

## REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their annual report together with the audited financial statements of the Company and the Group for the year ended 31 December 2004.

### 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 14 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 12 on the financial statements.

### FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2004 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 22 to 71.

The Directors do not recommend the payment of a dividend for the year ended 31 December 2004.

### 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 page 72.

### 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	26%	
Five largest customers in aggregate	71%	
The largest supplier		24%
Five largest suppliers in aggregate		60%

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 2004 are set out in note 13 on the financial statements.

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### **BANK LOANS AND OTHER BORROWINGS**

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2004 are set out in note 24 on the financial statements.

### **SHARE CAPITAL**

Details of movements in the share capital of the Company during the year are set out in note 28 on the financial statements. Shares were issued during the year to broaden the capital base of the Company.

### **SHARE PREMIUM AND RESERVES**

Details of movements in the reserves of the Company and the Group are set out in note 29 on the financial statements.

### **DISTRIBUTABLE RESERVES**

As at 31 December 2004, the Company has no reserve available for cash distribution (2003: HK\$Nil) as computed in accordance with the Bermuda Companies Act 1981 (as amended). In addition, the Company's share premium account of HK\$217,055,000 (2003: HK\$195,909,000) as at 31 December 2004 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. Chu Chi Shing, *Chief Executive Officer*

Mr. Wang Qing

Mr. Gu Peijian (appointed on 20 September 2004)

Mr. Ye Long (resigned on 16 February 2005)

Mr. Chiu Chi Shun, Clarence (resigned on 8 October 2004)

#### **Independent Non-executive Directors**

Mr. Wong Po Yan

Mr. Mao Zhenhua

Mr. Chong Yiu Kan, Sherman (appointed on 28 September 2004)

Independent Non-executive Directors are not appointed for a specific term. All the Directors, excluding 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) and (B), Mr. Wang Qing will retire by rotation at the forthcoming annual general meeting and being eligible, offers himself for re-election.

In addition, pursuant to bye-law 114, Mr. Gu Peijian and Mr. Chong Yiu Kan, Sherman will hold office until the forthcoming annual general meeting and being eligible, offer themselves for re-election.

## Report of the Directors

### DIRECTORS' SERVICE CONTRACTS

None of the Directors for re-election at the forthcoming annual general meeting 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 2004, 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. Chu Chi Shing	The Company	Beneficial interest	2,500,000 ordinary shares (L) (note 3)
Mr. Gu Peijian	The Company	Beneficial interest	540,000 ordinary shares (L)

#### 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 wholly-owned 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 and Mr. Chu Chi Shing 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 2004, 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.

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### 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.

## Report of the Directors

### SHARE OPTION SCHEME (Continued)

At 31 December 2004, 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\$0.28 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 per share
				Number of options				
	Date granted	Period during which options exercisable	Exercise price (HK\$)	Outstanding at 1.1.2004	Granted during the year	Lapsed during the year	Outstanding at 31.12.2004	immediately before the date of grant (HK\$)
Old Scheme								
Directors								
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
Former Directors								
Mr. Ye Long	06.07.1999	02.10.1999 – 05.07.2009	1.08	3,000,000	–	–	3,000,000	1.99
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
	30.12.1999	02.01.2001 – 29.12.2009	1.13	500,000	–	(400,000)	100,000	1.67
	17.01.2000	02.01.2001 – 16.01.2010	1.32	650,000	–	–	650,000	2.70
	21.01.2000	02.01.2001 – 20.01.2010	1.44	560,000	–	–	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	–	(500,000)	300,000	1.39
	04.06.2001	01.10.2001 – 03.06.2011	0.58	8,850,000	–	–	8,850,000	0.86
				14,281,000	–	(900,000)	13,381,000	
New Scheme								
Former 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	500,000	–	500,000	–	0.66

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### 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. No share option was granted and exercised during the year ended 31 December 2004. 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	-

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.

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### SHARE OPTION SCHEME (Continued)

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 2004, 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 1)	Beneficial owner	25.05%
Fujian Start Computer Group Company Limited	46,602,000	Interest of a controlled corporation (note 2)	8.82%
Interstar Holdings Limited	46,602,000	Beneficial owner	8.82%

#### Notes:

1. 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".
2. These shares are registered in the name of Interstar Holdings Limited, which is a wholly owned subsidiary of Fujian Start Computer Group Company Limited.

Save as disclosed above, as at 31 December 2004, 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 2004, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

### COMPETING BUSINESS INTERESTS OF DIRECTORS

None of the Directors and their respective associates had any interest in a business which competes or may compete with the business of the Group.

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### 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\$77,000 (2003: HK\$159,000) 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 25% (2003: 14% to 21%) 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\$1,120,000 (2003: HK\$1,019,000) 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

On 23 April 2004, Stepping Stones Limited, an indirect wholly-owned subsidiary of the Company entered into an equity transfer agreement pursuant to which the vendor, Star Gain Holdings Limited agreed to sell its 49% equity interests in Fushou Start Dragon Information Technology Company Limited at a consideration of RMB2,090,000 and the transaction constitutes a connected transaction under Chapter 14A of the Listing Rules. Save as disclosed above, there were no other transactions which are required to be disclosed in accordance with Chapter 14A of the Listing Rules. Details of the transaction were set out in the Company's announcement dated 29 April 2004.



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### CODE OF BEST PRACTICE, CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange, which was in force prior to 1 January 2005, during the year. Independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company according to the provisions of the Company's articles of association.

The Company has established an audit committee consisting of three independent non-executive directors, in accordance with paragraph 14 of the Code of Best Practice. The main responsibilities of the audit committee is to review the financial reporting process and internal control of the Company. The Committee has held two meetings during the year.

The Code of Best Practice set out in Appendix 14 of the Listing Rules was replaced by the Code on Corporate Governance Practices ("Code on CG Practices") which has become effective for accounting periods commencing on or after 1 January 2005. Appropriate actions are being taken by the Company for complying with the Code on CG Practices.

### INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board still considers each of the independent non-executive Directors to be independent.

### AUDITORS

KPMG retire and, being eligible, offer themselves for reappointment at the forthcoming annual general meeting of the Company. There was no change 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, 25 April 2005