

Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended October 31, 2001.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries and associates are set out in notes 43 and 44 respectively to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover and purchases attributable to the Group's five largest customers and suppliers respectively were less than 30 per cent. of the Group's total turnover and purchases for the year.

RESULTS AND APPROPRIATIONS

The results of the Group and appropriations of the Company for the year ended October 31, 2001 are set out in the consolidated income statement on page 34.

No interim dividend was paid to the shareholders of the Company during the year.

The directors now recommend the payment of a final dividend of HK3 cents per ordinary share to the shareholders on the register of members on April 4, 2002, amounting to HK\$16,364,000, and the retention of the remaining profit for the year of HK\$14,829,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 29 to the financial statements.

INVESTMENT PROPERTIES

The Group's investment properties were revalued at the year end date. The surplus arising on revaluation amounting to HK\$449,000 has been credited to the consolidated income statement. Details of this and other movements in investment properties are set out in note 15 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired leasehold improvements at a cost of HK\$1,165,000, furniture, fixtures and office equipment at a cost of HK\$8,301,000, tools, machinery, factory equipment and fittings at a cost of HK\$6,523,000, motor vehicles at a cost of HK\$6,783,000 and operating supplies at a cost of HK\$869,000.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of the movements in the issued share capital of the Company during the year are set out in note 28 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Lawrence Chia Song Huat, *Chairman*

Mr. Louis Cheng Teong Meng, *Vice-chairman*

Mr. James Chia Song Heng

Mr. Jolly Chang Cheo Lik

Mr. Yong Choon Kong

Non-executive director:

Mr. Alain Xavier Cany

Independent non-executive directors:

Mr. Frank Lee Kee Wai

Mr. Gregory Robert Scott Crichton

In accordance with Article 116 of the Company's Articles of Association, Messrs. Frank Lee Kee Wai and Alain Xavier Cany retire and, being eligible, offer themselves for re-election. However, Mr. Alain Xavier Cany has informed the Company that he will not stand for his re-election in the forthcoming Annual General Meeting.

All of the remaining directors, including the independent non-executive directors, are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the aforementioned Article.

None of the directors proposed for re-election at the forthcoming Annual General Meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Report

DIRECTORS' INTERESTS IN SHARES

At October 31, 2001, the interests of the directors and their associates in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Directors	Number of shares held	
	Personal interests	Other interests (Note)
Mr. Lawrence Chia Song Huat	1,081,000	222,057,393
Mr. James Chia Song Heng	—	222,057,393
Mr. Louis Cheng Teong Meng	3,602,000	—
Mr. Jolly Chang Cheo Lik	750,000	—
Mr. Yong Choon Kong	750,000	—
Mr. Alain Xavier Cany	—	—
Mr. Frank Lee Kee Wai	—	—
Mr. Gregory Robert Scott Crichton	—	—

Note: These shares are held through Pine Asset Management Limited, Eunost Limited and Chestnut Asset Management Limited which are wholly owned subsidiaries of Nastar Holdings S.A.. Nastar Holdings S.A. is the trustee of a discretionary trust and Mr. Lawrence Chia Song Huat and Mr. James Chia Song Heng are two of the beneficiaries.

Mr. Lawrence Chia Song Huat, Mr. James Chia Song Heng and Mr. Louis Cheng Teong Meng also have personal interests in 2,000, 4,000 and 5,000 non-voting deferred shares, respectively in Pico International (HK) Limited, a subsidiary of the Company.

Save as disclosed above and other than certain shares in subsidiaries held as nominees by certain directors of the Group, none of the directors or their associates had any interests in the securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

SHARE OPTIONS

Pursuant to the Company's share option scheme ("Scheme") adopted on September 4, 1992 and which was terminated on January 7, 2002, the directors of the Company might grant options to executive directors and employees of the Company and its subsidiaries to subscribe for shares in the Company, subject to a maximum of 10 per cent. of the issued share capital of the Company from time to time, without prior approval from the Company's shareholders.

SHARE OPTIONS (Cont'd)

At October 31, 2001, the number of shares in respect of which options had been granted under the Scheme was 30,445,800, representing 5.6 per cent. of the shares of the Company in issue at that date. No option might be granted to any one employee which if exercised in full would result in the total number of shares of the Company already issued and issuable to him under all the options previously granted to him and the said option exceeding 25 per cent. of the maximum aggregate number of shares in the capital of the Company in respect of which options might at that time be granted under the Scheme.

No consideration was payable on the grant of an option. Options could be exercised at any time from six months from the date of grant of the share option to the fifth anniversary of the date of grant. The exercise price was determined by the directors of the Company, to be 80 per cent. of the average of the closing prices of the Company's issued shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of offer of the options.

The fair value of the options granted in the year ended October 31, 2001 totalled approximately HK\$3,456,000. The following significant assumptions were used to derive the fair values using the Black-Scholes option pricing model:

- 1) an expected volatility of 160% based on historical volatility;
- 2) annual dividends of 37.7% of earnings based on historical dividends; and
- 3) the Hong Kong Exchange Fund Notes rates of 4.28% for a 3 years period.

The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the existing model does not necessarily provide a reliable single measure of the fair value of the share options.

No charge is recognised in the income statement in respect of the value of options granted in the period.

On January 7, 2002, the Company adopted a new share option scheme which was approved by the shareholders, details of which are set out in the Company's circular dated December 21, 2001.

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SHARE OPTIONS (Cont'd)

The following table discloses movements in the Company's share options during the year:

Name of directors		Outstanding at November 1, 2000	Number of share options granted during the year	Outstanding at October 31, 2001
Category 1: Directors				
Mr. Lawrence Chia Song Huat	(Note (1))	8,816,000	—	8,816,000
	(Note (2))	240,000	—	240,000
	(Note (3))	—	745,200	745,200
Mr. James Chia Song Heng	(Note (1))	6,612,000	—	6,612,000
	(Note (2))	232,000	—	232,000
	(Note (3))	—	700,000	700,000
Mr. Louis Cheng Teong Meng	(Note (1))	1,102,000	—	1,102,000
	(Note (2))	200,000	—	200,000
	(Note (3))	—	625,000	625,000
Mr. Jolly Chang Cheo Lik	(Note (1))	1,102,000	—	1,102,000
	(Note (2))	168,000	—	168,000
	(Note (3))	—	516,800	516,800
Mr. Yong Choon Kong	(Note (1))	1,102,000	—	1,102,000
	(Note (2))	168,000	—	168,000
	(Note (3))	—	516,800	516,800
Mr. Alain Xavier Cany		—	—	—
Mr. Frank Lee Kee Wai		—	—	—
Mr. Gregory Robert Scott Crichton		—	—	—
Total directors		19,742,000	3,103,800	22,845,800
Category 2: Employees				
Granted on December 17, 1999	(Note (2))	3,800,000	—	3,800,000
Granted on December 17, 2000	(Note (3))	—	3,800,000	3,800,000
Total employees		3,800,000	3,800,000	7,600,000
Total all categories		23,542,000	6,903,800	30,445,800

Notes:

- (1) The exercise price is HK\$3.428 per share and the option period during which the options may be exercised is the period from September 14, 1997 to March 13, 2002.
- (2) The exercise price is HK\$0.63 per share and the option period during which the options may be exercised is the period from May 17, 2000 to December 17, 2004.
- (3) The exercise price is HK\$0.49 per share and the option period during which the options may be exercised is the period from May 17, 2001 to December 17, 2005.

Details of the Company's specific categories of share options are set out in note 28(b) to the financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate and none of the directors or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

In the financial years 2000 and 2001, the Group entered into the following connected transactions with the following parties:

- 1) At November 2, 1999, Pico Art International Pte Ltd ("Pico Art") constructed some booth stands for Nomura Co., Ltd. ("Nomura") at the Hannover Expo2000, which was held for a six month period from June to November 2000, for a total consideration of S\$0.86 million (equivalent to approximately HK\$3.9 million). The amount of such consideration was in line with the market price payable for the provision of such services and was agreed after arm's length negotiation between Pico Art and Nomura and on normal commercial terms. It was disclosed in the Group's press announcement dated April 2, 2001.

Nomura is a substantial shareholder of Nomura (Asia Pacific) Corporation Pte Ltd ("Nomura AP"), holding 40% of its issued capital. The remaining 60% of Nomura AP is held by Pico Art. Nomura is therefore a connected person to the Company for the purposes of the Listing Rules.

- 2) In September 2000, an arrangement was made for the provision of mechanical/electrical services and advertising/marketing services by Intertrade Services Pte Ltd, a wholly-owned subsidiary of the Company, to Meeting Planners Asia Pte Ltd ("MPA") at the "International Textile Machinery Asia Exhibition" held during the period from October 15, 2001 to October 19, 2001. The consideration for the services amounted to S\$1.37 million (equivalent to approximately HK\$6.2 million).

The entire issued share capital of MPA was owned by Meeting Planners International Pte Ltd ("MPI"), a company incorporated in Singapore which was owned by a relative of an executive director of the Company who was deemed to be a connected person by the Stock Exchange in accordance with the Listing Rules. Consequently, MPA is an associate to a deemed connected person and all the transactions entered with MPA were connected transactions.

On October 12, 2001, the Group acquired the entire issued share capital of MPI and MPA became a wholly-owned subsidiary of the Company. Therefore, all such transactions entered into after that date had become inter-company transactions of the Group. For details of the acquisition, please refer to the following Paragraph (6).

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CONNECTED TRANSACTIONS (Cont'd)

- 3) From August 1, 2000 to March 19, 2001, an arrangement whereby upon the receipt of orders on internet for exhibition furniture, eXpoMan.com Limited ("Expoman.com") referred such orders to the Group. The Group charged Expoman.com a fee (comprising rental charge for the leasing of the furniture and a service fee for the physical delivery thereof) and in turn Expoman.com charged its client a mark-up fee for such service. The service fee charged by the Group to Expoman.com for the period between August 1, 2000 to March 19, 2001 amounted to HK\$2.6 million, which was agreed upon after arm's length negotiation between the parties and on normal commercial terms. It had been disclosed in the Group's press announcement dated April 2, 2001.

Expoman.com is a company incorporated in Hong Kong and is principally engaged in the business of internet ordering service. It is wholly owned by ExhibitionOne.com Limited, a company in which 52% of its issued share capital is held by Pico.com Limited, a wholly-owned subsidiary of the Company, and 18% held by Meeting Planners (HK) Limited ("MPHK"). MPHK is a company incorporated in Hong Kong with a substantial shareholder who is a relative of an executive director of the Company and who is deemed to be a connected person of the Company by the Stock Exchange in accordance with the Listing Rules.

- 4) Referring to Paragraph (3) above, the Group entered into further transactions with Expoman.com under this arrangement as ongoing connected transactions ("Transactions"). These transactions were approved by the shareholders on May 31, 2001 and a waiver on the cap amount of not exceeding 5% of the Group's consolidated turnover for each of the three financial years ending October 31, 2003 was obtained. The Transactions amounted to HK\$4.3 million for the year ended October 31, 2001.

The independent non-executive Directors of the Company had reviewed and confirmed the Transactions made during the year and are of the opinion that the Transactions have been entered into by the Group:

- a. in the ordinary and usual course of the business of the Group;
- b. on normal commercial terms which expression will be applied by reference to transactions of a similar nature and to be made by similar entities or where there is no available comparison on terms that are fair and reasonable so far as the interests of the shareholders of the Company taken as a whole are concerned;
- c. with the aggregate value of the Transactions for each of the three financial years ending October 31, 2003 being less than the maximum annual expected cap as stated above; and
- d. on terms that are fair and reasonable so far as the shareholders of the Company taken as a whole are concerned.

CONNECTED TRANSACTIONS (Cont'd)

- 5) During the year ended October 31, 2001, Pico Art was appointed as an official contractor for certain trade shows and exhibitions organised by the MPI and its subsidiaries ("MP Group"). Before MPI was acquired by the Group, MPI was an associate (as defined under the Listing Rules) of a deemed connected person of the Company under the Listing Rules, therefore the provision of services by Pico Art to the MP Group constituted connected transactions for the Company. A total of S\$0.69million (equivalent to approximately HK\$3 million) service fee was charged by Pico Art to MP Group for the year. It had been disclosed in our press announcement dated June 13, 2001.

On October 12, 2001, the Group acquired the entire issued share capital of MPI and it became a wholly-owned subsidiary of the Company. Therefore, all those transactions entered into after that date had become inter-company transactions of the Group. For details, please refer to the following Paragraph (6).

- 6) On August 22, 2001, the Company, Kenlory Limited ("Kenlory"), a wholly-owned subsidiary of the Company, entered into conditional agreements with MPHK and Pine Financial Services Ltd ("PFS"). Pursuant to the agreements, Kenlory conditionally agreed to acquire the entire issued share capital of Meeting Planners International (HK) Limited ("MPIHK") and MPI. The acquisitions constituted connected transactions for the Company under the Listing Rules and were subject to approval by the independent shareholders of the Company pursuant to the Listing Rules.

Upon completion of the acquisitions on October 12, 2001, a deed of profit guarantee was executed by MPHK, PFS and Kenlory. Pursuant to the deed of profit guarantee, MPHK and PFS jointly and severally guaranteed and undertook to Kenlory that the aggregate of the proforma consolidated/combined net profits before taxation of MPI and the proforma profits before taxation of MPIHK (assuming the reorganisation had been completed since November 1, 2000) for the two financial years ending October 31, 2002 will not be less than HK\$20 million in aggregate. For calculation of the actual proforma consolidated/combined net profits before taxation of MPI and the actual proforma profits before taxation of MPIHK for the two years ending October 31, 2002, the financial effect of the following shall be excluded:

- a. any profits or losses resulting from the reorganisation;
- b. the value of intangible assets of the MP Group to be written off in the year ended October 31, 2001; and
- c. any profits or losses deriving from any new businesses acquired by the MP Group which are not similar to or complementary to the existing businesses carried on by the MP Group after completion of the acquisitions or from any diversification of the existing businesses of the MP Group after completion.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at October 31, 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10 per cent. or more in the issued share capital of the Company:

Name	Number of shares
Nastar Holdings S.A.	222,057,393 (Note 1)
Pine Asset Management Limited	188,424,030
BAC Investments Limited	88,919,759 (Note 2)

Notes:

1. These shares are held through Pine Asset Management Limited, Eunost Limited and Chestnut Asset Management Limited which are wholly owned subsidiaries of Nastar Holdings S.A.. Nastar Holdings S.A. is the trustee of a discretionary trust of which Mr. Lawrence Chia Song Huat and Mr. James Chia Shong Heng are two of the beneficiaries.
2. Mr. Alain Xavier Cany who is a non-executive director of the Company is a director of BAC Investments Limited.

Save as disclosed above, the Company had not been notified of any other interests representing 10 per cent. or more of the issued share capital of the Company as at October 31, 2001.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended October 31, 2001 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws in the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of the subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDITORS

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Lawrence Chia Song Huat

Chairman

Hong Kong, February 19, 2002