

Chairman's Statement



To Our Shareholders

On behalf of the Board of Directors of Start Technology Company Limited ("Start Technology / the Company"), I am pleased to present the annual report of the Company and its subsidiaries ("the Group") for the year ended 31 December 2000.

Since its listing in Hong Kong in 1998, Start Technology has been committed to software development and the provision of systems integration services in the People's Republic of China (the "PRC"). During the year, Start Technology further expanded its business horizon and strategically acquired Beijing Futong Times Computer Co., Ltd. ("Futong"), the largest systems value-added services provider of IBM products in the PRC, and Beijing Start Ming Tai Computer Application Technology Development Co., Ltd. ("Start Ming Tai"), a reputable general software developer in the PRC. These moves have not only helped the Group diversify its business, but also created further synergies among its businesses.

Leveraging the Group's foundations in systems integration and the well-established relationship between Futong and IBM, together with the expertise of Start Ming Tai in software development, the Group will be able to provide one-stop applications and solutions services to customers to further exploit the enormous potential of the systems integration and applications software market.

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RESULTS ANALYSIS

For the year ended 31 December 2000, the Group recorded a turnover of HK\$626,226,000, representing a surge of 3 times against the figure of HK\$156,527,000 achieved last year. Profit attributable to shareholders was HK\$9,388,000 as compared to last year's figure of HK\$13,226,000. The exponential growth in turnover was mainly attributable to the sales of systems value-added services under Start Futong Technology Co., Ltd. ("Start Futong"), which was acquired by the Group in early 2000, accounting for approximately 82% of the Group's total turnover. However, in restructuring the

customer portfolio of its systems integration business last year, in addition

to the cost of the internal restructuring of its subsidiaries, the Group also incurred significant investment in market research and development. The Group's profit, as a result, was affected. Additionally, the Group's investment in Start-Soyou Internet Technology Company Limited ("Start Soyou") which developed and operated the "Soyou" website since late 1999 recorded a loss during the period, contributing to the downturn in profit. Taking into consideration the changes in the Internet market and the cost effectiveness of such investment, the Group adjusted its business strategy in Start Soyou accordingly, and reduced its interest from 60% to 40% last June, and further disposed of its remaining interest last October.

BUSINESS REVIEW

Software Development and Systems Integration

During the year under review, the Group actively restructured its customer portfolio and shifted the focus from highly competitive industries such as banking, insurance and telecommunications to the health care, social security, hospital and public security industries in view of higher returns and greater market potential. Understanding the importance of applications software to the systems integration business, the Group was committed to research and development of applications software for specific industries, such as public security and health care during the year. This initiative was



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widely recognized by the organizations concerned and facilitated the Group's development in the systems integration business.

Although the sales of systems integration experienced a downturn against last year's figure of HK\$104,044,000 to HK\$62,702,000 in 2000, the Group recorded an encouraging growth in profit margins in view of the successful restructuring of the customer portfolio and widely used applications software within the specific industries. The profit margin increased from 18.3% last year to 29.5%, proving that the strategies implemented by the Group's management have been highly effective.

After restructuring the customer portfolio, the public security and the health care sector of social security (encompassing health care, elderly care, unemployment, maternity and workers compensation) industries performed well. Within the public security industry, the applications of the Group's "Immigration and Exit Control System" have been expanding, giving it the largest market share in the PRC. In particular, the "Immigration and Exit Control System for Chinese Citizens" and the "Immigration and Exit Control System for Foreigners" captured approximately 50% and 90% of market share respectively, establishing solid foundations for future business development.

To further enhance the Group's ability in developing applications software for social security, the Group co-operated with Xiamen Dragon Software Engineering Co., Ltd. and set up a new company Xiamen Start Dragon Information Technology Co., Ltd. ("Start Dragon") to specialize in the rapidly developing social security industry in the PRC.

During the year under review, the Group's health care and hospitals businesses experienced rapid growth with its health care applications software successfully monopolizing six major cities in Fujian province and attaining sales of HK\$25,188,000. This accounted for 40.2% of the Group's sales in software development and systems integration business. The Group is also expanding its health care systems integration business to other provinces in the PRC.



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SYSTEMS VALUE-ADDED SERVICES

In systems value-added services, the Group completed its 40% acquisition of Futong in February 2000 and set up a new holding company, Start Futong. As part of the terms of the acquisition, Futong's major ex-shareholder guaranteed that its profit would not be less than RMB 20 million for the year ended 31 December 2000. Results of Start Futong outperformed expectations with a turnover of HK\$513,252,000 and a gross profit of HK\$59,739,000 for the period. This satisfactory return reaffirms the management's vision and strategies in acquiring Futong.

Start Futong is the largest systems value-added services provider of IBM products in the PRC and the Asian Pacific region and also the first IBM business partner in the PRC to be invited to sit on the consultative committee of its business partners in the Asian Pacific region. Its major customers include finance institutions, government organizations, the military, large systems integration providers and network development providers. With the full support of IBM, Start Futong's services have been widely recognized by customers. The Group is confident that Start Futong's business will grow even further with its wide-ranging product line (mainframes, networking and systems application software), full customer service support (solutions design, systems installation, training and after-sales services), solid business foundations and extensive customer base. Its acquisition also enables the Group to generate additional synergies with its systems integration business.

GENERAL SOFTWARE DEVELOPMENT

For the general software business, the Group completed its acquisition of a 40% interest in Start Ming Tai in June 2000. Start Ming Tai is the only company providing general automated translation software, professional translation software, entertainment software as well as Internet software in the PRC. Start Ming Tai is ranked among the "Top 3" general software brand developers in the PRC.

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During the year, Start Ming Tai has successfully achieved its sales target with profit margin reaching 67.5%. In 2000, Start Ming Tai launched nine new software products. Its Oriental series software is very popular in the PRC market. In particular, the "Oriental Express Software", an automated translation software, has widespread support from the public and has an accumulated total of over 6 million original copyright users.

In June 2000, "雅信CAT", a professional translation software developed by Beijing Ya Xin Cheng Software Technology Co., Ltd., a 51% subsidiary of Start Ming Tai, received the "National Main New Product Certificate" issued by the Ministry of Science and Technology of the PRC. It is honored as the "must-be-learned" software for all professional translators in the PRC. This honour marks Start Ming Tai's significant position in the PRC's translation software market.

In October 2000, Start Ming Tai launched a video/audio entertainment software – "SUNV Player" which is the first product interactively produced by the company with clients in terms of product design, aiming to meet the needs of customers. "SUNV Player" is well received by the market. Over 100,000 sets were sold in the first week after its launch and it received top sales among similar products in the PRC.

The research and development ability of Start Ming Tai has been well recognized in the industry. In late 2000, it signed a contract with Nokia to research and develop a Chinese software for usage on mobile phones. This collaboration reaffirms the outstanding performance of Start Ming Tai in developing software of international standards that outperformed other competitors in the industry.

PROSPECTS AND FUTURE PLANS

Looking ahead, in the software development and systems integration business, the "Five in One" Social Security Programme implemented by the central government increases the social security software and systems integration market potential, generating huge business opportunities for the Group. At present, the Group's social security business is mainly in Fujian and its peripheral provinces. With its



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technological ability, the Group is expanding its business to other provinces and has obtained the social security contracts in Guangdong province and Inner-Mongolia. In public security, the Group's market share will be enlarged through the extension of its immigration and exit systems software to all security institutions in the PRC. As at 31 December 2000, the unexecuted amount of the Group's contracts in software development and systems integration was approximately HK\$37 million.

Start Futong will continue to ride on its market position as the largest systems value-added services provider of IBM products in the PRC and will actively improve its services and thereby enlarge its market share. In addition, Start Futong has entered into an agreement with Nortel to distribute the Nortel network products from January 2001 onwards and thereby enhance its product line and further foster its business development. As at 31 December 2000, the unexecuted amount of Start Futong's contracts stood at approximately HK\$48 million. The Group strongly believes that Start Futong will continue to perform well and will be well able to reach the profit of RMB25 million guaranteed by Futong's major ex-shareholders for the year ending 31 December 2001, bringing satisfactory returns for the Group.

In general software business, Start Ming Tai will enrich its product portfolio by launching higher return anti-virus software in addition to the popular translation and entertainment software. Start Ming Tai also plans to develop applications software for specific industries to suit different customer needs to further capitalize on its strong foundations in software development. The PRC's software market is experiencing the largest growth in the world's software markets, with sales of RMB17.6 billion in 1999, increasing to RMB23 billion in 2000 and estimated to reach over RMB30 billion in 2001. By actively expanding its software business to coincide with the great market potential, the Group is confident it will achieve satisfactory profit in the years to come.

The Group is working to become a leading systems integration provider, software developer and systems value-added services provider, offering comprehensive and advanced systems integration and software services to proactively meet market demand. With the tremendous synergies generated among its three core businesses, the Group is able to seize business opportunities with the most promising potential in the future.

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MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

Material acquisitions of subsidiaries during the year ended 31 December 2000 were as follows:

- In February 2000, the Group completed its acquisition of 40% interest in Start Futong at a cost of approximately HK\$39 million. Start Futong is the largest systems value-added services provider of IBM products in the PRC.
- In June 2000, the Group completed its acquisition of 40% interest in Start Ming Tai at a cost of approximately HK\$52 million. Start Ming Tai is one of the largest general software developers in the PRC.
- In August 2000, the Group co-operated with Xiamen Dragon Software Engineering Co., Ltd. and set up Start Dragon to specialize in social security software and systems integration business. The Group holds 51% in Start Dragon at an investment cost of approximately RMB20 million.

Major disposals of subsidiaries during the year ended 31 December 2000 were as follows:

- In July 2000, the Group disposed of 35% interest in Fuqing Fujie Plastics Company Limited ("Fujie Plastics") to Fujie Plastics' management. The resultant profit on disposal is not material. After the disposal, the Group holds 65% interest in Fujie Plastics.
- The Group disposed of 20% and the remaining 40% interests in Start Soyou in June and October 2000 respectively, ending the Group's investment in Internet portal. The total consideration of the disposals amounted to approximately HK\$20.1 million, realizing a net profit on disposal of HK\$7.04 million.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2000, the Group had cash and bank balances of HK\$167.2 million (1999: HK\$72.9 million) of which HK\$48.3 million (1999: HK\$23.4 million) were pledged to banks for facilities granted to the Group. About 64% and 19% of these liquid funds were denominated in Reminbi and US dollars respectively and the remainder in HK dollars.

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The maturity profile of bank loans and overdrafts of the Group as at 31 December 2000 is analysed as follows:

	As at 31 December	
	2000	1999
	HK\$'000	HK\$'000
Repayable:		
Within one year	32,498	28,580
After 1 year but within 2 years	—	668
After 2 years but within 5 years	—	2,479
After 5 years	—	2,602
	32,498	34,329

Of the total borrowings as at 31 December 2000, about 82% was denominated in Reminbi and the remainder in US dollars.

As at 31 December 2000, the Group had available aggregate banking facilities of HK\$132.2 million (1999: HK\$58.8 million) of which HK\$50 million (1999: HK\$38.9 million) has not been utilized.

Assets charged as security for bank loans and overdrafts included bank deposits totalling HK\$ 48.3 million (1999: HK\$23.4 million) and properties of the Group valued at HK\$7.3 million (1999: HK\$9.5 million) as at 31 December 2000.

The Group continued to maintain a net cash (being the total cash and bank balances net of total bank borrowings) to equity ratio of 51.9% (1999: 17.4%) as at 31 December 2000. With net cash of HK\$134.7 million (1999: HK\$38.6 million) as at 31 December 2000, 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.

EXCHANGE RISK

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

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EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 31 December 2000, the Group had approximately 630 (1999: 400) employees of which approximately 170 (1999: 90) were technicians. Employees' costs (excluding directors' emoluments) amounted to approximately HK\$38.4 million (1999: HK\$10.8 million) for the year. 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, grants 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.

USE OF PROCEEDS

The Company raised net proceeds totalling approximately HK\$91 million from placement of shares in January 2000 and the issue of shares and warrants to a private investor in March 2000. Approximately HK\$77 million of the net proceeds was intended for investments in hi-tech business or projects with remainder for the financing of working capital.

During the year, the Group spent approximately HK\$18.7 million, being the balance of the total consideration of HK\$38.9 million, for the completion of the acquisition of 40% interest in Start Futong. The Group also paid cash consideration of approximately HK\$33.8 million and HK\$18.7 million for the 40% interest in Start Ming Tai and the 51% interest in Start Dragon respectively.

As reported last year, the Group had committed to invest approximately HK\$17 million on a portal providing Internet based e-commerce and information services. During the year, approximately HK\$16 million was spent. However, due to the change in the market conditions on Internet based e-commerce and information services, the Group disposed of its interest in the portal in the second half of the year.

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APPRECIATION

In conclusion, on behalf of the Board of Directors, I would like to take this opportunity to express our sincere appreciation to all our clients, bankers, investors and business partners for their continued confidence and support. I would also like to thank all our management and staff for their significant commitment and contributions to our business operations. In the future, we will seize every business opportunity to further strengthen our competitiveness and market position to create promising returns for our valued shareholders.

Sze Wai, Marco
Chairman

Hong Kong, 17 April 2001