

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, 2006.

Results

The Group continued to deliver record turnover and earnings for the year ended October 31, 2006.

Turnover for the year was up 5.2% to HK\$1,804 million (2005: HK\$1,715 million). Profit for the year attributable to equity holders was up 11.6% to HK\$135 million (2005: HK\$121 million) while earnings per share were up 9.3% to HK11.61 cents (2005: HK10.62 cents).

Earnings before interest, tax, depreciation and amortisation were up 11.6% to HK\$202 million (2005: HK\$181 million). Cashflow of HK\$67 million was generated from operations, and the Group ended the year with a net cash balance of HK\$299 million (2005: HK\$334 million).

The Group's principal associate, Pico (Thailand) Public Company Limited ("Pico Thailand"), which is listed on the Stock Exchange of Thailand, reported a turnover of HK\$209 million and a profit attributable to equity holders of HK\$14 million for the year ended October 31, 2006. The turnover of Pico Thailand is not consolidated into the Group's turnover.

Final Dividend

The directors now recommend the payment of a final dividend of HK3.5 cents per ordinary share. Together with the interim dividend of HK2 cents per ordinary share, the total dividend for the year amounted to HK5.5 cents per ordinary share. The final dividend will be payable on March 16, 2007.

Our Business Focus

The Group is committed to building sustainable growth in turnover and profit through innovation and through improvement of its business structure, services, and delivery channels.

Review of Operations

1. Exhibition and Event Marketing Services

	2006 HK\$'000	2005 HK\$'000
Turnover	1,472,377	1,185,623

This is the mainstream business of the Group which accounted for 81.6% of the Group's turnover (2005: 69.1%). The Group has a diversity of exhibition customers, and no single exhibition customer accounts for more than 2% of the total Group's turnover.

In 2006, companies worldwide faced ever-increasing need to generate additional revenues, improve profit margins and achieve a better return on their investments including those from exhibitions and events. The Group adopted innovative approaches such as experiential marketing and focused event marketing, to create opportunities for companies to meet their expectations. As a result of this business strategy, our core business continued to be cash generative and to comprise substantial repeat revenues throughout 2006. Turnover in 2006 was up 24.2% over 2005.

Highlights of the Group's achievements in 2006 included preparing the venue for the IMF-World Bank Annual Meetings held in September 2006 in Singapore. The Group designed and built over 1,000 double-storey office suites, complete with interior design fittings, air-conditioning, lighting and electricity, telephony, IT facilities and sanitary facilities, in 35 days, or three office suites per hour. The Group was subsequently presented with a bronze award in the 'Interior Builder' category by the Singapore Furniture Industries Council in recognition for good quality, design and build efficiency.



IMF – World Bank Annual Meetings 2006, Singapore

The Group was also appointed as the Official Technical Services Provider for the first ITU Telecom World exhibition held outside Geneva in December 2006 in Hong Kong. The Group was the Event Manager, the Technical Service Provider as well as the Special Design Contractor for several multi-national corporations which took part in this triennial exhibition.

Asia continues to be the main venue of the Group's exhibition business, but our customer base is international. Besides Asian exhibitors who engage Pico services for trade shows held in Europe and North America, the Group provided services to both domestic and international exhibitors who

participated in various trade shows held throughout Asia. These trade shows were typically held in South East Asia, Taiwan, Korea, Japan, and in the main cities of China including Hong Kong, and covered a broad range of industry groups such as:

- a. Telecommunications
- b. Automobile
- c. Aerospace & Defence Related
- d. Industrial Machinery (Textile, Agricultural, etc)
- e. Consumer Products
(Leather, Clothing, Jewellery, Watch, Optical, Shoes, Electronics, etc)
- f. Information Technology
- g. Oil & Gas
- h. Semiconductor
- i. Tourism & Travel
- j. National Events (National Celebrations, International Meetings, etc)

In total, the Group provides services at more than 600 major exhibitions annually in addition to special events. In 2006, the Group provided services to exhibitors and/or organisers at more than 100 exhibitions in Singapore, 65 in Malaysia, 51 in Thailand, 65 in Middle East, 50 in UK, and 61 in the U.S., besides those in China, Hong Kong, Taiwan, Vietnam, Korea, India, and Japan.

The Group's extensive global reach and industry coverage is made possible by our established international network of 30 offices in 18 countries, and our management of three main exhibition and convention facilities located in three major cities – Chongqing, Ho Chi Minh City and Colombo. In addition, we occupy 12 full fledged production facilities with a combined area

of over 60,000 square metres, in Atlanta, Dubai, Ho Chi Minh City, Singapore, Kuala Lumpur, Bangkok, Hong Kong, Dongguan, Shanghai and Beijing.

2. Hall Management and Related Services

	2006 HK\$'000	2005 HK\$'000
Turnover	83,525	40,299

Hall Management and related services accounted for 4.6% of the Group's turnover (2005: 2.4%). This segment continued to develop positively in 2006, with the operating margins in Vietnam and Sri Lanka respectively higher in 2006 than in 2005, and the addition of Chongqing International Convention & Exhibition Centre (CQCEC) to the Group's hall management portfolio in October 2005. For exhibitions alone, a total of 31 were held in our hall in Ho Chi Minh City (2005: 30), 21 in our hall in Colombo (2005: 18), and 50 in our new hall in Chongqing in 2006.

CQCEC's main facilities include an Exhibition Centre, a Convention Centre and space for outdoor events. The Exhibition Centre consists of three exhibition halls, with a total exhibition area of 45,000 square metres while the Convention Centre consists of 33 meeting rooms including one 1,100 seat theatre and a Grand Banquet Hall that can accommodate 100 banquet tables. In 2006, approximately 50 exhibitions and 150 meetings/banquets were held in CQCEC. CQCEC was also the venue for the spring and the autumn property shows respectively,

each occupying 30,000 square metres of exhibition space, and the Chongqing International Auto Industry Exhibition which occupied 33,000 metres. Major events with international participation at CQCEC included the 7th Hong Kong Property Services and City Construction Expo, the Hong Kong, Taiwan, Macau and Chongqing Convention and Exhibition Industry Co-operation Forum, the 1st Chongqing City Mayor International Economic Consultants Round Table Forum, and the 7th Western China General Machinery and Machine Tool & Mold Show.

Construction of the Xian Greenland Pico International Convention and Exhibition Centre in Xian, China is in progress. Besides taking a 30% stake in the venue, the Group also entered into a management contract with the venue owner.



Xian Greenland Pico International Convention and Exhibition Centre

The Group's recent interest in hall management in China is strategic. Though the Chinese exhibition industry only started to expand in the 1990s, figures of the Chinese exhibition industry are looking impressive. According to the Shanghai Foreign Economic Relation & Trade Commission, Shanghai alone hosted more than 245 international exhibitions with a total exhibition space of

at least 4.16 million square metres in 2006. Although there was a decline in the number of exhibitions in 2006 due to the consolidation of smaller domestic trade shows into bigger international trade shows – there were 276 last year – the average exhibition space jumped by at least 25%. Large exhibitions in Shanghai with an exhibition space of over 10,000 square metres, accounted for 35% of the total in China.

3. Conference and Show Management

	2006 HK\$'000	2005 HK\$'000
Turnover	38,443	119,891

Conferences and Show Management accounted for 2.1% of the Group's turnover (2005: 7.0%). This segment operates under the name of MP International Pte Limited ("MPI"). The absence of the ITMA Asia (International Textile Machinery Association) show in 2006 accounted for the reduction of turnover in 2006. ITMA Asia has been held once in every four years; in 2001 and in 2005.

In March 2006, MPI was appointed as the event manager for the Diplomatic Conference for the Adoption of a Revised Trademark Law Treaty, which was held for the first time in Asia. More than 650 top

policymakers and intellectual property rights experts from 183 World Intellectual Property Organization member countries attended this conference. The event concluded successfully with 33 countries signing a treaty on the Law of Trademarks.

The International Furniture Fair Singapore, where MPI has an interest of 40%, was held in March 2006. It covered an area of 57,000 gross square metres and attracted exhibitors from 29 countries.



International Furniture Fair 2006, Singapore

2006 also saw MPI's foray into the Middle East market with the successful staging of the first Recycling and Recoverable Fibres conference in Dubai in September. MPI's new Middle East unit, together with the International Furniture Fair Singapore, is preparing for the International Hospitality Furniture Expo in Bahrain in September 2007.

MPI has been appointed as the co-organiser for the first combined textile machinery show, ITMA Asia + CITME (China International Textile Machinery Exhibition) to be held in Shanghai in 2008. This first show will be Asia's biggest and most significant international textile machinery event for the industry as it combines the ITMA Asia and the CITME into one larger show from 2008 onwards.

Other shows organised by MPI in 2006 included the 2nd World Toilet Expo and Forum 2006 in Bangkok, the World Lottery Convention & Trade Show 2006 in Singapore and the Integrated Systems China 2006 in Shanghai.

Upcoming shows for MPI include the International Furniture Fair Singapore/24th ASEAN Furniture Show, the Incentive Travel, Conventions & Meetings China 2007, the Integrated Systems China 2007 and the ITS Asia Pacific Forum 2008 in Singapore.

4. Sign Advertising

	2006	2005
	HK\$'000	HK\$'000
Turnover	107,399	92,977

Sign advertising accounted for 6.0% of the Group's turnover (2005: 5.4%). With a favourable trend towards sign advertising, this segment continues to do well. Turnover has grown by 15.5% during the year.

This segment operates out of the Group's factory in Jiading district of Shanghai. During the year, this factory expanded to a gross area of 27,000 square metres including 10,000 square metres of shop floor.

During the year, the Group designed and implemented a modern way-finders signage system in both the exterior and interior of the Shanghai Southern Railway Station. This railway station, which is the world's first

circular railway station with the latest facilities and technologies of its kind, provides a key transport hub for road rail and subway transport in the city. Following the successful implementation of Shanghai's signage system, the China Railway Bureau has considered implementing the same system in other railway stations across China using the Shanghai system as a benchmark.



Total-Sinochem, China

In addition to producing signage for world renowned companies like Shanghai General Motors, Nissan, Total-Sinochem and McDonald's, the Group has also completed Guangzhou Toyota's corporate identity signage programme across more than 70 4S (Sales, Spare parts, Service and Survey) stores in China.

With the Group's unmatched strength in expertise and quality assurance, we were awarded a major contract by Shell to provide signage for its corporate buildings and refinery plants across Europe, Asia, Middle East and the U.S. This is a three-year contract with an estimated contract value of US\$10 million per year.

Moving forward, the Group is geared to tap into the booming demand from overseas markets. We have started to establish sales and marketing offices in the U.S. and EU to capitalise on the economies of scale and low-cost production facilities in China.

5. Museums, Theme Parks, and Interior Business

	2006 HK\$'000	2005 HK\$'000
Turnover	101,768	275,994

This segment is a success story of the Group's deployment of core competencies into related fields. For this financial year ended October 31, 2006, our Museums, Theme Parks, and Interior Business accounted for 5.6% of the Group's turnover (2005: 16.1%). Over the years, the Group has been slowly but steadily gaining worldwide recognition as a major provider for services under this segment. Our 2006 worldwide achievements highlight this recognition.

In Singapore, the Group has provided a turnkey package for Asia's first 2-storey luxury terminal for VIPs at Singapore's Changi Airport where we conceptualised, designed, built and furnished the interior of the terminal which started operations in August 2006. The Group has also upgraded Singapore's NEWater Visitor Centre with new graphic designs and new multimedia exhibits. In addition, the Group has completed a gallery interior fit-out for Singapore's Philatelic Museum, National

Library Board's Literacy Gallery and the TigerLIVE Gallery located at St. James Power Station entertainment spot, which used to be Singapore's first coal-fired power station.

In Malaysia, the Group has refurbished the Bursa Malaysia Information Gallery, and will complete the design and renovation of the 4,000 square metres Malaysia Export Exhibition Centre in 2007.

In Thailand, the Group has renovated and provided the interior decorations for the Arts and Culture Hall for the eastern region at Phase II of Burapha University in Chonburi. The Group has also provided design work for several Thai museums such as the Rama VII museum of the Rama VII Institute at Larn Luang and the sports museum for the Sport Authority of Thailand. In addition, the Group has provided a turnkey package for BLC Power Ltd's Visitor Centre in Mab Ta Phut Industrial Estate in Rayong.

In Hong Kong, the Group has successfully completed the interior fit-out for two well-known tourist attractions: Ocean Park Jelly Fish Exhibit and the Ngong Ping Theme Village in the first quarter of 2006. The Group was awarded contracts to refurbish Kid's World at Ocean Park, and will complete the design and construction work for the Cathay Pacific Visitor Centre (formerly the Cathay Pacific Airways Museum) by early 2007. In addition, the Group was appointed to continue the maintenance and implement



Ngong Ping Theme Village, Hong Kong

new works at the Hong Kong Disneyland. The Group also provided design and fabrication work for the Interactive Centre of the Jockey Club TeenGuard Valley project as well as for the Exhibits and Graphics at the Hong Kong Stock Exchange Visitor Centre, and replicated fireplaces, mantel pieces, chandeliers and lampshades for the Dr. Sun Yat Sen Museum.

In Macau, the Group has commenced a contract at the Venetian Macao in Cotai. This project includes the design, supply, installation and fabrication of the podium canals, bridges and boats. This project is expected to complete by the first quarter of 2007. The Group is also looking for other potential theme-type design and fit-out contracts in the Venetian Macao in Cotai. These should be awarded as the main owner's project progresses.

In Europe, the US Army appointed the Group as the main contractor for the scenography of a new museum – the D-Day Museum in Normandy (Omaha Beach), which is the first to be built in the world on an American military cemetery. Scenography work on this US\$2.2 million project started in February 2006 and is expected to end in April-May 2007. This museum will be officially opened by the US President on the D-Day anniversary (June 6, 2007) with 2,500 VIP guests in attendance. In the upcoming years, similar museums will be built on other American military cemeteries around the world.

On the interior architecture side, the Group has completed fit-out projects for several retail outlets and offices such as the Samsung service centres and retail chain in Dubai, Jordan, Qatar, Malaysia and Vietnam; the Hanoi Telecom Mobile flagship stores and the Fujifilm retail outlets in Vietnam; the Panasonic and the Levi's retail outlets in Dubai; the Maersk Line corporate offices in Bahrain; the China International Marine Containers Group showroom in Shenzhen, China; the Jurlique duty-free counters in Hong Kong, Macau, Japan and Taiwan; and the Nokia retail outlets in China and Taiwan.



Motorola Headquarters, Illinois, USA

In Europe, the Group has been engaged as a global partner for the Bacardi Global Merchandise Group which carries well-known brands such as Bacardi Rum, Martini & Rossi Vermouth, Dewar's Scotch, Bombay Sapphire Gin, and Grey Goose Vodka. In 2006 alone, the Group has completed the installation of Bacardi Global Merchandise Group's travel retail counters in 83 airports and 12 ferry terminals across Europe.

In Paris, the Group won the L'Occitane Travel Retail fit-out programme in Europe, Middle East and the U.S. In 2006, the Group produced and installed a customised furniture series at various L'Occitane retail outlets in European airports such as the airports at Birmingham, Heathrow, Paris, Bordeaux, and Toulouse. For 2007, the Group will produce a similar furniture series for the L'Occitane retail outlets in Middle East and the U.S. The Group will also look out for similar opportunities in Asia.

6. Sports and Games Events

The sports and games events business is dominated by strong players and dynamics. Though the Group is relatively new in this area, the Group's strategic alliances, and involvement in the Athens Olympics 2004 and the 117th International Olympic Committee meeting in 2005 have helped the Group to overcome high entry barriers. Coupled with the Group's achievements in 2006, this segment looks poised to be one of the fastest expanding businesses for the Group in upcoming years.



Melbourne Commonwealth Games 2006

In this financial year ended October 31, 2006, the Group's 50:50 Italian joint venture company was appointed Official Supplier by the Torino Olympic Committee for the Torino Winter Olympics and Paralympics 2006. As Official Supplier, the Italian joint venture company provided several temporary facilities which included approximately 40,000 square metres of tents, 13,000 square metres of prefabricated houses, 800 chemical toilets, 8,000 square metres of carpets and pavements, 66,000 metres of fences, and 1,500 flag and banner poles.

The Group was also involved in another 50:50 Australian joint venture company that was appointed Official Provider for the Melbourne Commonwealth Games 2006. As Official Provider, the Australian joint venture company supplied and installed marquee structures, temporary wall panels, carpets, temporary flooring, lighting and air-conditioning for the Office of Commonwealth Games Coordination.

In the next financial year beginning November 1, 2006, the Group has already secured and completed one major sporting event – the 15th Asian Games in Doha in December, 2006. Appointed by the Doha Asian Games Organising Committee, the Group supplied and installed about 35,000 square metres of tentage as well as provided project management, design, installation, maintenance and dismantling services for the various games venues.

As both China and India continue to surge ahead in terms of economic growth, and Asia continues to be a hotbed for upcoming major sporting events such as 2008 Olympics in Beijing and the 2010 Commonwealth Games in New Delhi, future plans are already on the drawing board for the Group. The Group will also continue to bid for contracts at other international sporting events such as Euro Cup 2008 in Austria-Switzerland and the FIFA World Cup 2010 in South Africa.

Financial Position

As at year end date, total net tangible assets of the Group increased by 22.1% to about HK\$679 million (2005: HK\$556 million). The Group's funding requirements are cash on hand, internally generated cash and to the extent required, by external bank borrowings. In terms of liquidity, the current ratio (current assets/current liabilities) was 1.44 times (2005: 1.33 times) and the liquidity ratio (current assets – excluding inventory and contract work in progress / current liabilities) improved to 1.36 times (2005: 1.26 times). The gearing ratio (long term borrowing / total assets) was 1.12% (2005: 0.55%) at the end of the year. The Group continues to preserve a healthy financial position by maintaining a low gearing ratio.

The total bank and cash balances and the pledged bank deposits of the Group stood at HK\$338 million (2005: HK\$385 million). Overall total borrowings amounted to HK\$39 million, a decrease of HK\$12 million (or 23.5%) as compared to HK\$51 million for year ended October 31, 2005. Our sound financial position will enable the Group to capitalise on any business expansion and investments opportunities in the future.

Although our subsidiaries are located in many different countries of the world, over 73% of the Group's sales and purchases were denominated in Singapore dollars, Hong Kong dollars and Renminbi, and the remaining 27% were denominated in other Asian currencies and European currencies. Bank borrowings are mainly denominated in Singapore dollars, Hong Kong dollars and Renminbi, and the interest is charged on a floating rate basis.

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

Employees and Emoluments Policies

As at October 31, 2006, the Group employs a total of approximately 2,000 full time employees (2005: 1,800) engaged in project management, design, production, sales and marketing and administration, which was supported by a large pool of subcontractors and suppliers. The staff costs incurred in the year was about HK\$336 million (2005: HK\$297 million).

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, 2006, the Group has pledged bank deposits of approximately HK\$9 million (2005: HK\$12 million), freehold land and buildings, leasehold land, leasehold buildings, investment properties, trade debtors, inventories and equipment with aggregate net book values of approximately HK\$15 million (2005: HK\$14 million), HK\$50 million (2005: HK\$57 million), HK\$148 million (2005: HK\$129 million), HK\$14 million (2005: HK\$14 million), HK\$14 million (2005: HK\$13 million), HK\$1 million (2005: HK\$1 million) and HK\$1 million (2005: HK\$1 million), 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

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in respect of banking facilities granted to				
– subsidiaries	–	–	443,473	400,203
– associates	4,000	4,000	–	–
– investee company	4,000	4,000	–	–
	8,000	8,000	443,473	400,203
Performance guarantees				
– secured	10,851	10,621	–	–
– unsecured	5,624	2,075	–	–
	16,475	12,696	–	–
Other guarantees				
– secured	–	–	–	–
– unsecured	6,704	12,902	–	–
	6,704	12,902	–	–

As at balance sheet date, Pico Art International Pte Limited, a subsidiary of the Company, together with a Group's subsidiary and an associate in Dubai, have been named as first defendants in a civil proceeding in Dubai brought by the other shareholder of the Company's subsidiary, Pico International (Middle East) L.L.C. ("PIME") which had filed for liquidation and not traded since the middle of 2002, for an amount of

Dirhams 30 million or HK\$64 million for alleged loss of profits by PIME. The Group has sought legal advice in Dubai against this proceeding and are currently disputing the claim and no provision for any potential liability has been made in the financial statements. The court has dismissed the plaintiff's case in July 2006 and the plaintiff is in the process of appealing against this decision.

After the balance sheet date, Pico Hong Kong Limited ("Pico Hong Kong"), a subsidiary of the Company, has been notified of a default judgement given by a district court in northern Italy against it in the sum of about Euro 1 million or HK\$10 million. Pico Hong Kong has sought legal advice and is appealing against the default judgement as it was not given opportunity to defend in the court. Furthermore, Pico Hong Kong did not enter into any purchase of services contract with the plaintiff which is the subject of the plaintiff's claim. Pico Hong Kong was only a shareholder of an Italian company now in liquidation to which the plaintiff supplied services at the Torino Winter Olympics 2006.

Capital Commitments

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Capital expenditure		
in respect of		
investment in		
an associate		
– contracted for but		
not provided in		
the financial		
statements	–	14,423

The Company did not have any other significant capital commitments at October 31, 2006.

Outlook

Looking ahead, we expect our current growth to continue. 2006 was an excellent year, but we believe 2007 will see the Group strengthening more.

All throughout this financial year, deliberate actions had been taken by the Group to prepare for future trends in the industry in order to retain the Group's competitive foothold in the industry – from innovative business approaches to strategic investments and partnerships in China and other parts of Asia. As a result, 2007 promises to deliver a rosier outlook for the Group as more investors are buying into the idea of cloning Las Vegas across Asia, and as more Asian countries are focusing on the MICE (Meeting, Incentive, Convention, Exhibition) market.

In China and India – the epicentres of a massive economic and demographic shift – the industry is heating up. In China, the concept of tourism concerning the Beijing 2008 Olympiad and the Shanghai World Expo 2010 is warming up. The International Congress & Convention Association forecasted that "China is likely to become a primary destination for international MICE tourism in the 21st century" while survey findings by American Express showed that China will become the largest market business travelling in the world by 2010 with over 137 million business travellers. And in India, MICE has been identified as a major area of promotion under the 'Incredible India' campaign – with the Indian government extending support for the setting up of large and small convention centres with exhibition facilities at various Indian cities to increase India's 1% of the total MICE market.

In Singapore, two casino complexes will be launched by 2010 with the world's largest aquarium, a Universal Studios theme park and South East Asia's largest convention centre while in Thailand, the Bangkok International Trade & Exhibition Centre is set to invest billions of baht to expand its trade exhibition space by between 70,000 and 100,000 square metres to meet the expected rising demand after the opening of the Suvarnabhumi Airport and the future expansion of the sky train system to the east.

In Macau, the government wants 2007 to be the year of integration of tourism, leisure, conventions and exhibitions while in Vietnam, its recent admission to the World Trade Organisation and its successful organisation of the APEC Summit 2006 have led to increasing demands for MICE trips to Vietnam.

With the Group's deployment of core competencies into related fields including, but not limited to the following, the Group's current business strategies complement well with future trends in Asia:

- (a) the supply of custom-made permanent exhibits and structural artifact for theme parks, visitor centres and museums;
- (b) the development of visual merchandising display units and counters for point-of-sale for branded luxury products across regions, interior designs and architecture for corporate offices and retail branches;

- (c) the extension of event marketing services for high value consumables; and

- (d) the provision of temporary facilities for international sports events.

The Group aims to continue to improve the overall performance through focusing on profitability as well as market share expansion. We are further enhancing our global brand identity while maintaining our absolute commitment to providing value-added services to our customers worldwide.

By Order of the Board

Lawrence Chia Song Huat
Chairman

Hong Kong, January 22, 2007