

Report of the Directors

The Directors have pleasure in presenting their annual report together with the audited accounts of the Company and the Group for the year ended 31 December 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 13 on the accounts.

The analyses of the turnover and contribution to profit of the Group by principal activities and geographical locations of operations for the year ended 31 December 2000 are set out in note 3 on the accounts.

RESULTS

The results of the Group for the year ended 31 December 2000 and the state of the Company's and the Group's affairs as at that date are set out in the accounts on pages 35 to 100.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2000.

FINANCIAL SUMMARY

A financial summary of the Group is set out on pages 101 and 102.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers during the financial year is as follows:

	Percentage of the Group's total	
	Sales	Purchases
<i>Attributable to:</i>		
The largest customer	2.5%	—
Five largest customers in aggregate	8.0%	—
The largest supplier	—	87.0%
Five largest suppliers in aggregate	—	91.0%

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS (CONTINUED)

None of the directors or their respective associates (as defined in the Rules (the “Listing Rules”) Governing the Listing of Securities on the Stock Exchange) or shareholders who own more than 5 per cent. of the issued share capital of the Company had any interests in any of these major customers and suppliers.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year ended 31 December 2000 are set out in note 12 on the accounts.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2000 are set out in note 24 on the accounts.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 27 on the accounts.

SHARE PREMIUM AND RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 28 on the accounts.

DISTRIBUTABLE RESERVES

As at 31 December 2000, the Company’s reserves available for cash distribution amounted to HK\$31,810,000 (1999: HK\$34,816,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company’s share premium account of HK\$179,909,000 (1999: HK\$70,986,000) as at 31 December 2000 may be distributed in the form of fully paid bonus shares.

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DIRECTORS

The Directors during the financial year were:

Executive Directors:

Mr YE Long, Chairman	(re-designated as Deputy Chairman on 15 February 2001)
Mr ZHU Guoliang, Deputy Chairman	
Mr CHU Chi Shing	
Ms CHU Yuen Ying	(resigned on 8 November 2000)
Mr GU Peijian	(resigned on 8 November 2000)
Mr CHEN Jian Wen	(resigned on 10 November 2000)
Mr JIA Hong Bing	
Mr LU Ru Xi	(appointed on 24 January 2000)
Mr HUNG Chao Hong	(appointed as a Non-executive Director on 23 June 2000 and re-designated as an Executive Director on 29 June 2000)
Mr CHEN Jian	(appointed on 23 August 2000)
Mr CHIU Chi Shun, Clarence	(appointed on 8 November 2000)
Mr CAI Xiao Dong	(appointed on 8 November 2000)

Independent Non-executive Directors:

Mr WONG Po Yan	
Mr NG Ching Fai	(resigned on 22 December 2000)

Alternate Director:

Mr Robert Chun Chung IP	(appointed on 20 July 2000 and resigned on 31 August 2000 as alternate to Mr HUNG Chao Hong)
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Report of the Directors

DIRECTORS (CONTINUED)

The following Directors were appointed to or resigned from the Board after the end of the financial year:

Executive Directors:

Mr SZE Wai, Marco, Chairman	(appointed on 15 February 2001)
Mr ZHU Guoliang	(resigned on 21 February 2001)
Mr LU Ru Xi	(resigned on 21 February 2001)
Mr JIA Hong Bing	(resigned on 22 February 2001)
Mr KING Yuen, Deputy Chairman	(appointed on 2 March 2001)
Mr MING Tak Ping	(appointed on 2 March 2001)

Independent Non-executive Director:

Mr MAO Zhenhua	(appointed on 9 February 2001)
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Independent Non-executive Directors are not appointed for a specific term. All the Directors, excluding Chairman and Deputy Chairman, are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

In accordance with bye-law 111(A), Mr WONG Po Yan will retire by rotation at the forthcoming annual general meeting and being eligible, offers himself for re-election.

In accordance with bye-law 115, Messrs CHEN Jian, CHIU Chi Shun, Clarence, CAI Xiao Dong, SZE Wai, Marco, KING Yuen, MING Tak Ping and MAO Zhenhua will retire at the forthcoming annual general meeting and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

Each of Mr CHU Chi Shing and Mr YE Long has entered into a service contract with the Company for a term of three years commencing on 1 July 1998. The contracts will continue thereafter until terminated by a not less than six months' notice in writing by either party to the other.

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DIRECTORS' SERVICE CONTRACTS (CONTINUED)

Save as referred to above, none of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2000, the interests of the Directors and their respective associates (as defined in the Listing Rules) in the share capital of the Company or any of its associated corporations, within the meaning of the Securities (Disclosure of Interests) Ordinance of Hong Kong (the "SDI Ordinance"), which had been notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to section 28 of the SDI Ordinance (including interests which they were taken or deemed to have under section 31 or part I of the Schedule to the SDI Ordinance) or which were required to be recorded in the register referred to therein pursuant to section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Share capital of the Company

Name of Directors	Personal interests	
	Number of shares	Percentage of shareholding
Mr YE Long	2,981,000	0.74
Mr HUNG Chao Hong	20,000,000	4.99
Mr CHEN Jian	16,113,000	4.02

Report of the Directors

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

Share capital of a subsidiary

Name of Director	Name of subsidiary	Personal interest		Corporate interest	
		No. of shares	Percentage of share-holding	No. of shares	Percentage of share-holding
Mr CHEN Jian	Start Futong Technology Company Limited	15,000	30%	*6,000	12%

Note: * These shares are beneficially owned by Rich World Development Ltd. in which Mr CHEN Jian has 30% interest.

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other beneficial interests in the share capital of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

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 or any of its subsidiaries to subscribe for shares in the Company. Details of the Scheme are set out in note 27(b) on the accounts.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES (CONTINUED)

At 31 December 2000, the Directors of the Company had the following personal interests in options to subscribe for shares of the Company (market value per share is HK\$0.78 at the balance sheet date) granted at HK\$1 consideration under the Scheme. Each option gives the holder the right to subscribe for one share. During the year, the movements in the number of options outstanding which have been granted to the Directors of the Company under the Scheme were as follows:

Name of Directors	Date of grant	Period during which options exercisable	Exercise price (HK\$)	Out-standing at 1.1.2000	Number of options		Out-standing at 31.12.2000	Market value per share at date of offer of options (HK\$)	Average market value per share on exercise of options (HK\$)
					Granted during the year	Exercised during the year			
Mr YE Long	06.07.1999	02.10.1999 – 05.07.2009	1.08	3,000,000	–	–	3,000,000	1.42	–
Mr CHU Chi Shing	06.07.1999	02.10.1999 – 05.07.2009	1.08	2,400,000	–	(300,000)	2,100,000	1.42	2.43
	17.01.2000	01.02.2001 – 16.01.2010	1.32	–	200,000	–	200,000	1.77	–
Ms CHU Yuen Ying	06.07.1999	02.10.1999 – 05.07.2009	1.08	2,500,000	–	(750,000)	1,750,000	1.42	2.74
	17.01.2000	01.02.2001 – 16.01.2010	1.32	–	150,000	–	150,000	1.77	–
Mr GU Peijian	06.07.1999	02.10.1999 – 05.07.2009	1.08	2,000,000	–	(400,000)	1,600,000	1.42	3.15
	17.01.2000	01.02.2001 – 16.01.2010	1.32	–	250,000	–	250,000	1.77	–
Mr CHEN Jian Wen	06.07.1999	02.10.1999 – 31.12.2001	1.08	2,400,000	–	(650,000)	1,750,000	1.42	2.59
	17.01.2000	01.02.2001 – 31.12.2001	1.32	–	300,000	–	300,000	1.77	–
Mr ZHU Guoliang	06.07.1999	02.10.1999 – 05.07.2009	1.31	1,500,000	–	–	1,500,000	1.82	–
Mr JIA Hong Bing	21.12.1999	02.01.2001 – 20.12.2009	1.13	2,000,000	–	–	2,000,000	1.45	–
Mr LU Ru Xi	21.12.1999	02.01.2001 – 20.12.2009	1.13	1,000,000	–	–	1,000,000	1.45	–

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DIRECTORS' RIGHTS TO ACQUIRE SHARES (CONTINUED)

Apart from the foregoing, at no time during the year was the Company, its holding company or any of its 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

As at 31 December 2000, according to the register kept by the Company under section 16(1) of the SDI Ordinance and so far as was known to the Directors and the chief executive of the Company, the following persons other than the Directors, directly or indirectly, were interested or taken or deemed to be interested in 10% or more of the nominal value of the issued share capital of the Company (or any member of the Group):

The Company

Name of shareholder	Number of shares	Approximate percentage of issued shares held
Futart Holding Company Limited ("FHCL")	173,887,000	43.40%

Members of the Group

Name of subsidiary	Name of shareholder	Percentage of shareholding
Start Futong Technology Company Limited	Rich China Investments and Trading Limited	18%
	Rich World Development Ltd. (Note 1)	12%
Besto Investment Ltd.	Dignet Investment Limited (Note 2)	30%
	Hongkong Sunway Technology Development Limited	30%
Fuqing Fujie Plastics Co., Ltd. ("Fujie Plastics")	Batco Limited (Note 3)	35%
Xiamen Start Dragon Information Technology Co., Ltd.	湖南巨龍軟件產業發展有限公司	49%

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SUBSTANTIAL SHAREHOLDERS (CONTINUED)

Notes:

1. Mr CHEN Jian's interest in Rich World Development Ltd. is also disclosed in Directors' interests in shares.
2. Diginet Investment Limited is wholly owned by Fujian Start Computer Group Co., Ltd.
3. Mr. ZHENG Ping, a director of Fujie Plastics, holds 71.43% of Batco Limited.

Apart from the foregoing, the Directors and other executives of the Company were not aware of any person, other than the Directors, who held or was beneficially interested in 10 per cent. or more of the issued share capital of the Company (or any member of the Group).

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

Save as set out in note 27(c) on the accounts, there were no other purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries during the year.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws in Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RETIREMENT SCHEME

The Company and the Hong Kong subsidiaries operated a defined contribution retirement benefits scheme (the "Previous Scheme") for all qualifying employees in Hong Kong prior to 30 November 2000. Since 1 December 2000, the Group is required to join the Mandatory Provident Fund ("MPF"), managed by an independent approved MPF trustee, under the requirement of the Mandatory Provident Fund Schemes Ordinance.

Total retirement benefits costs under the Previous Scheme and the MPF charged to the profit and loss account amounted to HK\$182,000 (1999: HK\$110,000). Minimum contributions to the MPF is at 5% of the employees' basic salaries.

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RETIREMENT SCHEME (CONTINUED)

At 31 December 2000, the amount of forfeited contributions arising from employees leaving the Previous Scheme before fully vested was approximately HK\$74,000 (1999: HK\$Nil), which can be used to reduce the Group's future contributions. In addition, the Group received HK\$32,000 (1999: HK\$Nil) refund of forfeited contributions during the year ended 31 December 2000.

The subsidiaries of the Group in the People Republic of China ("PRC") other than Hong Kong participate in pension schemes organised by the respective municipal governments whereby they are required to pay annual contributions at the rates ranging from 19% to 25.5% of the standard wages determined by the relevant authorities in the PRC.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant PRC scheme administrators and the Group has no further obligations beyond the annual contributions.

One of the subsidiaries of the Group in the PRC participates in an additional defined contribution pension scheme organised by an insurance company whereby it is required to pay annual contributions at predetermined rates pursuant to the relevant insurance policies.

The aggregate employers' contributions by the Group under the PRC pension schemes amounted to HK\$769,000 (1999: HK\$366,000) during the year.

The Group does not operate any other schemes for retirement benefits provided to the Group's employees.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, its holding company or any of its subsidiaries was a party, in which a director of the Company had a material interest subsisted at the end of the year or at any time during the year.

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CONNECTED TRANSACTIONS

- 1 The following transactions represent connected transactions between the Group and Fujian Start Computer Group Co., Ltd ("Fujian Start") and its subsidiaries. Fujian Start has interests in the Group's associate as a major shareholder and in one of the Group's subsidiaries as a shareholder. It also owns approximately 30% interest in FHCL.

Details of connected transactions between the Group and Fujian Start and its subsidiaries during the year are as follows:

Trading transactions

(a) *Provision of systems integration services*

During the year, the Group provided systems integration services to Fujian Start and its subsidiaries. The charges were similar to fees charged to the Group's other customers for projects of similar scale and requirements. For the year ended 31 December 2000, charges for such systems integration services amounted to HK\$364,000 (1999: HK\$975,000).

(b) *Sale of plastic casings*

The Group sold plastic casings manufactured by it to the subsidiaries of Fujian Start. Sale prices of plastic casings to the subsidiaries of Fujian Start were determined with reference to market prices and were similar to the prices applicable to other customers of the Group. For the year ended 31 December 2000, the aggregate sales of plastic casings by the Group to the subsidiaries of Fujian Start amounted to HK\$11,839,000 (1999: HK\$7,730,000).

(c) *Purchase of computer products for systems integration projects*

During the year, the Group purchased computer products for systems integration projects from Fujian Start and its subsidiaries. The prices of computer products sold to the Group were determined with reference to market prices and were similar to the prices payable to other suppliers by the Group. For the year ended 31 December 2000, the aggregate purchases of computer products for systems integration projects by the Group from Fujian Start and its subsidiaries amounted to HK\$5,529,000 (1999: HK\$673,000).

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CONNECTED TRANSACTIONS (CONTINUED)

(d) *Provision of systems value-added services*

During the year, the Group provided systems value-added services to a subsidiary of Fujian Start. Sale prices of the systems value-added services to the subsidiary of Fujian Start were determined with reference to market prices and were similar to the prices applicable to other customers of the Group. For the year ended 31 December 2000, the aggregate sales of such systems value-added services amounted to HK\$3,231,000 (1999: HK\$Nil).

Non-trading transactions

(a) On 27 April 2000, the Company and its wholly owned subsidiary, Futart Industry Company Limited, entered into agreements to which a subsidiary of Fujian Start was a party:

- (i) To acquire a 40% equity interest in Besto Investment Limited, which has become the 100% owner of Beijing Start Ming Tai Computer Application Technology Development Company Limited ("Start Ming Tai"). Start Ming Tai was indirectly held by Fujian Start as to 48.45% prior to the acquisition. Start Ming Tai is principally engaged in the development, production and sales of general software and Internet software products. The aggregate consideration for the acquisition was HK\$52,000,000.

Approximately 36% of the consideration was satisfied by the issue and allotment of 10,000,000 new shares of the Company at HK\$1.896 per share and the remaining balance was settled in cash.

- (ii) Contemporaneously to dispose of a 20% equity interest of Supernet Technology Limited, which has become the 100% owner of Start-Soyou Internet Technology Co., Ltd. ("Start Soyou"), to the then shareholders of Start Ming Tai. The aggregate cash consideration of the disposal was HK\$16,400,000.

The agreements were completed on 30 June 2000.

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CONNECTED TRANSACTIONS (CONTINUED)

2 Other Connected Transactions

- (a) On 7 June 2000, the Group entered into an agreement with 福建信息產業集團有限公司 for the acquisition of the remaining 49% interest in a subsidiary, Fujian Star System Integration Co., Ltd. ("Fujian SI") at a cash consideration of RMB2,352,000. After the completion of the agreement, Fujian SI has become a wholly owned subsidiary of the Group.
- (b) On 24 July 2000, the Group entered into an agreement with Batco Limited whereby the Group and Batco Limited agreed to inject cash of HK\$88,450 and HK\$3,325,000 respectively into a subsidiary, Fuqing Fujie Plastics Company Limited ("Fujie Plastics"). As a result, the Group's interest in Fujie Plastics was diluted from 100% before the capital injection to 65%. Batco Limited is controlled and owned as to 71.43% by Mr ZHENG Ping, a director of Fujie Plastics and the remaining 28.57% by the employees of Fujie Plastics.
- (c) On 19 October 2000, the Group entered into an agreement with Hongkong Sunway Technology Development Limited ("HK Sunway") for the disposal of the remaining 40% interest in a subsidiary, Supernet Technology Limited, which is the 100% owner of Start Soyou, at a cash consideration of approximately HK\$3,700,000. HK Sunway is owned by a group of individual shareholders. Two of the shareholders of HK Sunway are also directors of certain subsidiaries of the Group.
- (d) On 10 May 2000, the Company entered into a deed of assignment ("the Deed") whereby the Company assigned all the rights and benefits of the outstanding loans receivable, including interest accrued as at 28 April 2000, totalling approximately HK\$51,513,000 to FHCL. Pursuant to the Deed, the assignment was settled by the set-off of a subordinated loan from FHCL and an amount due to FHCL, in the amount of HK\$50,504,000 and HK\$2,592,000 as at 28 April 2000 respectively. The difference of approximately HK\$1,583,000 was settled by the Company during the year ended 31 December 2000.

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CONNECTED TRANSACTIONS (CONTINUED)

Save as disclosed above, during the year, all connected transactions of the Group were conducted on normal commercial terms and on an arm's length basis and where applicable in accordance with the terms of the agreements governing such transactions or where there is no agreement, on terms no less favourable than those available to/from independent third parties, and in the ordinary and usual course of business of the Group and are fair and reasonable so far as the shareholders of the Company are concerned.

The above connected transactions have all been confirmed by the Independent Non-executive Directors of the Company.

CODE OF BEST PRACTICE

In the opinion of the Directors, except that the Independent Non-executive Directors have not been appointed for a specific term, 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.

Independent Non-executive Directors are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's bye-law.

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.

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AUDITORS

KPMG will retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company to be convened and held on 21 May 2001.

By order of the Board of Directors of
Start Technology Company Limited

SIZE WAI, MARCO
Chairman

Hong Kong, 17 April 2001