

CHAIRMAN'S STATEMENT 5

TO OUR SHAREHOLDERS

On behalf of the board (the "Board") of directors ("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 2003.

During 2003, the Group has been making a painstaking effort in realising its promises to shareholders. After its strategic decision on the sale of the systems value-added business, the Group has been putting a strong threshold on software development and systems integration which have a higher profit margin and better market potentials. Nevertheless, with the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in the People's Republic of China ("PRC") during the first half of the year, many industries were badly hit and the Group was not an exception. As a result, contributions from the Group's software development and systems integration businesses were not as significant as the Group expected. Nevertheless, the general economic conditions in the PRC generally remained healthy, leading to positive contribution from the Group's manufacturing and sale of computer related products business, which in turn provided a stable revenue stream and further boosted the Group's overall gross profit margin from 14.3% in 2002 to 18.8% in 2003.

With the full operation of the 金保工程, the Group has been aggressively revising and upgrading its current information management systems among healthcare security and social security clients at both provincial and city levels. In accordance with the planning of the government, the Group was also working on the possibilities of intranet and data access at the provincial level. Though the resources allocated to such projects had not generated positive results during the year, leveraging the Group's prominent market share in the medical information management systems in Fujian, Inner Mongolia and Anhui and the full operation

of the 金保工程 across the PRC, the Group was highly confident that the software development and systems integration business will be generating substantial returns in the next two years.

Looking ahead, the Group will further strengthen its stream of revenue from its manufacturing and sales of computer related products, so as to provide a stable revenue stream to the Group and a solid financial back-up for future expansion of the Group's software development and systems integration businesses. Leveraging on the Group's extensive experience and competitive edge in technology and customer service, and the bright prospects of the manufacturing and sales of computer related products, the Group is well positioned to become a leading industry systems solution and equipment provider.

SUMMARY OF RESULTS

The Group recorded a turnover of HK\$154,882,000 (2002: HK\$114,630,000 for continuing operations) for the year ended 31 December 2003, representing an increase of 35.1% as compared to that of year 2002. The increase was mainly due to the significant increase in the sale of computer related products. As a result of the decrease in administrative and other operating expenses, the Group recorded a profit from operations of HK\$3,902,000 (2002: loss of HK\$13,626,000 for continuing operations) for the year ended 31 December 2003.

BUSINESS REVIEW

Software Development and Systems Integration

The Group's software development and systems integration business covers mainly healthcare security, social security, hospital information management systems and public security sectors. During the period under review, turnover of this business sector was HK\$30,060,000, representing approximately 19.4% of the Group's total turnover. As compared to the turnover of HK\$61,660,000 in the previous year, this business

6 CHAIRMAN'S STATEMENT

sector recorded a downward adjustment, mainly attributable to the unfavourable market conditions during the first half of the year resulting from the outbreak of SARS. Many social security and healthcare security projects in major PRC regions were, therefore, either postponed or cancelled. Coupled with the SARS outbreak in Inner Mongolia, the Group's business developments in this region were inevitably slowed down. Besides, investments allocated in the 金保工程 had yet to contribute to the Group's 2003 results. Sales revenue of the Group was, therefore, affected during the year.

Nevertheless, the Group has been adopting a positive attitude to seize opportunities in the future development of the 金保工程. With regard to the medical security business, the Group signed up the Phase I medical security contract in Hefei city in Anhui, laying down a solid foundation for the Group's future developments in Anhui and its neighbourhood. On the other hand, the Group also incorporated the application of IC cards in the financial and medical arenas which further explored its application in hospital information management systems. The Group had entered into agreements with a number of hospitals and banks, exploring another important revenue stream for the Group.

Besides, the Group's newly developed OA system, institutional social security, minimum wage security and market information management systems had successfully completed their trial runs in institutions in Fujian and Inner Mongolia, and marketing promotions will also be extended to other cities in 2004.

Although SARS had its impact on the Group's hospital information management systems business, the Group was still able to secure agreements with Guangdong Provincial Hospital of T. C. M. for the provision of management information systems and services. The

Group also achieved significant progress in the Picture Archiving and Communication System ("PACS") business. The signing of the PACS contract with Fujian Medical University – First Hospital, one of the largest integrated Grade AAA hospitals in Fujian, also marked an important milestone in the Group's development in the high-end medical application market. The Group also introduced the "Hospital Asset Management Software" to the Fujian Health Bureau and marketed the software to as many as 300 hospitals in Fujian. It was expected that the Group could sign more PACS agreements with different hospitals this year. With a strong focus on the medical clientele, the Group was actively engaged in the medical equipment business market. It has successfully established strategic partnerships with international medical brand names, including General Electric in the United States, Kodak and Shimadzu of Japan, laying a solid foundation in the medical equipment direct sales business sector, which was also an important component in the Group's business as a provider of comprehensive data solutions and product services.

In the public security business, the Group's immigration and exit control systems continued to grow steadily, with various marketing strategies being launched in over 20 provinces, including Fujian, Beijing, Hubei, Zhejiang, and Sichuan.

During the year, the Group also actively explored business opportunities in other business sectors, including commercial, legal, governmental and e-government software and systems integration.

As at 31 December 2003, the contract value for the Group's software development and systems integration business, which has yet to be finished, amounted to approximately HK\$36 million.

CHAIRMAN'S STATEMENT 7

Manufacturing and Sale of Computer Related Products

Fuqing Fujie Plastics Co., Ltd. ("Fujie Plastics") in which the Group has a 65% interest, was mainly responsible for the manufacturing and sale of computer related products. Since its incorporation in 1997, Fujie Plastics has always maintained its profitability. Turnover increased substantially from HK\$52,970,000 in 2002 to HK\$124,822,000 in 2003. During the period under review, Fujie Plastics expanded its production capacity by increasing its number of machinery to 42, boosting its monthly production capacity to 130,000 sets of CRT and 140,000 sets of LCD.

General Software Business

During the year, the Group's jointly controlled entities, SJTU Sunway Software Industry Limited ("SJTU Sunway"), fulfilled its strategic business transformation during the year to become a more customer-oriented organisation. Through the establishment of the Internet platform, "Lingoworld", SJTU Sunway is gradually marching forward to the information localisation business, which is more customer-oriented. The full operation of "Lingoworld" has not only received tremendous response from corporate, professional translation houses and personal users, but it has also established itself as the best information localisation brand name in the industry — a testimony to the vision of the Group's management team and SJTU Sunway also marks an important milestone in its move towards the information localisation industry.

Prospects and Future Plans

金保工程 in the PRC will be moving fast towards a rapid growth phase and it is expected that by 2005, the initial phase of an intranet within the region will be completed. Introduced in October 2002, the 金保工程 utilised the advanced information technology based on the networking of the central, provincial and city levels, unifying the healthcare security, social security, labor force and governmental information management systems. Institutions at the provincial and city government levels have been in great demand for advanced information management infrastructures. Leveraging on the Group's extensive experience in software development and systems integration, as well as its long-established brand name in healthcare security, social security, hospital information management systems and public security sectors, the Group has been able to gain the confidence of clients. The management is highly confident that the resources and technology being put into the project can all be reflected in its future business results.

In order to maintain its leading position in software development and systems integration, and to maintain its advantageous position in the 金保工程, the Group has become a member of the「中國勞動與社會保障部 社保核心平台前台技術支持商」. The Group is planning to aggressively increase its technological capability and to expand its current application of the information management systems. As hospitals in the PRC have been undergoing market reforms to increase competitiveness, it is expected that the Group can ride on this opportunity to boost its growth in the

8 CHAIRMAN'S STATEMENT

citizen card project. Besides strengthening its medical security business in the region, the Group is also planning to expand its business to other provinces with great business potentials. Through constant technology upgrade, the Group will be increasing its pace in the development of healthcare and social securities in various provinces to keep abreast of the developments of the 金保工程.

Building on its success in healthcare security, the Group will be putting more emphasis on the areas of both medical systems and medical information management systems to provide comprehensive digital solutions and services to medical users. The Group believes that there is an immense business potential for Computer Aided Diagnosis ("CAD") Software. However, many of the software providers are not equally competitive in terms of information localisation. Capitalising the Group's competitive advantage in its unique technology, the Group will be focusing much of its resources on the development of CAD, serving 17,000 hospitals and 200,000 medical institutions with medical products and services.

The Group has also been benefiting from medical equipment direct sales business sector through its long-established clientele. In the public security business, the Group has been achieving successful results by becoming the best brand name among related departments in systems integration. Leveraging on the Group's recognition and confidence among clients, the Group will continue to increase its competitiveness and participate in other application areas in the 金盾工程.

In view of the relatively higher gross profit margin in the manufacturing and sale of computer related products, and its ability in bringing in abundant cash flows and stable revenue contribution, the Group will

be increasing its resources in this area next year. Besides, the Group is also planning to enter into cooperation with Fujian Start Computer Group Co., Ltd., a PRC prestigious manufacturer in computer and related products, to provide computer related products more catered for customers' needs.

With regard to the general software business, SJTU Sunway marked an important milestone with its successful listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 9 January 2004, which is a significant move in our long-term business development. It also provides a golden opportunity for the Group to take a major step forward into the international market while providing the Group with important financial support. The listing on an international capital market will lay strong financial foundations for our future business expansion. To capture the opportunities ahead and to achieve future growth, the Group will continue to promote the "Lingoworld" brand name through a series of marketing promotion activities. Besides, SJTU Sunway will also be putting in more resources to further upgrade the technological level and capability of "Lingoworld" with a strong focus on finance, media, information technology, government and automobile markets. It is expected that this business sector will have great business potentials.

Looking ahead, the Group will continue to build on its foundation in software development and systems integration, as well as to maintain its advantageous position in the general software developments. The Group will also be exploring business opportunities in the manufacturing and sale of computer related business. The Group will also continuously increase its client base and cultivate a close client relationship to achieve better economic efficiency and to become an industry systems solution and equipment provider.

MATERIAL ACQUISITION OF SUBSIDIARIES

On 15 August 2003, the Group entered into agreements to acquire 51% equity interests in two companies, whose principal activities are the trading of medical equipment and provision of software development, at a cost totalling approximately HK\$2,686,000.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, the Group had cash and bank balances of HK\$193.4 million (2002: HK\$160.9 million) of which HK\$17.5 million (2002: HK\$17.5 million) were pledged to banks for facilities granted to the Group. About 86.2% and 9.7% 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 2003 amounted to HK\$6.9 million (2002: HK\$7.8 million) and were all repayable within one year. As at 31 December 2003, the total asset value of the Group was HK\$413.2 million (2002: HK\$410.3 million) whereas the total liabilities was HK\$94.0 million (2002: HK\$82.7 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was 22.7% (2002: 20.2%).

Of the total borrowings as at 31 December 2003, about 82.2% was denominated in Renminbi and the remainder in HK dollars, and 82.2% was at fixed interest rates.

As at 31 December 2003, the Group had available aggregate banking facilities of HK\$73.3 million (2002: HK\$78.6 million) of which HK\$64.4 million (2002: HK\$69.7 million) has not been utilised.

Assets charged as security for banking facilities included bank deposits totalling HK\$17.5 million (2002: bank deposits totalling HK\$17.5 million and trading securities valued at HK\$19.2 million), and investment properties of the Group valued at HK\$4 million (2002: HK\$4 million) as at 31 December 2003.

The Group continued to maintain a net cash (being the total cash and bank balances net of total bank borrowings) to equity ratio of 62.3% (2002: 49.4%) as at 31 December 2003. With net cash of HK\$186.6 million (2002: HK\$153.1 million) as at 31 December 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 2003, certain buildings held for own use of the Group with an aggregate carrying value of HK\$5,750,000 (2002: HK\$5,750,000) were pledged and corporate guarantee of the Company was given as security for banking facilities amounting to HK\$15,000,000 (2002: HK\$15,000,000) granted to a subsidiary of a former related company. As at 31 December 2003, the amount of the facilities utilised was HK\$5,347,000 (2002: HK\$171,000).

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.

10 CHAIRMAN'S STATEMENT

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 31 December 2003, the Group had approximately 856 (2002: 580) employees of which approximately 93 (2002: 135) were technicians. Employees' costs (excluding directors' emoluments) amounted to approximately HK\$21.9 million (2002: HK\$34.7 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 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, I would like to take this opportunity to express our sincere appreciation to all our clients, bankers, investors and business partners for their continued confidence and support. I would also like to thank all our management and staff for their sustained commitment and contribution to our business operations. Looking to the future, we will seize every business opportunity to further strengthen our competitiveness and market position to create promising returns for our valued shareholders.

Sze Wai, Marco

Chairman

Hong Kong, 26 April 2004