

Moulin International Holdings Limited

1940 1970 1980 1990

INTERIM REPORT

1992

Wider geographical expansion
one of Moulin's strategic initiatives and begin
conducting an extensive project

United States, South America
and Hong Kong markets

1994

The first Moulin's "America's Best"
product award in Shanghai, PRC

1995

Production of fiberoptic
metal heat seal begins

1996

Receives Customer Product Design Award
at the Hong Kong Awards for Industry

1997

Acquired Liberty Optical Inc.

Production capacity exceeds 10 million pairs

1998

Awarded ISO9001 certification

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

Acquired Metzler Optik Partner AG

2000

Full implementation of ERP system

Acquired Filas S.p.A.

2001

Sino-foreign joint stock company Shanghai Moulin
obtains business license

2002

Acquired NIGUra Optik GmbH

2003

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

2004

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)
		HK\$'000	HK\$'000
	<i>Notes</i>		
Turnover	2	685,652	603,048
Cost of sales		(308,034)	(264,194)
		<hr/>	<hr/>
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)
		<hr/>	<hr/>
Profit from operating activities	4	81,677	119,403
Finance costs	5	(11,845)	(25,018)
		<hr/>	<hr/>
Profit before tax		69,832	94,385
Tax	6	(9,414)	(12,913)
		<hr/>	<hr/>
Profit before minority interests		60,418	81,472
Minority interests		(225)	1,651
		<hr/>	<hr/>
Net profit from ordinary activities attributable to shareholders		60,193	83,123
		<hr/>	<hr/>
Interim Dividend	7	17,971	31,164
		<hr/>	<hr/>
Earnings per share	8		
Basic		12.06 cents	20.17 cents
		<hr/>	<hr/>
Diluted		N/A	20.15 cents
		<hr/>	<hr/>

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2004

		30 June 2004 (Unaudited) HK\$'000	31 December 2003 (Audited) HK\$'000
	<i>Notes</i>		
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 CASH FLOW STATEMENT

Six months ended 30 June 2004

	Six months ended	
	30 June 2004 (Unaudited) HK\$'000	30 June 2003 (Unaudited and restated) 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
Bank overdrafts	824,941 (91,273)	256,025 (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		PRC		Asia Pacific (including Hong Kong)		Europe		Corporate		Others		Total	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30 June		30 June		30 June		30 June		30 June		30 June		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
	<hr/> 9,414 <hr/>	<hr/> 12,913 <hr/>

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)	<hr/> 17,971 <hr/>	<hr/> 31,164 <hr/>

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	<hr/> 60,193 <hr/>	<hr/> 83,123 <hr/>

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	<hr/> 499,200,562 <hr/>	412,049,926
Weighted average number of ordinary shares in issued at no consideration on deemed exercise of all share option during the period	<hr/> — <hr/>	<hr/> 438,681 <hr/>
Weighted average number of ordinary shares used in diluted earnings per share calculation	<hr/> 499,200,562 <hr/>	<hr/> 412,488,607 <hr/>

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.

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 efficient 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

Name of Director	Notes	Number of ordinary shares held				Total	Percentage of the Company's issued share capital
		Personal interests	Family interests	Corporate interests	Other interests		
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:

- 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.
- 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.
- 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	<i>Notes</i>	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