DECCA 達藝

DECCA HOLDINGS LIMITED
達藝控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 997)

ANNOUNCEMENT OF 2010/2011 INTERIM RESULTS

The Board of Directors (the "Board") of Decca Holdings Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2010:—

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 September	
		2010	2009
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**310,773**	344,090
Cost of sales		**(229,366)**	(242,755)
Gross profit		**81,407**	101,335
Other income, gains and losses		**1,805**	1,909
Selling and distribution costs		**(16,481)**	(21,349)
Administrative expenses		**(72,448)**	(77,318)
(Allowance) write back of bad and doubtful debts, net		**(2,365)**	2,004
Share of loss of an associate		**(1,146)**	(1,095)
Finance costs	*4*	**(2,146)**	(2,874)
(Loss) profit before taxation	*5*	**(11,374)**	2,612
Income tax expense	*6*	**(2,979)**	(2,332)
(Loss) profit for the period attributable to the owners of the Company		**(14,353)**	280
Other comprehensive income			
Exchange difference arising on translation of foreign operations and to presentation currency		**3,676**	(3,603)
Share of translation reserve of an associate		**178**	(191)
Other comprehensive income (expense) for the period		**3,854**	(3,794)
Total comprehensive expenses for the period attributable to the owners of the Company		**(10,499)**	(3,514)
(Loss) earnings per share — Basic	*7*	**HK(7.18) cents**	HK0.14 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	At 30 September 2010 (unaudited) HK$'000	At 31 March 2010 (audited) HK$'000
Non-current assets			
Property, plant and equipment		**298,988**	311,837
Prepaid lease payments		**7,201**	7,334
Investment in an associate		**8,823**	9,791
Deferred tax assets		**6,168**	6,630
Deposits paid for acquisition of property, plant and equipment		**—**	170
		321,180	335,762
Current assets			
Inventories		**114,099**	123,339
Accrued revenue		**23,914**	34,850
Trade receivables	*9*	**91,213**	54,999
Other deposits and prepayments		**20,606**	19,075
Amount due from an associate		**352**	352
Prepaid lease payments		**404**	401
Tax recoverable		**12,408**	12,449
Bank balances and cash		**85,433**	53,013
		348,429	298,478
Current liabilities			
Deferred revenue		**14,947**	5,829
Trade payables	*9*	**71,491**	48,960
Receipts in advance		**60,759**	50,862
Other payables and accruals		**35,595**	34,284
Provision for warranty		**2,527**	4,143
Tax payable		**17,888**	16,073
Bank borrowings		**87,953**	86,968
Bank overdrafts		**208**	—
		291,368	247,119
Net current assets		**57,061**	51,359
Total assets less current liabilities		**378,241**	387,121
Non-current liabilities			
Bank borrowings		**33,382**	31,514
Deferred tax liabilities		**—**	249
		33,382	31,763
		344,859	355,358
Capital and reserves			
Share capital		**20,000**	20,000
Reserves		**324,859**	335,358
Equity attributable to owners of the Company		**344,859**	355,358

Notes:

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34, ("HKAS 34") Interim Financial Reporting.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2010 except as described below.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 32 (Amendment)	Classification of rights issues
HKAS 39 (Amendment)	Eligible hedged items
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions
HKFRS 3 (Revised)	Business combinations
HK(IFRIC) — INT 17	Distributions of non-cash assets to owners

The Group applies HKFRS 3 (Revised) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1 April 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 April 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related party disclosures[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[2]
HKFRS 7 (Amendment)	Disclosures - transfer of financial assets[5]
HKFRS 9	Financial instruments[4]
HK(IFRIC) — INT 14 (Amendment)	Prepayments of a minimum funding requirement[3]
HK(IFRIC) — INT 19	Extinguishing financial liabilities with equity Instruments[2]

1 Effective for accounting periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
2 Effective for accounting periods beginning on or after 1 July 2010.
3 Effective for accounting periods beginning on or after 1 January 2011.
4 Effective for accounting periods beginning on or after 1 January 2013.
5 Effective for accounting periods beginning on or after 1 July 2011.

The directors of the Company anticipate that the application of these new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group's reportable operating segments under HKFRS 8 are as follows:—

— Sales of furniture and fixtures
— Interior decoration work

The following is an analysis of the Group's revenue and results by operating segments for the period under review:—

	Six months ended 30 September 2010		Six months ended 30 September 2009	
	Segment revenue (unaudited) *HK$'000*	**Segment profit for the period (unaudited)** *HK$'000*	Segment revenue (unaudited) *HK$'000*	Segment profit for the period (unaudited) *HK$'000*
Sales of furniture and fixtures	**205,062**	**17,043**	233,721	24,767
Interior decoration work	**105,711**	**11,434**	110,369	16,081
Total	**310,773**	**28,477**	344,090	40,848
Other income, gains and losses		**1,805**		1,909
Share of loss of an associate		**(1,146)**		(1,095)
Finance costs		**(2,146)**		(2,874)
Unallocated corporate expenses		**(38,364)**		(36,176)
(Loss) profit before taxation		**(11,374)**		2,612

Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, share of loss of an associate, other income and finance costs. This is the measure reported to the Group's Chief Executive Officer for the purposes of resources allocation and performance assessment.

4. FINANCE COSTS

	Six months ended 30 September 2010 (unaudited) *HK$'000*	2009 (unaudited) *HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	**2,146**	2,866
Finance leases	**—**	8
	2,146	2,874

5. (LOSS) PROFIT BEFORE TAXATION

(Loss) profit before taxation has been arrived at after charging (crediting) the following items:—

	Six months ended 30 September 2010 (unaudited) *HK$'000*	2009 (unaudited) *HK$'000*
Amortisation of prepaid lease payments (included in cost of sales and administrative expenses)	**202**	201
Depreciation of property, plant and equipment	**19,035**	20,440
Allowance for slow moving inventories	**2,811**	1,497
Interest income	**(98)**	(40)
Loss on disposal of property, plant and equipment	**100**	9
Net foreign exchange gain (included in other income, gains and losses)	**(1,195)**	(1,459)

6. INCOME TAX EXPENSE

	Six months ended 30 September 2010 (unaudited) *HK$'000*	2009 (unaudited) *HK$'000*
Current tax:		
Hong Kong	**591**	189
The People's Republic of China ("PRC") Enterprise Income Tax	**2,026**	1,276
Other jurisdictions	**149**	575
	2,766	2,040
Deferred taxation	**213**	292
	2,979	2,332

Hong Kong Profits Tax and PRC Enterprise Income Tax are calculated at 16.5% and 25% of the estimated assessable profit for the current and prior periods respectively.

Tax from other jurisdictions are calculated at the rates prevailing in the relevant jurisdictions respectively.

7. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:—

Earnings

	Six months ended 30 September	
	2010	2009
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
(Loss) earnings for the purposes of basic and diluted earnings per share ((loss) profit for the period attributable to owners of the Company)	**(14,353)**	280

Number of shares

	Six months ended 30 September	
	2010	2009
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**200,000**	200,000

There was no diluted (loss) earnings per share presented as there were no potential shares outstanding for both current and prior periods.

8. DIVIDEND

No dividends were paid, declared or proposed during the six months ended 30 September 2010 and 2009. The directors of the Company do not recommend the payment of an interim dividend to the shareholders of the Company.

9. TRADE RECEIVABLES, TRADE PAYABLES AND CREDIT POLICY

The following is an analysis of trade receivables by age (net of allowance for bad and doubtful debts) and trade payables by age, presented based on invoice date:

	30 September 2010		31 March 2010	
	Trade Receivables	**Trade Payables**	Trade Receivables	Trade Payables
	(unaudited)	**(unaudited)**	(audited)	(audited)
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
0-30 days	**52,653**	**36,661**	20,137	22,158
31-90 days	**13,883**	**12,988**	17,020	9,234
>90 days	**24,677**	**21,842**	17,842	17,568
	91,213	**71,491**	54,999	48,960

The Group's credit terms for its interior decoration business are negotiated with its customers and are usually 6 months to 1 year. The credit terms granted by the Group to other trade debtors are normally 30 days.

INTERIM DIVIDEND

The directors of the Company do not recommend the payment of an interim dividend to the shareholders of the Company for the six months ended 30 September 2010 (2009: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Review of results

The Group's revenue for six months ended 30 September 2010 decreased by 9.7% to HK$310.8 million from HK$344.1 million for the same period in 2009. The gross margin also decreased from 29.5% to 26.2%.

Total revenue of interior decoration work decreased slightly by 4.2% to HK$105.7 million compared to corresponding period of last year. Furniture sales decreased by 12.3% to HK$205.1 million compared to the same period of the previous year. Sales of furniture to the United States decreased by 58.5% to HK$65.3 million. However, sales to Europe increased substantially by 320.9% to HK$36.9 million compared to the same period of the previous year. Sales to China also increased in a promising manner from HK$105.4 million in the interim period of previous year to HK$132.7 million of the current period under review.

The Group's top five customers for the period ended 30 September 2010 were LVMH Group accounted for HK$112.1 million in revenue which represented 36.1% of the Group' revenue. These contracts were associated with several Louis Vuitton stores in China, Hong Kong and Macau. The next four customers by revenue during the period included Happy Field Limited — 3.8% of revenue, Shanghai Xin Lu Real Estates Limited — 3.6% of revenue, Immobergues SA — 3.1% of revenue and Dolce & Gabbana Hong Kong Limited — 2.7% of revenue.

Projects currently in progress include furniture supply contracts for Four Seasons Hotel — St. Petersburg of Russia, Metropole Corinthia Hotel — London, Capella Hotel — Singapore, interior fitting out contracts in connection with several Louis Vuitton stores in Kumming and Zhengzhou — China and interior fitting out contract for a residence located at Purves Road — Hong Kong.

Liquidity, financial resources and capital structure

The Group continued to maintain a conservative financial structure during the period, there is no seasonal borrowing requirements. The Group's funding requirements to a certain extent depend on the value of the contracts awarded to the Group by its customers. As at 30 September 2010, the total bank borrowings amount to HK$121.5 million (31 March 2010: HK$118.5 million), out of which HK$88.2 million (31 March 2010: HK$87.0 million) would be due within one year. The borrowings including bank loans and overdraft facilities are mainly in Hong Kong dollars which will be matched by the inflow of funds from the Group's projects in Hong Kong. Having taken into account of the Group's net worth of HK$344.9 million (31 March 2010: HK$355.4 million), such borrowing level is acceptable. Finance costs were maintained at an acceptable level of HK$2.1 million (2009: HK$2.9 million) representing 0.69% (2009: 0.84%) of the Group's revenue. Net current assets stood at HK$57.1 million (31 March 2010: HK$51.4 million).

The Group's cash holding is mainly denominated in Hong Kong dollars. The interest rates of the Group's borrowings are usually floating in nature. The Group generally finances its operations with internally generated resources and credit facilities by banks in Hong Kong.

Gearing ratio and foreign exchange exposure

As at 30 September 2010, the gearing ratio (total borrowings divided by net assets was 0.35 (31 March 2010: 0.33). As the Group's revenue and expenses were mainly in Hong Kong dollars, Renminbi and United States dollars and its cash holding was mainly denominated in Hong Kong dollars, foreign exchange exposure of the Group was minimal as long as the policy of the Government of HKSAR to link the Hong Kong dollars to the United States dollars remained in effect. Renminbi's exchange rate remained stable within a range as Mainland China would also like to maintain a stable exchange rate between Hong Kong dollars and Renminbi which would be beneficial to Hong Kong's economy.

Charge on assets

At 30 September 2010, buildings, plant and machinery, motor vehicles and furniture, fixtures and office equipment of the Group with carrying values of approximately HK$27.3 million, HK$11.0 million, HK$0.1 million and HK$3.9 million (31 March 2010: HK$26.6 million, HK$11.2 million, HK$0.1 million and HK$4.2 million) respectively were pledged with a bank to secure the loans granted to the Group.

Employees

As at 30 September 2010, the Group employed 127, 1534, 3, 28, 177, and 10 staff in Hong Kong, Mainland China, Singapore, USA, Thailand, Europe respectively (31 March 2010: 139, 1392, 3, 31, 171 and 12 staff respectively) The Group remunerated its employees based on their performance, working experience and prevailing market conditions. Bonus may be given to staff of outstanding performance on a discretionary basis. For the primary course of retaining high caliber executives and employees, share options may be granted to eligible employees. Other employee benefits include mandatory provident fund and training programs.

Outlook

The first half of fiscal 2010/2011 started where the last fiscal year ended. During the first three months, average orders received were less than HK$45 million per month and the Group's monthly revenue for the same period averaged only HK$41 million. However, the second quarter of the current fiscal year showed a substantial improvement. Average monthly revenue from July to September increased to HK$62 million but more importantly, average orders received each month increased to HK$73 million. The orders on hand at 30 September 2010 were approximately HK$263 million, a 23% increase over the closing figure at 31 March 2010.

The source of the increased activity was from the Projects Division which has continued to grow its business with the retail brands and may report record revenue for the full year. The Group's Asia Showroom sales have increased, particularly in China and Hong Kong. The expanded showroom in Beijing and the new showroom in Shanghai have already produced positive results and should continue to impact the Group's profitability. For the first half of the year, European hospitality sales have been very strong. Projects developed by both the Paris and London offices have contributed positively for the period ended 30 September 2010. However, the new concerns in the European financial markets do not bode well for their continued success in the second half of 2010/2011.

The Group continues to emphasize cost reductions. Selling, Distribution and Administrative Expenses continue to decline. A 10% drop was achieved in the first half of 2010/2011. While there will be continued efforts to implement more cost reduction exercises, large cost reduction will probably not be achieved if economic activity continues to increase as it has since July, 2010.

The Group's liquidity and cash position will continue to be managed very carefully over the next six months. Cash in banks was at a record level at 30 September 2010. EBITDA for the last six months was approximately HK$10 million compared to approximately HK$13 million for the entire 2009/2010 fiscal year. This should continue to increase and return to levels prior to 2008/2009.

The Group, like many Chinese companies, has experienced difficulties in finding and hiring skilled labour. It is a concern that as the order book increases, the Group must hire more labour, particularly skilled carpenters, to meet the delivery dates that clients demand. This is made more difficult because the increased orders are coming from the architectural woodworking and retail fixture clients. These projects require a much more skilled labour force than is necessary to build hospitality furniture. The Group has addressed this problem by enacting a number of wage and benefit increases with the result being that many skilled carpenters who had left the company have now returned. The Group will continue to recruit more skilled labour over the coming months. The short-term effect of this effort will be a reduction of the gross margin. However, the Group is confident it will be able to pass on these increase labour costs as new contracts are signed.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2010.

CORPORATE GOVERNANCE

During the six months ended 30 September 2010, the Company was in compliance with the code provision of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Exchange") except for the following:

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The roles of chairman and managing director of the Company have been performed by Mr. Tsang Chi Hung. The Board considered that the non-segregation would not result in considerable concentration of power in one person and has the advantage of a strong and consistent leadership which is conducive to making and implementing decisions quickly and consistently.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company (the "Model Code"). Having made specific enquiry of the directors of the Company, all the directors confirmed that they complied with the required standards as set out in the Model Code during the six months ended 30 September 2010.

REVIEW BY AUDIT COMMITTEE AND INDEPENDENT AUDITORS

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters. The Audit Committee has also reviewed the unaudited interim results for the six months ended 30 September 2010.

The Group's independent auditors, Deloitte Touche Tohmatsu, have been engaged to review the interim financial report. On the basis of their review, nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

APPRECIATION

The Board would like to extend its gratitude to all the Group's customers and bankers for their trust and support and would like to thank all of the staff of the Group for their tireless efforts and contribution to the Group.

By Order of the Board
TSANG CHI HUNG
Chairman

Hong Kong, 29 November 2010

** For identification purpose only*

As at the date of this announcement, the directors of the Company comprise of seven executive directors, namely Mr Tsang Chi Hung, Mr Liu Hoo Kuen, Mr Richard Warren Herbst, Ms Kwan Yau Choi, Ms Fung Sau Mui, Mr Tai Wing Wah, Mr Wong Kam Hong and three independent non-executive directors namely Mr Chu Kwok Man, Mr Cheng Woon Kam, and Mr Pak Wai Tun, Wallace.