

Report of the Directors

The Directors herewith present their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2002.

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 15 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 13 on the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2002 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 24 to 84.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2002.

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 page 85.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total	
	Sales	Purchases
The largest customer	5.7%	—
Five largest customers in aggregate	10.8%	—
The largest supplier	—	72.1%
Five largest suppliers in aggregate	—	79.6%

None of the directors or their respective associates (as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (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 2002 are set out in note 14 on the financial statements.

BANK LOANS

Particulars of bank loans of the Group as at 31 December 2002 are set out in note 27 on the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 31 on the financial statements.

SHARE PREMIUM AND RESERVES

Details of movements in the reserves of the Company and the Group are set out in note 32 on the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2002, the Company's reserves available for cash distribution amounted to HK\$21,549,000 (2001: HK\$48,768,000) as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account of HK\$195,909,000 (2001: HK\$195,909,000) as at 31 December 2002 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*

Mr. YE Long, *Deputy Chairman*

Mr. CHIU Chi Shun, Clarence

Mr. CHU Chi Shing

Mr. CHEN Jian

(resigned on 30 April 2002)

Mr. WANG Qing

Report of the Directors

DIRECTORS (Continued)

Independent Non-executive Directors

Mr. WONG Po Yan

Mr. MAO Zhenhua

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

DIRECTORS' SERVICE CONTRACTS

Mr. YE Long has entered into a service contract with the Company for a term of three years commencing on 1 July 2001. The contract will continue thereafter until terminated by a not less than six months' notice in writing by either party to the other.

Save as referred to above, none of the Directors 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.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2002, 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 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%

DIRECTORS' INTERESTS IN SHARES (Continued)

Note:

1. 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.

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

Prior to 23 May 2002, the Company operated an option scheme whereby the Board of Directors could, 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 "Old Scheme"). On 23 May 2002, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted, whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employees and non-executive directors of the Company or any of its subsidiaries or any invested entity, any suppliers of goods or services to any member of the Group or any invested entity, and any customers of the Group or any invested entity 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 total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other operative share option schemes of the Group may not in aggregate exceed 44,064,400, being 10% of the shares in issue of the Company as at 23 May 2002, the date of adoption of the New Scheme.

Report of the Directors

SHARE OPTION SCHEME (Continued)

At 31 December 2002, 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\$0.425 at the balance sheet date) granted at nominal consideration of HK\$1.00 for each lot of share options granted under the share option scheme operated by the Company, each option gives the holder the right to subscribe for one share:

								Closing price
				Number of options			per share	
	Date	Period during which	Exercise	Outstanding	Granted	Lapsed	Outstanding	immediately
	granted	options exercisable	price	at 1.1.2002	during the	during the	at 31.12.2002	before the
			(HK\$)		year	year		date of grant
								(HK\$)
Old Scheme								
Directors								
Mr. YE Long	06.07.1999	02.10.1999 – 05.07.2009	1.08	3,000,000	–	–	3,000,000	1.99
Mr. CHU Chi Shing	06.07.1999	02.10.1999 – 05.07.2009	1.08	2,100,000	–	–	2,100,000	1.99
	17.01.2000	02.01.2001 – 16.01.2010	1.32	200,000	–	–	200,000	2.70
	04.06.2001	01.10.2001 – 03.06.2011	0.58	200,000	–	–	200,000	0.86
Mr. SZE Wai, Marco	04.06.2001	01.10.2001 – 03.06.2011	0.58	3,500,000	–	–	3,500,000	0.86
Mr. CHIU Chi Shun, Clarence	04.06.2001	01.10.2001 – 03.06.2011	0.58	3,500,000	–	–	3,500,000	0.86
Employees	06.07.1999	02.10.1999 – 05.07.2009	1.08	6,467,000	–	(3,586,000)	2,881,000	1.99
	06.07.1999	02.10.1999 – 05.07.2009	1.21	700,000	–	–	700,000	1.99
	30.12.1999	02.01.2001 – 29.12.2009	1.13	600,000	–	(100,000)	500,000	1.67
	17.01.2000	02.01.2001 – 16.01.2010	1.32	2,260,000	–	(1,410,000)	850,000	2.70
	21.01.2000	02.01.2001 – 20.01.2010	1.44	1,230,000	–	(330,000)	900,000	2.25
	07.03.2000	02.01.2001 – 06.03.2010	2.06	40,000	–	–	40,000	4.025
	10.08.2000	02.01.2001 – 09.08.2010	1.14	1,350,000	–	(550,000)	800,000	1.39
	04.06.2001	01.10.2001 – 03.06.2011	0.58	10,050,000	–	(1,000,000)	9,050,000	0.86
				22,697,000	–	(6,976,000)	15,721,000	
New Scheme								
Director								
Mr. YE Long	28.05.2002	28.05.2002 – 27.05.2012	0.67	–	1,000,000	–	1,000,000	0.66
Employees								
	28.05.2002	28.05.2002 – 27.05.2012	0.67	–	1,000,000	–	1,000,000	0.66

SHARE OPTION SCHEME (Continued)

The share options are exercisable for a period of ten years commencing from the date of grant and subject to the vesting provisions are as follows:

Date granted	Vesting period	Percentage of options vested
06.07.1999	06.07.1999–01.10.1999	Nil
	02.10.1999–01.01.2000	10%
	02.01.2000–01.01.2001	30%
	02.01.2001–01.01.2002	60%
	02.01.2002–01.07.2002	90%
	02.07.2002–05.07.2009	100%
30.12.1999, 17.01.2000, 21.01.2000, 07.03.2000 and 10.08.2000	Date of grant–01.01.2001	Nil
	02.01.2001–01.01.2002	30%
	02.01.2002–01.01.2003	60%
	02.01.2003–10 years from the date of grant	100%
04.06.2001	04.06.2001–30.09.2001	Nil
	01.10.2001–01.01.2002	40%
	02.01.2002–01.01.2003	70%
	02.01.2003–03.06.2011	100%
28.05.2002	28.05.2002–01.01.2003	40%
	02.01.2003–01.01.2004	70%
	02.01.2004–27.05.2012	100%

The share options are not recognised in the financial statements until they are exercised. The weighted average value per option granted in 2002 and 2001 estimated at the date of grant using the Black-Scholes pricing model was HK\$0.67 and HK\$0.58 respectively. The weighted average assumptions used are as follows:

	2002	2001
Risk-free interest rate	3.97%	4.81%
Expected life (in years)	10	10
Volatility	0.08	0.33
Expected dividend per share	–	–

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SHARE OPTION SCHEME (Continued)

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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, 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 the section headed "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 ended 31 December 2002, 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.

RETIREMENT SCHEME

The Company and its 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 MPF schemes at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$20,000. Contributions to the MPF schemes vest immediately.

The retirement benefits costs under the MPF schemes charged to the income statement amounted to HK\$233,000 (2001: HK\$300,000) 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 organized 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.

The aggregate employers' contributions by the Group under the PRC pension schemes amounted to HK\$1,003,000 (2001: HK\$643,000) during the year.

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

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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.

CONNECTED TRANSACTIONS

1. On 18 May 2002, the Group entered into agreements for the disposal of its entire interests in, being 40% of the total issued capital of a subsidiary, Start Futong Technology Company Limited ("Futong") at a total consideration of approximately HK\$72,129,000 (the "Disposal"). The Disposal comprises two parts:
 - (a) the Buy Back Agreement under which Futong bought back and the Group sold 12.03% of the total existing issued capital of Futong, at a consideration of approximately HK\$21,686,000; and
 - (b) the Sale and Purchase Agreement under which the Group sold and Mr. Chen Jian ("Mr. Chen") purchased 27.97% of the total existing issued capital of Futong at a consideration of approximately HK\$50,443,000.

The Disposal was completed on 5 July 2002 and a profit of HK\$4,987,000 has been realized.

Mr. Chen was a director of the Company prior to his resignation on 30 April 2002. He was also a substantial shareholder of Futong, holding, together with his associates, 42% of the equity interest of Futong prior to the Disposal.

2. On 20 March 2002, the Group entered into an agreement with E-Star Information Systems Holdings Co. Ltd. ("E-Star") to acquire the remaining 30% interest in a subsidiary, Fujian Star System Integration Co., Ltd. ("Fujian SI"), at a consideration of HK\$697,000. After the acquisition, Fujian SI has become a wholly owned subsidiary of the Group. A substantial shareholder of E-Star is also a director of certain subsidiaries of the Group.

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 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 2003.

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

Sze Wai, Marco
Chairman

Hong Kong, 11 April 2003