



START TECHNOLOGY COMPANY LIMITED

(Incorporated in Bermuda with limited liability)



INTERIM REPORT **2004**

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CONSOLIDATED INCOME STATEMENT (UNAUDITED)*For the six months ended 30 June 2004**(Expressed in Hong Kong dollars)*

	Note	Six months ended 30 June	
		2004 \$'000	2003 \$'000
Turnover	2	151,806	76,204
Cost of sales		(121,570)	(64,634)
		30,236	11,570
Other revenue	3	2,823	3,057
Other net income/(loss)	3	25	(359)
Selling and distribution expenses		(3,239)	(1,534)
Administrative expenses		(17,218)	(15,274)
Profit/(loss) from operations		12,627	(2,540)
Finance costs		(861)	(233)
Share of profits less losses of jointly controlled entities		–	912
Share of profits less losses of associates		(817)	–
Profit/(loss) from ordinary activities before taxation	4	10,949	(1,861)
Income tax	5	(1,885)	(1,816)
Profit/(loss) from ordinary activities after taxation		9,064	(3,677)
Minority interests		(3,981)	(2,053)
Profit/(loss) attributable to shareholders		5,083	(5,730)
Interim dividend	6	Nil	Nil
Earnings/(loss) per share	7		
Basic		1.07 cents	(1.30) cents
Diluted		N/A	N/A

The notes on pages 7 to 19 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

At 30 June 2004

(Expressed in Hong Kong dollars)

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
	<i>Note</i>	
Non-current assets		
Fixed assets		
– Investment properties	3,950	3,950
– Property, plant and equipment	73,648	39,657
	8	43,607
Construction in progress	3,602	1,969
Intangible assets	646	872
Negative goodwill	(15,757)	–
Interest in jointly controlled entities	–	23,080
Interest in associates	23,406	–
Pledged deposits	17,516	17,516
Deferred tax assets	121	121
	107,132	87,165
Current assets		
Inventories	15,487	23,957
Trade and other receivables	188,426	106,860
Investment fund	19,336	19,336
Deposits with bank	126,228	126,228
Cash and cash equivalents	70,321	49,689
	419,798	326,070
Current liabilities		
Trade and other payables	111,515	84,378
Loans and overdraft	54,330	6,875
Tax payable	1,404	1,065
	167,249	92,318
Net current assets	252,549	233,752
Total assets less current liabilities carried forward	359,681	320,917

CONSOLIDATED BALANCE SHEET (UNAUDITED)

At 30 June 2004

(Expressed in Hong Kong dollars)

		At 30 June 2004 \$'000	At 31 December 2003 \$'000
Total assets less current liabilities brought forward		359,681	320,917
Non-current liabilities			
Deferred tax liabilities		2,144	1,642
Minority interests		22,981	19,723
NET ASSETS		<u>334,556</u>	<u>299,552</u>
CAPITAL AND RESERVES			
Share capital	14	52,864	44,064
Reserves	15	281,692	255,488
		<u>334,556</u>	<u>299,552</u>

The notes on pages 7 to 19 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)*For the six months ended 30 June 2004**(Expressed in Hong Kong dollars)*

	Six months ended	
	30 June	
	2004	2003
	\$'000	\$'000
Shareholders' equity at 1 January	299,552	309,653
Exchange differences on translation of the financial statements of subsidiaries outside Hong Kong	(25)	(3)
Net loss not recognised in the income statement	(25)	(3)
Movements in shareholders' equity arising from capital transactions with shareholders:		
Placing of new shares	8,800	–
Net share premium received	21,146	–
	29,946	–
Net profit/(loss) for the period	5,083	(5,730)
Shareholders' equity at 30 June	334,556	303,920

The notes on pages 7 to 19 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)*For the six months ended 30 June 2004**(Expressed in Hong Kong dollars)*

	Six months ended	
	30 June	
	2004	2003
	\$'000	\$'000
Net cash used in operating activities	(49,069)	(28,142)
Net cash (used in)/generated from investing activities	(6,431)	22,352
Net cash generated from/(used in) financing activities	59,075	(6,989)
Net increase/(decrease) in cash and cash equivalents	3,575	(12,779)
Effect of foreign exchange rates changes	(25)	(3)
Cash and cash equivalents at 1 January	48,466	15,966
Cash and cash equivalents at 30 June	52,016	3,184
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents in the balance sheet	70,321	10,284
Bank overdraft	(18,305)	(7,100)
	52,016	3,184

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

For the six months ended 30 June 2004

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

This 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 Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the board of directors is included on page 20.

The interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2003 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 2003 are available from the company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 April 2004.

The same accounting policies adopted in the 2003 annual financial statements have been applied to the interim financial report.

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 2003 annual financial statements.

2 SEGMENTAL INFORMATION

Business segments

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

	Software development and systems integration services		Manufacture and sale of computer related products		Sale of integrated circuits and computer softwares		Unallocated		Consolidated	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenue from external customers	12,311	17,500	102,610	58,704	36,885	-	-	-	151,806	76,204
Other revenue from external customers	654	-	-	275	121	-	150	189	925	464
	<u>12,965</u>	<u>17,500</u>	<u>102,610</u>	<u>58,979</u>	<u>37,006</u>	<u>-</u>	<u>150</u>	<u>189</u>	<u>152,731</u>	<u>76,668</u>
Segment result	(4,029)	70	16,750	6,920	8,622	-	-	-	21,343	6,990
Unallocated operating income and expenses									(8,716)	(9,530)
Profit/(loss) from operations									<u>12,627</u>	<u>(2,540)</u>

Geographical segments

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

3 OTHER REVENUE AND OTHER NET INCOME/(LOSS)

	Six months ended 30 June	
	2004 \$'000	2003 \$'000
Other revenue		
Interest income	1,864	1,938
Rental income from investment properties	271	130
Value-added tax refund	654	-
Dividend income from listed investment	-	515
Others	34	474
	<u>2,823</u>	<u>3,057</u>
Other net income/(loss)		
Gain on disposal of fixed assets	25	-
Unrealised loss on trading securities carried at fair value	-	(359)
	<u>25</u>	<u>(359)</u>

4 PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit/(loss) from ordinary activities before taxation is arrived at after charging:

	Six months ended 30 June	
	2004 \$'000	2003 \$'000
Interest on bank borrowings	756	167
Amortisation of intangible assets	224	224
Depreciation	<u>3,757</u>	<u>3,125</u>

5 INCOME TAX

Income tax in the consolidated income statement represents:

	Six months ended	
	30 June	
	2004	2003
	\$'000	\$'000
Current tax – PRC		
Tax for the period	1,658	848
Over provision in respect of prior years	(310)	–
	1,348	848
Deferred tax		
Origination and reversal of temporary differences	502	906
Share of a jointly controlled entity's taxation	–	62
Share of an associate's taxation	35	–
	1,885	1,816

No provision has been made for Hong Kong Profits Tax as the group did not earn income subject to Hong Kong Profits Tax for the periods ended 30 June 2004 and 2003.

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 the associate. Certain subsidiaries were granted exemptions and relief from the PRC income tax by the relevant local tax bureau.

6 INTERIM DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (2003: \$Nil).

7 EARNINGS/(LOSS) PER SHARE**(a) Basic earnings/(loss) per share**

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary shareholders of \$5,083,000 (2003: loss of \$5,730,000) and the weighted average of 475,457,000 ordinary shares (2003: 440,644,000) in issue during the period.

(b) Diluted earnings/(loss) per share

The effects of all potential ordinary shares are anti-dilutive for the six months ended 30 June 2004 and 2003.

8 FIXED ASSETS

During the period, additions of fixed assets totalled approximately \$37,773,000 (31 December 2003: \$1,284,000). Included in the amount is \$33,020,000 (31 December 2003: \$36,000) arising from the acquisition of a subsidiary during the period.

9 INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

The followings are new subsidiary companies and associates established and acquired during the six months ended 30 June 2004:

Name of company	Place of incorporation/ establishment and operation	Group's effective interest	Held by subsidiary	Held by associate	Paid up/ registered capital	Principal activities
Fuzhou Roong Thavong Plastics Co., Ltd.	PRC	65%	65%	-	USD5,700,000	Production and sale of plastic casing
Fujian Multi Language Translation Service Company Limited	PRC	46%	25%	75%	RMB5,000,000	Provision of translation services
Inner Mongolia Start-Tech Software and System Co., Ltd.	PRC	87.9%	87.9%	-	RMB3,000,000	Provision of software development and systems integration services
Fujian Start Information Facility Co., Ltd.	PRC	100%	100%	-	RMB4,404,940	Provision of software development and systems integration services

10 TRADE AND OTHER RECEIVABLES

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Accounts receivable	126,706	50,636
Bills receivable	-	94
Retentions receivable from customers	2,929	3,114
Gross amount due from customers for contract work	8,043	9,587
Prepayments, deposits and other receivables	31,873	15,799
Loans receivable	18,875	27,630
	188,426	106,860

10 TRADE AND OTHER RECEIVABLES (Continued)

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

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Current	112,100	33,627
1 to 3 months overdue	3,767	12,253
More than 3 months overdue but less than 12 months overdue	8,657	3,384
Overdue beyond 1 year	2,182	1,466
	<u>126,706</u>	<u>50,730</u>

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 1.2% to 8% p.a. Among the balance of loans receivable, \$11,894,000 has been repaid in August 2004. The remaining balances are repayable on or before 31 March 2005.

11 INVESTMENT FUND

Pursuant to a supplementary agreement dated 15 December 2003, a subsidiary of the group entered into agreement with a PRC domestic company for a term of one year for the provision of ongoing financial advisory services in sourcing IT related development projects or other acquisition projects. As at 30 June 2004, investment fund of \$19,336,000 (31 December 2003: \$19,336,000) was placed with the PRC domestic company. Service fee calculated at 20% of any investment returns received is payable to the PRC domestic company at the end of the service term.

12 TRADE AND OTHER PAYABLES

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Accounts payable	69,079	46,578
Bills payable	5,590	2,803
Gross amount due to customers for contract work	4,693	2,325
Receipts in advance	985	465
Other payables and accrued liabilities	31,168	32,207
	<u>111,515</u>	<u>84,378</u>

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

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Due within 3 months or on demand	60,571	43,869
Overdue 3 months to 1 year	13,425	5,253
Overdue beyond 1 year	673	259
	<u>74,669</u>	<u>49,381</u>

13 LOANS AND OVERDRAFT

At 30 June 2004, all loans and overdraft were repayable within one year or on demand.

The loans and overdraft were secured as follows:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Secured bank overdraft	18,305	1,223
Bank loans		
– unsecured	15,478	5,652
– secured	20,547	–
	36,025	5,652
	54,330	6,875

As at 30 June 2004, the group had banking facilities totaling of \$82,724,000 (31 December 2003: \$73,304,000) of which \$62,000,000 (31 December 2003: \$62,000,000) was secured by the following:

- (i) Mortgages over the group’s investment properties with an aggregate carrying value of \$3,950,000 (31 December 2003: \$3,950,000) at 30 June 2004.
- (ii) A charge over the group’s fixed deposits with banks of \$17,516,000 (31 December 2003: \$17,516,000) at 30 June 2004.
- (iii) Corporate guarantee given by the company.

The banking facilities were utilised to the extent of \$59,920,000 (31 December 2003: \$8,874,000) at 30 June 2004.

14 SHARE CAPITAL

	At 30 June 2004		At 31 December 2003	
	No. of shares (‘000)	\$’000	No. of shares (‘000)	\$’000
Authorised:				
Ordinary shares of \$0.10 each	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
Issued and fully paid:				
At 1 January	440,644	44,064	440,644	44,064
Placing of new shares	<u>88,000</u>	<u>8,800</u>	—	—
At 30 June/ 31 December	<u>528,644</u>	<u>52,864</u>	<u>440,644</u>	<u>44,064</u>

All the shares issued by the company rank pari passu and do not carry pre-emptive rights.

On 20 April 2004, the company issued 88,000,000 new ordinary shares of \$0.1 each at a subscription price of \$0.35 per share, by way of placement, raising net proceeds of \$29,946,000.

At 30 June 2004, total options under the share option schemes of the company to subscribe for 27,881,000 (31 December 2003: 28,281,000) shares remained outstanding. Details of the movements in respect of the share option schemes of the company during the six months ended 30 June 2004 are set out under the section headed “Share Option Schemes” on page 29.

15 RESERVES

	Share premium <i>(Note i)</i> \$'000	General reserve <i>(Note ii)</i> \$'000	Translation reserve <i>(Note iii)</i> \$'000	Retained earnings \$'000	Total \$'000
At 1 January 2004	195,909	11,027	1,173	47,379	255,488
Placing of new shares	21,146	-	-	-	21,146
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	-	-	(25)	-	(25)
Profit for the period	-	-	-	5,083	5,083
At 30 June 2004	<u>217,055</u>	<u>11,027</u>	<u>1,148</u>	<u>52,462</u>	<u>281,692</u>

Included in retained earnings is an amount of \$7,244,000 (31 December 2003: \$8,061,000) being the retained earnings attributable to jointly controlled entities and associates.

Notes:

(i) Share premium

Under the Bermuda Companies Act 1981 (as amended), the funds in the share premium account are distributable in the form of fully paid bonus shares.

(ii) General reserve

According to the relevant rules and regulations in the PRC, the group's subsidiaries in the PRC should appropriate part of their profits after taxation to general reserve, which can be used to make good losses and to convert into paid-up capital. No transfers were made by the subsidiaries for the six months ended 30 June 2004 (2003: Nil).

(iii) Translation reserve

Translation reserve represents exchange differences arising from the translation of the financial statements of subsidiaries and associates operating outside Hong Kong.

16 COMMITMENTS**(a) Commitments under operating leases**

At 30 June 2004, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Within 1 year	1,651	2,085
After 1 year but within 5 years	75	435
	<u>1,726</u>	<u>2,520</u>

(b) Capital commitments

Capital commitments outstanding at 30 June 2004 not provided for in the interim financial report were as follows:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Contracted for	207	3,297
Authorised but not contracted for	18,840	6,989
	<u>19,047</u>	<u>10,286</u>

17 CONTINGENT LIABILITIES

At 30 June 2004, there were contingent liabilities in respect of the following:

	At 30 June 2004 \$'000	At 31 December 2003 \$'000
Assets pledged and guarantee given	<u>15,000</u>	<u>15,000</u>

Certain buildings held for own use of the group with an aggregate carrying value of \$5,673,000 (31 December 2003: \$5,750,000) were pledged and corporate guarantee of the company was given as security for banking facilities amounting to \$15,000,000 (31 December 2003: \$15,000,000) granted to a subsidiary of a former related company. As at 30 June 2004, the amount of the facilities utilised was \$3,471,000 (31 December 2003: \$5,347,000).

18 LITIGATION

A writ was issued against a subsidiary of the company, Start-tech (Fujian) Software & System Co., Ltd. ("Start-tech (Fujian)"), in relation to a software copyright dispute of RMB1,044,000. After seeking legal advice, the directors are of the opinion that the alleged claim is unjustifiable and will take vigorous actions to defend the case. A notice of appeal was served on 3 August 2004.

The directors consider Start-tech (Fujian) has valid defence against the claim. Accordingly, no provision has been made in respect of the alleged claims in the interim financial report.

19 MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2004, 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	
	<i>Note</i>	2004 \$'000	2003 \$'000
Advance of loan	<i>i</i>	-	10,931
Rental income	<i>ii</i>	<u>139</u>	<u>-</u>

19 MATERIAL RELATED PARTY TRANSACTIONS (Continued)

Notes:

- (i) During the six months ended 30 June 2003, loans were advanced to the jointly controlled entity and the shareholders of the jointly controlled entities in the amount of \$8,213,000 and \$2,718,000 respectively. Interest income of \$115,000 were received from these loans for the six months ended 30 June 2003.

\$8,891,000 of the loan advanced at 30 June 2003 were capitalised to partially satisfy the share proceeds of the additional capital of the jointly controlled entity and the remainder were settled in December 2003.

- (ii) These represented rental income received from an associate.

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.

20 POST BALANCE SHEET EVENTS

On 15 June 2004, Chatex Investment Limited ("Chatex"), a wholly owned subsidiary of the company, and Start-tech (Fujian), a 87.8% owned subsidiary of the company, entered into an equity transfer agreement pursuant to which Chatex has agreed to sell, and Start-tech (Fujian) has agreed to purchase, 39% equity interests in Fuqing Fujie Plastics Co., Ltd. ("Fuqing Plastics"), at a consideration of RMB16,300,000 with reference to the net asset value of Fuqing Plastics as at 31 December 2003.

It is expected that the acquisition will complete by October 2004. Prior to the completion of the transaction, Fuqing Plastics was owned as to 65% by Chatex and as to 35% by Batco Limited. Upon completion of the transaction, Fuqing Plastics will become a 60.24% owned subsidiary of the group.

21 APPROVAL OF INTERIM FINANCIAL REPORT

The interim financial report was approved by the board of directors on 20 September 2004.

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 19.

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 Institute of Certified Public 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 Institute of Certified Public 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 2004.

KPMG

Certified Public Accountants

Hong Kong, 20 September 2004

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the first half year of 2004, the software development and systems integration business of Start Technology Company Limited ("Start Technology"/the "Company") and its subsidiaries (the "Group") recorded a steady growth. By improving its current technical skills and nurturing a pool of technical expertise, the Group was able to complement the full implementation of the 金保工程 of the government in the People's Republic of China ("PRC"). Additionally, the Group achieved satisfactory result in its business in the manufacture and sale of computer related products. It not only provided a solid financial back-up for the Group's software development and systems integration business, but also contributed to turning around the overall performance of the Group during the period. For the six months ended 30 June 2004, turnover of the Group amounted to HK\$151,806,000 and has increased significantly by 99.2% as compared with HK\$76,204,000 for the corresponding period last year. Profit attributable to shareholders was HK\$5,083,000, compared to the loss attributable to shareholders of HK\$5,730,000 for the same period last year. Gross profit of the Group increased substantially to 19.9% as compared with 15.2% for the same period last year.

During the period under review, 金保工程 was implemented at full force by the PRC government. The Group was qualified as one of the 11 software & technical service providers in Social Security Management Information System of Ministry of Labour and Social Security in the PRC. To meet the technological standard required by the PRC government, the Group expanded its pool of experts and also improved its technological know-how during the review period. Nevertheless, the Group's social security business segment, which constitutes a substantial portion of its software development and systems integration business, saw a drop in overall hardware contract value. The decrease was the result of 金保工程 still at its initial development stage and seasonal adjustments in purchasing by the government. However, through implementing strategy to secure customer satisfaction, the Group gained a number of contracts in software development and systems integration, bringing in a sustainable and long-term revenue stream for the Group. Though the total value of these contracts was relatively small, they have brought in for the Group potential long term customers and recurrent contracts. During the period under review, sales from this segment recorded a decrease of 29.7% to HK\$12,311,000. As software-related contracts have higher profit margins, gross profits from this business segment increased to 21.3%. Leveraging on the growing market presence of its software development and systems integration business, the Group established its brand name among customers and became their chosen software developers and systems integrators.

BUSINESS REVIEW (Continued)

During the period under review, the Group kept its operations closely in line with the 金保工程 implemented by the PRC government, helping healthcare and social security customers in Anhui, Inner Mongolia and Fujian provinces to upgrade and boost the functions of their information systems. At the same time, the Group emphasised on the development of Hospital Information Systems ("HIS"). In addition, the Group established strategic partnerships in digitised medical equipment business with international medical brand names, including General Electric in the United States, Shimadzu and Fuji of Japan which further strengthens its competitive edge in providing comprehensive digitised data solutions and product services. Its public security business also progressed steadily. The Group successfully introduced an upgraded version of the immigration and exit control systems regarding foreign visitors.

Besides its software development and systems integration business, the Group also actively developed its manufacturing and sale of computer related products business, as well as the sale of integrated circuits and computer softwares during the period under review. With regard to the former, the Group acquired a new factory in Mawei, Fuzhou to boost productivity which increased the Group's sales volume substantially by 74.8% to HK\$102,610,000 and accounted for 67.6% of the total turnover. Gross profit was 18.6%. Currently, the Group's prominent clientele included AOC, RICOH, EPSON and Start Computer, etc.

As for the business in the sale of integrated circuits and computer softwares, with satisfactory gross profit and abundant room for development, coupled with the Group's extensive experience in software designs and the strong demand for integrated circuits from prominent clients, it first returned sales of HK\$36,885,000, which represented 24.3% of the Group's total turnover and the gross profit margin reached 23.1%.

During the period under review, the Group's associate, SJTU Sunway Software Industry Limited ("SJTU Sunway") continued its strategic business transformation with key focus on its information localisation business which quickly gained wide client recognition. The Group believes the business will contribute satisfactory returns in the near future.

PROSPECTS

Leveraging on its experiences accumulated over the past years, the Group has developed a solid foundation in software development and systems integration with a prestigious client base. Looking ahead, the Group sees plenty of rooms for business development, which will translate into a stable revenue stream for the Group. With a modified and improved technological platform and more mature technical expertise, the Group will speed up the implementation of contracts in the second half of the year. Most importantly, being the core member of the technology platform and riding on its successful regional business development strategy, the Group will focus on promoting its software development and systems integration business in areas where it has clear advantage. As for the HIS and medical equipment sectors, they have swiftly gained recognition in the market and established a solid client base, which will be favourable for their further expansion. They are expected to become another important growth driver for the Group.

As at 30 June, 2004, the value of unfinished software development and systems integration contracts on hand totalled at approximately HK\$35,717,000.

With regard to the manufacturing and sale of computer related products, the Group will build a new factory next to its existing facility in Fuqing to satisfy growing customer demand. The new factory is expected to begin operation by January 2005.

The Group is confident that the performance in the sale of its integrated circuits and computer softwares business will be satisfactory in the near future. In light of the satisfactory sales performance of this business during the first half of the year and the growing demand of customers for high quality integrated circuits, the Group will be devoting more resources to develop in this business segment.

The Group also has great confidence in its information localisation business in SJTU Sunway. With the strategic business restructuring of SJTU Sunway to focus on the development of information localisation business and its success in gaining customer recognition, the Group is confident that its information localisation business will contribute satisfactory returns to the Group.

PROSPECTS (Continued)

Leveraging on the above plans, the Group will be able to actively expand its revenue base and bring satisfactory returns to its shareholders.

MATERIAL INVESTMENT IN SUBSIDIARIES AND ASSOCIATES

In May 2004, the Group acquired a subsidiary, Fuzhou Roong Thavorn Plastics Co., Ltd. ("Fuzhou RTP"), at a consideration of RMB13.4 million in which the Group holds 65% equity interest in Fuzhou RTP. Fuzhou RTP is principally engaged in the production and sale of plastic casing.

In May 2004, the Group established Fujian Multi Language Translation Service Company Limited ("Fujian MLTS") in which the Group holds 25% equity interest and contributed proportionately RMB1.25 million in the registered capital of Fujian MLTS. Fujian MLTS is principally engaged in the provision of translation services.

In May 2004, the Group established Fujian Start Information Facility Co., Ltd. ("Fujian Start Information") in which the Group holds 100% equity interest and contributed RMB4.4 million in the registered capital of Fujian Start Information. Fujian Start Information is principally engaged in the provision of software development and systems integration services.

In June 2004, the Group established Inner Mongolia Start-Tech Software and System Co., Ltd. ("Inner Mongolia Start-Tech") in which the Group holds an effective 87.9% equity interest and contributed RMB3 million in the registered capital of Inner Mongolia Star-Tech. Inner Mongolia Start-Tech is principally engaged in the provision of software development and systems integration services.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2004, the Group had cash and bank balances HK\$214,065,000 (31 December 2003: HK\$193,433,000) of which HK\$17,516,000 (31 December 2003: HK\$17,516,000) were pledged to banks for facilities granted to the Group. About 91.7% and 6.0% of these liquid funds were denominated in Renminbi and US dollars respectively and the remainder in HK dollars.

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

Bank loans and overdrafts of the Group as at 30 June 2004 amounted to HK\$54,330,000 (31 December 2003: HK\$6,875,000) and were all repayable within one year. As at 30 June 2004, the total asset value of the Group was HK\$526,930,000 (31 December 2003: HK\$413,235,000) whereas the total liabilities was HK\$169,393,000 (31 December 2003: HK\$93,960,000). The gearing ratio of the Group, calculated as total liabilities over total assets, was 32.1% (31 December 2003: 22.7%).

Of the total borrowings as at 30 June 2004, about 28.5% denominated in Renminbi and the remainder in HK dollars, and 28.5% was at fixed interest rates.

As at 30 June 2004, the Group had available aggregate banking facilities of HK\$82,724,000 (31 December 2003: HK\$73,304,000) of which HK\$22,804,000 (31 December 2003: HK\$64,430,000) has not been utilised.

Assets charged as security for banking facilities included bank deposits totalling HK\$17,516,000 (31 December 2003: HK\$17,516,000) and investment properties of the Group valued at HK\$3,950,000 (31 December 2003: HK\$3,950,000) as at 30 June 2004.

The Group continued to maintain a net cash (being the total cash and bank balances net of total bank borrowings) to equity ratio of 47.7% (31 December 2003: 62.3%) as at 30 June 2004. With net cash of HK\$159,735,000 (31 December 2003: HK\$186,558,000) as at 30 June 2003, the Group's liquidity position remains strong and the directors of the Company ("Directors") believe that the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

CONTINGENT LIABILITIES

As at 30 June 2004, certain buildings held for own use of the Group with an aggregate carrying value of HK\$5,673,000 (31 December 2003: 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 2003: HK\$15,000,000) granted to a subsidiary of a former related company. As at 30 June 2004, the amount of the facilities utilised was HK\$3,471,000 (31 December 2003: HK\$5,347,000).

LITIGATION

Details of the Group's litigation are set out in note 18 on the unaudited financial report.

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 2004, the Group had approximately of 966 (31 December 2003: 856) employees and of which approximately of 214 (31 December 2003: 93) were technicians. Employees' costs (excluding Directors' emoluments) amounted to HK\$11,820,000 (2003: HK\$9,595,000) 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 programs are 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 (the "Board") 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' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2004, the interests and short positions of the Directors and chief executive of the Company in the shares or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Name of Director	Name of company	Capacity	Number and class of securities <i>(note 1)</i>
Mr. Sze Wai, Marco	The Company	Interest of a controlled corporation <i>(note 2)</i>	132,434,953 ordinary shares (L)
	The Company	Beneficial interest	3,500,000 ordinary shares (L) <i>(note 3)</i>
Mr. Ye Long	The Company	Beneficial interest	4,981,000 ordinary shares (L)
	The Company	Beneficial interest	4,000,000 ordinary shares (L) <i>(note 3)</i>
Mr. Chu Chi Shing	The Company	Beneficial interest	2,500,000 ordinary shares (L) <i>(note 3)</i>
Mr. Chiu Chi Shun, Clarence	The Company	Beneficial interest	3,500,000 ordinary shares (L) <i>(note 3)</i>

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Notes:

1. The letter "L" represents the Director's interests in the shares and underlying shares of the Company.
2. These shares were held by Leading Value Industrial Limited which is owned as to 50% by Mr. Sze Wai, Marco.
3. These shares were the respective number of shares which would be allotted and issued upon exercise in full of the options granted to each of Mr. Sze Wai, Marco, Mr. Ye Long, Mr. Chu Chi Shing and Mr. Chiu Chi Shun, Clarence under the share option schemes of the Company. The exercise period and the exercise price of these options are set out in the section headed "Share Option Scheme" below.

Save as disclosed above, as at 30 June 2004, none of the Directors or chief executive of the Company had any interest and short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

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, non-executive directors, any suppliers and customers of the Company or any of its subsidiaries or any invested entity to subscribe for shares in the Company.

For options granted before 1 September 2001, the exercise price of options 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 2004, 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\$0.49 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 30.06.2004	Closing price per share immediately before the date of grant (HK\$)
				Outstanding at 1.1.2004	Granted during the period	Lapsed during the period		
Old Scheme								
Directors								
Mr YE Long	06.07.1999	02.10.1999-05.07.2009	1.08	3,000,000	-	-	3,000,000	1.99
Mr CHU Chi Shing	06.07.1999	02.10.1999-05.07.2009	1.08	2,100,000	-	-	2,100,000	1.99
	17.01.2000	02.01.2001-16.01.2010	1.32	200,000	-	-	200,000	2.70
	04.06.2001	01.10.2001-03.06.2011	0.58	200,000	-	-	200,000	0.86
Mr SZE Wai, Marco	04.06.2001	01.10.2001-03.06.2011	0.58	3,500,000	-	-	3,500,000	0.86
Mr CHIU Chi Shun, Clarence	04.06.2001	01.10.2001-03.06.2011	0.58	3,500,000	-	-	3,500,000	0.86
Employees								
	06.07.1999	02.10.1999-05.07.2009	1.08	2,881,000	-	-	2,881,000	1.99
	30.12.1999	02.01.2001-29.12.2009	1.13	500,000	-	(400,000)	100,000	1.67
	17.01.2000	02.01.2001-16.01.2010	1.32	650,000	-	-	650,000	2.70
	21.01.2000	02.01.2001-20.01.2010	1.44	560,000	-	-	560,000	2.25
	07.03.2000	02.01.2001-06.03-2010	2.06	40,000	-	-	40,000	4.025
	10.08.2000	02.01.2001-09.08.2010	1.14	800,000	-	-	800,000	1.39
	04.06.2001	01.10.2001-03.06.2011	0.58	8,850,000	-	-	8,850,000	0.86
				<u>14,281,000</u>	<u>-</u>	<u>(400,000)</u>	<u>13,881,000</u>	
New Scheme								
Directors								
Mr YE Long	28.05.2002	28.05.2002-27.05.2012	0.67	1,000,000	-	-	1,000,000	0.66
Employees								
	28.05.2002	28.05.2002-27.05.2012	0.67	500,000	-	-	500,000	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. No share option was granted and exercised during the period ended 30 June 2004. The weighted average value per option granted in 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:

	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.

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.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

As at 30 June 2004, the following persons and entities, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of ordinary shares <i>(note 1)</i>	Capacity	Approximate percentage of interest
Leading Value Industrial Limited	132,434,953(L) <i>(note 2)</i>	Beneficial owner	25.05
Fujian Start Computer Group Group Company Limited	47,962,000(L)	Interest of a controlled corporation <i>(note 3)</i>	9.07

Notes:

1. The letter "L" represents the entity's interests in the shares.
2. Mr. Sze Wai, Marco's interest in Leading Value Industrial Limited is also disclosed in the section headed "Directors' and Chief Executive's interest and short positions in shares, underlying shares and debentures".
3. These shares are registered in the name of Anfull International Limited. The entire issued share capital of Anfull International Limited is owned by Interstar Holdings Limited, which is in turn a wholly owned subsidiary of Fujian Start Computer Group Company Limited.

Save as disclosed above, as at 30 June 2004, no person or entity other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

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

During the six months ended 30 June 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CODE OF BEST PRACTICE

In the opinion of the Directors, except that the Independent Non-executive Directors have not been appointed for specific terms, the Company has complied with paragraphs 1 to 13 of the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

In accordance with the Code of Best Practice set out in Appendix 14 of the Listing Rules, the Board 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. The audit committee has reviewed the Group's financial statements for the six months ended 30 June 2004 and is of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and the requirements of applicable laws, codes and regulations and that adequate disclosure pursuant thereto have been made.

By order of the Board
Sze Wai, Marco
Chairman

Hong Kong, 20 September 2004