

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Start Technology Company Limited ("Start Technology"/"the Group") strategically deployed its operations for long-term development during the period under review. On 18 May 2002, the Group announced the disposal of its entire 40% shareholding in Start Futong Technology Company Limited ("Start Futong") for a total consideration of HK\$72,128,983. This resolution was unanimously passed at the Special General Meeting on 5 July 2002. A profit on the disposal of approximately HK\$4,987,000 will be reflected in the Group's financial statements in the second half of 2002. This disposal further strengthened the Group's financial position and substantially increased its surplus cash to over HK\$200 million, facilitating the Group's future development.

Start Futong is a systems value-added services provider and distributor of IBM products in the PRC. In view of the increasingly competitive environment, Start Futong's profit margins have been narrowing with additional downward pressures. Planning strategically for its long-term development, the Group believes that this was an opportune moment to dispose of the business. The disposal has not only strengthened the Group's financial position, it enables the Group to allocate more resources and focus on the development of its software development and systems integration business which generates higher profit margins and has greater potential for growth.

Start Futong's operating results are still reflected in the Group's interim results as the disposal was completed in July 2002. However, it is regarded as a discontinuing operation. For the six months ended 30 June 2002, the Group recorded turnover of HK\$564,896,000, surging 28% against last year's figure of HK\$439,692,000. Operating profit increased by 23% reaching HK\$21,096,000. Profit attributable to shareholders was HK\$1,796,000 compared to the HK\$1,924,000 recorded last year. This slight decrease was mainly attributable to the disposal of the Group's 25% interest in an associate at the end of 2001 which reduced profit contributions from this associate. If this factor is disregarded, the Group's business performance recorded an improvement during the period.

During the period under review, sales in the software development and systems integration business recorded a growth of 19% to HK\$27,560,000. This business segment has successfully rebounded to profit, making a positive contribution to the Group. This demonstrates the Group's successful management strategies which have brought in these satisfactory results for the period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

With the management's vision and foresight, prolonged efforts to build its reputation, coupled with its extensive business network, Start Technology has been able to establish solid foundations and accumulate a widespread and leading-edge experience in the software development and systems integration business. In particular, its healthcare security business has been strongly recognized by the relevant governmental departments and organizations in Fujian province and become a standard in the industry. So far, Start Technology has achieved an accumulated turnover of approximately HK\$67 million for its healthcare security business, highlighting its leading position within the industry.

The success of the healthcare security business has created a strong advantage for the Group in its initial developments in the social security segment, which achieved satisfactory results with a 39% increase in turnover to HK\$6,442,000 for the period. The social and healthcare security businesses in Fujian province continued to contribute satisfactory returns to the Group. Backed by its advantageous positioning in Fujian province and its value-added services, the Group has successfully extended its services to Guangdong, Hunan, Inner Mongolia and Jiangxi provinces with outstanding performances.

The healthcare security business also established concrete foundations for the Group's development of its hospital information management systems. Since its launch in the second half of 2001, the systems have been widely adopted by numerous large-scale hospitals in Fujian to a highly positive market response. It is expected to be a key driver for the Group's profitability in the second half of the year.

In the public security business, the Group provided one-stop services for public security departments riding on its unique experience in software development and systems integration. Embracing hardware purchases, software development to systems integration, this business recorded exponential growth in turnover for the period under review.

The Group's 40% owned company - Beijing Start Ming Tai Computer Application Technology Development Company Limited officially changed its name to SJTU Sunway (Beijing) Software Company Limited ("SJTU Sunway") on 24 April 2002 subsequent to the strategic investment from Shanghai Jiao Tong University in late 2001. It is the only company providing general automated translation software, professional translation software, entertainment software as well as Internet software in the PRC. Over the years, the company has focused on the development of multi-functional general software. These include "Oriental Express Software", "SUNV Player" and "Oriental CD Rom Magician Software" among others. In view of the Group's ongoing efforts to enhance product quality and

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

functionality, the general software business performed well and recorded a surge in the profit contribution to the Group of 5.6 times as compared to 2001. During the period under review, SJTU Sunway successfully developed a new anti-virus software – “Oriental Guard” which has been test-launched in North-eastern China and sold over 2000 sets. The retail price for this software is higher than average as it involves higher levels of technology. During the period under review, 12 new products were launched in the market.

Prospects

The increase of the shareholding in each of Xiamen Start Dragon Information Technology Co., Ltd and Fuzhou Start Dragon Information Technology Co., Ltd (together called “Start Dragon”) to 70% by the Group through the acquisition of an additional 19% in Start Dragon by its wholly-owned subsidiary in July 2002 sets out a blueprint for the Group’s development.

The shareholding increase in Start Dragon has established a clear direction for the Group in its future development with Start Dragon becoming the Group’s flagship to expand the software development and systems integration business. The speedy growth of the social security industry in the PRC has accelerated the investment in the computerization of social security systems. Therefore, there will be numerous development opportunities for Start Technology. Apart from consolidating business in its existing markets, the Group is committed to paying closer attention to arising business opportunities in other provinces such as Anhui and Yunan.

The success of the healthcare and social securities businesses has heightened the Group’s competitiveness in its development of hospital information management systems. Currently, the Group is in negotiation with 20-30 hospitals in Fujian province, with orders expected by the end of the year. In addition, the Group has entered into an agreement with the Health Bureau in Fujian province to develop “Hospital Assets Management” software, which will be targeted at 300 hospitals in Fujian. These activities will generate satisfactory profits for the Group in the future.

Market potential for the public security industry is also enormous. The enforcement of hotel security management policies has created huge room for the Group’s self-developed software – “Start Technology hotel management”. With the increasing maturity of immigration and emigration processes, demand for “Immigration and Exit Control Systems” will also be further stimulated.

As at 30 June 2002, outstanding contracts in the software development and systems integration business amounted to HK\$19,730,000.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects (Continued)

Not only will the Group be expanding its software development and systems integration business, it will also strengthen its existing general software business. In addition, the Group will also explore the industry solutions software market and has recently developed a unique network safety solution for the Beijing Census Department. Also, the Group has also been in co-operation with various local and overseas well-known English language-teaching companies to launch English learning CDs. This further completes the information localisation services provided by the Group through the general software business.

Looking forward, leveraging its strong financial position with surplus cash of over HK\$200 million, the Group has ample financial resources for further development. Riding on its solid business foundations, Start Technology will continue to develop the software development and systems integration business. Through acquisitions and strategic alliances, the Group is committed to become a market leader in the healthcare security, social security and hospital management systems industries, generating better income growth for the Group and bringing satisfactory returns to shareholders.

MATERIAL DISPOSAL OF SUBSIDIARIES

On 18 May 2002, the Group entered into agreements to dispose of its entire interests in subsidiaries comprising the systems value-added services business segment for a cash consideration totalling approximately HK\$72,129,000. The disposal was completed on 5 July 2002, realizing a profit on disposal of HK\$4,987,000.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2002, the Group had cash and bank balances of HK\$255.2 million (31 December 2001: HK\$247.6 million) of which HK\$19.2 million (31 December 2001: HK\$25.3 million) were pledged to banks for facilities granted to the Group. About 87% and 6% of these liquid funds were denominated in Reminbi and US dollars respectively and the remainder in HK dollars.

Bank loans and overdrafts of the Group as at 30 June 2002 amounted to HK\$137.4 million (31 December 2001: HK\$43.1 million) and were all repayable within one year.

Of the total borrowings as at 30 June 2002, about 57% was denominated in Reminbi, 4% in HK dollars and the remainder in US dollars, and 57% was at fixed interest rates.

As at 30 June 2002, the Group had available aggregate banking facilities of HK\$190.1 million (31 December 2001: HK\$144.2 million) of which HK\$42.2 million (31 December 2001: HK\$72.5 million) was not utilized.

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

Assets charged as security for bank loans and overdrafts included bank deposits totalling HK\$19.2 million (31 December 2001: HK\$25.3 million) and leasehold properties of the Group valued at HK\$7.3 million (31 December 2001: HK\$9 million) as at 30 June 2002.

The Group continued to maintain a net cash (being the total cash and bank balances net of total bank borrowings) to equity ratio of 38.8% (31 December 2001: 67.8%) as at 30 June 2002. With net cash of HK\$117.8 million (31 December 2001: HK\$204.5 million) as at 30 June 2002 and taking into consideration of the net proceeds of approximately HK\$71,677,000 receivable from the disposal of the systems value-added services business, 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.

CONTINGENT LIABILITIES

As at 30 June 2002, certain buildings of the Group with an aggregate carrying value of HK\$6,100,000 (31 December 2001: HK\$6,100,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to HK\$15,000,000 (31 December 2001: HK\$11,000,000) granted to a subsidiary of a former related company. As at 30 June 2002, the amount of the facilities utilized was HK\$10,038,000 (31 December 2001: HK\$7,530,000).

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.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 30 June 2002, the Group had approximately 790 (31 December 2001: 640) employees of which approximately 165 (31 December 2001: 185) were technicians. Employees' costs (excluding directors' emoluments) amounted to approximately HK\$23.9 million (2001: HK\$20.6 million) 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 programme is provided to technicians, especially new recruits, to ensure their technical proficiency.