REVIEW AND PROSPECTS

BUSINESS REVIEW

Global Manufacturing-Distribution Integration

During the year under review, the Group continued to aggressively carry out its downstream expansion strategies and achieved major breakthroughs in this respect. The distribution business has emerged to be the key revenue driver, accounting for 63% of the Group's total turnover, as compared with 38% in the previous year. Turnover from this business segment reached HK$706 million, increasing substantially by 111% as compared to last year. Gross profit contribution from the distribution business accounted for 69% of the Group's total gross profit, fully demonstrating the Group's far-sighted vision to carry out its downstream expansion strategies to capture higher margins.

Subsequent to the integration of various acquisitions during the year, the general blueprint for Moulin's global manufacturing and distribution structure, backed by a comprehensive supply chain network, has fallen into place. Emerging among the world's leading eyewear manufacturing distributors, the Group has established a strong foothold in over 70 countries through 16 subsidiaries and more than 50 well-established distributors around the world. Without taking the distributors' network into consideration, the Group's distribution subsidiaries network employs more than 300 sales representatives, selling directly products with over 20 internationally renowned licensed brands and 10 of the Group's own brands to about 40,000 optical shops worldwide. The entire distribution sector has a number of approximately 560 employees, around 400 of these are working in the overseas subsidiaries.

Production capacity further increased to 15 million frames annually, ranking third in the world's eyewear manufacturing industry, with over 3,300 workers in the PRC, Italy and Czech production facilities. Leveraging its innovative design and product management teams' capability in Italy, Germany, the U.S., Japan, Hong Kong and the PRC as well as its advanced production facilities, the Group manufactures a number of international fashion brands with premium quality and sophisticated design and engineering.

Europe

During the year under review, the Group has completed a couple of significant investments in Europe. In October 2001, the Group acquired Italy's fifth largest distributor, Filos S.p.A. ("Filos"). Soon after that, Metzler International AG ("MIAG") was set up to merge together the business of Filos and its current European subsidiaries. Following this, the Group has been taking further steps to inject all of its U.S. and Asian distribution businesses (except the PRC) into MIAG, in order to create the critical mass needed for an international network. Presently the Group is shipping product directly to and providing direct customer services to over 40,000 opticians all over the world. At the same time, the Group's licensed brand portfolio was further enriched with the inclusion of more internationally renowned brands. To name a few, they are United Colors of Benetton, Sisley, Aigner, Longines, Vivienne Westwood, Krizia, Revlon, Kappa, Metzler and Red Rose.

Revenue generated from the European distribution segment during the year under review has increased 7-fold when compared with last financial year. This significant growth has proved the Group's success in its business transformation endeavors.

With the completion of the mergers and acquisitions, the extension of distribution network and the enrichment of brands portfolio, more marketing, sales and administrative expenditure such as sales commission, royalty payment, trade promotional, logistics and customer services expenses were incurred during the year.

BUSINESS REVIEW *(continued)*

Global Manufacturing-Distribution Integration *(continued)*

United States

Turnover generated from the U.S. distribution market has increased 22% when compared to the corresponding figures from last year, despite the economy was generally volatile there.

Since April 2001, the U.S. distribution subsidiary has become a wholly owned subsidiary of the Group. Backed by an experienced sales and marketing team and an efficient logistics system, the U.S. operation provides direct services to 8,000 optician customers. Therefore, it is expected that the good fundamentals established will develop to its full contributions when the economy recovers.

In addition, the U.S. distribution subsidiary has successfully reached an agreement with Nikon Eyewear Company for the distribution of “Nikon” eyewear in the country. The Group now possesses such distribution right for Hong Kong, the PRC and the U.S. market.

Asia Pacific

Gone were the days that were endowed with favorable business climate and strong consumer confidence. Nevertheless, the Group’s business in the region has remained stable.

During the year, the Group was eager to explore business opportunities in Japan in view of the mid-market potential. Collections under brands such as Revlon, Paloma Picasso, Jackie Chan EyeGear and Krizia were well-tailored made for this market. Additionally, the launch of Jackie Chan EyeGear collection, which signifies the Group’s high-technology level and design capability, attracts public awareness and helps the Group’s penetration in the market. Japanese market will soon be the most important revenue driver in the Asian-Pacific regions.

The PRC Business Restructure

Manufacturing-Distribution-Retailing Integration

America’s Eyes, the Group’s optical retail chain in the PRC, has performed satisfactorily during the year under review. The performance in the first six months of the calendar year 2002 showed a strong growth of 34% when compared with the same period in the year 2001. This explains why the turnover and operating profit generated from the retail sector for the full year has been able to keep up the trend with the previous year, despite the disturbance brought by the restructuring programme during the last two quarters of the calendar year 2001. It is anticipated that the favorable economic atmosphere in Shanghai would further support future growth for the Group’s retailing business.

The synergy effect brought by the various acquisitions with the European distribution companies to the Group’s business venture in the PRC is especially apparent in the area of the enriched brand portfolio. The Group is presently manufacturing, distributing and retailing more than 10 renowned licensed brands in the country, to name a few, they are S.T. Dupont, Nikon, Longines, Aigner and Metzler. With the completion of the integration of the three sectors of business, business efficiencies will be enhanced, and the Group will soon be able to capture every level of profit margin of the value chain.

BUSINESS REVIEW *(continued)*

The PRC Business Restructure *(continued)*

Manufacturing-Distribution-Retailing Integration (continued)

Since the approval from the relevant authorities in the PRC for the setting up of a sino-foreign joint stock company has been obtained, an independent board of directors has been duly formed to take up the supervisory role of the integrated line of business. The board of directors also consist of the new shareholders of the joint stock company, they are Shanghai Zhongan Trade Development Co. Ltd (Jingan District of the Shanghai municipal government, as one of the major shareholders) and Chaoyang Tai Chang Li Investment Co. Ltd (the partner of the Group's manufacturing joint ventures in the PRC). The Group believes that with such new business and shareholding structures, the Group's position in the PRC market will be strengthened and be able to achieve further growth.

ODM/OEM Business

As the distribution business becomes the new growth driver, and the Group has allocated most of its resources into such sector, contribution from the ODM/OEM business reduced as planned, accounting for only 30% of the Group's turnover, as compared to 54% in the previous year. Profit margin was maintained at above 40% despite the severe competition.

PROSPECTS & OUTLOOK

Consolidation to create synergies

Looking ahead, the Group shall continue to capitalize on its vertical integration strategy to achieve real competitive differentiation, growth and profitability. Progressing on the Group's well defined roadmap, the Group shall facilitate the growth of its manufacturing distribution business to account for 70% of the Group's turnover over the next two years, while the remaining 30% will come from the restructured PRC business and the ODM/OEM business.

Following the set up of MIAG in Germany for the consolidation of the Group's worldwide distribution businesses (except the PRC), there are plans to acquire further interests to achieve absolute majority in a couple of comparatively smaller subsidiaries in Europe, as well as distributors in other countries.

Acquisitions and investments are only the first steps towards the long term goal, and management is now working diligently across all subsidiaries in the world to link up the fundamentals. These have to be performed in conjunction with a thorough reorganization and re-focusing of the extended Group. The Group shall therefore work on combining different companies to create a single, highly organized business unit with a clear understanding of the new "fusion benefits" and a focused strategy to apply these benefits in order to achieve long-term growth and profitability.

By utilizing the ERP system and web platform, the Group has successfully controlled production lead-time, gained competitive advantage via reduction of cost of goods sold by controlling the production/inventory level, extending the Group's role along the value supply chains, and capitalizing on the PRC low cost manufacturing. Building on the achievements, the Group will advance to increase its market share in the mid-market distribution segment in order to achieve market dominance, secured and long-term profitable positioning.

PROSPECTS & OUTLOOK *(continued)*

Restructuring the PRC business to enhance efficiencies

In the coming years, the Group shall capitalize on the goodwill established in the retail chain to further expand the business in other prominent areas in the country.

The sales channel for the Group's products in the marketplace shall be expanded when the Group's retail franchising program inaugurates by early 2003. The new joint stock company shall serve as the business platform for exploring further business opportunities for the Group's PRC endeavors. The anticipated boom of the PRC economy has created a favorable operating environment for the Group's ventures in the country.

CONCLUSION

In the coming year, Moulin will be concentrating its energies on implementing the above-mentioned plans, consolidating existing operations to fit seamlessly into its vertically integrated business model – leveraging its strengths in manufacturing with its widespread distribution network and its retail capabilities, to form a comprehensive supply chain network on a global scale.