Moulin International Holdings Limited

1960 1970 1980 1990 **INTERIM REPORT** 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 **2004**

1995 — Production of titanium metal frames begins

1996 — Receives Consumer Product Design Award at the Hong Kong Awards for Industry

1997 — Acquired Liberty Optical Inc.

1997 — Production capacity exceeds 10 million pairs

1998 — Awarded ISO9001 certification

1998 — Achieves Certificate of Merit in Productivity at the Hong Kong Awards for Industry

1999 — Receives Export Marketing Award at the Hong Kong Awards for Industry

1999 — Acquired Metzler Optik Partner AG

2000 — Acquired Filos S.p.A.

2000 — Full implementation of ERP system

2001 — Sino-foreign joint stock company Shanghai Moulin obtains business license

2002 — Acquired NIGuRa Optik GmbH

2002 — 10th anniversary of listing
Retained profit exceeds HK$1 billion

2003 — Operating 17 distribution subsidiaries and 58 authorized distributors in over 70 countries Moulin enjoys extensive access to global markets and sells its products through hundreds of thousands of retailers worldwide

INTERIM RESULTS

The Board of Directors (the "Board") of Moulin International Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2004 together with the comparative figures for the corresponding period last year as follows:—

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30 June	
		2004	2003
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Turnover	2	**685,652**	603,048
Cost of sales		**(308,034)**	(264,194)
Gross profit		**377,618**	338,854
Other revenue	3	**20,588**	21,450
Selling and distribution costs		**(101,858)**	(89,610)
Administrative expenses		**(136,366)**	(117,101)
Other operating expenses, net		**(78,305)**	(34,190)
Profit from operating activities	4	**81,677**	119,403
Finance costs	5	**(11,845)**	(25,018)
Profit before tax		**69,832**	94,385
Tax	6	**(9,414)**	(12,913)
Profit before minority interests		**60,418**	81,472
Minority interests		**(225)**	1,651
Net profit from ordinary activities attributable to shareholders		**60,193**	83,123
Interim Dividend	7	**17,971**	31,164
Earnings per share	8		
Basic		**12.06 cents**	20.17 cents
Diluted		**N/A**	20.15 cents

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2004

	Notes	30 June 2004 (Unaudited) HK$'000	31 December 2003 (Audited) HK$'000
NON-CURRENT ASSETS			
Fixed assets		**810,098**	841,499
Intangible assets		**50,204**	53,773
Goodwill		**218,405**	213,342
Long term investments		**2,663**	3,279
Promissory notes		**23,400**	23,400
Staff loans		**3,614**	3,614
Deferred tax assets		**19,589**	18,261
Due from PRC subcontractors		**120,492**	97,000
Deposits with a non-bank financial institution		**24,000**	24,000
Prepayments for frame board space		**40,514**	50,004
		1,312,979	1,328,172
CURRENT ASSETS			
Inventories		**425,370**	412,491
Trade and other receivables	9	**1,061,885**	1,082,075
Tax recoverable		**1,258**	1,244
Short term investments		**–**	2,286
Cash and cash equivalents	10	**824,941**	889,940
		2,313,454	2,388,036
CURRENT LIABILITIES			
Trade and other payables and accruals	11	**283,437**	368,690
Tax payable		**41,246**	41,290
Interest-bearing bank borrowings		**546,065**	609,687
Current portion of finance lease and hire purchase contract payables		**12,332**	15,102
Dividend payable		**24,552**	629
		907,632	1,035,398
NET CURRENT ASSETS		**1,405,822**	1,352,638
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,718,801**	2,680,810
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		**575,776**	550,554
Long term portion of finance lease and hire purchase contract payables		**5,038**	10,748
Provisions		**37,835**	53,435
Deferred tax liabilities		**22,010**	22,519
		640,659	637,256
MINORITY INTERESTS		**30,334**	32,186
		2,047,808	2,011,368
CAPITAL AND RESERVES			
Issued capital	12	**249,600**	249,600
Reserves		**1,780,237**	1,737,806
Proposed dividend		**17,971**	23,962
		2,047,808	2,011,368

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2004

	Note	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 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—restatement of deferred tax		–	–	(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		(58)	(240)	–	–	–	–	(298)
Issue of shares		20,000	120,000	–	–	–	–	140,000
Share issue expenses		–	(3,795)	–	–	–	–	(3,795)
Share options exercised		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	7	–	–	–	–	(31,164)	31,164	–
At 30 June 2003		220,897	282,081	28,196	(42,378)	1,116,624	31,164	1,636,584
At 1 January 2004:		249,600	558,637	27,791	(38,012)	1,189,390	23,962	2,011,368
Exchange realignment and net gains and losses not recognised in the profit and loss account		–	–	–	209	–	–	209
Net profit for the period		–	–	–	–	60,193	–	60,193
Final dividend approved for the period ended 31 December 2003		–	–	–	–	–	(23,962)	(23,962)
Proposed interim dividend for the six months ended 30 June 2004	7	–	–	–	–	(17,971)	17,971	–
At 30 June 2004		249,600	558,637	27,791	(37,803)	1,231,612	17,971	2,047,808
Reserves retained by:								
Company and subsidiaries at 30 June 2004		249,600	558,637*	27,791*	(37,803)*	1,231,612*	17,971	2,047,808
Company and subsidiaries at 30 June 2003		220,897	282,081	28,196	(42,378)	1,116,624	31,164	1,636,584

* These reserve accounts comprise the consolidated reserves of HK$ 1,780,237,000 in the condensed consolidated balance sheet as at 30 June 2004.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June 2004

	Six months ended	
	30 June 2004 (Unaudited)	30 June 2003 (Unaudited and restated)
	HK$'000	*HK$'000*
Net cash inflow/(outflow) from operating activities	**(24,258)**	121,336
Net cash inflow/(outflow) from investing activities	**6,925**	(29,915)
Net cash outflow from financing activities	**(4,849)**	(88,777)
Increase/(decrease) in cash and cash equivalents	**(22,182)**	2,644
Cash and cash equivalents at beginning of period	**756,597**	156,592
Effect of foreign exchange rate changes, net	**(747)**	(8,761)
Cash and cash equivalents at end of period	**733,668**	150,475
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**402,257**	61,091
Non-pledged time deposits with original maturity of less than three months when acquired	**422,684**	194,934
	824,941	256,025
Bank overdrafts	**(91,273)**	(105,550)
	733,668	150,475

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2004

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim accounts (the "Interim Accounts") are prepared in accordance with SSAP No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and should be read in conjunction with the 2003 annual financial statements. The accounting policies and basis of preparation used in the preparation of the Interim Accounts are the same as those used in the annual financial statements for the year ended 31 December 2003.

2. TURNOVER AND SEGMENT INFORMATION

Segment information is presented by way of geographical segment. No business segment analysis of the Group's revenue and results is presented as all the Group's revenue 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 30 June		PRC Six months ended 30 June		Asia Pacific (including Hong Kong) Six months ended 30 June		Europe Six months ended 30 June		Corporate Six months ended 30 June		Others Six months ended 30 June		Total Six months ended 30 June	
	2004 (Unaudited)	2003 (Unaudited and restated)	**2004 (Unaudited)**	2003 (Unaudited and restated)	**2004 (Unaudited)**	2003 (Unaudited and restated)	**2004 (Unaudited)**	2003 (Unaudited and restated)	**2004 (Unaudited)**	2003 (Unaudited and restated)	**2004 (Unaudited)**	2003 (Unaudited and restated)	**2004 (Unaudited)**	2003 (Unaudited)
	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	**231,020**	252,648	**131,958**	139,150	**95,344**	57,101	**226,330**	153,195	**873**	–	**127**	954	**685,652**	603,048
Other revenue	**614**	719	**608**	1,019	**2,669**	972	**1,361**	–	**36**	853	**–**	–	**5,288**	3,563
Total	**231,634**	253,367	**132,566**	140,169	**98,013**	58,073	**227,691**	153,195	**909**	853	**127**	954	**690,940**	606,611
Segment results	**78,238**	69,863	**18,961**	29,321	**14,664**	9,273	**(17,942)**	(8,318)	**(27,584)**	476	**40**	901	**66,377**	101,516
Interest income													**15,300**	17,887
Profit from operating activities													**81,677**	119,403
Finance costs													**(11,845)**	(25,018)
Profit before tax													**69,832**	94,385
Tax													**(9,414)**	(12,913)
Profit before minority interests													**60,418**	81,472
Minority interests													**(225)**	1,651
Net profit from ordinary activities attributable to shareholders													**60,193**	83,123

3. OTHER REVENUE

An analysis of other revenue is as follows:

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest income	**15,300**	17,887
Rental income	**86**	–
Subcontracting income	**1,337**	401
Management fee income	**–**	310
Others	**3,865**	2,852
	20,588	21,450

4. PROFIT FROM OPERATING ACTIVITIES

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

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**308,034**	264,194
Amortisation of intangible assets	**4,455**	2,049
Amortisation of goodwill	**5,328**	5,032
Depreciation	**38,608**	36,337
(Gain)/Loss on disposal of fixed assets	**(3,740)**	10

5. FINANCE COSTS

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**10,841**	21,663
Interest on finance leases and hire purchase contracts	**230**	498
Interest on convertible notes	**–**	257
Total interest	**11,071**	22,418
Bank charges	**774**	2,600
	11,845	25,018

6. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable in Mainland China and 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	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**7,100**	11,640
Elsewhere	**4,151**	308
Deferred tax	**(1,837)**	965
Tax charge for the period	**9,414**	12,913

7. INTERIM DIVIDEND

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interim — HK3.6 cents per ordinary share (2003: HK7.0 cents)	**17,971**	31,164

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

8. EARNINGS PER SHARE

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

Earnings

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net profit attributable to shareholders, used in the basic and diluted earnings per share calculation	**60,193**	83,123

Shares

	Six months ended 30 June	
	2004	2003
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issued during the period used in basic earnings per share calculation	**499,200,562**	412,049,926
Weighted average number of ordinary shares in issued at no consideration on deemed exercise of all share option during the period	**–**	438,681
Weighted average number of ordinary shares used in diluted earnings per share calculation	**499,200,562**	412,488,607

9. TRADE AND OTHER RECEIVABLES

	Note	30 June 2004 (Unaudited) HK$'000	31 December 2003 (Audited) HK$'000
Trade debtors and bills receivable	(a)	**524,513**	506,877
Other debtors and prepayments		**364,262**	376,897
Promissory notes		**6,910**	24,350
Staff loans		**4,610**	4,610
Due from PRC subcontractors		**70,816**	85,504
Prepayments for frame board space		**18,978**	18,978
Deposits with a non-bank financial institution		**35,626**	35,626
Due from the ultimate holding company		**36,170**	29,233
		1,061,885	1,082,075

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 2004 (Unaudited) HK$'000	31 December 2003 (Audited) HK$'000
Current	**197,641**	241,726
1 to 3 months	**175,920**	138,394
4 to 6 months	**117,416**	90,010
7 to 12 months	**20,642**	20,442
Over 12 months	**64,999**	68,512
	576,618	559,084
Provision for doubtful debts	**(52,105)**	(52,207)
	524,513	506,877

10. CASH AND CASH EQUIVALENTS

	30 June 2004 (Unaudited) HK$'000	31 December 2003 (Audited) HK$'000
Cash and bank balances	**402,257**	423,445
Time deposits	**422,684**	466,495
	824,941	889,940

11. TRADE AND OTHER PAYABLES AND ACCRUALS

Included in trade and other payables and accruals are trade creditors and bills payable of HK$180,800,000 (31 December 2003: HK$222,610,000). 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 2004 (Unaudited) *HK$'000*	31 December 2003 (Audited) *HK$'000*
Current	**91,152**	101,794
1 to 3 months overdue	**60,408**	41,890
Over 3 months	**29,240**	78,926
	180,800	222,610

12. SHARE CAPITAL

	30 June 2004 (Unaudited) *HK$'000*	31 December 2003 (Audited) *HK$'000*
Authorised:		
1,200,000,000 ordinary shares of HK$0.50 each	**600,000**	600,000
Issued and fully paid:		
499,200,562 (31 December 2003: 499,200,562) ordinary shares of HK$0.50 each	**249,600**	249,600

13. CONTINGENT LIABILITIES

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

	30 June 2004 (Unaudited) *HK$'000*	31 December 2003 (Audited) *HK$'000*
Bank guarantees given in lieu of deposits for licensing arrangement	**15,396**	15,853

14. 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 ranging from one to nine 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 2004 (Unaudited) ***HK$'000***	31 December 2003 (Audited) *HK$'000*
Within one year	**14,675**	14,687
In the second to fifth years, inclusive	**39,701**	39,701
After five years	**8,091**	17,800
	62,467	72,188

At the balance sheet date, the Company did not have any future minimum lease payments under non-cancellable operating leases.

15. CAPITAL COMMITMENTS

	30 June 2004 (Unaudited) ***HK$'000***	31 December 2003 (Audited) *HK$'000*
Authorised, but not contracted for, in respect of the purchase of land use rights in the PRC (RMB15,000,000)	**14,139**	13,889
Authorised, but not contracted for, in respect of the purchase of machinery	**4,655**	5,746
	18,794	19,635

16. COMPARATIVE AMOUNTS

As further explained in note 1 to the financial statements, certain comparative amounts in the condensed cash flow statement and segment information have been reclassified to conform with the current period's presentation.

17. 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 2004.

INTERIM DIVIDEND

The Board has declared an interim dividend of HK3.6 cents (2003: HK7.0 cents) per share for the period ended 30 June 2004, payable to shareholders whose names appear in the register of members of the Company on 15 October 2004.

Cheques for payment of the interim dividends are expected to be dispatched to those entitled on or before 25 November 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 October 2004 to 25 October 2004, 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 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 pm on 15 October, 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2004, the Group's consolidated turnover was HK$686 million, a 14% increase over the corresponding period last year. The increase was attributed to the Group's consolidation of NiGuRa Optik GmbH ("NiGuRa"), acquired from the German eyewear company Rodenstock in the last quarter of 2003, as well as organic growth of various business segments.

Gross profit for the period increased 12% from HK$339 million in the same period of 2003 to the current HK$378 million. The gross profit margin was recorded at 55% (2003: 56%). The slight decrease in gross profit margin was mainly due to the pressure coming from the inflation of raw materials cost. The Group's profit attributable to shareholders dropped from HK$83 million to HK$60 million mainly due to one-off expenses which were incurred in the proceedings to acquire Cole National. Nonetheless, the Group has managed to maintain a strong cash position with an amount of HK$825 million as at 30 June 2004.

Despite the fact that the proposed bid to acquire Cole National did not end in an acquisition, the bid generated increased international exposure substantially valuable to the Group. The costs incurred pursuing the Cole National acquisition can be viewed as an investment that had established Moulin as a major player in the global eyewear market and was an impressive demonstration of its ability to develop the financial, legal, and in house organizational systems required to mount a major acquisition.

BUSINESS REVIEW

Global Manufacturing-Distribution Integration

The distribution sector remained as the largest revenue contributor for the Group, accounting for 78% of total turnover. Moulin continued to pursue an aggressive path of expanding its global reach into new markets during the review period. As an integrated eyewear manufacturer and distributor, the Group was uniquely positioned to follow a global model of growth.

The sector was continually fine tuned through enhanced operating systems, refined logistics, and personnel management. Moulin has emphasized its extensive history in manufacturing quality eyewear in China and the group continued to leverage this aspect of its core business to draw licensors and enrich its brand portfolio. With high operating efficiencies as well as industry-leading manufacturing know-how in sync with its distribution channels, the Group has positioned itself to not only take advantage of opportunities but also to create them.

Europe

The Group has maintained a prominent position in the German market, the Group's largest market in Europe. NiGuRa was fully assimilated into the Group's distribution structure, adding the strengths of a competent and experienced management team. Operations were further streamlined by combining the warehouse operations in both Stuttgart and the Czech Republic, with management operations consolidated in Dusseldorf. In the period under review, the combined distribution forces of NiGuRa and the existing Metzler group contributed a significant growth of distribution revenue for the Group.

The German government has recently implemented social reforms to curb subsidies for eyewear. This policy change affected the German eyewear industry as a whole. As the largest distributor by volume in the German market, Moulin was also affected. However, with its dominant 10% market share, the Group has positioned itself impressively to experience growth once market sentiment starts to turn around. The Group took advantage of this lull period by consolidating and increasing efficiency. This restructuring has enhanced overall synergy of the Group's European operations.

Moulin is the only non-Italian company amongst the top five sellers in the Italian market, the Group's second largest market in Europe. Italian sales were able to maintain at last period's level despite the consolidation of brand portfolio in the past year. The Group is optimistic to see a promising sales growth in the second half year.

Moulin performed satisfactorily in other markets in Europe during the period under review. Austrian sales were up approximately 20% in the first six months and sales in Czech Republic and Slovakia were up a remarkable 40% and 26% respectively. This coveted position was achieved with the great success of brands like United Colors of Benetton, Sisley and Revlon.

North America

Recent personnel restructuring in the Group's US sales department was aimed at cutting costs and focusing sales to mass merchant chain retailers. This has proven a correct strategy, successfully attracting new chain retailers to the Group in the period under review. Current profit margins remain healthy and rising as the gains accrued through increased sales to chain retailers.

Moulin has recognized substantial benefits from its experience and recognition garnered in the bid for Cole National, proving the Group's ability to orchestrate financing and legal resources to meet the needs of a major acquisition. Beyond a doubt the Group has now established itself as a major force in the North American eyewear landscape.

Asia Pacific

Overall performance in the Asia Pacific was up 9%. The increase was credited to gains in various Asian countries, particularly the Japanese market. During the period under review, the Group also saw the launching of the Longines brand in Hong Kong.

The PRC Business: Integration of Manufacturing, Distribution and Retailing

The turnover from the PRC fell slightly during the period under review. The fall was the result of Moulin's strategic shift in focus from non-branded products that formerly made substantial contributions to turnover, to internationally branded eyewear. Various new brands' eyewear collection, Reebok, United Colors of Benetton and Longines, were launched during the period under review and were well-received in the market. Distribution revenue generated from international brands thus increased by 25%. The Group regards the fall in turnover as transitional and expects the sales from international brands to rapidly pick up in the coming quarters.

The Group continued the progressive expansion of Shanghai Moulin's "America's Eyes" chain to 50 fully owned stores, up from 34 at the end of 2003, 16 of which were opened since December 2003. In addition, there are 7 franchised outlets operating in and around greater Shanghai. Retail operations in the PRC proceeded smoothly with high profitability. The original stores recorded 25% growth compared with the same period in the prior year. Contributions from several stores opened in May and June of 2004 have yet to be reflected in the results.

ODM/OEM Business

The Group's ODM/OEM business continued to contribute a diminishing percentage of turnover relative to the integrated manufacturing-distribution and retail business. During the period under review, contribution from ODM/OEM was maintained at 15% of the company's turnover.

PROSPECTS

Pursues Further Growth in Core Distribution Business

Having successfully integrated the businesses of the acquired distribution companies in 2003, Moulin now occupies a principal position in the middle-tier global frame market. By cross-selling its portfolio of brands throughout the Group's global distribution platform, the synergies effects will contribute substantially in the years ahead. Additionally, Moulin continues to accelerate its competitive advantages by attracting further international brands into its portfolio. Currently the Group is pursuing several renowned fashion labels in the U.S. and in Europe. The brands would add further value to the existing brand mix should the negotiations turn into successful collaborations. The combination of market share vertically integrated with its own distribution channels makes Moulin an attractive option for international labels seeking greater exposure. In addition, Moulin is applying its proven North American business model towards distribution to mass merchant retailers to Europe. Actively pursuing opportunities with chain retailers in Europe, and leveraging recent gains in the Czech Republic and Slovakia, the Group expects to achieve further gains as Eastern European operations begin to benefit from European Union membership.

The PRC Expansion

Plans for expansion in the PRC include the opening of 4-5 new stores in the Shanghai area in the second half of 2004. Shanghai Moulin is also pursuing possible acquisition targets outside Shanghai to develop a broader regional retail presence.

In order to enhance the Group's production and ensure it remains at the forefront of the industry, Moulin is establishing a cutting-edge research, development and production facility in Shenzhen. This new "state of the art" facility has been developed to transfer the Group's European manufacturing technologies to its China factories. In addition to the development and production of more complex frame styles, the facility will serve as a training center for engineers and labors throughout the Group's PRC plants.

Opportunities for Retail Sector Integration

As international retail sector consolidates, Moulin has the opportunity to continue its downstream expansion into the retail sector. Retail sector integration would significantly benefit Moulin because of the significant economies of scale and related synergies that could be obtained. For example, significant procurement synergies can be obtained by reducing retailers' diverse and inefficient supplier base. Also, by reducing order lead-times retailers can deploy their working capital in much more efficient manner. The integration synergies would bring benefits to the Group in the long-run.

Financial Position and Liquidity

During the period under review, the Group's net cash outflow from operating activities was HK$24 million (2003: net cash inflow HK$121 million). The resultant net cash outflow from operating activities was mainly due to the one-off expenses which were incurred in the proceedings to acquire Cole National, the increase in trade debtors and inventories and the decrease in trade and other payables. Total bank borrowings were HK$1,122 million at 30 June 2004 (31 December 2003: HK$1,160 million) while bank and cash balances were HK$825 million at 30 June 2004 (31 December 2003: HK$890 million). The net bank borrowings of the Group increased from HK$270 million at 31 December 2003 to HK$297 million at 30 June 2004.

The current ratio of the Group at 30 June 2004 was 2.5 (31 December 2003: 2.3) with HK$2,313 million of current assets (31 December 2003: HK$2,388 million) and HK$908 million of current liabilities (31 December 2003: HK$1,035 million). The inventory turnover period (ratio of inventory balance to sales) decreased from 125 days to 113 days due to more efficiently use of our global distribution network. Debtor turnover period (ratio of trade debtors and bills receivable to sales) also decreased from 153 days to 140 days due to tighter control of trade credit terms. Certain debtors were secured for bank financing and if this portion was carved-out, the debtor turnover period was 101 days.

The Group had 499,200,562 shares in issued at both 30 June 2004 and 31 December 2003 with total shareholders' equity amounting HK$2,048 million and HK$2,011 million respectively. Net asset value per share as at 30 June 2004 was HK$4.1 (31 December 2003: HK$4.0). Net bank borrowings to equity ratio was 14.5% at 30 June 2004 compared with 13.4% at 31 December 2003.

The Group manages its interest rate exposure in relation to the interest rate level and outlook. As the Group conducts most of its businesses in US dollars, Euro and Renminbi, and borrowings and payments to vendors are mainly in Renminbi, Euro and HK dollar, the currency risk exposure is relatively low in view of the natural hedging mechanism in place and the existence of a peg between US dollar with HK dollar.

EMPLOYEES

As at 30 June 2004, the Group had around 5,600 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 AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June, 2004, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:—

Long Positions in Ordinary Shares of the Company

		Number of ordinary shares held					
Name of Director	*Notes*	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total**	**Percentage of the Company's issued share capital**
Ma Bo Kee	*(a)*	500,000	–	–	162,875,344	163,375,344	32.73%
Ma Bo Fung	*(a)*	500,000	–	–	162,875,344	163,375,344	32.73%
Ma Bo Lung	*(a)*	500,000	–	–	162,875,344	163,375,344	32.73%
Ma Lit Kin, Cary	*(b)*	500,000	–	–	164,165,065	164,665,065	32.99%
Ma Hon Kin, Dennis	*(c)*	303,483	–	–	164,089,199	164,392,682	32.93%
Tong Ka Wai, Dicky		150,000	–	–	–	150,000	0
Lee Sin Mei, Olivia		42,670	–	–	–	42,670	0
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) 152,375,344 shares and 10,500,000 shares are respectively owned by KFL Holdings Limited and Excite Holdings Limited. The entire capital of each of KFL Holdings Limited and Excite Holdings Limited are held by BNP Paribas 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) 162,875,344 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.

(c) 162,875,344 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above at no time during the period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouse or minor children or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

At the annual general meeting on 6 September, 2002, 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 reward for their contribution or potential contribution to the Group. No share options have been granted under the New Scheme as at 30 June 2004. Other details of the New Scheme were disclosed in the circular dated 12 August 2002.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2004, the following persons, other than directors of the Company, whose interests are set out in the section of "Directors' interests and short positions in shares and underlying shares" above, had registered an interest of 5% or more of the share capital and share options of the Company that was required to be recorded in the register kept by the Company pursuant to Section 336 of the SFO:

Long Positions

Name of shareholder	*Notes*	Number of shares held	Percentage of the Company issued share capital
BNP Paribas Jersey Trust Corporation Ltd. ("BNP Trust")	*1*	162,875,344	32.63%
KFL Holdings Limited ("KFL")	*2*	152,375,344	30.52%
JPMorgan Chase & Co (formerly known as "J.P. Morgan Chase & Co") ("JPMorgan")	*3*	59,978,996	12.02%
Arisaig Greater China Fund Limited ("Arisaig")	*4*	35,154,000	7.04%
Arisaig Partners (Mauritius) Ltd ("Arisaig Mauritius")	*5*	35,154,000	7.04%
Lindsay William Ernest Cooper ("Cooper")	*6*	35,154,000	7.04%
Morgan Stanley ("Morgan Stanley")	*7*	32,050,000	6.42%
Templeton Investment Counsel LLC ("Templeton")	*8*	32,067,800	6.42%
The Capital Group Companies Inc ("Capital)	*9*	29,467,300	5.90%

Notes:

1. These interests are held by BNP Trust as trustee of the Ma Family Trust, a discretionary trust whose objects include certain directors of the Company, the interests of which are disclosed in "Directors' interests and short positions in shares and underlying shares." These interests are comprised of 152,375,344 shares, which are held through KFL as nominee, and 10,500,000 shares, which are held through Excite Holdings Limited ("Excite") as nominee. The entire issued share capital of each of KFL and Excite is held by BNP Trust as trustee for the Ma Family Trust.

2. 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.

3. These interests are held by JPMorgan in the capacity of approved lending agent.

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

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

6. These interests represents Cooper's deemed interests through his indirect 33.33% beneficial interest in Arisaig Mauritius. These interests are duplicated by the interests disclosed in Note 4 and Note 5 above.

7. These interests are held by Morgan Stanley in the capacity of the interest of corporation controlled by it.

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

9. These interests are held by Capital 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 2004.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the six months period ended 30 June 2004, 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.

COMPLIANCE WITH THE CONTINUING DISCLOSURE REQUIREMENT UNDER CHAPTER 13 OF THE LISTING RULES

In compliance with the continuing disclosure requirements under Rule 13.21 of Chapter 13 of the Listing Rules (as amended on 31 March 2004), 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 (the "Obligation"). A breach of the Obligation will cause a default in respect of the loan, which is significant to the operations of the Group.

Pursuant to a placing and subscription agreement dated 3 December 2003 entered into between KFL Holdings Limited ("KFL"), the Company, Cazenove Asia Limited as placing agent, Mr. Ma Bo Kee, Mr. Mo Bo Fung, Mr. Mo Bo Lung, Mr. Ma Lit Kin, Cary and Mr. Ma Hon Kin, Dennis in relation to (i) a placing of 54,000,000 existing shares of HK$0.50 each in the Company ("Shares") by KFL to third party placees, and (ii) a top up subscription of 54,000,000 new Shares by KFL (the "Top Up Placing"), KFL, together with parties acting in concert with it, held approximately 33.24% of the issued share capital of the Company as a result of and immediately following implementation of the transactions under the Top Up Placing, which constituted a breach of the Obligation.

The Company sought the waiver of the lenders concerned in connection with the breach of the Obligation (the "Waiver Request") and consent to the Company's Waiver Request was duly obtained from the lenders concerned.

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 2004, 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.

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 three 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 2004.

By Order of the Board
Ma Bo Kee
Chairman

Hong Kong, 24 September 2004

泰興光學集團有限公司
Moulin International Holdings Limited