

## Chairman's Statement

### TO OUR SHAREHOLDERS

On behalf of the Board of Directors of Start Technology Company Limited ("Start Technology"/the "Company"), I hereby present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2002.

In view of the ever-changing information technology market, Start Technology strategically redeployed its business in 2002 by discontinuing business with low profit margin and focusing its resources on expanding the software development and systems integration business, which is of greater potential and higher profit margins. During the year under review, turnover for the Group's continuing operations increased by 48.9% while its overall profit margin also improved to 14.3% due to the disposal of systems value-added services business.



On 18 May 2002, the Group announced the disposal of its entire 40% shareholding in Start Futong Technology Company Limited ("Futong") for a total consideration of HK\$72,129,000 (the "Disposal"). Futong is a systems value-added services provider and distributor of IBM products in the People's Republic of China (the "PRC"). In view of the increasingly competitive environment, Futong's profit margins have been narrowing with additional downward pressures. Therefore, 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, but also enables the Group to allocate more resources on the development of other business where there is greater potential for growth.

The Group focuses on the software development and systems integration business as well as the general software business after the disposal of Futong. As the PRC government accelerates the pace of reform in the social security industry, demand for Start Technology's comprehensive social and healthcare security system has been stimulated. This, coupled with the increasing sales of the hospital information management systems and the growth in the public security business, contributed to a satisfactory performance of the software development and systems integration business of the Group in the year under review.



## FINANCIAL ANALYSIS

For the year ended 31 December 2002, the Group's continuing operations recorded a turnover of HK\$114,630,000, representing a surge of 48.9% over that of last year. However, as the Group disposed of the systems value-added services business in July 2002, turnover of this discontinued operation reduced from HK\$974,418,000 of last year to HK\$522,759,000. This caused a 39.4% decrease in the Group's total turnover, from HK\$1,051,397,000 of last year to HK\$637,389,000. During the year under review, the Group recorded a loss of HK\$10,948,000, compared to last year's profit of HK\$21,248,000. This was mainly due to the disposal of the systems value-added services business during the year and the disposal of the Group's 25% interest in an associate at the end of 2001, which reduced the respective profit contributions to the Group. In addition, a loss was recognised upon the revaluation of properties. On the other hand, the disposal of the systems value-added services business boosted the Group's gross profit from 12.3% to 14.3%.



## BUSINESS REVIEW

### Software Development and Systems Integration Business

The Group's software development and systems integration business mainly covers healthcare security, social security, hospital information management systems and public security sectors. During the year under review, turnover of this business increased by 26.6% to HK\$61,660,000 as compared to that of last year.

Turnover of the healthcare security sector reached HK\$34,309,000 for the year, accounting for over 50% of the total turnover of the software development and systems integration business. The Group has also successfully extended its business to Guangdong, Hunan, Inner Mongolia, Jiangxi provinces as well as Hefei in Anhui province.

In addition, under the government's advocacy of "Five in One" social security programme, the Group's social security business performed well, with turnover for the year sharply increased by 50% to HK\$10,443,000 as compared to that of last year.

For the hospital information management system business, the Group's system has received satisfactory response since its launch in the second half of 2001 and has been widely adopted by numerous large-scale hospitals. During the year under review, over 20 hospitals in Fujian province installed the Group's hospital information management systems. Turnover accordingly leaped 3.5 times compared to last year.

With regard to the public security business, the sharp increase in the population of both immigrants and emigrants coupled with the maturity of immigration and exit procedures stimulate the demand for immigration and exit management system. The Group provided one-stop service

## Chairman's Statement

to the public security bureau covering hardware purchases, software development and systems integration services. This boosted the turnover of public security for the year.

As at 31 December 2002, the unexecuted amount of the Group's contracts in the software development and systems integration business stood at approximately HK\$17,400,000.



### General Software Business

The Group's 40% jointly controlled entity – Beijing Start Ming Tai Computer Application Technology Development Company Ltd. ("Start Ming Tai") changed its name to SJTU Sunway (Beijing) Software Company Ltd. ("SJTU Sunway") on 24 April 2002, after enlisting Shanghai Jiao Tong University ("SJTU") as a strategic investor in December 2001. During the year under review, SJTU Sunway successfully developed 21 new products. Among them, the new anti-virus software "Oriental Guard" successfully set a record in Beijing in December 2002 whereby the computer system remained intact despite simultaneous attacks by the maximum number of hackers on record within a specified period of time. The record is currently awaiting affirmation and acceptance by the "Guinness World Records". Currently, "Oriental Guard" has recorded a satisfactory sale performance.

Following the success of the Group's self-developed professional translation software, SJTU Sunway set up its "LingoWorld Workshop" during the year under review, aiming to provide systemized and top quality translation services to its customers. "LingoWorld Workshop" has received many positive feedbacks since its official launch in October 2002.



## PROSPECTS AND FUTURE PLANS

Looking ahead, software development and systems integration and general software businesses will continue to be the focus of the Group.

The “Five in One” social security programme implemented by the central government has substantially increased the market potential for social security system. The Group will continue to expand its social and healthcare security businesses to provinces such as Yunnan, Hubei, and Gansu among others, so as to increase its market share. In addition, Start Technology is currently studying possibilities to cooperate with multiple ends of the healthcare system, such as hospitals, banks and other institutions, so as to enlarge the networks and applications of its healthcare security systems.

Economic boom in the PRC accelerate the computerization of healthcare systems as well as hospital information management systems. The Group expects that the next 3 to 5 years will be the peak period for hospitals to computerize their information management systems. The Group is currently negotiating with various hospitals in Guangdong province, such as Guangdong Provincial Hospital of T. C. M. and First Military Medical University Nanfang Hospital, and expects to sign the related contracts in the middle of the year. Furthermore, the Group has officially signed an agreement with the Fujian Public Health Bureau to develop hospital assets management software, targeting for sales to the 300 hospitals in Fujian Province. In the public security business, Start Technology has become the first choice software developer and systems integration provider for the relevant departments in various provinces. Apart from immigration and exit control system, the Group will also develop other public security related management systems to expand its market share.

With regard to the general software business, the Group will reinforce its research and development capabilities and leverage the expertise of SJTU to develop more leading-edge software that will cater for different market needs. Extra efforts will also be devoted to develop information localization business. These include continuous upgrading the functions of the translation software (“Oriental Express” and “Yaxin CATS professional translation software”), launching new English learning CD and providing professional translation services through its “LingoWorld Workshop”. This not only helps to localize international information, but also enhances the process to bring local information to the international arena. Following China's entry into the World Trade Organization, information flows between the local and the outside world are increasing. The Group therefore believes that ample market potential exists for translation software and services.

The coming year will be full of opportunity and challenge for Start Technology. Building on its research and development strengths, extensive client base and familiarity with market trends, the Group will focus its resources on software development and systems integration business while at the same time, looking for other investment opportunities.



## Chairman's Statement

### 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 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 31 December 2002, the Group had cash and bank balances of HK\$160.9 million (2001: HK\$247.6 million) of which HK\$17.5 million (2001: HK\$25.3 million) were pledged to banks for facilities granted to the Group. About 88% and 8% of these liquid funds were denominated in Renminbi and US dollars respectively and the remainder in HK dollars.

Banks loans and overdraft of the Group as at 31 December 2002 amounted to HK\$7.8 million (2001: HK\$43.1 million) and were all repayable within one year.

Of the total borrowings as at 31 December 2002, about 85% was denominated in Renminbi and the remainder in HK dollars, and 85% was at fixed interest rates.

As at 31 December 2002, the Group had available aggregate banking facilities of HK\$78.6 million (2001: HK\$144.2 million) of which HK\$69.7 million (2001: HK\$72.5 million) has not been utilized.

Assets charged as security for banking facilities included bank deposits totalling HK\$17.5 million (2001: HK\$25.3 million), trading securities valued at HK\$19.2 million (2001: HK\$Nil) and investment properties of the Group valued at HK\$4 million (2001: HK\$9 million) as at 31 December 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 49.4% (2001: 67.8%) as at 31 December 2002. With net cash of HK\$153.1 million (2001: HK\$204.5 million) as at 31 December 2002 and taking into consideration of the balance of net proceeds of approximately HK\$29,227,000 from the disposal of the systems value-added services business received in early January 2003, 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 31 December 2002, certain buildings held for own use of the Group with an aggregate carrying value of HK\$5,750,000 (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 (2001: HK\$11,000,000) granted to a subsidiary of a former related company. As at 31 December 2002, the amount of the facilities utilized was HK\$171,000 (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 Renminbi, 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 2002, the Group had approximately 580 (2001: 640) employees of which approximately 135 (2001: 185) were technicians. Employees' costs (excluding directors' emoluments) amounted to approximately HK\$34.7 million (2001: HK\$40.7 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, grant 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.

### APPRECIATION

On behalf of the Board of Directors, I would like to express our sincere appreciation to all our clients, investors, business partners and bankers 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, 11 April 2003