Moulin International Holdings Limited

Vision Beyond Boundaries

Interim Report 2003

INTERIM RESULTS

The directors are pleased to announce the unaudited condensed consolidated interim results of Moulin International Holdings Limited (the "Company") and its subsidiaries (the "Group") for the six months ended 30 June 2003.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

Six months ended 30 June 2003

	Notes	Six months ended 30 June 2003 (Unaudited) *HK$'000*	30 September 2002 (Unaudited and restated) *HK$'000*
TURNOVER	*3*	603,048	616,250
Cost of sales		(264,194)	(260,507)
Gross profit		338,854	355,743
Other revenue	*4*	21,450	19,003
Selling and distribution costs		(89,610)	(97,954)
Administrative expenses		(117,101)	(128,966)
Other operating expenses, net		(34,190)	(34,633)
Restructuring costs	*5*	—	(10,179)
PROFIT FROM OPERATING ACTIVITIES	*6*	119,403	103,014
Finance costs	*7*	(25,018)	(28,210)
PROFIT BEFORE TAX		94,385	74,804
Tax	*8*	(12,913)	(11,600)
PROFIT BEFORE MINORITY INTERESTS		81,472	63,204
Minority interests		1,651	5,339
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		83,123	68,543
INTERIM DIVIDEND	*9*	31,164	22,569
EARNINGS PER SHARE	*10*		
Basic		20.17 cents	17.01 cents
Diluted		20.15 cents	16.99 cents

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2003

	Notes	30 June 2003 (Unaudited) *HK$'000*	31 December 2002 (Audited and restated) *HK$'000*
NON-CURRENT ASSETS			
Fixed assets		832,764	782,411
Intangible assets		16,679	15,331
Goodwill		197,192	163,812
Long term investments		3,650	3,755
Promissory notes		33,606	20,662
Staff loans		6,814	6,814
Prepayments for frame board space		33,225	39,987
		1,123,930	1,032,772
CURRENT ASSETS			
Inventories		406,421	393,752
Trade and other receivables	*11*	1,123,576	1,162,417
Tax recoverable		275	4,503
Short term investments		1,656	37,157
Cash and cash equivalents	*12*	340,566	349,806
		1,872,494	1,947,635
CURRENT LIABILITIES			
Trade and other payables and accruals	*13*	268,910	260,901
Tax payable		22,551	16,777
Interest-bearing bank borrowings		332,786	500,280
Current portion of finance lease and hire purchase contract payables		12,164	14,461
Convertible notes		—	15,600
Dividend payable		17,681	22,569
		654,092	830,588
NET CURRENT ASSETS		1,218,402	1,117,047
TOTAL ASSETS LESS CURRENT LIABILITIES		2,342,332	2,149,819
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		652,414	650,331
Long term portion of finance lease and hire purchase contract payables		8,853	13,933
Provisions		20,114	19,073
Deferred tax		6,648	5,683
		688,029	689,020
MINORITY INTERESTS		17,719	12,716
		1,636,584	1,448,083
CAPITAL AND RESERVES			
Issued capital	*14*	220,897	200,884
Reserves		1,384,523	1,229,526
Proposed dividend		31,164	17,673
		1,636,584	1,448,083

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2003

	Notes	Issued share capital (Unaudited) *HK$'000*	Share premium account (Unaudited) *HK$'000*	Property revaluation reserve (Unaudited) *HK$'000*	Exchange fluctuation reserve (Unaudited) *HK$'000*	Retained profits (Unaudited) *HK$'000*	Proposed dividend (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
At 1 April 2002:								
As previously reported		200,665	163,778	33,566	(1,801)	996,709	30,100	1,423,017
Prior year adjustment #: SSAP 12 "Income taxes"	2	—	—	(5,370)	—	7,343	—	1,973
As restated		200,665	163,778	28,196	(1,801)	1,004,052	30,100	1,424,990
Exchange realignment and net gains and losses not recognised in the profit and loss account		—	—	—	(22,642)	—	—	(22,642)
Repurchase and cancellation of own shares		(466)	(2,250)	—	—	—	—	(2,716)
Share options exercised		1,309	6,809	—	—	—	—	8,118
Net profit for the period		—	—	—	—	68,543	—	68,543
Final dividend approved for the year ended 31 March 2002		—	—	—	—	—	(30,100)	(30,100)
Interim dividend for the six months ended 30 September 2002	9	—	—	—	—	(22,569)	22,569	—
At 30 September 2002		201,508	168,337	28,196	(24,443)	1,050,026	22,569	1,446,193
At 1 January 2003:								
As previously reported		200,884	165,747	33,566	(29,082)	1,057,596	17,673	1,446,384
Prior year adjustment #: SSAP 12 "Income taxes"	2	—	—	(5,370)	—	7,069	—	1,699
As restated		200,884	165,747	28,196	(29,082)	1,064,665	17,673	1,448,083
Exchange realignment and net gains and losses not recognised in the profit and loss account		—	—	—	(13,296)	—	—	(13,296)
Repurchase and cancellation of own shares	14	(58)	(240)	—	—	—	—	(298)
Issue of shares	14	20,000	120,000	—	—	—	—	140,000
Share issue expenses	14	—	(3,795)	—	—	—	—	(3,795)
Share options exercised	14	71	369	—	—	—	—	440
Net profit for the period		—	—	—	—	83,123	—	83,123
Final dividend approved for the period ended 31 December 2002		—	—	—	—	—	(17,673)	(17,673)
Proposed interim dividend for the six months ended 30 June 2003	9	—	—	—	—	(31,164)	31,164	—
At 30 June 2003		220,897	282,081*	28,196*	(42,378)*	1,116,624*	31,164	1,636,584
Reserves retained by:								
Company and subsidiaries at 30 June 2003		220,897	282,081	28,196	(42,378)	1,116,624	31,164	1,636,584
Company and subsidiaries at 30 September 2002		201,508	168,337	28,196	(24,443)	1,050,026	22,569	1,446,193

\# The prior year adjustment represented change in accounting policies with respect to deferred tax as detailed in note 2 to the condensed consolidated financial statements.

* These reserve accounts comprise the consolidated reserves of HK$1,384,523,000 in the condensed consolidated balance sheet as at 30 June 2003.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June 2003

	Six months ended 30 June 2003 (Unaudited) *HK$'000*	Six months ended 30 September 2002 (Unaudited) *HK$'000*
Net cash inflow from operating activities	121,336	46,750
Net cash outflow from investing activities	(29,915)	(40,496)
Net cash outflow from financing activities	(88,777)	(52,716)
Increase/(decrease) in cash and cash equivalents	2,644	(46,462)
Cash and cash equivalents at beginning of period	241,133	278,483
Effect of foreign exchange rate changes, net	(8,761)	10,249
Cash and cash equivalents at end of period	235,016	242,270
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	61,091	62,391
Non-pledged time deposits with original maturity of less than three months when acquired	279,475	295,361
	340,566	357,752
Bank overdrafts	(105,550)	(115,482)
	235,016	242,270

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2003

1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") and the Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

During 2002, the Group changed its financial accounting year end date from 31 March to 31 December, with the first financial period after the change being from 1 April 2002 to 31 December 2002. As part of the Group's globalisation plan, this change enhances financial reporting harmonisation with the Group's European subsidiaries and its joint stock company in the People's Republic of China (the "PRC"), and the Group as a whole is now more comparable to its major global competitors. As a result of this change in the financial year end date, the condensed consolidated financial statements for the current 6 month period cover a period from 1 January 2003 to 30 June 2003, while the comparative amounts for the condensed consolidated profit and loss account, statement of changes in equity, cash flow statement and related notes cover the 6 month period from 1 April 2002 to 30 September 2002.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements are the same as those used in the Group's audited financial statements for the period from 1 April 2002 to 31 December 2002, except for the revised SSAP 12, "Income Taxes", which has been adopted for the first time in the preparation of the current period's condensed consolidated financial statements.

SSAP 12 prescribes the basis for accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax). The principal impact of the revision of this SSAP on these condensed consolidated financial statements is that deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future. In addition, a deferred tax liability has been recognised on the revaluation of the Group's land and buildings. In the absence of any specific transitional requirements in the revised SSAP 12, the new accounting policy has been applied retrospectively.

This change in accounting policy has resulted in prior period adjustments with a decrease in the Group's property revaluation reserve as at 1 January 2003 and 1 April 2002 by HK$5,370,000 and an increase in the consolidated retained profits as at 1 January 2003 and 1 April 2002 by HK$7,069,000 and HK$7,343,000, respectively. This change has resulted in a decrease in the Group's deferred tax liabilities as at 31 December 2002 and 31 March 2002 by HK$1,699,000 and HK$1,973,000, respectively. In addition, the previously reported net profit from ordinary activities attributable to shareholders for the period ended 30 September 2002 has been restated by a reduction of HK$1,569,000 with the provision of deferred tax for that period.

3. TURNOVER AND SEGMENT INFORMATION

Segment information is presented by way of geographical segment. No business segment analysis of the Group's revenues and results is presented as all the Group's revenues and results are generated from vertically integrated activities which include the design, manufacture, distribution and retailing of optical products.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers.

Geographical segments

The following table presents revenue and results for the Group's geographical segments.

Group

	North America Six months ended		The People's Republic of China ("PRC") Six months ended		Asia Pacific (including Hong Kong) Six months ended		Europe Six months ended		Corporate Six months ended		Others Six months ended		Total Six months ended	
	30 June 2003 (Unaudited)	30 September 2002 (Unaudited)	30 June 2003 (Unaudited)	30 September 2002 (Unaudited)	30 June 2003 (Unaudited)	30 September 2002 (Unaudited)	30 June 2003 (Unaudited)	30 September 2002 (Unaudited)	30 June 2003 (Unaudited)	30 September 2002 (Unaudited)	30 June 2003 (Unaudited)	30 September 2002 (Unaudited)	30 June 2003 (Unaudited)	30 September 2002 (Unaudited and restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:														
Sales to external customers	136,789	142,107	138,978	123,916	60,644	58,242	265,736	290,797	–	–	901	1,188	603,048	616,250
Other revenue	691	1,606	1,017	1,287	972	437	25	7,076	858	1,758	–	–	3,563	12,164
Total	137,480	143,713	139,995	125,203	61,616	58,679	265,761	297,873	858	1,758	901	1,188	606,611	628,414
Segment results	25,165	24,197	46,708	48,315	13,991	15,612	14,275	6,593	476	839	901	619	101,516	96,175
Interest income													17,887	6,839
Profit from operating activities													119,403	103,014
Finance costs													(25,018)	(28,210)
Profit before tax													94,385	74,804
Tax													(12,913)	(11,600)
Profit before minority interests													81,472	63,204
Minority interests													1,651	5,339
Net profit from ordinary activities attributable to shareholders													83,123	68,543

4. OTHER REVENUE

An analysis of other revenue is as follows:

	Six months ended 30 June 2003 (Unaudited) *HK$'000*	Six months ended 30 September 2002 (Unaudited) *HK$'000*
Interest income	17,887	6,839
Rental income	—	321
Subcontracting income	401	2,089
Management fee income	310	716
Others	2,852	9,038
	21,450	19,003

5. RESTRUCTURING COSTS

Last period's restructuring costs, comprising compensation for dismissal of workers and staff, removal costs and restructuring advisory fee, were incurred for the restructuring of the Group's distribution business in Europe and the North America.

6. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30 June 2003 (Unaudited) *HK$'000*	Six months ended 30 September 2002 (Unaudited) *HK$'000*
Cost of inventories sold	264,194	260,507
Amortisation of intangible assets	2,049	1,703
Amortisation of goodwill	5,032	7,673
Depreciation	36,337	33,392
Loss on disposal of intangible assets	—	224
Gain on realisation of short term investments	—	(2)
Loss/(gain) on disposal fixed assets	10	(75)

7. FINANCE COSTS

	Six months ended 30 June 2003 (Unaudited) HK$'000	Six months ended 30 September 2002 (Unaudited) HK$'000
Interest on bank loans and overdrafts	21,663	26,733
Interest on finance leases and hire purchase contracts	498	516
Interest on convertible notes	257	791
Total interest	22,418	28,040
Bank charges	2,600	170
	25,018	28,210

8. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (six months ended 30 September 2002: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Six months ended 30 June 2003 (Unaudited) HK$'000	Six months ended 30 September 2002 (Unaudited and restated) HK$'000
Current tax:		
Hong Kong	11,640	8,189
Elsewhere	308	1,842
Deferred tax	965	1,569
Tax charge for the period	12,913	11,600

The adoption of the revised SSAP 12 "Income Taxes" has resulted in the comparative amount in respect of tax being restated by an increase of HK$1,569,000 as detailed in note 2 to the condensed consolidated financial statements.

9. INTERIM DIVIDEND

	Six months ended 30 June 2003 (Unaudited) *HK$'000*	Six months ended 30 September 2002 (Unaudited) *HK$'000*
Interim — HK7.0 cents per ordinary share (six months ended 30 September 2002: HK5.6 cents)	31,164	22,569

The current interim dividend declared after the interim period is calculated on the number of shares issued at the date of this report. The balance has not been recognised as a liability at the interim period end date.

10. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on:

Earnings

	Six months ended 30 June 2003 (Unaudited) *HK$'000*	Six months ended 30 September 2002 (Unaudited and restated) *HK$'000*
Net profit attributable to shareholders, used in the basic and diluted earnings per share calculations	83,123	68,543

Shares

	Six months ended 30 June 2003 (Unaudited)	Six months ended 30 September 2002 (Unaudited)
Weighted average number of ordinary shares in issue during the period used in basic earnings per share calculation	412,049,926	402,862,211
Weighted average number of ordinary shares in issued at no consideration on deemed exercise of all share option during the period	438,681	637,412
Weighted average number of ordinary shares used in diluted earnings per share calculation	412,488,607	403,499,623

11. TRADE AND OTHER RECEIVABLES

	Note	30 June 2003 (Unaudited) *HK$'000*	31 December 2002 (Audited) *HK$'000*
Trade debtors and bills receivable	*(a)*	507,278	488,180
Other debtors and prepayments		345,131	373,540
Promissory notes		22,191	42,818
Staff loans		1,410	1,410
Due from a PRC subcontractor		197,008	213,797
Prepayments for frame board space		13,524	13,524
Due from the ultimate holding company		37,034	29,148
		1,123,576	1,162,417

Note:

(a) The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period from 60 to 90 days, but is 120 days for major customers, and each customer has a maximum credit limit. An aged analysis of the trade debtors and bills receivable as at the balance sheet date, based on the invoice date, is as follows:

	30 June 2003 (Unaudited) *HK$'000*	31 December 2002 (Audited) *HK$'000*
Current	164,833	164,367
1 to 3 months	138,289	121,864
4 to 6 months	131,822	141,757
7 to 12 months	69,010	70,189
Over 12 months	45,689	43,434
	549,643	541,611
Provision for doubtful debts	(42,365)	(53,431)
	507,278	488,180

12. CASH AND CASH EQUIVALENTS

	30 June 2003 (Unaudited) *HK$'000*	31 December 2002 (Audited) *HK$'000*
Cash and bank balances	61,091	122,637
Time deposits	279,475	227,169
	340,566	349,806

13. TRADE AND OTHER PAYABLES AND ACCRUALS

Included in trade and other payables and accruals are trade creditors and bills payable of HK$178,507,000 (31 December 2002: HK$177,272,000). An aged analysis of the trade creditors and bills payable as at the balance sheet date, based on the payment due date, is as follows:

	30 June 2003 (Unaudited) *HK$'000*	31 December 2002 (Audited) *HK$'000*
Current	72,748	74,050
1 to 3 months overdue	50,579	48,247
Over 3 months	55,180	54,975
	178,507	177,272

14. SHARE CAPITAL

	30 June 2003 (Unaudited) *HK$'000*	31 December 2002 (Audited) *HK$'000*
Authorised:		
1,200,000,000 ordinary shares of HK$0.50 each	600,000	600,000
Issued and fully paid:		
441,793,562 (31 December 2002: 401,767,562) ordinary shares of HK$0.50 each	220,897	200,884

14. SHARE CAPITAL *(continued)*

During the period, the movements in share capital were as follows:

(a) The Company repurchased 116,000 shares of HK$0.50 each through the Stock Exchange on 31 December 2002 but such shares were not cancelled until January 2003.

(b) On 14 May 2003, through a placement, 40,000,000 existing ordinary shares of the Company held by KFL Holdings Limited ("KFL"), the substantial shareholder of the Company, were placed to independent placees at HK$3.50 per share. On the same date, KFL subscribed for 40,000,000 new ordinary shares of the Company at a subscription price of HK$3.50 per share for a total cash consideration, before expenses, of HK$140,000,000. On 27 May 2003, the Company issued 40,000,000 new ordinary shares to KFL upon completion of the subscription.

(c) The subscription rights attaching to 710,000 share options, of which every five share options shall be subscribed for one consolidated share*, were exercised at an adjusted subscription price of HK$3.10 per share, resulting in the issue of 142,000 shares of HK$0.50 each for a total cash consideration, before expenses, of HK$440,200.

* *Pursuant to a special resolution passed on 6 September 2002, every five issued and unissued shares of HK$0.10 each in the capital of the Company were consolidated into one ordinary share of HK$0.50 each in the Company.*

A summary of the transactions during the period with reference to the above movements of the Company's ordinary share capital is as follows:

	Notes	**Number of shares in issue**	**Issued share capital** *HK$'000*	**Share premium account** *HK$'000*	**Total** *HK$'000*
At 1 January 2003		401,767,562	200,884	165,747	366,631
Repurchase and cancellation of own shares	*(a)*	(116,000)	(58)	(240)	(298)
Issue of shares	*(b)*	40,000,000	20,000	120,000	140,000
Share options exercised	*(c)*	142,000	71	369	440
		441,793,562	220,897	285,876	506,773
Share issue expenses		—	—	(3,795)	(3,795)
At 30 June 2003		441,793,562	220,897	282,081	502,978

15. RELATED PARTY TRANSACTIONS

The Group did not have any material transactions with related parties during the period.

16. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	30 June 2003 (Unaudited) *HK$'000*	31 December 2002 (Audited) *HK$'000*
Bank guarantees given in lieu of deposits for licensing arrangement	14,479	13,283

17. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties, office equipment and motor vehicles under operating lease arrangements. Leases for properties are negotiated for terms up to five years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2003 (Unaudited) *HK$'000*	31 December 2002 (Audited) *HK$'000*
Within one year	12,364	20,495
In the second to fifth years, inclusive	23,760	31,006
After five years	16,230	14,415
	52,354	65,916

18. COMMITMENTS

In addition to the operating lease commitments detailed in note 17 above, the Group had the following commitments at the balance sheet date:

	30 June 2003 (Unaudited) *HK$'000*	31 December 2002 (Audited) *HK$'000*
(a) Capital commitments		
Capital contribution to a subsidiary in the form of a joint stock company in the PRC (RMB21,000,000)	19,444	19,444
Authorised, but not contracted for, in respect of the purchase of land use rights in the PRC (RMB15,000,000)	13,889	13,889
Authorised, but not contracted for, in respect of the purchase of machinery	—	528
	33,333	33,861
(b) Other commitments		
Commitments contracted with banks in connection with bank loans waived in prior year	22,752	20,873

The aforesaid commitments will be realised to the extent of 20% of the profit of certain overseas subsidiaries should these subsidiaries commence to make profits in the future.

19. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP during the current period, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been restated to conform with the current period's presentation.

20. APPROVAL OF THE FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 24 September 2003.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK7.0 cents (six months ended 30 September 2002: HK5.6 cents) per share for the period ended 30 June 2003, payable to shareholders whose names appear in the register of members of the Company on 17 October 2003.

Cheques for payment of the interim dividends are expected to be dispatched to those entitled on or before 8 December 2003.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 20 October 2003 to 24 October 2003 both days inclusive, during which period, no transfer of shares will be registered.

In order to qualify for the interim dividend above mentioned, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrars, Computershare Hong Kong Investor Services Limited at Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 17 October 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group's consolidated turnover was HK$603 million for the interim period ended 30 June 2003, a slight decrease of approximately 2% when compared with the last reporting period (April — September 2002). The minor reduction in turnover was attributed to the reorganization of the Group's brand portfolio, including the discontinuance of specific licenses that were not positioned to leverage the core strengths of the Group. Despite the immediate impact on turnover, this reorganization was essential to achieve the international focus necessary to fully capitalize on the Group's vertical integration strategy and will position the company for solid growth in the future.

Turnover in the distribution segment amounted to HK$350 million, representing 58% of the Group's consolidated turnover. Europe continued to be the dominant market in this business segment which accounts for half of such turnover.

Despite the unfavourable macro-economic circumstances, such as the outbreak of the Iraqi War and the Severe Acute Respiratory Syndrome ("SARS"), the Group managed to achieve significant profit increment during the period under review. Compared with the last reporting period, profit before tax surged by 25% from HK$75 million to HK$94 million. The satisfactory result was due to the materialization of the manufacturing-distribution integration strategy, that the Group has adopted in the pursuance of the downstream expansion into the distribution sector since the year 2000. Due to the successful integration of the various distribution companies acquired in the past two years, the restructuring exercise was concluded during the period under review, hence restructuring costs were effectively eliminated. Additional reductions were made with regards to selling, distribution and administrative expenses.

Net profit from ordinary activities attributable to shareholders notably increased from HK$69 million to HK$83 million, representing a 20% increment from the last reporting period. As a result of the increased net profit from ordinary activities attributable to shareholders, the net margin improved from 11% to 14%.

BUSINESS REVIEW

Global Manufacturing-Distribution Integration

The Group has successfully built up an unique business model in the eyewear industry that leverages the strengths of PRC low cost manufacturing, sophisticated global distribution network and brand portfolio with an international perspective.

Europe

Turnover in Europe distribution recorded a drop of 8% from HK$192 million to HK$177 million, while operating profit margin slightly improved comparing with the last period's level. During the period, the slow economies in Europe, particularly in Germany, adversely affected the consumer market. Coupled with the Group's brand portfolio consolidation, distribution turnover in the territory decreased. The management believes that this is only a short-term transition to achieve the group-wide focus necessary to fully exploit the mid-market opportunity that exists in today's eyewear industry.

The management appreciates that human resources are valuable assets to the Group. Having successfully built up its position as the new generation market player in the international eyewear industry, the Group had the ability to attract more high calibre industrial specialists from around the world to its management team. Based on the recruitment efforts applied within the period, the Group is well positioned to carry out its dynamic strategies for growth and expansion.

Additionally, the Group began to experience the practical effects of the operational restructuring efforts in-line with its vertically integrated business model. Substantial improvements in product development & fulfilment lead-times were evident based on the material and capacity planning initiatives implemented earlier in the year. The coordination of these planning initiatives were further supported by a centralization of global logistical functions capitalizing on the Group's internally-developed Internet resources as a means to streamline the ordering, invoicing and product delivery processes. These planning and logistical advantages represent the fundamentals of the Group's competitive differentiation in the fragmented middle-market segment of the eyewear industry.

Finally, the Group successfully transferred the advanced production technologies and know-how from its manufacturing base in the Czech Republic and Italy to the PRC, enjoying the benefits of attaining high quality at competitive cost.

United States

The Group's distribution business in the United States recorded a slight decrease of 5% from HK$56 million to HK$53 million, due to the generally weak consumer market there. Nonetheless, during the period under review the Group successfully concluded long-term contracts with various mass market retail customers; including a top five eyewear chain and the largest vision managed care company in the United States. The management believes that the Group's business in the United States will improve in the short-to-medium term as the market has already started to show signs of recovery.

BUSINESS REVIEW *(continued)*

Global Manufacturing-Distribution Integration *(continued)*

Asia Pacific

Distribution turnover in the Asia Pacific region was stable at HK$32 million. The Group's performance in the region varied in the different markets. Indonesia, the Philippines and Malaysia performed exceptionally well as the Group successfully secured substantial orders from large-scale retail chain customers. On the other hand, the Group's performance in Hong Kong, Taiwan and Singapore market are slightly affected by the outbreak of SARS.

The PRC Business: Integration of Manufacturing, Distribution and Retailing

The Group's PRC business achieved a significant growth of 13% in the distribution segment, reaching HK$88 million, and a steady growth of 3% from HK$39 million to HK$40 million in the retail segment. The improvement was due to the introduction of various existing brands with international licensing right into the PRC market under the flagship "Shanghai Moulin", such as United Colors of Benetton, Aigner, and Kappa etc. Shanghai Moulin is the newly established sino-foreign joint stock company engaging in the integrated manufacturing-distribution-retailing business in the PRC market.

In line with its growth strategy in the PRC retail market, the Group opened 5 retail shops during the period, 3 in Jiading and 2 in Shanghai City, expanding its retail network to 32 retail shops under the brand name "America's Eyes." The outbreak of SARS during April and June caused a hard impact on the Group's retail business and consequently the retail expansion plan was slowed down. In view of this, the management adopted a more prudent plan under which the number of shops would only increase to around 35 by the end of 2003. The management plans to have the growth momentum be accelerated in the year 2004.

ODM/OEM Business

The turnover of the ODM/OEM business was HK$213 million which was levelled with the last reporting period, while profit margins were maintained at above 40%. During the period under review, the Group successfully opened up new customer accounts in other potential markets such as South America and Eastern Europe.

PROSPECTS

Enhancing warehousing and logistics management to achieve further operating efficiencies

In order to fully exploit its recently implemented planning initiatives, as well as leverage synergies related to the placement of common product in multiple world markets, the Group is in the process of developing a modern breed of warehousing and logistical facilities at its Hong Kong and Chaoyang (Guandong, the PRC) sites. The seven-thousand square foot Hong Kong logistics hub will enable the Group to further centralize direct shipping activities to its subsidiaries, wholesalers and large-scale retail chain customers throughout the world. The thirty-thousand square-foot Chaoyang warehouse will enable the Group to enhance the effectiveness of market-data driven capacity management and lead-time benefits through the routine pre-production and storage of the semi-finished frames. Both facilities are expected to commence operations within the fourth quarter of 2003.

Additionally the Group is planning to further consolidate its European warehousing and logistics functions via the development of a central facility at its Czech Republic site. This plan leverages the Group's current working knowledge of human resources, infrastructure and management practices in the Czech Republic as a means to quickly and effectively capitalize on the labour-wage advantages associated with the country's assimilation into the European Union in 2004. This new installation will be implemented to cope with the increasing demand of the call centre / customer service centre support, as well as its daily delivery system. Currently the Group's various call centres / customer service centres are receiving more than 5,000 phone calls and making more than 10,000 parcels delivery per day.

New clients and new brands to drive future growth

Based on the successful implementation of its vertical integration strategy, the Group has been aggressively capitalizing its position as the only large-scale, PRC-based "factory-with-brands" in the optical industry in order to further develop relationships with large chain accounts as well as brand licensors. The Group's unique position facilitates a cycle of mutual reinforcement within the segment due to the fact that retail chains require high-volumes of low-cost branded product (necessitating direct contact with the manufacturer), while stronger relationships with retail chains continue to attract the interest of mid-market brand licensors. The effects of this unique position have been initially recognized in the U.S., the industry's largest chain market, where the Group has recently secured long-term supply agreements with several large, mass market retail customers. The combined agreements represent shipments exceeding 800,000 pieces of eyewear in 2003, an amount which is projected to double in 2004. Based on the core strength of the business model, proven by long-term supply agreements such as these, the Group has been in continual contact with additional mid-market brand licensors seeking to capitalize on its broad-channel distribution capabilities. The exploitation of its unique position as a PRC "factory-with-brands" will remain a key driver in the Group's growth strategy for 2004 and beyond.

PLACING OF EXISTING SHARES AND SUBSCRIPTION FOR NEW SHARES

Pursuant to the placing and subscription agreement dated 14 May 2003, KFL Holdings Limited, a substantial shareholder of the Company, placed 40,000,000 shares of HK$0.5 each in the capital of the Company at HK$3.5 per share to over around 20 independent professional investors and simultaneously subscribed for 40,000,000 new shares at HK$3.5 per share. The net proceeds received by the Company under the subscription were approximately HK$136 million and were used to expand the Group's distribution business in Europe. This exercise has further broadened up the Company's shareholder base with the inclusion of more institutional investors.

FINANCIAL POSITION

As at 30 June 2003, the Group had approximately HK$341 million in cash on hand. The current ratio improved from 2.3 to 2.9, and the gearing ratio of net interest-bearing borrowings over equity substantially improved from 0.56 to 0.39 due to the placement of the new shares at 14 May 2003 mentioned above.

The management believes that the placement of the new shares is in the interests of the Group and its shareholders as this not only strengthens the financial position of the Group, but also provides the necessary working capital for future acquisition opportunities.

The Group has a strong capital base with a retained profit exceeding HK$1 billion as at 30 June 2003, and the shareholders equity was over HK$1.6 billion.

The Group generally finances its operations with internally generated cash flows and facilities provided by banks in Hong Kong. Taking into consideration the anticipated internally generated funds and the available unutilized banking facilities, the Group believes that it has sufficient resources to meet its foreseeable capital expenditures and working capital requirements.

EMPLOYEES

As at 30 June 2003, the Group had around 4,500 employees worldwide. The remuneration policy and package for the Group's employees are based on their performance, experience and conditions prevailing in the industry. Discretionary bonuses, merit payments and the granting of share options to eligible staff are determined according to the financial results of the Group and the performances of individual employees. Employees are also provided with appropriate training for improved personal development and growth.

DIRECTORS' INTERESTS

As at 30 June 2003, the directors of the Company and their associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"):

The table below sets out the aggregate long positions in the shares and underlying shares of each director of the Company.

	Number of ordinary shares						
Name of director	Personal interests	Family interests	Corporate interests	Other interests	Number of underlying shares held under equity derivatives	Total	Percentage of issued share capital
Ma Bo Kee	250,000	—	—	160,431,464 *(Note a)*	750,000 *(Note b)*	161,431,464	36.54%
Ma Bo Fung	250,000	—	—	160,431,464 *(Note a)*	750,000 *(Note b)*	161,431,464	36.54%
Ma Bo Lung	250,000	—	—	160,431,464 *(Note a)*	750,000 *(Note b)*	161,431,464	36.54%
Ma Lit Kin, Cary	250,000	—	—	161,721,185 *(Note c)*	750,000 *(Note b)*	162,721,185	36.83%
Ma Hon Kin, Dennis	158,384	—	—	161,645,319 *(Note d)*	450,000 *(Note b)*	162,253,703	36.73%
Tong Ka Wai, Dicky	150,000	—	—	—	450,000 *(Note b)*	600,000	0.14%
Lee Sin Mei, Olivia	42,670	—	—	—	—	42,670	0.01%
Chan Wing Wah, Ivan	94	—	—	—	—	94	0%

Save as disclosed above, none of the directors, of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Notes:

(a) These shares are owned by KFL Holdings Limited, the entire capital of which is held by BNP Jersey Trust Corporation Limited as trustee for the Ma Family Trust, a discretionary trust whose objects include Messrs. Ma Bo Kee, Ma Bo Fung, Ma Bo Lung, Ma Lit Kin, Cary, Ma Hon Kin, Dennis and their family members.

(b) These interests represented the interests in underlying shares in respect of share options granted by the Company to these directors as beneficial owners, the details of which are set out in the section headed "Share Option Scheme" below.

(c) 160,431,464 of these shares are held as note (a) above. In addition, 1,289,721 of these shares are held by United Will Holdings Limited for and on behalf of Mr. Ma Lit Kin, Cary.

(d) 160,431,464 of these shares are held as note (a) above. In addition, 1,213,855 of these shares are held by United Will Holdings Limited for and on behalf of Mr. Ma Hon Kin, Dennis.

SHARE OPTION SCHEME

The operation of the share option scheme adopted at the annual general meeting of the Company on 6 September 1993 (the "Old Scheme") was terminated upon the adoption of the New Scheme (as defined below). In such event, no further option shall be granted under the Old Scheme. However, all options granted prior to such termination and not yet exercised shall continue to be valid and exercisable subject to and in accordance with the Old Scheme.

On 6 September 2002, at the annual general meeting, the Company adopted a new share option scheme (the "New Scheme"). The New Scheme is designed to enable the Company to grant options to selected participants as incentive or rewards for their contribution or potential contribution to the Group. No share options have been granted under the New Scheme as at 30 June 2003. Other details of the New Scheme were disclosed in the circular dated 12 August 2002.

Details of share options granted under the Old Scheme during the period were as follows:—

Grantee	At 1 January 2003	Exercised during the period	Cancelled during the period	At 30 June 2003	Date of grant of share options	Exercised period of share option	Exercised price of share options	Price of Company's shares of exercise date of options
							HK$	*HK$*
				(1)	*(2)*		*(3)*	*(4)*
Director								
Ma Bo Kee	3,750,000	0	0	3,750,000	27 December 2000	6 September 2002 to 5 September 2003	0.62	–
Ma Bo Fung	3,750,000	0	0	3,750,000	27 December 2000	6 September 2002 to 5 September 2003	0.62	–
Ma Bo Lung	3,750,000	0	0	3,750,000	27 December 2000	6 September 2002 to 5 September 2003	0.62	–
Ma Lit Kin, Cary	3,750,000	0	0	3,750,000	27 December 2000	6 September 2002 to 5 September 2003	0.62	–
Ma Hon Kin, Dennis	2,250,000	0	0	2,250,000	27 December 2000	6 September 2002 to 5 September 2003	0.62	–
Tong Ka Wai, Dicky	2,250,000	0	0	2,250,000	27 December 2000	6 September 2002 to 5 September 2003	0.62	–
Managerial Level	18,225,000	0	0	18,225,000	27 December 2000 / 30 May 2001	1 January 2002 to 5 September 2003	0.62	–
Other Employees	9,301,000	710,000	1,051,000	7,540,000	27 December 2000 / 30 May 2001	1 January 2002 to 5 September 2003	0.62	3.975
Total	47,026,000	710,000	1,051,000	45,265,000				

SHARE OPTION SCHEME *(continued)*

Notes:

(1) As mentioned in note 14(c), upon the exercise of the share options granted under the Old Scheme, every five share options shall be subscribed for one consolidated share.

(2) The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

(3) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital. The share consolidation as detailed in note 14(c) has resulted in an adjustment to the exercise price of the outstanding share options. The adjusted exercise price for one consolidated share is HK$3.10, which took effect from 9 September 2002.

(4) The price of Company's shares disclosed as at the date of the exercise of the share options is the weighted average of the Hong Kong Stock Exchange closing price over all of the exercises of options within the disclosure category.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the following persons (other than directors of the Company) were substantial shareholders of the Company (as defined in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules")) and had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of shareholder	*Note*	Number of shares held	Percentage of issued share capital
KFL Holdings Limited ("KFL")	*1*	160,431,464	36.31%
BNP Paribas Jersey Trust Corporation Ltd. ("BNP Trust")	*2*	160,431,464	36.31%
Arisaig Greater China Fund ("Arisaig")	*3*	32,046,000	7.25%
Arisaig Partners (Mauritius) Ltd. ("Arisaig Mauritius")	*4*	32,046,000	7.25%
Cooper Lindsay William Ernest ("Cooper")	*5*	32,046,000	7.25%
Deutsche Bank Aktiengesellschaft ("Deutsche Bank")	*6*	31,804,900	7.20%
Templeton Investment Counsel LLC ("Templeton")	*7*	31,017,800	7.02%

INTERESTS OF SUBSTANTIAL SHAREHOLDERS *(continued)*

Note:

1. These interests are held by KFL in the capacity of nominee. The entire issued share capital of KFL is held by BNP Trust as trustee for the Ma Family Trust, a discretionary trust whose objects include certain directors of the Company. The interests of such certain directors are disclosed in "Directors' Interests".

2. In accordance with Note 1 above, these interests are held by BNP Trust in the capacity of trustee. These interests are duplicated by the interests described in Note 1 above.

3. These interests are held by Arisaig in the capacity of beneficial owner.

4. These interests are held by Arisaig Mauritius in the capacity of investment manager. These interests are duplicated by the interests described in Note 3 above.

5. These interests represented Cooper's interests through his indirect 100 per cent interest in Arisaig Mauritius. These interests are duplicated by the interests disclosed in Note 3 and Note 4 above.

6. These interests are held by Deutsche Bank in the capacity of beneficial owner.

7. These interests are held by Templeton in the capacity of investment manager.

Save as disclosed above the Company had not been notified of any other person (other than directors of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 30 June 2003.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the six months period ended 30 June 2003, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities on The Stock Exchange of Hong Kong Limited.

PRACTICE NOTE 19 OF THE LISTING RULES

In accordance with the disclosure requirements of paragraph 3.7.1 of Practice Note 19 of the Listing Rules, the following disclosures are included in respect of one of the Group's facility agreements, which contains covenants requiring performance obligations of the controlling shareholder of the Company.

Pursuant to the facility agreement dated 25 October 2002 relating to a 42-month syndicated loan of HK$440,000,000 granted to the Group, the Company's controlling shareholder (including Mr. Ma Bo Kee, his family members, close relatives, related trusts and companies controlled by him, his close relatives or related trusts) is required to maintain at least a 35% interest, in aggregate, in the issued share capital of the Company. A breach of such obligation will cause a default in respect of the loan, which is significant to the operations of the Group.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for the six months ended 30 June 2003, in compliance with the "Code of Best Practice" as set out in Appendix 14 of the Main Board Listing Rules on The Stock Exchange of Hong Kong Limited, except that the non- executive directors, are not appointed for any specific term of office but are subject to retirement by rotation in accordance with the Bye-laws of the Company.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code of Best Practice, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises two independent non-executive directors and one non-executive director of the Company. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including review of the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2003.

By Order of the Board
Ma Bo Kee
Chairman

Hong Kong, 24 September 2003

泰興光學集團有限公司
Moulin International Holdings Limited
Incorporated in Bermuda with limited liability 於百慕達註冊成立之有限公司