

Chairman's Statement to Shareholders



Chairman Mr. Ma Bo Kee

I am pleased to present to the shareholders the annual report of Moulin International Holdings Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 March 2001.

Results

The Group's consolidated turnover and net profit attributable to shareholders for the year ended 31 March 2001 were HK\$888 million and HK\$201 million respectively. The decrease in turnover was mainly due to the sunglasses sales drop in the fourth financial quarter, which was resulted by the cautious approach taken by some of the ODM customers in view of the sudden slump of the U.S. economy. Nonetheless, the Group perceives this adverse effect as temporary, more importantly, the Group's main line of business is still manufacturing and distribution of ophthalmic frames, which is comparatively less vulnerable to the short-term fluctuation.

In addition, after the merger of the Group's distribution subsidiary in Germany with Metzler Optik Partner AG ("Metzler"), the turnover in the merged entity which was then an associated company, was not consolidated into the Group accounts. Nonetheless, it is the Group's intention to increase its shareholding of the merged entity at a later stage, which would then reflect the relevant financial performance in the Group accounts.

The Group has experienced a challenging year with the second half-year performance adversely affected by the stagnation of U.S. market. In view of this, the Group has taken a prudent approach to make sufficient provision in particular for the unshipped orders of sunglasses products, parts and components that was mentioned above. In addition, following the Group's greater involvement in the direct distribution business, it has made more appropriate provision for the slow moving inventory. Both factors have resulted in lowering the Group's gross margin.

Final Dividend

The directors proposed to pay a final dividend of HK1.0 cent (2000: HK2.6 cents) per share for the year ended 31 March, 2001 to shareholders whose names appear on the register of members of the Company on 22 August, 2001.

Together with the interim dividend of HK2.4 cents (2000: HK2.2 cents) per share which had already been paid, the total dividend payment for the year amounted to HK3.4 cents (2000: HK4.8 cents) per share.

It is expected that cheques for payment of the final dividend will be despatched to those entitled on or before 5 October, 2001.

Closure of Register of Members

The register of members of the Company will be closed from 16 August, 2001 to 22 August, 2001, both days inclusive, during which period, no transfer of shares will be registered.

In order to qualify for the final dividend above mentioned, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars, Central Registration Hong Kong Limited at Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00p.m. on 15 August, 2001.

Business Review

Manufacturing

The manufacturing module of the Enterprise Resources Planning (ERP) system has been in full operation since February 2001. It helps to improve the control of the inventory level, save cost and shorten delivery lead-time. Moreover, the implementation of the ERP system is in line with the Group's strategies of Just-in-Time production management, supply chain network for its global distribution expansion.

The Group has continuously applied advanced technologies in manufacturing products of premium quality and innovative design. Thanks to the successful technical know-how transfer from the Group's business partner Nikon Eyewear Company as well as Metzler, the Group is able to manufacture frames with more precise engineering and superior quality. In April, 2001, the Group has passed the ISO 9001 accreditation annual assessment with remarkable audit results.

The production capacity of the Group has increased to 14 million pairs, which comes from mainly the high-technology-oriented product categories, such as titanium frames and injection-moulded frames. Sales turnover of titanium frames has been doubled and contributed significantly to the Group's earnings. The upgrading of the injection-moulded frames production line shall be in full operation in the next financial year. It will contribute to the Group's ODM business by attracting production orders of fashionable and sports eyewear.

Distribution

The Group has put great effort in building up a global distribution network. Turnover in this sector has increased encouragingly due to the well performance of the Group's brand portfolio and its consolidated distribution network.

Europe

After establishing the strategic alliance with Metzler in August 2000, the Group's distribution network has expanded to eight countries in Europe, namely, Germany, United Kingdom, Belgium, Switzerland, Austria, the Netherlands, Slovakia and the Czech Republic. The Group's high quality with mid-priced products are especially well-received in these markets. The integration between the Group and Metzler has been going on smoothly in different areas like product procurement, production and information technology etc, and is going to benefit the business efficiency of Metzler gradually.

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United States

Despite the volatile U.S. economy, the distribution centre of the Group in the United States continues to provide direct services to more optician customers effectively. The business with various big optical chains is particularly well-performed.

Following the sale of certain unrelated assets, the company has been properly recapitalised and is undergoing a restructure exercise with an aim to become one of the significant distribution companies in the U.S.

Far East

Turnover in the Far East region has been growing steadily, and the Group still maintains its position as the top optical players in the region. While performance of the distribution offices vary amongst different countries due to the different economic situations in the respective areas, the Group has adopted flexible sales and marketing strategies to cope with different situations in order to achieve the best results. The next progressive step the Group is going to take is to integrate its distribution networks in the Far East, Europe and the U.S. in order to leverage the brand portfolio and the Group's distribution strength in the respective areas.

The Chinese Mainland

In spite of the keen competition in the Chinese mainland, the Group's leadership position in the region has not been threatened. The sales of low-end proprietary brands has recorded a steady increase. However, the management would expect to take a few more years to achieve more significant sales of higher priced products when the general market is more brand conscious and fashion-oriented.

Retailing

America's Eyes, the Group's optical retail chain in Shanghai, the PRC, has achieved an increase in sales, despite that the competition in the market is severe. The Group will continue to utilize the chain's competent management team, well-received eyecare professional image and wide customer database for the optimum development of the business in the near future.

Prospects and Outlook

Global Expansion

The Group has expanded its business to the global marketplace. Various strategic alliances with prestigious distribution companies in the United States and Europe have materialized the Group's globalization strategy. In the medium to long-run, the Group will continue to pursue this strategy in order to maximize its market share and increase its presence in the international arena.

Manufacturing — Distribution Integration

The Group has taken proactive steps to integrate its manufacturing strengths with its distribution function to form a supply chain network. This is facilitated with an aim to capture the next level of profit margin by directly marketing the products to its own worldwide distribution network.

The Group's research and marketing team's effort in China, Hong Kong, Europe and North America have helped the company to define an integrated manufacturing-distributor business model capable of achieving long-term growth and dominance in the mid-priced frame market. The foundation of the manufacturing — distribution business model is structured to apply the internet technology to centralize information management and streamline business processes among the Group's geographically distributed business units and major partners.

The application of advanced information technologies is indispensable to the successful achievement of globalization and manufacturing — distribution integration. The Group will continue to invest in enhancing the technology advancement, giving the impetus to further growth.

Ma Bo Kee
Chairman