

Chairman's Statement

I am pleased to present to our shareholders, the annual report of Pico Far East Holdings Limited ("the Company") and its subsidiaries ("the Group") for the year ended October 31, 2002.

RESULT

The full business effect of the September 11, 2001 crisis was felt in the first half of the Group's financial year. As explained in the interim report, several exhibitions were cancelled because of security concerns. This unforeseen event which coincided with the downturn and slow growth in the major economies had affected the overall business of the Group. Consequently, Group's turnover of HK\$1,012 million for the year ended October 31, 2002 (2001: HK\$1,318 million) was 23% lower than the previous year. Profit from operations was HK\$31 million which was 38% lower than the previous year. Although the full year result has not been as large as the previous year, it has nevertheless improved markedly in the second half of the financial year due to our timely cost cutting measures. Thus the Group has been able to record a reasonable profit attributable to shareholders of HK\$16 million (2001: HK\$31 million) in spite of the very severe business operating environment.

DIVIDEND

The Directors of the Company recommend a final dividend of HK1.5 cents per share (2001: HK3.0 cents per share) which represents a yield of approximately 5% based on the closing price preceding the date of this report.

REVIEW OF OPERATIONS

The Group is principally engaged in exhibitions and events marketing. It is also engaged in museum and permanent exhibits; sign advertising; conferences and show organisation; and exhibition hall ownership and management.



Bahrain Summer Shopping Festival

Exhibitions and Events Marketing

This is the principal line of the Group's business and it accounts for 79% of the total Group's turnover (2001: 80%).

Although the overall turnover of the exhibitions and events marketing business receded by 24% compared with that of the previous year, approximately half of the shortfall had been due to the absence of the biennial "Asia Telecom" show which was held in the previous year but not in the year under review.

The provision of the Group's services continues to be dominant at international exhibitions and events. Some of these exhibitions are enumerated in the Review of Operations section of this Annual Report.

In particular, Pico Bahrain was engaged by the Economic Development Board of Bahrain to design, organise and manage the "Summer Shopping Festival" in the Emirate. This was a three month long event which included musical shows, space discovery exhibitions and street decorations.

During the year the Group increased its presence in the United States through an acquisition of 70% of Architectural Concepts, Inc. ("ACI"), an exhibition company based in Atlanta, Georgia USA. Its customers had in the past included Coca Cola and United Parcel Services as well as other leading business names in the United States. This acquisition will put the Group in a strong position to reap the upturn in the exhibition business when the US economy recovers as surely it must.

Chairman's Statement

Museum and Permanent Exhibits

This division accounts for approximately 11% of the Group's total turnover (2001: 15%). The decline is due to the nature of the museum exhibits business as the number of projects which are available for tender varies from year to year.



Nokia Care Centre

During the year the Group completed the fabrication of exhibits for Phase 2 of the Taipei Astronomical Science Museum which had commenced in the previous year.



Taipei Astronomical Science Museum – Cosmic Adventure

Although no large new museum projects were contracted during the year, the directors anticipate that some large projects will be implemented across Asia and the Group stands a good chance of securing some of these projects as it is one of the leading museum exhibits fabricators in Asia.

Sign Advertising

The sign advertising division which is based in Shanghai, China has expanded its operations to Beijing. This expansion is in line with the

Group's objective to further develop this business division into another source of stable income besides its exhibitions and events marketing business.

Some of the well known customers

of the Group includes Kodak, McDonald's, General Motors, Nokia, Ericsson and Carrefour.

Conferences and Show Organisation



Hospital Authority Convention

The Group was involved in several conferences and show organisations in Singapore, Hong Kong and Shanghai. These are three of the leading cities for conferences and exhibition shows in Asia.

Among others, the Group had organised "Asia Money Fair" in Singapore and managed the "Hospital Authority Convention" and the "Women's Commission Conference" in Hong Kong. It has also been appointed to organise and manage "ITMA 2005" after the

Chairman's Statement

same successful show which was held in Singapore in October 2001.

Hall Management

The Group operates the Sri Lanka Exhibition and Conference Centre ("SLECC") and the Ho Chi Minh International Exhibition and Convention Centre ("HIECC") since 1998. These halls are operated in partnership with the local government authorities.

These halls have performed well during the year. The operational experience which the Group has gained from managing these 2 halls will enable the Group to further develop this business in other cities in Asia.

FINANCIAL POSITION

At October 31, 2002, the total net assets of the Group was approximately HK\$424 million (2001: HK\$422 million). In terms of liquidity, the current ratio (current assets/current liabilities) was 1.2 times, which has improved from 1.1 times in the previous year. The Group's bank and cash balances, of approximately HK\$184 million was comparable to that of the previous year (2001: HK\$189 million). The Group's total borrowings due within one year and due more than one year were HK\$97 million (2001: HK\$85 million) and HK\$30 million (2001: HK\$28 million) respectively. The increase in the total borrowings of HK\$14 million was mainly applied to acquire a 70% equity interest in ACI as mentioned above. Upon our continuing control on the capital expenditure our cash flow remains very strong. At the end of the year, the cash and cash equivalents balance was approximately HK\$177 million (2001: HK\$184 million). The Group's gearing ratio (long term debts/total assets) of 3.4% is still very low and is comparable to the previous year (2001: 2.8%). All in all, our financial position remains strong and this will enable the Group to capitalize on any business expansion and investments opportunities in the future.

Although our subsidiaries are located in many different countries of the world, over 64% of the Group's sales and purchases were denominated in Singapore dollars, Hong Kong dollars, Renminbi and US dollars, and the remaining 36% were denominated in other Asian currencies and European currencies. Bank borrowings are mainly denominated in Singapore dollars, Hong Kong dollars and US dollars and the interest is charged on a floating rate basis.

Since we are already diversified in many different currencies and the major Asian currencies are quite stable throughout the year, the Group's exposure to foreign exchange risk is minimal.

EMPLOYEES AND EMOLUMENTS POLICIES

As at October 31 2002, the Group employs a total of approximately 1,400 full time employees (2001: 1,400) engaged in project management, design, production, sales and marketing and administration, which was supported by a large pool of subcontractors and suppliers.

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the trends of salaries in various regions, which will be reviewed regularly every year. Apart from provident fund scheme and medical insurance, discretionary bonuses and employee share options are also awarded to employees according to the assessment of individual performance.

PLEDGE OF ASSETS

At October 31, 2002, the Group has pledged bank deposits of approximately HK\$18 million (2001: HK\$17 million), land and buildings, investment properties, accounts receivable, inventories and property and equipment with aggregate net book values of approximately HK\$266 million (2001: HK\$238 million), HK\$4 million (2001: HK\$25 million), HK\$8 million

Chairman's Statement

(2001: nil), HK\$2 million (2001: nil) and HK\$1 million (2001: nil), respectively, as collaterals for credit facilities granted to the Group by certain banks. The pledged bank deposits are applied to secure short-term bank borrowings.

CONTINGENT LIABILITIES

On April 26, 2002, the Group entered into an agreement to acquire a 70% equity interest of ACI. According to the agreement, there is a contingent consideration payable by the Group based on the full year audited result of ACI ending on December 31, 2002. The maximum contingent consideration payable is HK\$5,363,000 and at the date of this report, the audit of ACI is not completed.

At October 31, 2002, the Company had issued guarantees of approximately HK\$425 million (2001: HK\$478 million) to bankers to secure general banking facilities granted to certain subsidiaries and related companies. Out of them, HK\$4 million (2001: HK\$4 million) and HK\$18 million (2001: HK\$18 million) were related to the guarantee granted to an associate and an invetee company respectively.

CAPITAL COMMITMENTS

The Group is under negotiation with certain third parties to establish two joint ventures in which the Group will invest approximately RMB1,020,000 and USD700,000 respectively to develop exhibition companies in China.

PROSPECTS

In recent years it has become more difficult to predict the immediate business prospects due to the sudden occurrence of undesirable events such as the 1997 financial crisis, the internet bubble burst and the September 11 crisis and their negative impact on business in particular. These events overlap one another in terms of their impact on business and thus makes it very difficult for the Group to recover firmly. In spite of this, the Group has overcome the difficult challenges of the last financial year and barring unforeseen circumstances the Directors look forward to a more sustained recovery in the year ahead.

CONCLUSION

On behalf of the Board of the Directors I would like to thank Messrs. Alain Xavier Cany, Louis Cheng Teong Meng and Jolly Chang Cheo Lik who have all provided valuable services as Directors of the Company until March 2002. I take this opportunity to welcome Mr. Charlie Yucheng Shi who joins us as a Non-Executive Director on December 23, 2002.

On behalf of the shareholders, I would like to thank all our customers and business associates for their support and to all our staff their contributions during the past year.

Lawrence Chia Song Huat
Chairman

Hong Kong, February 18, 2003