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 2011/2012 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 2011:—

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Six months ended 30 September	
		2011	2010
		(unaudited)	(unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**363,641**	310,773
Cost of sales		**(255,813)**	(229,366)
Gross profit		**107,828**	81,407
Other income, gains and losses		**(1,679)**	(560)
Selling and distribution costs		**(20,481)**	(16,481)
Administrative expenses		**(67,597)**	(72,448)
Share of loss of an associate		**(438)**	(1,146)
Finance costs	*4*	**(1,531)**	(2,146)
Profit (loss) before taxation	*5*	**16,102**	(11,374)
Income tax expense	*6*	**(5,958)**	(2,979)
Profit (loss) for the period		**10,144**	(14,353)
Other comprehensive income			
Exchange difference arising on translation of foreign operations and to presentation currency		**10,746**	3,676
Share of translation reserve of an associate		**69**	178
Other comprehensive income for the period		**10,815**	3,854
Total comprehensive income (expense) for the period		**20,959**	(10,499)

	Notes	Six months ended 30 September **2011** **(unaudited)** ***HK$'000***	2010 (unaudited) *HK$'000*
Profit (loss) for the period attributable to:			
Owners of the Company		**10,456**	(14,353)
Non-controlling interests		**(312)**	—
		10,144	(14,353)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**21,271**	(10,499)
Non-controlling interests		**(312)**	—
		20,959	(10,499)
Earnings (loss) per share — Basic	*7*	**HK5.23 cents**	HK(7.18) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**At 30 September 2011 (unaudited)** *HK$'000*	At 31 March 2011 (audited) *HK$'000*
Non-current assets			
Property, plant and equipment		**280,887**	287,607
Prepaid lease payments		**7,153**	7,136
Investment in an associate		**2,730**	3,099
		290,770	297,842
Current assets			
Inventories		**102,830**	106,840
Accrued revenue		**39,337**	16,771
Trade receivables	*9*	**102,109**	68,118
Other receivables, deposits and prepayments		**16,375**	16,291
Prepaid lease payments		**409**	409
Tax recoverable		**4,077**	3,612
Bank balances and cash		**110,317**	113,515
		375,454	325,556
Current liabilities			
Deferred revenue		**8,997**	4,439
Trade payables	*9*	**64,707**	57,923
Receipts in advance		**55,837**	63,580
Other payables and accruals		**56,205**	33,664
Amount due to an associate		**6,484**	—
Provision for warranty		**3,616**	4,123
Tax payable		**26,442**	21,040
Bank borrowings		**68,183**	82,144
		290,471	266,913
Net current assets		**84,983**	58,643
Total assets less current liabilities		**375,753**	356,485
Non-current liabilities			
Bank borrowings		**2,370**	4,061
		373,383	352,424
Capital and reserves			
Share capital		**20,000**	20,000
Reserves		**355,319**	334,048
Equity attributable to owners of the Company		**375,319**	354,048
Non-controlling interests		**(1,936)**	(1,624)
Total equity		**373,383**	352,424

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 and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2011 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2011 except as described below.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC) — INT 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) — INT 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards and interpretation that have been issued but are not yet effective. The following new or revised standards and interpretation have been issued after the date the consolidated financial statements for the year ended 31 March 2011 were authorized for issuance and are not yet effective:

HKFRS 7 (Amendemnts)	Disclosures — Transfers of Financial Assets[1]
HKFRS 9	Financial Instruments[2]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[4]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[3]
HKAS 19 (Revised 2011)	Employee Benefits[2]
HKAS 27 (Revised 2011)	Separate Financial Statements[2]
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
HK(IFRIC) — INT 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for accounting periods beginning on or after 1 July 2011.
2 Effective for accounting periods beginning on or after 1 January 2013.
3 Effective for accounting periods beginning on or after 1 January 2012.
4 Effective for accounting periods beginning on or after 1 July 2012.

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 and 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 reportable and operating segments for the period under review:—

	Six months ended 30 September 2011		Six months ended 30 September 2010	
	Segment revenue (unaudited)	**Segment profit for the period (unaudited)**	Segment revenue (unaudited)	Segment profit for the period (unaudited)
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Sales of furniture and fixtures	**252,268**	**43,457**	205,062	17,043
Interior decoration work	**111,373**	**12,661**	105,711	11,434
Total	**363,641**	**56,118**	310,773	28,477
Other income, gains and losses		**1,607**		1,805
Share of loss of an associate		**(438)**		(1,146)
Finance costs		**(1,531)**		(2,146)
Unallocated corporate expenses		**(39,654)**		(38,364)
Profit (loss) before taxation		**16,102**		(11,374)

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, gains and losses 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	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	**1,531**	2,146

5. PROFIT (LOSS) BEFORE TAXATION

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

	Six months ended 30 September	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Amortisation of prepaid lease payments (included in cost of sales and administrative expenses)	**209**	202
Depreciation of property, plant and equipment	**17,774**	19,035
Allowance for slow moving inventories	**5,353**	2,811
Allowance of bad and doubtful debts, net	**2,784**	2,365
Impairment loss recognised on accrued revenue	**502**	—
Interest income	**(87)**	(98)
Loss on write-off/disposal of property, plant and equipment	**35**	100
Net foreign exchange gain (included in other income, gains and losses)	**(621)**	(1,195)

6. INCOME TAX EXPENSE

	Six months ended 30 September	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**2,525**	591
The People's Republic of China ("PRC") Enterprise Income Tax	**3,673**	2,026
Other jurisdictions	**126**	149
	6,324	2,766
Overprovision in prior years in other jurisdictions	**(366)**	—
Deferred tax	**—**	213
	5,958	2,979

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. EARNINGS (LOSS) PER SHARE

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

Earnings (loss)

	Six months ended 30 September	
	2011	2010
	(unaudited)	(unaudited)
	HK$'000	*HK$'000*
Profit (loss) for the period attributable to owners of the Company for the purposes of basic earnings (loss) per share	**10,456**	(14,353)

Number of shares

	Six months ended 30 September	
	2011	2010
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**200,000**	200,000

There was no diluted earnings (loss) 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 reporting period. The directors of the Company do not recommend the payment of an interim dividend.

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 2011		31 March 2011	
	Trade Receivables	**Trade Payables**	Trade Receivables	Trade Payables
	(unaudited)	**(unaudited)**	(audited)	(audited)
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
0-30 days	**58,991**	**25,834**	35,841	24,219
31-90 days	**36,620**	**16,319**	11,634	7,798
>90 days	**6,498**	**22,554**	20,643	25,906
	102,109	**64,707**	68,118	57,923

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.

10. EVENT AFTER THE END OF THE INTERIM PERIOD

Pursuant to the announcement dated 30 October 2011, the Company proposed a group restructuring to dispose of its entire direct interest in Decca Investment Limited, a wholly-owned subsidiary of the Company, and the subsidiaries and an associate of Decca Investment Limited (collectively referred to as the "DIL Group") to a wholly owned subsidiary (the "Subsidiary") which is newly set-up by the Company. The shares of the Subsidiary will then be distributed in specie to the shareholders of the Company (the "Distribution"), upon which the Subsidiary and the DIL Group will cease to be the subsidiaries of the Company. At the same time, an unconditional voluntary cash offer (the "Cash Offer") will be made to the holders of the Subsidiary to acquire all the shares of the Subsidiary by Peasedow Enterprises Limited, the immediate and ultimate holding company of the Company which is also the major shareholder of the Company.

The group restructuring has not completed as at the date of this report, while the Distribution and Cash Offer are subject to independent shareholder's approval in a special general meeting of the Company.

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 2011 (2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Review of results

The Group's revenue for six months ended 30 September 2011 increased by 17.0% to HK$363.6 million from HK$310.8 million for the same period in 2010. The gross margin also increased from 26.2% to 29.7%.

Total revenue of interior decoration work increased by 5.4% to HK$111.4 million compared to corresponding period of last year. Furniture sales increased by 23.0% to HK$252.3 million compared to same period of the previous year. Sales of furniture to the United States and Europe increased by 22.2% to HK$144.6 million compared to the same period of the previous year. Sales to China also increased slightly by 4.9% to HK$139.2 million compared to corresponding period of last year. Sales to Hong Kong and Macau increased substantially by 51.2% to HK$75.4 million compared to same period in 2010.

The Group's top five customers for the period ended 30 September 2011 were LVMH Group accounted for HK$112.2 million in revenue which represented 30.8% of the Group's 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 Imperial Woodworking Company - 4.6% of revenue, Richemont Commercial/Asia Pacific Limited - 4.4% of revenue, Apple Group - 3.1% of revenue and Latham & Watkins LLP - 2.9% of revenue.

Projects currently in progress include furniture supply contracts for Four Seasons Hotel - St. Petersburg of Russia, Sheraton Hotel - Guangzhou, interior fitting out contracts in connection with several Louis Vuitton stores in Hangzhou, Nanjing and Xian - China and interior fitting out contract for an office at Causeway Bay - 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 2011, the total bank borrowings amount to HK$70.6 million (31 March 2011: HK$86.2 million), out of which HK$68.2 million (31 March 2011: HK$82.1 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$373.4 million (31 March 2011: HK$352.4 million), such borrowing level is acceptable. Finance costs were maintained at an acceptable level of HK$1.5 million (2010: HK$2.1 million) representing 0.42% (2010: 0.69%) of the Group's revenue. Net current assets stood at HK$85.0 million (31 March 2011: HK$58.6 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 2011, the gearing ratio (total borrowings divided by net assets was 0.19 (31 March 2011: 0.24). 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 2011, buildings, plant and machinery and furniture, fixtures and office equipment of the Group with carrying values of approximately HK$27.5 million, HK$1.6 million and HK$2.1 million (31 March 2011: HK$26.7 million, HK$8.6 million and HK$3.8 million) respectively were pledged with banks to secure the loans granted to the Group.

Employees

As at 30 September 2011, the Group employed 126, 1466, 3, 26, 136, and 11 staff in Hong Kong, Mainland China, Singapore, USA, Thailand, Europe respectively (31 March 2011: 127, 1502, 3, 30, 151 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.

Event after the end of the interim period

The group restructuring mentioned in note 10 above has not completed while the Distribution and Cash Offer are subject to independent shareholder's approval in a special general meeting of the Company.

Outlook

The Group experienced a return to profitability in the first half of 2011/2012. This was the result of a number of factors such as continued reduction in administrative expenses, increased revenue and, most importantly, increased gross margin. The increased revenue occurred primarily in the Projects Division and the Group's Asia Showrooms. While the increase in the gross margin was due to better anticipation of labour increases in the Group's primary manufacturing plant in China.

The Group entered the second half of this fiscal year with orders on hand of approximately HK$323 million at 30 September 2011, which are up by approximately 15% from the orders on hand at the start of this fiscal year. A large portion of these orders on hand is in the Projects Division, some of which will not be completed before the end of the year on 31 March 2012. Having said that, we expect sales for the full year to shows a healthy increase from 2010/2011 full year's sales.

The recent uncertainties in the European markets continue to affect the availability of financing worldwide, particularly in the hospitality sector. For this reason, the Group does not expect its hospitality sales to recover until 2013 at the earliest. The Group will continue to emphasize its retail fixture business and retail projects in its Projects Division both in China and Asia. Executive office furniture sales have grown and should continue to grow in China and other parts of Asia as more foreign company's establish offices in the region.

The Group will continue to closely monitor its liquidity and cash flow. Bank Balances and Cash dropped slighty over the first half of the year but continues to cover all Bank Borrowings 1.56 times up from coverage of 1.32 times at the last year-end. EBITDA for the first half of 2011/2012 was more than 35 million compared to $10 million for the same period last year and compared favourably to the $41.3 million of cash flow for the entire previous fiscal year. As revenue and margins increase, overall liquidity will return to pre-2006/2007 levels.

For the coming six months, revenue in China and Asia will continue to grow. The Group has demonstrated its ability to re-focus its efforts on these markets away from the United States and Europe markets. Again, the Group's business plan that emphasizes multiple products sold in multiple geographical markets has served it well.

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 2011.

CORPORATE GOVERNANCE

During the six months ended 30 September 2011, 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 2011.

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 2011.

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, 28 November 2011

As at the date of this announcement, the board of directors of the Company comprises 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 as executive directors and Mr. Chu Kwok Man, Mr. Cheng Woon Kam and Mr. Pak Wai Tun, Wallace as independent non-executive directors.

** For identification purpose only*