

REVIEW AND PROSPECTS

Business Review

By Business Segment

Global Manufacturing-Distribution Integration

In recent times, Moulin has transformed itself into a streamlined global eyewear group with a mid-market brand portfolio. Following a focused development strategy, its distribution business has grown progressively with a turnover of HK\$983 million, representing 79.4% of the Group's total turnover in 2003.

With 17 sales offices globally including the newly acquired NiGuRa Optik GmbH ("NiGuRa"), 250 sales representatives and over 500 customer service officers, the Group enjoys extensive access to global markets, and sells its products through hundreds of thousands of retailers worldwide.

The Group boasts high operational efficiencies, strong global distribution capabilities, and relatively low production costs by comparison with many competitors. Amongst its restructuring activities, the Group was able to transfer certain of its advanced production technologies from manufacturing bases in Europe to its low-cost PRC production base for greater long-term cost-effectiveness.

In addition, the Group set up new warehousing and logistics facilities in China and Hong Kong during this period. Its new 7,000 square feet Hong Kong logistics hub now provides further efficient centralization for direct shipping to the Group's customers globally. Meanwhile, its 30,000 square feet Chaoyang warehouse in Guangdong Province is handling storage of semi-finished and finished optical frames.

Over the past year, the Group has leveraged these competitive advantages to attract more licensed brands and hence has been able to be more selective in its development of a diverse and attractive brand portfolio. In 2003 Moulin added to its list new brands such as Reebok, Féraud, NiGuRa and Enjoy and expects to see a rapid increase of turnover arising directly from their acquisition.

Europe

In Europe, one of the most important development in 2003 was the acquisition of NiGuRa. As a comparatively recent acquisition, the management expects the full benefits arising from NiGuRa should be more fully reflected in 2004.

United States

In the United States, additional contracts with certain sizable mass market retail customers that were secured in late 2002 and early 2003, were shipped in the second half of 2003. In addition, the Group successfully expanded its direct sales network and thus increased the range and number of opportunities for distributing its products. Moreover, the Group also expanded its direct sales network to service independent eyecare practitioners through a sales distribution agreement with the second largest contact lens distributors in the United States.

Business Review *(continued)*

Asia Pacific

The Asia Pacific market remained steady overall, although there were individual fluctuations across the region. In particular, due to the adverse market conditions in the first half of the year, business in Hong Kong, Taiwan and Singapore was slightly affected as retail spending in these markets declined across the board. By contrast, sales in Indonesia, the Philippines and Malaysia were robust, with the Group securing significant orders from some of its large-scale retail chain customers.

The PRC

The Group's PRC business grew substantially in 2003 which was attributed to the introduction of a number of the Group's existing international brands into the PRC market, including United Colors of Benetton, Aigner, and Kappa. These prestigious international brands were welcomed enthusiastically by newly affluent urban consumers looking for distinctive upmarket eyewear styles.

OEM/ODM Business

In the year under review, the Group's OEM/ODM business turnover was recorded at HK\$170 million. Gross margin was maintained at around 41.1% in a highly competitive market. The Group plans to deploy a balanced level of resources to maintain a steady and stable OEM/ODM income.

Retail Business

The growth in international brand sales in the PRC was underpinned and enhanced by a corresponding expansion of Shanghai Moulin's retail network. In the second half of 2003, the Group increased the pace at which it opened new stores in Shanghai, which contributed positively to both sales and profitability. Turnover increased significantly by 23.2% to HK\$85 million, against 2002's annualised figures. The number of shops operating under the name "America's Eyes" rose from 29 at the end of 2002 to 34 in December 2003.

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Firmly established as a global eyewear group with an advanced and efficient integrated manufacturing and distribution network, Moulin is in a strong position to leverage on the synergies between its operations across countries and industry sectors. To do this, the Group plans to pursue a number of carefully formulated development strategies.

Growth through investment

Further downstream expansion

The Group intends to further boost growth by continuous investment in its distribution business. This strategy will involve isolating and exploring opportunities to invest further downstream, with a particular emphasis on acquiring a foothold in the US retail market. Taking this direction should provide the Group with important opportunities to control the entire supply chain network and deliver its products directly to end-users. Such moves are being strongly backed by Moulin's parallel investments in internal management and logistics systems, developments that are streamlining and speeding up its operational processes. For example, the Group's web-based SAP information system, its inventory management system and the customer service centres located in its various offices are helping create a streamlined workflow and a fast, efficient delivery system worldwide.

Brand portfolio

Following successful efforts in consolidating its brand portfolio over the past year, the Group is now ready to focus marketing efforts on promoting those strategic brands which it believes to most likely to make a substantial contribution to future growth. The Group's marketing operations will also be boosted across its entire sphere of operations, with an emphasis on further expanding the marketing teams in its international offices to maximize new opportunities arising there.

Management excellence

In a display of confidence in its directions and its long-term potential, Moulin also invested substantially in management excellence. It expects to further strengthen its management team by attracting more high calibre industry experts into the Moulin fold.

Growth through further consolidation

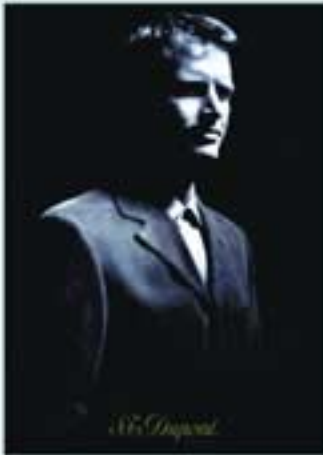
Although the bulk of Moulin's major consolidation initiatives were completed in 2003, it has identified further areas in which consolidation will be beneficial to the Group and result in improved performance and profitability. For example, the Group is studying the best way to maximize the synergies between its different German distribution businesses, while the Group's European warehousing and logistics functions will shortly be centralized in new facilities located in the Czech Republic. This new Czech Republic facility will not only centralize delivery systems for Europe, it will also act as an important hub for the Group's European logistics centres and customer service support.

Prospects *(continued)*

Growth through PRC expansion

In the years ahead, the Group will continue to strengthen its leadership position in the PRC to capture the lucrative market potential there. The Group anticipates further synergies will result from the full integration of its businesses. To accelerate the growth of its PRC business, the Group is actively looking for acquisition opportunities in China.

It is the Group's target to open a further 16 self-operated stores by the end of 2004. Meanwhile, its distribution business will introduce further licensed brands into the PRC market.



Aigner

Longines

Nikon

Marc O'Polo

United Colors of Benetton

Sisley

Reebok

Revlon

S.T. Dupont

Féraud

Paloma Picasso

Kappa

Giordano

Van Laack

Otto Kern

Jeff Banks

Fratelli Lozza

Jackie Chan EyeGear

Krizia

Red Rose

Metzler

Filos

NiGuRa

Enjoy

Blue Eagle

Titane

Indigo

Spacio

Aigner
Longines
Nikon
Marc O'Polo
United Colors of Benetton
Sisley
Reebok
Revlon
S.T. Dupont
Féraud
Paloma Picasso
Kappa
Giordano
van Laack

Otto Kern

Jackie Chan EyeGear

Jeff Banks

Fratelli Lozza

Krizia

Red Rose

Metzler

Filas

NiGuRa

Enjoy

Blue Eagle

Titane

Indigo

Spacio



Brand Portfolio