

REPORT OF THE DIRECTORS 13

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 2003.

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 2003 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 23 to 82.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2003.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years are set out on pages 83 and 84.

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	69%	
Five largest customers in aggregate	74%	
The largest supplier		39%
Five largest suppliers in aggregate		71%

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 2003 are set out in note 14 on the financial statements.

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BANK LOANS

Particulars of bank loans of the Group as at 31 December 2003 are set out in note 28 on the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 32 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 33 on the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company has no reserve available for cash distribution (2002: HK\$21,549,000) as computed in accordance with the Bermuda Companies Act 1981 (as amended). In addition, the Company's share premium account of HK\$195,909,000 (2002: HK\$195,909,000) as at 31 December 2003 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. Chu Chi Shing, *Chief Executive Officer*

Mr. Chiu Chi Shun, *Clarence*

Mr. Wang Qing

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. Wong Po Yan and Mr. Mao Zhenhua will retire by rotation at the forthcoming annual general meeting and being eligible, offers himself for re-election.

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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' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2003, the interests and short positions of the Directors and chief executive of the Company in the share or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO), or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required pursuant to Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name	Name of company	Capacity	Number and class of securities (note 1)
Mr. Sze Wai, Marco	The Company	Interest of controlled corporation (note 2)	132,434,953 ordinary shares (L)
	The Company	Beneficial interest	3,500,000 ordinary shares (L) (note 3)
Mr. Ye Long	The Company	Beneficial interest	4,981,000 ordinary shares (L)
	The Company	Beneficial interest	4,000,000 ordinary shares (L) (note 3)
Mr. Chu Chi Shing	The Company	Beneficial interest	2,500,000 ordinary shares (L) (note 3)
Mr. Chiu Chi Shun, Clarence	The Company	Beneficial interest	3,500,000 ordinary shares (L) (note 3)

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DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Notes:

1. The letter "L" represents the Director's interests in the shares and underlying shares of the Company.
2. These shares were held by Leading Value Industrial Limited which is owned as to 50% by Mr. Sze Wai, Marco.
3. These shares were the respective number of shares which would be allotted and issued upon exercise in full of the options granted to each of Mr. Sze Wai, Marco, Mr. Ye Long, Mr. Chu Chi Shing and Mr. Chiu Chi Shun, Clarence under the share option schemes of the Company. The exercise period and the exercise price of these options are set out in the section headed "Share Option Scheme" below.

Save as disclosed above, as at 31 December 2003, none of the Directors and the chief executive of the Company had any interest and short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

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, non-executive Directors, any suppliers and customers of the Company or any of its subsidiaries or any invested entity to subscribe for shares in the Company.

For options granted before 1 September 2001, the exercise price of options 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.

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SHARE OPTION SCHEME (Continued)

At 31 December 2003, 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\$0.152 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:

	Date granted	Period during which options exercisable	Exercise price (HK\$)	Number of options				Closing price per share
				Outstanding at 1.1.2003	Granted	Lapsed	Outstanding at 31.12.2003	immediately before the date of grant (HK\$)
					during the year	during the year		
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	2,881,000	–	–	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	500,000	–	–	500,000	1.67
	17.01.2000	02.01.2001 – 16.01.2010	1.32	850,000	–	(200,000)	650,000	2.70
	21.01.2000	02.01.2001 – 20.01.2010	1.44	900,000	–	(340,000)	560,000	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	800,000	–	–	800,000	1.39
	04.06.2001	01.10.2001 – 03.06.2011	0.58	9,050,000	–	(200,000)	8,850,000	0.86
				15,721,000	–	(1,440,000)	14,281,000	
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	–	(500,000)	500,000	0.66

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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. No share option was granted and exercised during the year ended 31 December 2003. The weighted average value per option granted in 2002 estimated at the date of grant using the Black-Scholes pricing model was HK\$0.67. The weighted average assumptions used are as follows:

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

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 AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

As at 31 December 2003, the following persons and entities, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of ordinary shares	Capacity	Approximate percentage of interest
Leading Value Industrial Limited	132,434,953 (note)	Beneficial owner	30.05%

Note:

Mr. Sze Wai, Marco's interest in Leading Value Industrial Limited is also disclosed in the section headed "Directors' and Chief Executive's Interest and Short Positions in Shares, Underlying Shares and Debentures".

Save as disclosed above, as at 31 December 2003, no person or entity other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

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

During the year ended 31 December 2003, 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

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\$159,000 (2002: HK\$233,000) during the year.

The subsidiaries of the Group in 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 14% to 21% (2002: 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\$1,019,000 (2002: HK\$1,003,000) during the year.

The Group does not operate any other scheme 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.

CONNECTED TRANSACTIONS

During the year ended 31 December 2003, there were no transactions which constitute connected transactions under the Listing Rules which are required to be disclosed in accordance with Chapter 14 of the Listing Rules.

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.

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. The audit committee has reviewed the Group's financial statements for the year ended 31 December 2003 and is of the opinion that such statements comply with the applicable accounting standards, the Listing Rules and the requirements of applicable laws, codes and regulations and that adequate disclosure pursuant thereto have been made.

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 28 May 2004. There was no changes in auditors in any of the preceding three years.

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

Sze Wai, Marco
Chairman

Hong Kong, 26 April 2004