

Report of the Directors

The Directors have pleasure in presenting their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2001.

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 14 on the financial statements.

The analysis of the principal activities and geographical locations of operations of the Company and its subsidiaries during the year are set out in note 12 on the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2001 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 28 to 88.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2001.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years is set out on pages 89 and 90.

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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	
	Sales	Purchases
Attributable to:		
The largest customer	5.5%	—
Five largest customers in aggregate	11.8%	—
The largest supplier	—	78.5%
Five largest suppliers in aggregate	—	87.8%

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% 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 2001 are set out in note 13 on the financial statements.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2001 are set out in note 25 on the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 27 on the financial statements. Shares were issued during the year to raise additional capital.

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SHARE PREMIUM AND RESERVES

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

DISTRIBUTABLE RESERVES

As at 31 December 2001, the Company's reserves available for cash distribution amounted to HK\$48,768,000 (2000: HK\$31,810,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK\$195,909,000 (2000: HK\$179,909,000) as at 31 December 2001 may be distributed in the form of fully paid bonus shares.

DIRECTORS

The Directors during the financial year were:

Executive Directors:

Mr. SZE Wai, Marco, Chairman	(appointed on 15 February 2001)
Mr. YE Long, Deputy Chairman	
Mr. CHIU Chi Shun, Clarence	
Mr. CHU Chi Shing	
Mr. CHEN Jian	
Mr. WANG Qing	(appointed on 9 August 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. HUNG Chao Hong	(resigned on 25 April 2001)
Mr. CAI Xiao Dong	(resigned on 2 May 2001)
Mr. KING Yuen	(appointed on 2 March 2001 and resigned on 9 August 2001)
Mr. MING Tak Ping	(appointed on 2 March 2001 and resigned on 2 May 2001)

Independent Non-executive Directors:

Mr. WONG Po Yan	
Mr. MAO Zhenhua	(appointed on 9 February 2001)

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DIRECTORS (Continued)

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. CHU Chi Shing will retire by rotation at the forthcoming annual general meeting and being eligible, offers himself for re-election.

In accordance with bye-law 115, Mr. WANG Qing will retire at the forthcoming annual general meeting and being eligible, offers himself for re-election.

DIRECTORS' SERVICE CONTRACTS

Mr. CHIU Chi Shun, Clarence has entered into a service contract with the Company for a term of two years commencing on 8 November 2000. Mr. YE Long has entered into a service contract with the Company for a term of three years commencing on 1 July 2001. These contracts will continue thereafter until terminated by a not less than three months' notice for Mr. CHIU Chi Shun, Clarence and six months' notice for Mr. YE Long, in writing by either party to the other.

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 normal statutory obligations.

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DIRECTORS' INTERESTS IN SHARES

As at 31 December 2001, 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 Director	Number of shares		Percentage of shareholding
	Personal interest	Corporate interest	
Mr. SZE Wai, Marco	—	132,434,953 (note 1)	30.05%
Mr. YE Long	4,981,000	—	1.13%
Mr. CHEN Jian	16,113,000	—	3.66%

Share capital of a subsidiary

Name of Director	Name of subsidiary	Personal interest		Corporate interest	
		No. of shares	Percentage of shareholding	No. of shares	Percentage of shareholding
Mr. CHEN Jian	Start Futong Technology Company Limited	15,000	30%	6,000 (note 2)	12%

Notes:

- These shares are beneficially owned by Leading Value Industrial Limited, the entire issued share capital of which is owned as to 50% by Mr. SZE Wai, Marco.
- These shares are beneficially owned by Rich World Development Ltd., the entire issued share of which is owned as to 30% by Mr. CHEN Jian.

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DIRECTORS' INTERESTS IN SHARES (Continued)

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

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.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") whereby the Board of Directors may, at their discretion, offer to any full time employees and executive directors of the Company, or any of its subsidiaries, options to subscribe for shares in the Company. For options granted before 1 September 2001, the exercise price of options was determined by the Board and was the higher of the nominal value of the shares and 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. For options to be granted after 1 September 2001, the exercise price of the options will be the highest of the nominal value of the shares, the closing price of the shares on the Stock Exchange on the date of offer of the options and the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. The options do not have a fixed vest period and are exercisable for a period of ten years commencing from the date of grant.

The maximum number of shares in respect of which options may be granted under the share option scheme of the Company may not (when aggregated with shares subject to any other employees share option scheme) exceed in nominal amount 10% of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of any options granted under the share options scheme (or any other employee share option scheme).

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SHARE OPTION SCHEME (Continued)

At 31 December 2001, 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\$0.66 at the balance sheet date) granted at nominal consideration under the Scheme. Each option gives the holder the right to subscribe for one share.

	Number of options							Market value per share at date of grant (HK\$)
	Date of grant	Period during which options exercisable	Exercise price (HK\$)	Outstanding at 1.1.2001	Granted	Lapsed	Outstanding at 31.12.2001	
					during the year	during the year		
Directors								
Mr. YE Long	06.07.1999	02.10.1999 to 05.07.2009	1.08	3,000,000	–	–	3,000,000	1.42
Mr. CHU Chi Shing	06.07.1999	02.10.1999 to 05.07.2009	1.08	2,100,000	–	–	2,100,000	1.42
	17.01.2000	02.01.2001 to 16.01.2010	1.32	200,000	–	–	200,000	1.77
	04.06.2001	01.10.2001 to 03.06.2011	0.58	–	200,000	–	200,000	0.88
Mr. SZE Wai, Marco	04.06.2001	01.10.2001 to 03.06.2011	0.58	–	3,500,000	–	3,500,000	0.88
Mr. CHIU Chi Shun, Clarence	04.06.2001	01.10.2001 to 03.06.2011	0.58	–	3,500,000	–	3,500,000	0.88
Mr. CHEN Jian	04.06.2001	01.10.2001 to 03.06.2011	0.58	–	1,000,000	–	1,000,000	0.88
Employees								
	06.07.1999	02.10.1999 to 05.07.2009	1.08	6,577,000	–	(110,000)	6,467,000	1.42
	06.07.1999	02.10.1999 to 05.07.2009	1.21	700,000	–	–	700,000	1.42
	06.07.1999	02.10.1999 to 05.07.2009	1.31	1,500,000	–	(1,500,000)	–	1.42
	30.12.1999	02.01.2001 to 29.12.2009	1.13	6,200,000	–	(5,600,000)	600,000	1.88
	17.01.2000	02.01.2001 to 16.01.2010	1.32	4,360,000	–	(2,100,000)	2,260,000	1.77
	21.01.2000	02.01.2001 to 20.01.2010	1.44	1,830,000	–	(600,000)	1,230,000	2.33
	07.03.2000	02.01.2001 to 06.03.2010	2.06	540,000	–	(500,000)	40,000	3.58
	10.08.2000	02.01.2001 to 09.08.2010	1.14	1,600,000	–	(250,000)	1,350,000	1.36
	04.06.2001	01.10.2001 to 03.06.2011	0.58	–	9,050,000	–	9,050,000	0.88

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SHARE OPTION SCHEME (Continued)

The share options are not recognised in the financial statements until they are exercised. The weighted average value per option granted in 2001 and 2000 estimated at the date of grant using the Black-Scholes pricing model was HK\$0.58 and HK\$1.87 respectively. The weighted average assumptions used are as follows:

	2001	2000
Risk-free interest rate	4.81%	6.54-6.83%
Expected life (in years)	10	10
Volatility	0.33	0.37-0.65
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 year 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.

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SUBSTANTIAL SHAREHOLDERS

As at 31 December 2001, 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:

Name of shareholder	Number of shares	Approximate percentage of issued shares held
Leading Value Industrial Limited	132,434,953 (note 1)	30.05%

Note:

1. Mr. SZE Wai, Marco's interest in Leading Value Industrial Limited is also disclosed in Directors' interests in shares.

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% or more of the issued share capital of the Company.

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

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

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.

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RETIREMENT SCHEME

As from 1 December 2000, the Company and the Hong Kong subsidiaries operate Mandatory Provident Fund Schemes (“the MPF schemes”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF schemes are defined contribution retirement schemes administered by independent trustees. Under the MPF schemes, the employers and employees are each required to make contributions to the schemes at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$20,000.

The retirement benefits costs under the MPF schemes charged to the income statement amounted to HK\$300,000 (2000: HK\$182,000) during the year.

The subsidiaries of the Group in the People’s Republic of China (“the 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\$643,000 (2000: HK\$769,000) 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, subsidiaries or fellow 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

- The following transactions represent transactions between the Group and Fujian Start Computer Group Co., Ltd ("Fujian Start") and its subsidiaries ("Fujian Start Group"). Fujian Start had interests in the Group's jointly controlled entities as shareholders prior to its disposal of such interests on 1 June 2001.

Details of transactions between the Group and Fujian Start Group for the five months ended 31 May 2001 are as follows:

		Five months ended 31 May 2001	Year ended 31 December 2000
Trading transactions	<i>Note</i>	\$'000	\$'000
Sales of plastic casings	<i>a</i>	6,295	11,839
Purchases of computer products	<i>b</i>	517	5,529
Systems value-added services		—	3,231
Systems integration services income		—	364

Notes:

- During the period, the Group sold plastic casings manufactured by it to Fujian Start Group. Sale prices of plastic casings to Fujian Start Group were determined with reference to market prices and were similar to the prices applicable to other customers of the Group.
- During the period, the Group purchased computer products for systems integration projects from Fujian Start Group. 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.

Non-trading transactions

Guarantee has been given by the Group in respect of a bank loan in the amount of approximately HK\$9,420,000 (2000: HK\$Nil) granted to Fujian Start Group in return for guarantee given by Fujian Start Group for a bank loan of an equivalent amount (2000: HK\$Nil) granted to the Group.

- On 18 April 2001, the Group entered into an agreement with 湖南巨龍軟件產業發展有限公司 ("湖南巨龍") for the disposal of 49% interest in a subsidiary, Start Technology (Guangzhou) Software Co., Ltd. at net book value of RMB532,000 (the "Disposal"). 湖南巨龍 is a 49% shareholder of two subsidiaries of the Group engaged in software development and systems integration business. The Disposal is done as part of the restructuring of the Group's software development and systems integration business.

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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 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.

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-laws.

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.

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 23 May 2002.

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

SZE WAI, MARCO
Chairman

Hong Kong, 18 April 2002