

## 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 to you the annual report of the Company and its subsidiaries ("the Group") for the year ended 31 December 2001.

Responding to the ever-changing information technology market, the Group's management has strategically allocated resources to develop new business with huge potential, hence contributed to the satisfactory result recorded during the year under review with turnover and profit increased 67.9% and 126.3% respectively. Among its three core businesses, systems value-added services and general software businesses had seen steady growth and continued to contribute a stable profit to the Group. The performance of software development and systems integration business was also satisfactory with sales of healthcare and social security systems and the new hospital information management systems recorded steady growth.

With vision and foresight, the Group's management recognized the enormous potential of specific industries' software and systems integration business. As such, the Group has clearly set as its objective to proactively explore the social security, hospital information management systems and public security markets in the PRC. During the year under review, the Group has step-by-step invested more resources into developing all related software and hardware for these markets. With proven track record and strong research and development capabilities, the management believes Start Technology will become a leading software developer and systems integration services provider in social security, public security and hospital information management systems, which is expected to significantly boost profit of the Group in the future.



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### FINANCIAL ANALYSIS

For the year ended 31 December, 2001, the Group recorded a turnover of HK\$1,051,397,000, representing a surge of 67.9% against the figure of HK\$626,226,000 achieved last year. This steady growth was mainly attributable to the contribution from the Group's systems value-added services business. However, with its systems value-added services business facing increasing competition, coupled with the fact that starting from this year, the financial statements of the general software business units which enjoy high gross profit margin, have been equity accounted for in the consolidated financial statements of the Group, the Group's gross profit did not show a corresponding growth to that of turnover. During the year under review, the Group

recorded an exponential growth in profit attributable to shareholders, representing an 126.3% increase to HK\$21,248,000 compared to last year. This was mainly attributable to the growth in the core business of the Group as well as the increase in profit of the Group's associate.

### BUSINESS REVIEW

#### Systems Value-added Services Business

During the year under review, Start Futong Technology Co., Ltd. ("Start Futong") continued to perform well, with sales increased 90% compared to the same period last year. Its profit contribution, however, has only increased 67.7% against last year as a result of keen competition in the market.

During the year, Start Futong continued to be the largest systems value-added services provider of IBM products in the PRC and Asia Pacific region, supplying IBM mainframes, data storage systems, servers and systems application software to clients encompassing banks, telecommunication companies, government organizations, small and medium enterprises, and systems integration providers. Its comprehensive after-sales services and professional training services have been highly regarded by customers. During the year under review, Start Futong successfully added Nortel's networking products to its product line, providing a comprehensive one-stop systems value-added services to customers. The network department specializing in selling Nortel's networking products was set up in the first quarter of 2001 and became fully operational in the second quarter. In the second half of the year, Start Futong achieved satisfactory sales of Nortel's products, with total sales amounted to approximately HK\$66 million for the year.

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As at 31 December, 2001, the unexecuted amount of the Group's contracts in systems value-added services was approximately HK\$99.85 million.

### Software Development and Systems Integration Business

The Group's strategic deployment of resources in software development and systems integration business has enabled it to achieve outstanding performance in the social security industry segment. During the year under review, it has extended its social and healthcare security business from Fujian to Guangdong, Wunan, Inner Mongolia and Jiangxi provinces and has successfully obtained social security contracts from Guangdong province and Inner Mongolia. Social and healthcare security business saw rapid development, with the turnover jumped a highly encouraging 67.6% from HK\$25,188,000 last year to HK\$42,220,000 this year. With its extensive experience in healthcare security industry, Start Technology is able to effectively integrate the healthcare security information management systems to multiple ends such as banks, hospitals and drug stores. Its thorough understanding of the needs of users also facilitated its development of related software for different ends. During the year under review, the Group has successfully established a foothold in the hospital information management systems market by developing software that can meet the specific needs of the hospitals. The systems developed by the Group have been adopted by numerous large-scale hospitals. It is expected to be a key driving force for the Group's profitability in the future.

As for the public security business, following the PRC's entry into WTO, the PRC Government has been gradually liberating its citizen immigration and exit policy and started restructuring its immigration and exit control operating procedures in the second half of 2001. As a result, all related application software and systems had to be adjusted and upgraded accordingly. This led to a postponement in extending the immigration and exit control systems to cities across the nation. The Group's sales in public security business hence significantly decreased by 87% and the sales in overall software development and systems integration business dropped by 22% to approximately HK\$48,692,000.

As at 31 December, 2001, the unexecuted amount of the Group's contracts in software development and systems integration business was approximately HK\$31.41 million.

### General Software Business

Starting from 2001, the Group's control over the board of directors of its 40% owned company - Beijing Start Ming Tai Computer Application Technology Development Company Limited ("Start Ming Tai") has been changed. Start Ming Tai is now regarded as a jointly controlled entity of the Group with its accounts equity accounted for in the consolidated financial statements of the Group. During the year under review, Start Ming Tai has performed satisfactorily with turnover reaching HK\$33,459,000 and gross profit margin sustained at the high level of over 60%.



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During the year under review, Start Ming Tai has successfully enlisted the reputable Shanghai Jiao Tong University ("SJTU") as a strategic investor, further strengthening its shareholding structure. Leveraging SJTU's outstanding performance in technology research and development, Start Ming Tai's capability in developing new general software will be further reinforced. With Start Ming Tai's extensive sales network and marketing experience in the PRC, and SJTU's technical capabilities and professional expertise complementing each other, the Group sees synergy that will benefit the development of its general software business.

Backed by its superb research capability, in May 2001, Start Ming Tai had successfully launched its "Oriental CD Rom Magician Software" and two innovative products, namely the "Oriental Remote Control Specialist" and the "Oriental 3D Specialist". The latter two new products incorporating software and hardware boost the capability of effectively preventing piracy and thus ensure a satisfactory profit return for the Group.

Apart from that, during the year, Start Ming Tai was appointed by ARC Software, a computer game software company in the US to localize their computer games and market them to the PRC market. The appointment evidenced the outstanding reputation of Start Ming Tai in the overseas markets and its software development and marketing capabilities.

## **PROSPECTS AND FUTURE PLANS**

Looking ahead, with the PRC's entry into the WTO, most PRC enterprises and government organizations will need to increase their competitiveness and efficiency with the help of computerized systems. This will turn into numerous opportunities for the Group.

Regarding its systems value-added services business, the Group anticipates a continuous and steady growth in Start Futong's business of providing customers with a comprehensive one-stop services with IBM's mainframe, Nortel's networking products and Start Futong's advantages in providing professional services. In maximizing the overall efficiency of the Group, Start Futong is also committed to further enhancing its operational efficiency and logistics management.

As for the general software business, with the PRC government placing more emphasis on anti-piracy following China's entry into WTO, in February 2002, Start Ming Tai had, in alliance with Guangdong Province Copyright Protection Association, organized a large-scale anti-piracy campaign on software in Humen, Guangdong province. This move was not only highly praised by the National Copyright Bureau, but also helped to further heighten general awareness towards anti-piracy, and in turn generated demand and hence profit for the Group's products. In the area of new product research and development, Start Ming Tai has proactively engaged in developing anti-virus software, and successfully launched the "Oriental Guard software". Start Ming Tai will continue to research and develop more innovative software through collaboration with its strategic

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investor - SJTU. It will also actively strengthen its existing sales network and marketing capability in the PRC. These initiatives are expected to increase Start Ming Tai's profit margin and further consolidate the Group's leading position in software research and development and distribution in the PRC.

In addition, the Group expects growth of the industry software development and systems integration business to pick up at high speed in the next few years. We see the key driving force of this growth coming from the huge demand for management information systems from the social security and public security industries, in which the Group has directed tremendous efforts to develop. According to market statistics, so far less than 25% of the healthcare security head districts have installed computerized management information systems. It is expected that there will be over 250 head districts which need to equip their facilities in the next three years with healthcare security management information systems and with total investment expected to reach RMB2.5 billion. Therefore, potential in the healthcare security market is immense. Riding on the Group's extensive experience and outstanding software systems in healthcare and social security industries, Start Technology is regarded as the best choice software and systems integration provider by the labour and other relevant government departments nationwide. The Group will continue to expand its market share into other districts in the PRC. Apart from healthcare security, the Central Government is also committed to implement the "Five in One" social security programme. The Group has started its "Five in One" software and systems integration business and this will further enhance its income growth.

Leveraging Start Technology's extensive experience and network in social and healthcare security industries, the Group has successfully established its foothold in the hospital information systems market. In the future, the Group will actively acquire and merge with capable providers of hospital information systems software in the PRC, aiming to further enlarge its market share and generate higher returns for the Group.

As for the public security industry, the Group plans to mount a full-scale marketing campaign of its Immigration and Exit Control systems upon the confirmation of the immigration and exit control operating procedures by the PRC government. It is expected to be a stable income source for the Group once again in 2002. The public security products and services developed by the Group comprise not only the Immigration and Exit Control systems, but also other management systems related to public security. The Group has also invested resources last year to develop software and hardware for hotel security management. The new product will be launched in 2002 to coincide with the enforcement of the hotel security management policy by the Government. It is expected to be yet another new income stream for the Group.

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2002 will be filled with opportunities and challenges for Start Technology. Armed with outstanding research and development capabilities, an extensive customer network and market knowledge, the Group will direct more resources into its software development and systems integration business. Our aspiration is to become a leading software developer and systems integration provider in social security, public security and hospital information management systems and strive to heighten profit growth and generate satisfactory returns to our shareholders.

### **MATERIAL DISPOSAL OF ASSOCIATE**

In October 2001, the Group disposed of its entire interest in the associate to an independent third party, realising a profit on disposal of HK\$9,214,000.

### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2001, the Group had cash and bank balances of HK\$247.6 million (2000: HK\$167.2 million) of which HK\$25.3 million (2000: HK\$48.3 million) were pledged to banks for facilities granted to the Group. About 78% and 14% of these liquid funds were denominated in Reminbi and US dollars respectively and the remainder in HK dollars.

Banks loans and overdrafts of the Group as at 31 December 2001 amounted to HK\$43.1 million (2000: HK\$ 32.5 million) and were all repayable within one year.

Of the total borrowings as at 31 December 2001, about 77% was denominated in Reminbi and the remainder in US dollars, and 77% was at fixed interest rates.

As at 31 December 2001, the Group had available aggregate banking facilities of HK\$144.2 million (2000: HK\$132.2 million) of which HK\$72.5 million (2000: HK\$50 million) has not been utilized.

Assets charged as security for bank loans and overdrafts included bank deposits totaling HK\$25.3 million (2000: HK\$48.3 million) and leasehold properties of the Group valued at HK\$9 million (2000: HK\$7.3 million) as at 31 December 2001.

The Group continued to maintain a high net cash (being the total cash and bank balances net of total bank borrowings) to equity ratio of 67.8% (2000: 51.9%) as at 31 December 2001. With net cash of HK\$204.5 million (2000: HK\$134.7 million) as at 31 December 2001, 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.

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### **CONTINGENT LIABILITIES**

As at 31 December 2001, the Group had the following contingent liabilities:

- (a) Guarantee given by the Group in respect of a bank loan of HK\$9,420,000 (2000: HK\$Nil) granted to a related party of the Group in return for guarantee given to a bank by the related party for a bank loan of HK\$9,420,000 (2000: HK\$Nil) granted to the Group.
- (b) Certain buildings of the Group with an aggregate carrying value of HK\$6,100,000 (2000: HK\$Nil) were pledged as security for banking facilities amounting to HK\$11,000,000 (2000: HK\$Nil) granted to a related party, of which HK\$7,530,000 was utilised as at 31 December 2001.
- (c) Guarantee given by the Group in respect of bank loans of HK\$7,536,000 (2000: HK\$12,246,000) granted to a third party company in return for guarantee given by that company for bank loans of HK\$7,536,000 (2000: HK\$12,246,000) granted to the Group.

### **EXCHANGE RISKS**

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.

### **EMPLOYEES, TRAINING AND REMUNERATION POLICIES**

As at 31 December 2001, the Group had approximately 640 (2000: 630) employees of which approximately 185 (2000: 170) were technicians. Employees' costs (excluding directors' emoluments) amounted to approximately HK\$40.7 million (2000: HK\$38.4 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.

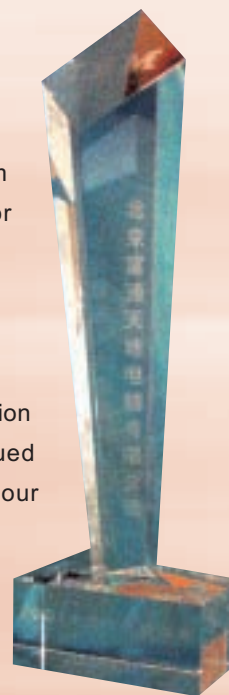
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### **USE OF PROCEEDS**

The Company raised net proceeds totaling approximately HK\$20 million from placement of shares in November 2001. The net proceeds was intended for the financing of working capital.

### **APPRECIATION**

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



**Sze Wai, Marco**

*Chairman*

Hong Kong, 18 April 2002

