Interim Report 2003

START

TECHNOLOGY

COMPANY

LIMITED

實達科技
STARTech

START TECHNOLOGY COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

CONTENTS

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 June 2003

	Note	Continuing operations 2003 HK$'000	Continuing operations 2002 HK$'000	Discontinued operation (Note 3) 2003 HK$'000	Discontinued operation (Note 3) 2002 HK$'000	Total consolidated 2003 HK$'000	Total consolidated 2002 HK$'000
				Six months ended 30 June			
Turnover	2	**76,204**	42,137	**–**	522,759	**76,204**	564,896
Cost of sales		**(64,634)**	(32,426)	**–**	(460,796)	**(64,634)**	(493,222)
		11,570	9,711	**–**	61,963	**11,570**	71,674
Other revenue		**3,057**	2,766	**–**	2,491	**3,057**	5,257
Other net income	4	**(359)**	1,947	**–**	–	**(359)**	1,947
Selling and distribution expenses		**(1,534)**	(1,776)	**–**	(26,394)	**(1,534)**	(28,170)
Administrative expenses		**(15,274)**	(18,957)	**–**	(10,655)	**(15,274)**	(29,612)
(Loss)/profit from operations	2	**(2,540)**	(6,309)	**–**	27,405	**(2,540)**	21,096
Finance costs		**(233)**	(228)	**–**	(3,939)	**(233)**	(4,167)
Share of profit of jointly controlled entities		**912**	2,393	**–**	–	**912**	2,393
(Loss)/profit from ordinary activities before taxation	5	**(1,861)**	(4,144)	**–**	23,466	**(1,861)**	19,322
Taxation	6	**(1,816)**	(412)	**–**	(3,893)	**(1,816)**	(4,305)
(Loss)/profit from ordinary activities after taxation		**(3,677)**	(4,556)	**–**	19,573	**(3,677)**	15,017
Minority interests						**(2,053)**	(13,221)
(Loss)/profit attributable to shareholders						**(5,730)**	1,796
Interim dividends	7					**Nil**	Nil
(Loss)/earnings per share	8						
Basic						**(1.30) cents**	0.41 cents
Diluted						**N/A**	N/A

The notes on pages 7 to 20 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

At 30 June 2003

	Note	At 30 June 2003 HK$'000	At 31 December 2002 HK$'000
Non-current assets			
Fixed assets			
– Investment properties		**3,950**	3,950
– Property, plant and equipment		**36,271**	38,114
	9	**40,221**	42,064
Intangible assets		**1,096**	1,320
Interest in jointly controlled entities		**13,146**	12,296
Pledged deposits		**17,516**	17,516
		71,979	73,196
Current assets			
Inventories		**16,811**	23,027
Trade and other receivables	10	**155,791**	134,594
Investment fund		**–**	16,956
Trading securities		**18,809**	19,168
Deposits with bank		**126,228**	126,228
Cash and cash equivalents		**10,284**	17,156
		327,923	337,129
Current liabilities			
Trade and other payables	11	**65,855**	72,927
Bank loans and overdrafts		**10,868**	7,784
Tax payable		**920**	1,371
		77,643	82,082
Net current assets		**250,280**	255,047
Total assets less current liabilities carried forward		**322,259**	328,243

CONSOLIDATED BALANCE SHEET (UNAUDITED) (CONTINUED)

At 30 June 2003

	Note	**At 30 June 2003** *HK$'000*	At 31 December 2002 *HK$'000*
Total assets less current liabilities brought forward		**322,259**	328,243
Non-current liabilities			
Deferred taxation	6	**1,511**	605
Minority interests		**16,828**	17,985
NET ASSETS		**303,920**	309,653
CAPITAL AND RESERVES			
Share capital	12	**44,064**	44,064
Reserves		**259,856**	265,589
		303,920	309,653

The notes on pages 7 to 20 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2003

	Six months ended 30 June	
	2003	2002
	HK$'000	*HK$'000*
Shareholders' equity at 1 January	**309,653**	301,490
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	**(3)**	(2)
Net loss not recognised in the income statement	**(3)**	(2)
Net (loss)/profit for the six months ended 30 June	**(5,730)**	1,796
Shareholders' equity at 30 June	**303,920**	303,284

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2003

	Six months ended 30 June	
	2003	2002
	HK$'000	*HK$'000*
Net cash outflow from operating activities	**(28,142)**	(65,528)
Net cash inflow/(outflow) from investing activities	**22,352**	(12,258)
Net cash (outflow)/inflow from financing activities	**(6,989)**	91,722
Net (decrease)/increase in cash and cash equivalents	**(12,779)**	13,936
Effect of foreign exchange rates changes	**(3)**	(3)
Cash and cash equivalents at 1 January	**15,966**	95,789
Cash and cash equivalents at 30 June	**3,184**	109,722
Analysis of the balances of cash and cash equivalents		
Cash at bank and in hand	**10,284**	107,367
Deposits with bank	**–**	2,355
Cash and cash equivalents in the balance sheet	**10,284**	109,722
Bank overdrafts	**(7,100)**	–
	3,184	109,722

Included in the above amounts are the following net cash flows related to discontinued operation for the six months ended 30 June 2002:

	HK$'000
Cash outflow from operating activities	(51,090)
Cash inflow from investing activities	4,842
Cash inflow from financing activities	60,434

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2003

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants ("HKSA"). KPMG's independent review report to the board of directors is included on page 21.

The interim financial report has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 December 2002 included in the interim financial report does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2002 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 11 April 2003.

The notes on the interim financial report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2002 annual financial statements.

The same accounting policies adopted in the 2002 annual financial statements have been applied to the interim financial report, except for deferred taxation.

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with SSAP 12 (revised) issued by the HKSA, the Group adopted a new policy for deferred taxation.

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Deferred taxation

Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

The new accounting policy has been adopted prospectively as the effect of this change in accounting policy is not material and, therefore, the opening balances have not been restated.

2 SEGMENTAL INFORMATION

Business segments

Segment information is presented in respect of the Group's business as follows:

	Continuing operations				Discontinued operation					
	Software development and systems integration services		Manufacture and sale of computer related products		Systems value-added services		Unallocated		Consolidated	
	Six months ended 30 June									
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**17,500**	27,560	**58,704**	14,577	**–**	522,759	**–**	–	**76,204**	564,896
Other revenue from external customers	**–**	27	**275**	–	**–**	2,092	**189**	230	**464**	2,349
Total	**17,500**	27,587	**58,979**	14,577	**–**	524,851	**189**	230	**76,668**	567,245
Segment result	**70**	1,142	**6,920**	3,211	**–**	27,405			**6,990**	31,758
Unallocated operating income and expenses									**(9,530)**	(10,662)
(Loss)/profit from operations									**(2,540)**	21,096

Geographical segments

The Group operates mainly in The People's Republic of China ("the PRC") and accordingly no geographical segment information is presented.

3 DISCONTINUED OPERATION

On 18 May 2002, the Group entered into agreements to dispose of its entire interest, being 40% shareholdings, in the subsidiaries comprising the systems value-added services business segment (Note 2), for cash consideration of approximately HK$72,129,000 (the "Disposal"). The Disposal was complete on 5 July 2002 and a profit on disposal of approximately HK$4,987,000 was recognised in the second half of the financial year 2002. (See also Note 15)

4 OTHER NET INCOME

	Six months ended 30 June	
	2003	2002
	HK$'000	*HK$'000*
Profit on disposal of unlisted investments	**–**	1,947
Unrealised loss on trading securities carried at fair value	**(359)**	–
	(359)	1,947

5 (LOSS)/PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

(Loss)/profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2003	2002
	HK$'000	*HK$'000*
Compensation of guarantee profit by minority shareholder	**–**	(1,613)
Dividend income from unlisted investment	**–**	(566)
Dividend income from listed investment	**(515)**	–
Interest on bank borrowings	**167**	1,363
Amortisation of intangible assets	**224**	283
Depreciation	**3,125**	3,460
Loss on disposal of fixed assets	**–**	860
Provision for inventories	**–**	5,263
Provision for bad and doubtful debts	**–**	2,000

6 TAXATION

	Six months ended 30 June	
	2003	2002
	HK$'000	*HK$'000*
Provision for Hong Kong Profits Tax	**–**	2,507
The PRC income tax	**848**	2,382
Deferred taxation – origination and reversal of temporary differences	**906**	(584)
	1,754	4,305
Share of a jointly controlled entity's taxation	**62**	–
	1,816	4,305

No provision has been made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax during the period ended 30 June 2003. Provision for Hong Kong Profits Tax of the Group is calculated at 16% of the estimated assessable profits arising in Hong Kong for the period ended 30 June 2002.

The PRC income tax of the Group and share of a jointly controlled entity's taxation represent provisions for the PRC income tax in respect of assessable profits of the subsidiaries and jointly controlled entity operating in the PRC. The PRC income tax has been calculated at the prevailing income tax rates under the relevant PRC income tax rules and regulations applicable to the subsidiaries and jointly controlled entity. Certain subsidiaries and the jointly controlled entity were granted an exemption and relief from the PRC income tax by the relevant local tax authorities up to 31 December 2002. These entities are subject to the PRC income tax at 7.5% for the period from 1 January 2003 to 31 December 2005 and 15% from 1 January 2006 onwards, which is the income tax rate applicable to high technology enterprises in the PRC.

The PRC subsidiaries of the Group prepared their financial statements for the period ended 30 June 2003 and 2002 in accordance with the PRC accounting standards and regulations ("the PRC GAAP"). Deferred tax liabilities mainly represent differences between the PRC GAAP and SSAP in respect of the accounting treatment of income recognition.

Deferred tax asset has not been recognised in the aforesaid periods in respect of tax losses available to offset future profits as there is no immediate plan to utilise the tax losses in the foreseeable future.

7 DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: HK$NIL).

8 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary shareholders of HK$5,730,000 (2002: profit of HK$1,796,000) and the ordinary shares of 440,644,000 (2002: 440,644,000) in issue during the period.

(b) Diluted (loss)/earnings per share

The effects of all potential ordinary shares are anti-dilutive for the six months ended 30 June 2003 and 2002.

9 FIXED ASSETS

Investment properties and buildings held for own use were revalued at 30 June 2003 by the directors, who are not qualified valuers, based on the relevant market indices, which is not significantly different from the professional valuation carried out at 31 December 2002.

During the period, the Group spent approximately HK$1,284,000 on additions of property, plant and equipment.

10 TRADE AND OTHER RECEIVABLES

	At 30 June 2003 HK$'000	At 31 December 2002 HK$'000
Accounts receivable	**32,962**	37,054
Retention receivables from customers	**15,634**	18,570
Gross amount due from customers for contract work	**13,356**	10,605
Prepayments, deposits and other receivables	**67,074**	44,383
Loans receivable	**26,765**	23,982
	155,791	134,594

Included in trade and other receivables are accounts receivable (net of specific provision for bad and doubtful debts) with the following ageing analysis:

	At 30 June 2003 HK$'000	At 31 December 2002 HK$'000
Current	**22,551**	22,829
1 to 3 months overdue	**4,940**	12,705
More than 3 months overdue but less than 12 months overdue	**5,471**	1,489
Overdue beyond 1 year	**–**	31
	32,962	37,054

Accounts receivable are due within 60 days on average from the customers accepting the goods and the related risks and rewards of ownership. Accounts receivable with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

Terms of loans receivable

Interest is charged at 2% to 10% p.a. Among the balance of loans receivable, HK$16,364,000 has been repaid in August 2003, the remaining balances of HK$2,040,000 and HK$8,361,000 are repayable on or before 31 January 2004 and 31 March 2004 respectively.

11 TRADE AND OTHER PAYABLES

	At 30 June 2003 HK$'000	At 31 December 2002 HK$'000
Accounts payable	**31,745**	33,022
Gross amount due to customers for contract work	**1,488**	4,258
Receipts in advance	**1,229**	311
Other payables and accrued liabilities	**31,393**	35,336
	65,855	72,927

Included in trade and other payables are accounts payable with the following ageing analysis:

	At 30 June 2003 HK$'000	At 31 December 2002 HK$'000
Due within 3 months or on demand	**30,189**	30,330
Overdue 3 months to 1 year	**1,356**	2,522
Overdue beyond 1 year	**200**	170
	31,745	33,022

12 SHARE CAPITAL

	At 30 June 2003 and 31 December 2002	
	No. of shares	
	('000)	*HK$'000*
Authorised:		
Ordinary shares of HK$0.10 each	1,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each	440,644	44,064

As at 30 June 2003, total options under the share option schemes of the Company to subscribe for 30,221,000 (31 December 2002: 30,221,000) shares remained outstanding. Details of the movements in respect of the share option schemes of the Company during the six months ended 30 June 2003 are set out under the section headed "Share Option Schemes" on page 29.

13 COMMITMENTS

(a) Commitments under operating leases

At 30 June 2003, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2003	At 31 December 2002
	HK$'000	*HK$'000*
Within 1 year	**1,199**	2,439
After 1 year but within 5 years	**–**	195
	1,199	2,634

13 COMMITMENTS (Continued)

(b) Capital commitments

Capital commitments outstanding at 30 June 2003 not provided for in the interim financial report were as follows:

	At 30 June 2003 HK$'000	At 31 December 2002 HK$'000
Contracted for	**17,421**	16,336
Authorised but not contracted for	**7,159**	–
	24,580	16,336

14 CONTINGENT LIABILITIES

At 30 June 2003, there were contingent liabilities in respect of the following:

	At 30 June 2003 HK$'000	At 31 December 2002 HK$'000
Assets pledged and guarantee given	**15,000**	15,000

Certain buildings held for own use of the Group with an aggregate carrying value of HK$5,673,000 (31 December 2002: HK$5,750,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to HK$15,000,000 (31 December 2002: HK$15,000,000) granted to a subsidiary of a former related company. As at 30 June 2003, the amount of the facilities utilised was HK$1,106,000 (31 December 2002: HK$171,000).

15 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2003, the Group has the following material transactions with certain related parties in which a Director or shareholder of the Group is in a position to exercise significant influence:

		Six months ended 30 June	
		2003	2002
Trading transactions	*Note*	***HK$'000***	*HK$'000*
Systems integration services income	i	–	1,679
Systems value-added services income	i	–	639

Note:

(i) These represent income from the provisions of systems integration services and systems value-added services to a related company of which a director of a subsidiary of the Group is a substantial shareholder.

		Six months ended 30 June	
		2003	2002
Non-trading transactions	*Note*	***HK$'000***	*HK$'000*
Advance of loan	i	**10,931**	12,000
Pledge of buildings	ii	**5,673**	6,100
Handling charges	iv	–	1,095

Notes:

(i) Loans were advanced to the jointly controlled entity and the shareholders of the jointly controlled entities in the amount of HK$8,213,000 and HK$2,718,000 respectively during the period ended 30 June 2003. As at 30 June 2003, a loan amounted to HK$2,040,000 was interest free ("interest free loan") while the other loans to related parties carried interest at a fixed rate of 10% p.a. The interest free loan was matured on 31 July 2003 and extended with a revised interest rate of 7.2% p.a.

The loan advanced to the jointly controlled entity included the conversion of an amount due from that entity of HK$6,847,000 as at 13 May 2003.

A loan was advanced to a company with a common director of the Company during the period ended 30 June 2002.

15 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

(ii) Certain buildings held for own use of the Group with an aggregate carrying value of HK$5,673,000 (30 June 2002: HK$6,100,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to HK$15,000,000 (30 June 2002: HK$15,000,000) granted to a subsidiary of a former related company. As at 30 June 2003, the amount of the facilities utilised was HK$1,106,000 (30 June 2002: HK$10,038,000).

(iii) On 18 May 2002, the Group entered into agreements for the disposal of its entire interests in, being 40% of the total issued capital of, Start Futong Technology Company Limited ("Futong") at a total consideration of approximately HK$72,129,000. The Disposal comprised two parts:

(a) the Buy Back Agreement under which Futong bought back and the Group sold 12.03% of the total existing issued capital of Futong at a consideration of approximately HK$21,686,000; and

(b) the Sale and Purchase Agreement under which the Group sold and Mr. Chen Jian ("Mr. Chen") purchased 27.97% of the total existing issued capital of Futong at a consideration of approximately HK$50,443,000.

The Disposal was complete on 5 July 2002.

Mr. Chen was a director of the Company prior to his resignation on 30 April 2002. He was also a substantial shareholder of Futong, holding, together with his associates, 42% of the equity interest of Futong prior to the Disposal.

(iv) Handling charges represent fees paid to a company owned by Mr. Chen in respect of letters of credit issued on behalf of the subsidiaries of Futong before the Disposal.

The Directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms and in the ordinary course of business.

16 POST BALANCE SHEET EVENTS

(a) Acquisition of Fujian Start Computer Equipment Company Limited

On 30 April 2003, 7 May 2003 and 13 June 2003, the Group entered into the conditional sale and purchase agreements, the supplemental agreement and an amended and restated agreement respectively with Interstar Holdings Limited ("Vendor") to purchase a 65% equity interest (the "Acquisition") in Fujian Start Computer Equipment Company Limited (the "Target"). The consideration payable for the Acquisition is RMB285 million (equivalent to approximately HK$269 million) (the "Consideration"). In order to finance the Consideration, the Company proposes to raise approximately HK$198 million, before expenses (or approximately HK$190 million net of expenses) through the rights issue (the "Rights Issue"). The remaining consideration of approximately HK$79 million will be financed through the Group's internal resources. The Acquisition constitutes a major transaction for the Company, which has been approved by the Shareholders at the Special General Meeting on 8 July 2003 pursuant to Rule 14.10 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited.

The Rights Issue will be on the basis of three shares at HK$0.15 each (the "Rights Shares") for every existing share held with bonus shares in the proportion of one bonus share for every three Rights Shares taken up. Based on 440,644,000 shares in issue as at 13 June 2003 and 1,321,932,000 Rights Shares to be issued pursuant to the Rights Issue, 440,644,000 bonus shares will be issued.

As at 13 June 2003, Leading Value Industrial Limited (The "Substantial Shareholder") was interested in 132,434,953 shares representing approximately 30.1% of the existing issued share capital of the Company. The Substantial Shareholder has irrevocably undertaken to the Company that, inter alia, it will accept its entitlement of 397,304,859 Rights Shares under the Rights Issue. The balance of the 924,627,141 Rights Shares have been fully underwritten as to 462,313,571 Rights Shares by the Substantial Shareholder and 462,313,570 Rights Shares by ICEA Capital Limited ("ICEA"). As required by the Listing Rules, the Rights Issue is conditional upon the approval of the shareholders other than the Substantial Shareholder together with its concert parties and those who are involved in or interested in the underwriting agreement (the "Independent Shareholders") in relation to the Rights Issue, made between the Company, the Substantial Shareholder and ICEA as amended by a supplemental agreement dated 13 June 2003 (the "Underwriting Agreement"). The Rights Issue with bonus issue has been approved by the Independent Shareholders on 15 August 2003 at the Adjourned Special General Meeting.

16 POST BALANCE SHEET EVENTS (Continued)

(a) Acquisition of Fujian Start Computer Equipment Company Limited (Continued)

The Directors were informed by the Vendor that the approval from China Securities Regulatory Commission in relation to the transfer of the 65% equity interest in the Target to the Group is expected to be granted in late October 2003. Accordingly, the subscription of the Rights Issue will be delayed to November 2003.

(b) Acquisition of 福建海通科技發展有限公司 ("福建海通") and 福州海康醫療器械有限公司 ("福州海康")

As part of the restructuring exercise of 福建海通 and 福州海康, a sales and purchase agreement was entered into with the equity owners of 福州海康 on 15 August 2003 under which the Group and 福建海通 acquired 10% and 90% interests in 福州海康 at considerations of RMB42,802 and RMB385,215 respectively.

The restructuring exercise is still in progress at the date of this interim report and is expected to be completed in November 2003. By acquiring the entire interests in 福建海通, both entities will become wholly owned subsidiaries of the Group upon the completion of the restructuring exercise.

The principal activity of 福州海康 is the trading of medical equipment in the PRC.

17 APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the Board of Directors on 24 September 2003.

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF
START TECHNOLOGY COMPANY LIMITED
(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 2 to 20.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

KPMG
Certified Public Accountants

Hong Kong, 24 September 2003

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the review period, Start Technology Company Limited ("the Group") continued to focus on its software development and systems integration business, as well as its general software business. However, the impact of the outbreak of Severe Acute Respiratory Syndrome ("SARS") adversely affected the Group's performance in its software development and systems integration business, with various industries around the country withdrawing their information technology development plans in the PRC. As a result, the Group recorded a loss attributable to shareholders of HK$5,730,000 compared to a profit of HK$1,796,000 in the previous corresponding period. Turnover for the period was HK$76,204,000 against HK$564,896,000 in the corresponding period last year. To present a clearer picture, the Group had not yet disposed of its 40% shareholding in Start Futong Technology Company Limited in the previous corresponding period. If the turnover contribution from this discontinued operation is deducted, the Group's turnover increased by 80.8% from that of the last period.

At the same time, Fuqing Fujie Plastics Co., Ltd. ("Fujie Plastics"), the Group's 65% controlled subsidiary, has been recording profits since its establishment in 1997. In particular, its turnover has jumped significantly from RMB40,327,000 in 1999 to RMB56,230,000 in 2002. Fujie Plastics is principally engaged in the manufacture and sale of electronics, plastic components for computer related products. The company has increased its plastic injection production capacity in the first half of the year to a total of 42 plastic injectors to reach a monthly production of 130,000 CRT component sets and 140,000 LCD sets.

During the period, the Group's software development and systems integration business was hit by the SARS epidemic which led to the withdrawal of social security and healthcare security development plans in major cities in the PRC. The Group's expansion plans in Inner Mongolia were also delayed by the outbreak of SARS in the province. Under these unfavourable conditions, the turnover of its software development and systems integration business decreased 36.5% to HK$17,500,000. Despite the challenges, the Group did not hold back its commitment in business development and obtained new healthcare projects in the Hubei Yichang region. At the same time, the Group's software for its labour and social security, organisational social security and labour market information systems were launched and applied in the market. Furthering its business objectives in healthcare security, the Group also signed agreements with multiple end-users of the healthcare security card including hospitals and banks in Fujian, to fully implement the one card concept.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

BUSINESS REVIEW (Continued)

Although the impact of SARS was felt in the Group's hospital information management systems business, the Group was still able to secure over 30 customers for its hospital information management systems in Fujian province, together with a contract with Guangdong Provincial Hospital of T. C. M. for the provision of management information system and services. The Group also achieved significant progress in the Picture Archiving and Communication System ("PACS") business. The successful PACS contract win with Fujian Medical University - First Hospital, one of the largest integrated Grade AAA hospitals in Fujian, also marked an important milestone in the Group's development in the high-end medical application market. At the same time, the Group actively engaged in medical equipment business market research and negotiating with joint venture partners in order to lay a solid foundation for the medical equipment direct sales business sector. In the public security business, the Group's immigration and exit management systems continued to grow steadily, with various marketing strategies being launched in Fujian, Beijing, Hubei, Zhejiang, Sichuan, etc.

With regard to the general software business, SJTU Sunway (Beijing) Software Company Ltd. ("SJTU Sunway") provided professional translation services to the automotive industry through its "LingoWorld Workshop", facilitating the Group's translation services development in the automotive industry. The sales performances of the Group's translation software such as "Oriental Express" and "Yaxin CATS professional translation software" were also satisfactory. With these developments underway, the Group's general software business recorded stable earnings during the review period.

PROSPECTS

Going forward, the Group believes that the SARS-affected information technology development projects will resume in the near term. The rapid economic growth in the PRC is also providing a vote of confidence within the Group to continuously expand its software development and systems integration and general software businesses. Additionally, the Group will also strengthen its Fujie Plastics operations to further its reputation in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

PROSPECTS (Continued)

In its software development and systems integration business, the Group believes there will be ample opportunities along with the commencement of 金保工程, including the developments in healthcare security, "Five in One" social security, the labour market, home affairs systems and "Labour market and social security information management systems". Apart from further exploring business opportunities and expanding market share in the Anhui and Hubei regions, the Group will also develop IC card applications in financial and medical cards to broaden the system's applications. In the public security business, the Group will launch its immigration and exit management software extensively throughout the country. The Group is also committed to expanding into other industries such as software development and systems integration applications in the areas of law, home and electronic affairs. At the same time, the Group will develop its "Hospital Asset Management Software" for the Fujian Health Bureau and market the software to 300 hospitals in Fujian province. The Group's target is to secure the PACS contracts with a number of hospitals within the year.

As at June 30 2003, the yet to be completed contract amounts of the Group's software development and systems integration business was HK$16,270,000.

In the general software business, the Group will conclude a number of the new projects in the coming few months. These projects were discussed in the first half of the year. In addition, the Group will continue its commitment to "LingoWorld Workshop", aiming to capture the rising opportunities brought along by accelerating trade through its "LingoWorld Workshop". In particular, the flourishing automotive industry in the PRC will offer tremendous growth opportunities for the Group's translation business. More importantly, it will also facilitate the localisation of international information and enhance the process of bringing local information to the international arena. The Group is confident it will achieve better sales performances in the second half of the year.

With its various development plans and projects on track, the Group expects to obtain better results in the second half of 2003, bringing satisfactory returns for shareholders.

MATERIAL ACQUISITION OF SUBSIDIARY

On 30 April 2003, 7 May 2003 and 13 June 2003, the Group entered into the conditional sale and purchase agreements with Interstar Holdings Limited ("Vendor") to purchase a 65% equity interest (the "Acquisition") in Fujian Start Computer Equipment Company Limited (the "Target") at a consideration of RMB285 million (equivalent to approximately HK$269 million) (the "Consideration"). The Consideration will be financed by the proceeds from rights issue (the "Rights Issue") of approximately HK$198 million, before expenses (or approximately HK$190 million net of expenses) and internal resources. The Acquisition constitutes a major transaction for the Company, which has been approved by the Shareholders at the Special General Meeting on 8 July 2003 pursuant to Rule 14.10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Rights Issue will be on the basis of three shares at HK$0.15 each (the "Rights Shares") for every existing share held with bonus shares in the proportion of one bonus share for every three Rights Shares taken up. Based on 440,644,000 shares in issue as at 13 June 2003 and 1,321,932,000 Rights Shares to be issued pursuant to the Rights Issue, 440,644,000 bonus shares will be issued.

The Directors were informed by the Vendor that the approval from China Securities Regulatory Commission in relation to the transfer of the 65% equity interest in the Target to the Group is expected to be granted in late October 2003. Accordingly, the subscription of the Rights Issue will be delayed to November 2003.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2003, the Group had cash and bank balances of HK$154 million (31 December 2002: HK$160.9 million) of which HK$17.5 million (31 December 2002: HK$17.5 million) were pledged to banks for facilities granted to the Group. About 85% and 10% of these liquid funds were denominated in Renminbi and US dollars respectively and the remainder in HK dollars.

Bank loans and overdrafts of the Group as at 30 June 2003 amounted to HK$10.9 million (31 December 2002: HK$7.8 million) and were all repayable within one year.

Of the total borrowings as at 30 June 2003, about 35% was denominated in Renminbi and the remainder in HK dollars, and 35% was at fixed interest rates.

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

As at 30 June 2003, the Group had available aggregate banking facilities of HK$75.8 million (31 December 2002: HK$78.6 million) of which HK$61.6 million (31 December 2002: HK$69.7 million) has not been utilised.

Assets charged as security for banking facilities included bank deposits totalling HK$17.5 million (31 December 2002: HK$17.5 million), trading securities valued at HK$18.8 million (31 December 2002: HK$19.2 million) and investment properties of the Group valued at HK$4 million (31 December 2002: HK$4 million) as at 30 June 2003.

As at 30 June 2003, the gearing ratio (being the total borrowings to total equity ratio) of the Group has been remained relatively stable of 3.6% when compared with the gearing ratio of 2.5% as at 31 December 2002.

The Group continued to maintain a net cash (being the total cash and bank balances net of total bank borrowings) to equity ratio of 47.1% (31 December 2002: 49.4%) as at 30 June 2003. With net cash of HK$143.1 million (31 December 2002: HK$153.1 million) as at 30 June 2003 and taking into consideration of the net sale proceeds of trading securities of approximately HK$10,000,000 in August 2003, the Group's liquidity position remains strong and the Directors believe that the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

CONTINGENT LIABILITIES

As at 30 June 2003, certain buildings held for own use of the Group with an aggregate carrying value of HK$5,673,000 (31 December 2002: HK$5,750,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to HK$15,000,000 (31 December 2002: HK$15,000,000) granted to a subsidiary of a former related company. As at 30 June 2003, the amount of the facilities utilised was HK$1,106,000 (31 December 2002: HK$171,000).

EXCHANGE RISK

As the Group's operations are principally in the PRC and all assets and liabilities are denominated either in Renminbi, HK dollars or US dollars, the Directors believe that the operations of the Group are not subject to significant exchange risk.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 30 June 2003, the Group had approximately 700 (31 December 2002: 580) employees of which approximately 135 were technicians. Employees' costs (excluding directors' emoluments) amounted to approximately HK$10 million (2002: HK$23.9 million) for the period. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis.

The Directors believe that experienced staff, in particular its technicians, are the most valuable assets of the Group. Training programme is provided to technicians, especially new recruits, to ensure their technical proficiency.

The Company operates a share option scheme (the "Scheme") whereby the Board of Directors may at their absolute discretion, grant options to employees and Executive Directors of the Company and any of its subsidiaries to subscribe for shares in the Company. The subscription price, exercisable period and the maximum number of options to be granted are determined in accordance with the prescribed terms of the Scheme.

OTHER INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2003, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the Securities and Future Ordinance ("SFO")), which were notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(1) Long positions in the shares of the Company

	Number of shares		
Name of Director	**Personal interest**	**Corporate interest**	**Percentage of shareholding**
Mr SZE Wai, Marco	–	132,434,953 *(note 1)*	30.05%
Mr YE Long	4,981,000	–	1.13%

Note:

1. These shares are beneficially owned by Leading Value Industrial Limited, the entire issued share capital of which is owned as to 50% by Mr SZE Wai, Marco.

(2) Long positions in the underlying shares of the Company

Details of Directors' interests under the share option schemes of the Company are set out in the section "Share option schemes" below.

(3) Aggregate long positions in the shares and underlying shares of the Company

Name of Director	**Aggregate number in shares**	**Aggregate number in underlying shares**	**Total**
Mr SZE Wai, Marco	132,434,953	3,500,000	135,934,953
Mr YE Long	4,981,000	4,000,000	8,981,000
Mr CHU Chi Shing	–	2,500,000	2,500,000
Mr CHIU Chi Shun, Clarence	–	3,500,000	3,500,000

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 30 June 2003, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under section 352 of the SFO, as defined in the SDI Ordinance, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTION SCHEMES

Prior to 23 May 2002, the Company operated an option scheme whereby the Board of Directors could, at their absolute discretion, grant options to employees and executive directors of the Company and any of its subsidiaries to subscribe for shares in the Company (the "Old Scheme"). On 23 May 2002, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted, whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employees and non-executive directors of the Company or any of its subsidiaries or any invested entity, any suppliers of goods or services to any member of the Group or any invested entity, and any customers of the Group or any invested entity to subscribe for shares in the Company. For options granted before 1 September 2001, the exercise price of options was determined by the Board and was the higher of the nominal value of the shares and 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

For options to be granted after 1 September 2001, the exercise price of the options will be the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other operative share option schemes of the Group may not in aggregate exceed 44,064,400, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the New Scheme.

SHARE OPTION SCHEMES (Continued)

At 30 June 2003, the Directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share is HK$0.134 at the balance sheet date) granted at nominal consideration of HK$1.00 for each lot of share options granted under the share option scheme operated by the Company, each option gives the holder the right to subscribe for one share:

	Date granted	Period during which options exercisable	Exercise price *(HK$)*	Number of options outstanding at 1.1.2003 and 30.6.2003	Closing price per share immediately before the date of grant *(HK$)*
Old Scheme					
Directors					
Mr YE Long	06.07.1999	02.10.1999–05.07.2009	1.08	3,000,000	1.99
Mr CHU Chi Shing	06.07.1999	02.10.1999–05.07.2009	1.08	2,100,000	1.99
	17.01.2000	02.01.2001–16.01.2010	1.32	200,000	2.70
	04.06.2001	01.10.2001–03.06.2011	0.58	200,000	0.86
Mr SZE Wai, Marco	04.06.2001	01.10.2001–03.06.2011	0.58	3,500,000	0.86
Mr CHIU Chi Shun, Clarence	04.06.2001	01.10.2001–03.06.2011	0.58	3,500,000	0.86
Employees	06.07.1999	02.10.1999–05.07.2009	1.08	2,881,000	1.99
	06.07.1999	02.10.1999–05.07.2009	1.21	700,000	1.99
	30.12.1999	02.01.2001–29.12.2009	1.13	500,000	1.67
	17.01.2000	02.01.2001–16.01.2010	1.32	850,000	2.70
	21.01.2000	02.01.2001–20.01.2010	1.44	900,000	2.25
	07.03.2000	02.01.2001–06.03.2010	2.06	40,000	4.025
	10.08.2000	02.01.2001–09.08.2010	1.14	800,000	1.39
	04.06.2001	01.10.2001–03.06.2011	0.58	9,050,000	0.86
				15,721,000	
New Scheme					
Director					
Mr YE Long	28.05.2002	28.05.2002–27.05.2012	0.67	1,000,000	0.66
Employees	28.05.2002	28.05.2002–27.05.2012	0.67	1,000,000	0.66

SHARE OPTION SCHEMES (Continued)

The share options are exercisable for a period of ten years commencing from the date of grant and subject to the vesting provisions are as follows:

Date granted	Vesting period	Percentage of options vested
06.07.1999	06.07.1999-01.10.1999	Nil
	02.10.1999-01.01.2000	10%
	02.01.2000-01.01.2001	30%
	02.01.2001-01.01.2002	60%
	02.01.2002-01.07.2002	90%
	02.07.2002-05.07.2009	100%
30.12.1999, 17.01.2000, 21.01.2000, 07.03.2000 and 10.08.2000	Date of grant-01.01.2001	Nil
	02.01.2001-01.01.2002	30%
	02.01.2002-01.01.2003	60%
	02.01.2003-10 years from the date of grant	100%
04.06.2001	04.06.2001-30.09.2001	Nil
	01.10.2001-01.01.2002	40%
	02.01.2002-01.01.2003	70%
	02.01.2003-03.06.2011	100%
28.05.2002	28.05.2002-01.01.2003	40%
	02.01.2003-01.01.2004	70%
	02.01.2004-27.05.2012	100%

SHARE OPTION SCHEMES (Continued)

The share options are not recognised in the financial report until they are exercised. The weighted average value per option granted during the year ended 31 December 2002 estimated at the date of grant using the Black-Scholes pricing model was HK$0.67. The weighted average assumptions used are as follows:

	Year ended 31 December 2002
Risk-free interest rate	3.97%
Expected life (in years)	10
Volatility	0.08
Expected dividend per share	–

The Black-Scholes option pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, such option pricing model requires input of highly subjective assumptions, including the expected stock price volatility. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option pricing model does not necessarily provide a reliable measure of the fair value of the share options.

No share option was granted during the period ended 30 June 2003.

Apart from the foregoing, at no time during the period was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Company's Directors or chief executive or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, or any other body corporate.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSABLE UNDER THE SFO

So far as is known to any Director or chief executive of the Company, as at 30 June 2003, shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of divisions 2 and 3 of part XV of the SFO, or which were recorded in the register to be kept by the Company under section 336 of the SFO were as follows:

LONG POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN THE SHARES OF THE COMPANY

Name of shareholder	Number of shares	Approximate percentage of issued shares held
Leading Value Industrial Limited	132,434,953 *(note 1)*	30.05%
Mr CHAN Pik I	26,000,000	5.90%

Note:

1. Mr SZE Wai, Marco's interest in Leading Value Industrial Limited is also disclosed in the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures".

Save as disclosed above, as at 30 June 2003, the Company has not been notified by any persons (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of divisions 2 and 3 of part XV of the SFO, or which were recorded in the register to be kept by the Company under section 336 of the SFO.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2003.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has compiled with paragraphs 1 to 13 of the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") throughout the six months ended 30 June 2003, except that the Independent Non-executive Directors have not been appointed for specific terms which are contrary to paragraph 7 of the Code of Best Practice as set out in Appendix 14 to the Listing Rules, but are subject to retirement by rotation in accordance with bye-laws 111(A) and 115 of the Company.

AUDIT COMMITTEE

In accordance with the Code of Best Practice set out in Appendix 14 of the Listing Rules, the Board of Directors established an audit committee comprising the two Independent Non-executive Directors of the Company. The audit committee is delegated with the responsibility of reviewing the Company's financial reporting and internal control systems including the review of the unaudited interim financial report.

By order of the Board
Sze Wai, Marco
Chairman

Hong Kong, 24 September 2003