—	(9,465)
Finance costs		<u>—</u>	<u>(12)</u>	<u>—</u>	<u>—</u>
Profit/(loss) before tax	4	5,712	(1,294)	195	(3,840)
Income tax expense	5	<u>(945)</u>	<u>(2,235)</u>	<u>(38)</u>	<u>(1,011)</u>
Net profit/(loss) for the period attributable to owners of the Company		<u>4,767</u>	<u>(3,529)</u>	<u>157</u>	<u>(4,851)</u>

		Six months ended 31 December		Three months ended 31 December	
	Note	2015	2014	2015	2014
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(unaudited)	(audited)	(unaudited)	(audited)
Other comprehensive income/(expense)					
<i>Items that may be reclassified subsequently to consolidated statement of profit or loss:</i>					
Exchange differences on translation of foreign operations		<u>57</u>	<u>(3)</u>	<u>32</u>	<u>—</u>
Other comprehensive income/(expense) for the period		<u>57</u>	<u>(3)</u>	<u>32</u>	<u>—</u>
Total comprehensive income/(expense) for the period attributable to owners of the Company		<u>4,824</u>	<u>(3,532)</u>	<u>189</u>	<u>(4,851)</u>
Earnings/(loss) per share attributable to owners of the Company	6				
Basic and diluted		<u>HK1.19 cents</u>	<u>HK(1.18) cents</u>	<u>HK0.04 cent</u>	<u>HK(1.62) cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2015

		31 December 2015 <i>HK\$'000</i> (unaudited)	30 June 2015 <i>HK\$'000</i> (audited)
	Notes		
Non-current assets			
Property, plant and equipment		<u>351</u>	<u>303</u>
Current assets			
Inventories		6,713	2,243
Trade receivables	8	17,537	26,848
Deposits, prepayments and other receivables		1,957	2,778
Cash and cash equivalents		43,598	36,388
Pledged deposits		<u>3,023</u>	<u>3,348</u>
Total current assets		<u>72,828</u>	<u>71,605</u>
Current liabilities			
Trade payables	9	1,147	1,328
Accruals, other payables and trade deposits received		7,439	7,901
Tax payable		<u>1,810</u>	<u>4,720</u>
Total current liabilities		<u>10,396</u>	<u>13,949</u>
Net current assets		<u>62,432</u>	<u>57,656</u>
Total assets less current liabilities		<u>62,783</u>	<u>57,959</u>
Non-current liability			
Deferred tax liability		<u>6</u>	<u>6</u>
Net assets		<u>62,777</u>	<u>57,953</u>
Equity			
Capital and reserves attributable to owners of the Company			
Share capital		4,000	4,000
Reserves		<u>58,777</u>	<u>53,953</u>
Total equity		<u>62,777</u>	<u>57,953</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Note	Attributable to owners of the Company							
	Share capital	Share premium	Statutory reserve	Exchange fluctuation reserve	Other reserve	Retained earnings	Reserves Sub-total	Total
	HK\$'000	HK\$'000	HK\$'000 (note i)	HK\$'000 (note ii)	HK\$'000 (note iii)	HK\$'000	HK\$'000	HK\$'000
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)	4,000	39,782	208	241	100	18,446	58,777	62,777
At 1 July 2014 (audited) (note iv)	200	—	48	179	—	16,923	17,150	17,350
Effect of shares exchange (audited) (note iv)	(200)	—	—	—	200	—	200	—
Issue of shares on group reorganisation (audited)	100	—	—	—	(100)	—	(100)	—
Loss for the period (audited)	—	—	—	—	—	(3,529)	(3,529)	(3,529)
Other comprehensive expense for the period (audited)	—	—	—	(3)	—	—	(3)	(3)
Total comprehensive expense for the period (audited)	—	—	—	(3)	—	(3,529)	(3,532)	(3,532)
Appropriation of statutory reserve (audited)	—	—	160	—	—	(160)	—	—
Dividend of Perline to the then shareholders of Perline (audited) 7	—	—	—	—	—	(3,200)	(3,200)	(3,200)
At 31 December 2014 (audited)	100	—	208	176	100	10,034	10,518	10,618

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 (as defined below).

(iv) Reorganisation

The share capital at 30 June 2014 represented the share capital of Perline Company Limited (“Perline”), the then holding company amounted to HK\$200,000.

In preparation for the the listing (the “Listing”) of the shares of the Company (“Shares”) on GEM, the Group underwent a corporate reorganisation (the “Reorganisation”) as below.

On 3 September 2014, the Company was incorporated in the Cayman Islands with one subscriber Share issued at nil paid. On the same date, the subscriber Share was transferred to Quality Century Limited (“QCL”) and 999,999 Shares were further allotted at nil paid to QCL, Design Vanguard Limited (“DVL”) and Olson Global Limited (“OGL”), companies solely owned by each of the then shareholders of Perline.

On 4 December 2014, Odella International Limited (“Odella BVI”), a wholly owned subsidiary of the Company (as a purchaser), acquired from the then shareholders of Perline (as the vendors) the entire share capital of Perline. In consideration the Company credited as fully paid the 1,000,000 nil-paid Shares which were first issued on 3 September 2014, and issued to QCL, DVL and OGL (as nominated by the vendors) 9,000,000 new Shares, 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 31 December	
	2015 <i>HK\$'000</i> (unaudited)	2014 <i>HK\$'000</i> (audited)
Net cash generated from operating activities	7,096	5,914
Net cash used in investing activities	(118)	(3,032)
Net cash generated from/(used in) financing activities	<u>325</u>	<u>(8,036)</u>
Net increase/(decrease) in cash and cash equivalents	7,303	(5,154)
Effect on foreign exchange rate changes	(93)	(9)
Cash and cash equivalents at beginning of the period	<u>36,388</u>	<u>15,133</u>
Cash and cash equivalents at end of the period — represented by bank balances and cash	<u><u>43,598</u></u>	<u><u>9,970</u></u>

Notes:

1. BASIS OF PRESENTATION AND BASIS OF PREPARATION

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) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's Shares are listed on GEM on 12 February 2015.

Pursuant to the Reorganisation in preparation for the Listing, the Company became the holding company of the subsidiaries now comprising the Group on 4 December 2014, the details of which are set out in the Prospectus. The Company has not been involved in any business prior to the Reorganisation. The principal business of the Group is conducted through Perline including its subsidiary, 佛山市南海盛麗皮衣有限公司 (Foshan Nanhai Shengli Leather Garment Co. Ltd.*).

Prior to the Reorganisation, Perline was directly owned by Ms. Cheung Woon Yiu, Ms. Lam Wai Si Grace and Mr. Ching Wai Man. The Reorganisation was merely reorganisations of the principal business of the Group with no change in management of such business and the ultimate owners of the business. Accordingly, the comparative figures of this interim announcement have been prepared by applying the principles of merger accounting as if the Reorganisation had been completed since 1 July 2014.

The 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 ended 31 December 2015 and 2014 include the results and cash flows 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.

These 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 and Interpretation issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. All HKFRSs effective for the accounting period commencing from 1 July 2015, together with the relevant transitional provisions, have been adopted by the Group in the preparation of these unaudited consolidated results throughout the periods covered in this announcement.

These unaudited consolidated results have been prepared under the historical cost convention. They are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

The accounting policies applied in the preparation of the unaudited consolidated results are consistent with those adopted in the preparation of the annual consolidated financial statements of the Group for the year ended 30 June 2015, except that the Group has adopted a number of new or revised HKFRSs which are newly effective for the period under review. The adoption of these new or revised HKFRSs had no 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 in the process of assessing the potential impact of these new or revised HKFRSs

* For identification purpose only

upon initial application but is not yet in a position to state whether their application will have a significant impact on the Group's 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 Board.

2. REVENUE AND OPERATING SEGMENT INFORMATION

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

The Group has only one single operating segment as the Group is principally engaged in the manufacturing and sales of leather products which is the basis to allocate resources and assess performance.

The chief operating decision-maker has been identified as the management. The management reviews the Group's internal reporting in order to assess performance and allocate resources. The Group focuses primarily on manufacturing and sales of leather products during the periods. Information reported to the chief operating decision-maker, for the purpose of resources allocation and performance assessment, focuses on the operating results of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

(a) Information about major customers

Revenues from customer contributing over 10% of the total revenue of the Group during the periods are as follows:

	Six months ended		Three months ended	
	31 December		31 December	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(audited)	(unaudited)	(audited)
Customer A	6,212	9,067	2,250	3,045
Customer B	5,086	*	1,524	*
Customer C	*	5,555	*	5,555

* The corresponding revenue did not contribute over 10% of the total revenue of the Group for the respective period.

(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 excluding deferred tax assets.

Revenue from external customers

	Six months ended		Three months ended	
	31 December		31 December	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(audited)	(unaudited)	(audited)
United States of America	12,789	15,041	3,779	4,286
Australia	10,101	6,138	5,973	4,074
Hong Kong	2,475	7,356	538	3,346
South Africa	1,993	1,314	211	493
Malaysia	1,679	2,217	—	971
Japan	752	2,310	—	343
PRC	188	6,255	—	5,732
Netherlands	—	776	—	—
Others (<i>Note</i>)	139	650	19	568
	30,116	42,057	10,520	19,813

Note: Other countries included Canada, Italy, South Korea, Mexico, Singapore, New Zealand, Brazil and Cambodia.

Non-current assets

	31 December	30 June
	2015	2015
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Hong Kong	53	63
PRC	298	240
	351	303

3. OTHER REVENUE AND OTHER INCOME

	Six months ended 31 December		Three months ended 31 December	
	2015	2014	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)	(unaudited)	(audited)
Interest income	146	4	75	3
Sales of scrap materials	57	3	—	2
Exchange gains, net	31	—	31	—
	<u>234</u>	<u>7</u>	<u>106</u>	<u>5</u>

4. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 31 December		Three months ended 31 December	
	2015	2014	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(audited)	(unaudited)	(audited)
Staff costs (including directors' remuneration):				
— Salaries and bonus	6,021	5,990	2,555	3,016
— Pension scheme contributions	548	615	247	324
	<u>6,569</u>	<u>6,605</u>	<u>2,802</u>	<u>3,340</u>
Cost of inventories sold	13,834	23,149	5,503	10,809
Depreciation of property, plant and equipment	56	65	26	31
Listing expenses	—	13,695	—	9,465

5. INCOME TAX EXPENSE

	Six months ended 31 December 2015		Three months ended 31 December 2015	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(audited)	(unaudited)	(audited)
Current income tax:				
Hong Kong Profits Tax	937	1,654	30	529
The PRC Enterprise Income Tax	<u>8</u>	<u>581</u>	<u>8</u>	<u>482</u>
Total income tax expense for the period	<u>945</u>	<u>2,235</u>	<u>38</u>	<u>1,011</u>

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.

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

For the six months and three months ended 31 December 2015, the calculations of the basic earnings per Share attributable to owners of the Company was based on (i) the profit attributable to owners of the Company for the periods and (ii) 400,000,000 Shares.

For the six months and three months ended 31 December 2014, the calculations of the basic loss per Share attributable to owners of the Company was based on (i) the loss attributable to owners of the Company for the periods and (ii) the weighted average number of 300,000,000 Shares.

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

7. DIVIDENDS

The Company has not declared any dividends since its incorporation. In October 2014, dividend of HK\$3,200,000 was approved to be appropriated to the then shareholders of Perline. The dividends declared by Perline to its then shareholders for the periods are as follows:

	Six months ended 31 December 2015		Three months ended 31 December 2015	
	2015	2014	2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(audited)	(unaudited)	(audited)
Dividend of Perline to the then shareholders of				
Perline of HK\$16 per Perline's share	<u>—</u>	<u>3,200</u>	<u>—</u>	<u>3,200</u>

Such dividend was fully paid by way of cash in December 2014 and the payment of such dividend was financed by internal resources of Perline.

8. TRADE RECEIVABLES

	31 December 2015 HK\$'000 (unaudited)	30 June 2015 HK\$'000 (audited)
Trade receivables	<u>17,537</u>	<u>26,848</u>

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.

The following is an aging analysis of trade receivables, presented based on the invoice date.

	31 December 2015 HK\$'000 (unaudited)	30 June 2015 HK\$'000 (audited)
Within 30 days	10,079	17,890
31 to 60 days	154	884
61 to 90 days	287	124
Over 90 days	<u>7,017</u>	<u>7,950</u>
	<u>17,537</u>	<u>26,848</u>

9. TRADE PAYABLES

The following is an aging analysis of trade payables, presented based on the invoice date.

	31 December 2015 HK\$'000 (unaudited)	30 June 2015 HK\$'000 (audited)
Within 30 days	856	672
31 to 60 days	187	308
61 to 90 days	18	105
Over 90 days	<u>86</u>	<u>243</u>
	<u>1,147</u>	<u>1,328</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 31 December 2015 (2014: nil).

Dividends declared and paid by Perline, a subsidiary of the Company, to its then shareholders of HK\$16 per Perline's share for the six months ended 31 December 2014 was HK\$3,200,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Reorganisation and Listing of the Company's Shares

The Company was incorporated in the Cayman Islands on 3 September 2014 as an exempted company with limited liability. In preparation for the Listing of the Shares on GEM by way of placing ("Placing") of 100,000,000 Shares at a placing price of HK\$0.55 per Share, the Group underwent the Reorganisation which was completed on 4 December 2014. 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 (the "Prospectus"). Since then, the Company became the holding company of the subsidiaries now comprising the Group.

On 12 February 2015, the Shares first became listed on GEM. The total net proceeds from the Placing after deducting all related expenses was approximately HK\$25.3 million. Up to 31 December 2015, the Group has applied the proceeds as follows:

- (a) approximately HK\$0.6 million for strengthening the Group's business development capability by expanding its marketing function;
- (b) approximately HK\$0.1 million for enhancing the Group's manufacturing facilities through purchasing new production equipment and machineries;
- (c) approximately HK\$1.1 million for expansion of the Group's pre-production product development function;
- (d) approximately HK\$0.7 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 objectives for the period from 1 July to 31 December 2015 (“Review Period”)

Actual business progress during the Review Period

A. Business strategy: Strengthening business development capability

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

Recruit about one to two staff to continue the development of sales in the China market

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

Arrange additional marketing trips to visit the Group’s customers in Hong Kong and overseas

Recruit additional staff to organise training programs to new staff and less experienced staff; organise regular meetings with the quality control team from the Group’s customers to better communicate and understand the Group’s customers’ technical requirements and standards for business development purposes

During the Review Period, the Group recruited one high caliber sales and marketing staff to develop relationship with existing and potential customers; recruited one sales and marketing staff to develop the PRC market and recruited an additional staff to organise training programs to new staff and less experienced staff. The Group organised regular meetings with the quality control team from its customers to better communicate and understand its customers’ technical requirements and standards for business development purposes. The Group has arranged additional marketing trips to visit its customers in the PRC , United States (“U.S.”) and Australia. The Group is currently in the process of identifying relevant and popular trade fairs to increase its market presence.

B. Business strategy: 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 objectives for
the Review Period**

**Actual business progress during
the Review Period**

C. Business strategy: 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

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

Develop and create more samples for presentation to existing and potential customers

During the Review Period, the Group recruited one experienced staff for the research and technical development of production technics and leather garment patterns. The Group has also developed and created more samples for presentation to existing and potential customers during the Review Period.

D. Business strategy: Expansion of sourcing capability

Cost will be incurred as remuneration payable to the one to two additional sourcing staff/agent recruited and further recruit one to two additional sourcing staff/agent for this business strategy

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

Recruit leather garment specialists and organise training on the effects of different leather treatments, technics on handling different types of leather to enhance the knowledge of the Group's staff on different types of leather

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

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable law and regulations, the Group intends to deposit the net proceeds in short-term demand deposits. The Group will continue to review and evaluate the business plan critically and will make an appropriate announcement if there is any change to the above proposed use of proceeds.

Financial Review

Overview

During the period under review, the revenue of the Group has recorded a drop of about 28% from about HK\$42.1 million for the six months ended 31 December 2014 to about HK\$30.1 million for the six months ended 31 December 2015.

During the six months ended 31 December 2015, the Group recorded a profit after tax of about HK\$4.8 million, increase of profit by about HK\$8.3 million as compared with the loss after tax of about HK\$3.5 million for the six months ended 31 December 2014. This is mainly attributable to the non-recurring listing expenses of about HK\$13.7 million incurred last year in connection with the preparation for Listing and partially offset by the decrease in its gross profit.

Revenue

The Group's revenue principally represented income derived from the manufacturing and sales of leather garment products. Revenue of about HK\$30.1 million and HK\$10.5 million was recognised for the six months and three months ended 31 December 2015 respectively, which represented decreases of about 28% and 47% as compared to the corresponding periods last year, respectively.

During the six months ended 31 December 2015, especially during the three months ended 31 December 2015, the Group saw a significant drop in order quantity from its international fashion brand customers. There were significant drops in revenue in Hong Kong, Japan, Malaysia and the PRC markets; mild drop in the U.S. market while there were significant increases in the Australia and South Africa markets. The Directors believe the customers' confidence has been affected by regional consumer market atmosphere as well as global macroeconomic downturn. Despite the weak performance in some market regions, the Group has continued its market development efforts and has been successful in obtaining more orders and new customers in the regions where their economic conditions were less affected.

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 cost of sales amounted to about HK\$17.6 million and HK\$6.9 million for the six months and three months ended 31 December 2015 respectively, representing decreases of about 24% and 36%, respectively, as compared with the cost of sales for the corresponding periods last year. The drop in cost of sales was mainly due to the drop in revenue in the periods under review.

Gross profit margin for the six months and three months ended 31 December 2015 were about 41% and 35% respectively, representing drops of about 4% and 10% respectively as compared with those in the corresponding periods last year. The lower gross profit margins are mainly due to the higher fixed costs per unit due to drop in production quantity as well as additional research and development costs to improve the Group's production technics and product quality which were incurred during this period.

Other Revenue and Other Income

Other revenue and other income, mainly sundry income that are incidental to the Group's business principally including interest income, exchange gains and sales of scrap materials, was amounted to about HK\$0.2 million and HK\$0.1 million for the six months and three months ended 31 December 2015, respectively, representing increases of about HK\$0.2 million and HK\$0.1 million as compared with those recognised in the six months and three months ended 31 December 2014. The increase was attributable to increase in interest income of about HK\$0.1 million from deposits of listing proceeds and surplus working capital during the six months and three months ended 31 December 2015.

Selling and Distribution Expenses

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

The selling and distribution expenses increased from about HK\$1.3 million for the six months ended 31 December 2014 to about HK\$1.4 million for the six months ended 31 December 2015, representing an increase of about HK\$0.1 million. The same trend was noted for the three months ended 31 December 2015 which was increased from about HK\$0.6 million for the three months ended 31 December 2014 to about HK\$0.7 million.

The increase in selling and distribution expenses was the net results of increase in marketing expenses but partially offset by the decrease in logistic and distribution expenses due to lower sales quantity during the periods.

Administrative Expenses

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

Administrative expenses have increased from about HK\$5.2 million for the six months ended 31 December 2014 to about HK\$5.6 million for the six months ended 31 December 2015, representing an increase of about HK\$0.4 million. It was because higher professional costs were incurred subsequent to the listing of the Company's shares on GEM.

Due to similar reasons, the administrative expenses increased slightly for the three months ended 31 December 2015 as compared with those in the corresponding period last year.

Listing Expenses

The Company was listed on GEM in February 2015. All listing expenses were charged in the financial year ended 30 June 2015. Accordingly, no such listing expenses were incurred in the six months ended 31 December 2015.

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 six months ended 31 December 2015 and 2014 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 profits tax at 25% for the Company's subsidiary in Foshan, the PRC.

Higher effective tax rate for corresponding periods in 2014 as compared to the six months and three months ended 31 December 2015 was recorded because there were non-recurring listing expenses in the corresponding periods in 2014 which mainly consisted of certain expenditures which may not be tax deductible.

Net Profit/(Loss) for the Period

During the six months ended 31 December 2015, the Group recorded a profit after tax of about HK\$4.8 million, increase of profit by about HK\$8.3 million as compared with the loss after tax of about HK\$3.5 million for the six months ended 31 December 2014. Same trend was noted for the three months ended 31 December 2015. During the corresponding periods in 2014, the Group incurred listing expenses of about HK\$13.7 million. Excluding the effect of this non-recurring listing expenses last year, the operating profit for the six months ended 31 December 2014 would have been about HK\$10.2 million.

The decreases in gross profit and increase in administrative expenses resulted in significant drop in operating profits for the six months and three months ended 31 December 2015 as comparing to the operating profit in the corresponding periods in 2014.

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 Hong Kong dollars. 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) at 31 December 2015 totalling about HK\$46.6 million (30 June 2015: HK\$39.7 million). Gearing ratio is calculated by dividing the net debt by total equity where net debt is calculated as bank borrowings and amounts due to directors less cash and bank balances. The Group did not have any outstanding net debt at 31 December 2015 and 30 June 2015 and thus the gearing ratio is not applicable.

There is no seasonality as to the Group's borrowing requirements and no committed borrowing facilities as at end of each reporting periods.

Charge Over Assets of the Group

At 31 December 2015, the Group's banking facilities were supported by pledged deposits of the Group of approximately HK\$3.0 million (30 June 2015: HK\$3.3 million).

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.

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 there was no significant adverse effect on normal operations during the reporting period.

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.

Share Capital

The Shares were listed on GEM on 12 February 2015. At 31 December 2015 and 30 June 2015, the Company has 400,000,000 Shares. Details of changes in share capital were set out in the condensed consolidated statement of changes in equity.

Capital Commitments and Contingent Liabilities

At 31 December 2015, the Group did not have any significant capital commitment (30 June 2015: nil) and contingent liability (30 June 2015: nil).

Material Acquisitions and Disposals

The Group did not have any material acquisition and disposal during the six months ended 31 December 2015. During the six months ended 31 December 2014, save for the Reorganisation, the Group did not have any material acquisition and disposal.

Employees and Remuneration Policy

At 31 December 2015, the Group had a workforce of 129 employees (30 June 2015: 158). The decrease in number of employees was mainly due to employee natural attrition at end of the interim period. Total staff cost for the six months ended 31 December 2015 was about HK\$6.6 million, which remained at similar level as compared to the staff cost for the six months ended 31 December 2014.

The Group's remuneration policy is basically determined by the performance of individual employees and the Directors and the market conditions. In addition to salaries and discretionary bonuses, employee benefits included share option scheme and pension scheme contributions.

During the periods 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.

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

Business Review and Outlook

The Group is specialized 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. During the six months ended 31 December 2015, the Group saw significant drop in order quantity from its international fashion brand customers. The Directors believe this is mainly attributable to the softer confidence of the Group's customers in forward prediction due to the sluggish luxury retail market and global macroeconomic downturn. Nevertheless, the Group has not stopped its efforts in market developments. The Group has strengthened its marketing activities by paying more visits to its customers and invested in development of pre-production sampling and production techniques. During the six months ended 31 December 2015, the Group has gained totally four new customers, two with orders for production and two with orders of samples.

During the six months ended 31 December 2015, the Group has also reported increase in administrative expenses mainly due to the increase in professional fees subsequent to the listing of the Company's Shares on GEM. The decrease in gross profit and increase in administrative expenses resulted in significant drop in operating profit as comparing to the operating profit before listing expenses in the corresponding periods in 2014.

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

DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTEREST IN COMPETING BUSINESS

For the six months ended 31 December 2015, the Directors are not aware of any business or interest of the Directors, the controlling shareholders and their respective associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

COMPLIANCE ADVISER'S INTERESTS

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

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

COMPLIANCE WITH CODE OF CONDUCT FOR DIRECTORS' SECURITIES TRANSACTION

The 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 2015.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE

The Company is committed to achieving high standards of corporate governance with a view to safeguarding the interests of its shareholders. To accomplish this, the Company has adopted the principles and the code provisions of the Corporate Governance Code (the “CG Code”) contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. The Company has complied with all the code provisions set out in the CG Code during the six months ended 31 December 2015.

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 2015 and up to 31 December 2015, 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, please refer to the Prospectus and 2015 annual report, respectively, for details.

AUDIT COMMITTEE AND REVIEW OF FINANCIAL RESULTS

The audit committee of the Board of Directors 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 condensed consolidated results for the six months ended 31 December 2015 prior to recommending them to the Board for approval.

The condensed consolidated interim financial results for the six months ended 31 December 2015 have not been audited or reviewed by the Company’s auditors.

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

During the six months ended 31 December 2015, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed 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 2015 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, 2 February 2016

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.