

## REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31st December 2001.

### PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. Its subsidiaries are principally engaged in (i) contracting activities for installation of fire prevention and fighting systems; (ii) maintenance and servicing of fire prevention and fighting systems; and (iii) the trading and sourcing of pipes, fittings and other parts in relation to fire prevention and fighting systems.

An analysis of the Group's performance for the year by business and geographic segments is set out in note 2 to the accounts.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 24.

The directors do not recommend the payment of a dividend.

## REPORT OF THE DIRECTORS

### FIVE YEAR FINANCIAL SUMMARY

The consolidated results, assets and liabilities of the Group for the last five financial years as extracted from the audited accounts of the Group are summarised below:

#### Results

		Year ended 31st December			
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Turnover	<b>71,662</b>	70,569	116,497	200,512	394,490
Operating (loss)/profit after finance cost and before taxation	<b>(10,901)</b>	(58,617)	(60,845)	339,206	(852,681)
Taxation	<b>(403)</b>	—	7	(69)	(4,549)
(Loss)/profit before minority interests	<b>(11,304)</b>	(58,617)	(60,838)	339,137	(857,230)
Minority interests	—	—	—	—	83
(Loss)/profit attributable to shareholders	<b>(11,304)</b>	(58,617)	(60,838)	339,137	(857,147)

#### Assets and liabilities

		As at 31st December			
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000	1997 HK\$'000
Total assets	<b>236,130</b>	263,318	206,617	310,141	172,837
Total liabilities and minority interests	<b>(76,414)</b>	(106,298)	(101,527)	(174,975)	(647,191)
	<b>159,716</b>	157,020	105,090	135,166	(474,354)
Share capital	<b>418,243</b>	404,243	301,016	270,254	50,363
Reserves	<b>(258,527)</b>	(247,223)	(195,926)	(135,088)	(524,717)
Shareholders' funds/ (capital deficiency)	<b>159,716</b>	157,020	105,090	135,166	(474,354)

## REPORT OF THE DIRECTORS

### RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 20 to the accounts.

In view of the losses sustained by the Company, the directors are of the view that the Company had no reserves available for distribution at 31st December 2001.

### DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$1,000.

### FIXED ASSETS

Details of the movements in fixed assets are set out in note 10 to the accounts.

### PROPERTIES

Details of the Group's properties are set out on pages 65 and 66.

### SHARE CAPITAL, OPTIONS AND WARRANTS

Details of movements in the Company's issued share capital, options and warrants during the year and outstanding at 31st December 2001 are set out in notes 18 and 19 to the accounts.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its securities during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's securities.

### SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December 2001 are set out in note 26 to the accounts.

## REPORT OF THE DIRECTORS

### DIRECTORS

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

#### Executive directors

Kyota Yamada  
Yiu Ying Fai  
Hong Cheong Fye  
Masahiro Funayama  
Hiroshi Higashimori  
Tetsuji Yamada *(retired on 18th May 2001)*

#### Independent Non-executive directors

Lai Wing Kwan *(appointed on 6th February 2001)*  
Pun How Wai *(appointed on 26th March 2001)*  
Ko Ying *(resigned on 6th February 2001)*  
Lee Pak Wing, Patrick *(resigned on 26th March 2001)*

In accordance with clauses 91 and 99(B) of the Company's Bye-laws, Lai Wing Kwan and Pun How Wai will retire and except Mr Lai, Mr Pun offers himself for re-election at the forthcoming annual general meeting.

#### Biographical details of directors

Brief biographical details of directors and senior management are as shown below:

##### *Executive directors*

**Kyota Yamada**, aged 58, was appointed as Chief Executive Officer and Chairman of the Company on 20th September 2000. Mr Yamada is an entrepreneur and investor from Japan. He started his career as an engineer in an electronic parts manufacturer in Japan. Later, Mr Yamada started his own company in a new and revolutionary field of electronics which listed successfully on the Tokyo Stock Exchange after 15 years. Mr Yamada has an extensive interest in Hong Kong business and actively promotes the area to other Japanese investors. He not only reads and writes but also speaks fluent Cantonese. Mr Yamada holds an industrial degree from the Musashi University in Japan.

## REPORT OF THE DIRECTORS

**DIRECTORS (Continued)****Biographical details of directors (Continued)***Executive directors (Continued)*

**Yiu Ying Fai**, aged 43, was appointed as an Executive Director on 20th September 2000 and Vice-Chairman on 15th January 2001. He holds a Bachelor of Commerce degree from the University of Melbourne and a Higher Diploma in Hotel Management in Switzerland. He is a qualified accountant and members of both the Hong Kong Society of Accounting and CPA Australia. He has over 5 years of professional experience with one of the big five accounting firms specialising in corporate recovery and restructuring, liquidation and receivership. Prior to joining the Mansion Group, Mr Yiu has over 10 years senior management experience with an international group of companies with business interests in garment trading and manufacturing, hotel management, property development and investment.

**Hong Cheong Fye**, aged 46, was appointed as an Executive Director on 20th September 2000. Mr Hong holds a 2nd Upper Honours Degree in Building Architecture from the University of New South Wales in Australia. He has worked in a variety of Japanese financial markets, from the foreign exchange and bond markets to the equity markets. He has been involved with Japanese business for over eighteen years and held senior management positions in foreign securities houses and banks in Japan. His area of expertise is in capital restructuring, mergers and acquisitions, and raising funds from the capital markets.

**Hiroshi Higashimori**, aged 62, was appointed as General Manager on 20th October 2000 and was also appointed as an Executive Director on 10th November 2000. Mr Higashimori holds a degree of B.A. in Foreign Language (Spanish) from the Sophia University (Jochi Daigaku), Tokyo, Japan. He has over 30 years of management experience in international trade, sales, marketing and administration in a number of multi-national corporations in USA, Japan and Hong Kong. He had worked for Sansui Electric Co since 1969 and was appointed as the President of Sansui Electronics Corporation in USA from 1986 to 1990. He was also the President of Sales and Marketing of Scripto-Tokai in USA from 1990 to 1993.

**Masahiro Funayama**, aged 42, was appointed as an Executive Director on 20th September 2000. Prior to his appointment, he was senior financial controller of the entertainment group, Round One Corporation, which was listed on the first section of the Tokyo Stock Exchange during his tenure. In a thirteen-year career with the giant Japanese contractor Aoki Corporation, he worked in Los Angeles, Florida and Washington DC on major construction projects as the chief financial officer. Mr Funayama has an MBA degree from the New York University.

## REPORT OF THE DIRECTORS

### DIRECTORS (Continued)

#### Biographical details of directors (Continued)

##### *Independent non-executive directors*

**Lai Wing Kwan**, aged 39, was appointed as an Independent Non-executive Director on 6th February 2001. Mr Lai graduated from the University of London with a Bachelor of Law degree in 1984. He is a solicitor by profession and is a practising solicitor for more than 12 years. Mr Lai also acts as the managing director of a public company for more than 12 years. He is a consultant of K.B. Chau & Co.

**Pun How Wai**, aged 66, was appointed as Independent Non-executive Director on 26th March 2001. Mr Pun has a Bachelor of degree in Architecture and holds the qualification of RJBA, ARAIA, ARB. Mr Pun had worked with the Architectural Services Department of the former Hong Kong Government for over 23 years and held the post of chief architect on retirement. During his service with the Government, one of the major projects he completed was the "Prince of Wales Building" at Tamar site in Central. He is the founder and Managing Director of First City Consultants International Limited since 1994. He has wide experience in the building management services.

### SHARE OPTIONS SCHEME

The Company has a share option scheme under which the Company may grant options to employees (including executive directors) of the Group to subscribe for shares in the Company. Details of the scheme are set out in note 19(a) to the accounts. The share options held by and granted to the Company's directors during the year were as follows:

	Subscription price per share HK\$	Exercisable Period	Granted during the year '000	Options outstanding at 31/12/2001 HK\$
Kyota Yamada	0.10	7/2/2002-1/8/2003	100,000	100,000
Yiu Ying Fai	0.10	9/2/2002-1/8/2003	100,000	100,000
Hong Cheong Fye	0.10	7/2/2002-1/8/2003	100,000	100,000
Masahiro Funayama	0.10	7/2/2002-1/8/2003	50,000	50,000

## REPORT OF THE DIRECTORS

**SHARE OPTIONS SCHEME (Continued)**

The Directors consider it inappropriate to value the options as a number of factors that are crucial for the valuation cannot be determined accurately. Accordingly, such information is not disclosed in the annual report.

**DIRECTORS' SERVICE CONTRACTS**

None of the directors, including those directors who are proposed for re-election at the forthcoming annual general meeting, has a service contract with the Company, which is not determinable within one year without payment of compensation, other than statutory compensation.

**DIRECTORS' INTERESTS IN CONTRACTS**

No contracts of significance in relation to the Company's business to which the Company or 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.

**DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES**

At 31st December 2001, the interests of the directors and chief executive in the shares, options and warrants of the Company as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") or as otherwise notified to the Company in addition to those disclosed under Share Option Scheme above were as follows:

<b>Name of director</b>	<i>Notes</i>	<b>Nature of interests</b>	<b>Number of shares</b>
Kyota Yamada	(1)	Corporate	805,570,000
Yiu Ying Fai	(2)	Family	37,500,000

## REPORT OF THE DIRECTORS

### DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES *(Continued)*

*Notes:*

- (1) 805,570,000 shares in the Company are held by e-Compact Limited, a company wholly owned by Mr Yamada.
- (2) HKSCC Nominee Ltd, a nominee company of Hong Kong Securities Clearing Company Limited which held shares for Ms Tsang Kit Man, Kitty, the spouse of Mr Yiu Ying Fai, held 37,500,000 shares in the Company. Mr Yiu is deemed to be interested in these shares.

Share options granted to directors of the Company are set out in detail under the heading Share Option Scheme.

Save as disclosed above, at 31st December 2001, none of the directors and chief executive (including their spouses and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company or any of its associated corporations (as defined in the SDI Ordinance).

At no time during the year was the Company, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### SUBSTANTIAL SHAREHOLDERS

As at 31st December 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that as at 31st December 2001, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Name of shareholder	Number of shares
e-Compact Limited	805,570,000

e-Compact Limited held 805,570,000 shares in the Company, representing approximately 19.26% of the issued capital of the Company.



## REPORT OF THE DIRECTORS

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the company were entered into or existed during the year.

### MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

#### Purchases

— the largest supplier	15%
— five largest suppliers combined	40%

#### Sales

— the largest customer	19%
— five largest customers combined	43%

None of the directors, their associates or any shareholders (which to the knowledge of the directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd. ("Listing Rules") throughout the accounting period covered by the annual report except that independent non-executive directors of the Company are not appointed for specific terms and they are subject to retirement by rotation at the annual general meeting in accordance with the provisions of the Company's bye-laws.

## REPORT OF THE DIRECTORS

### AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. The Committee comprises two independent non-executive directors, namely Mr Lai Wng Kwan and Mr Pun How Wai. Two meetings were held by the Audit Committee during the current financial year.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

There is no information required to be disclosed pursuant to the Listing Rules.

### SIGNIFICANT SUBSEQUENT EVENTS

Details of significant post balance sheet date events are set out in note 27 to the accounts.

### AUDITORS

The accounts have been audited by PricewaterhouseCoopers, who retire and being eligible offer themselves for re-appointment.

On behalf of the Board

**Kyota Yamada**

*Chairman*

Hong Kong,  
8th April 2002