AKuP International Holding Limited

艾克國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the GEM website at http://www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

This announcement, for which the directors (the "Directors") of AKuP International Holding Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- **The Group revenue decreased by approximately 1.5% to approximately HK$29.4 million when compared with approximately HK$29.9 million for the previous year.**
- **Loss attributable to shareholders for the same period was approximately HK$0.3 million when compared with profit attributable to shareholders of approximately HK$2.5 million for the previous year.**
- **Basic loss per share for the same period was approximately HK cents 0.05 when compared with basic earnings per share of approximately HK cents 0.46 for the previous year.**
- **The Directors of the Company do not recommend the payment of a dividend in respect of the year ended 31 December 2002.**

RESULTS

The board of directors (the "Board") of AKuP International Holding Limited (the "Company") announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2002, together with the comparative figures for the previous year, as follows:

	Note	2002 HK$'000	2001 HK$'000
Revenue	4	29,435	29,875
Cost of services and merchandise sold		(602)	(2,093)
Gross profit		28,833	27,782
Research and development costs		(7,563)	(4,257)
Selling expenses		(6,041)	(10,757)
General and administrative expenses		(14,724)	(11,259)
Profit from operations	5	505	1,509
Net finance (costs)/income	6	(52)	754
Profit before taxation		453	2,263
Taxation	7	(751)	189
(Loss)/Profit attributable to shareholders		**(298)**	**2,452**
(Loss)/Earnings per share	8		
Basic		**(0.05) cents**	**0.46 cents**

Notes to the annual results announcement:

1 **Group reorganization**

The Company was incorporated in the Cayman Islands on 14 June 2000 as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The Company became the holding company of the Group on 29 October 2001 through a reorganisation (the "Reorganisation").

2 Basis of preparation

The Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly the consolidated results have been prepared on the basis of merger accounting in accordance with the Statement of Standard Accounting Practice No. 2.127 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants ("HKSA"). On this basis, the Company was the holding company of the Group for both years presented, rather than from 29 October 2001. In the circumstances, the results of the Group for the years ended 31 December 2001 and 2002 include the results of the Company and its subsidiaries with effect from 1 January 2001 or since their respective dates of incorporation, whichever is a shorter period. In the opinion of the Directors, the resulting consolidated results give a more meaningful view of the results of the Group as a whole.

The financial information has been prepared in accordance with accounting principles generally accepted in Hong Kong and complies with accounting standards issued by HKSA. The financial information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules of the GEM of the Stock Exchange.

The financial statements have been prepared under the historical cost convention.

3 Adoption of new statements of standard accounting practice

In current year, the Group has adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by HKSA:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statement
SSAP 34 (Revised)	Employee benefits

SSAP 1 (Revised), SSAP 15 (Revised) and SSAP 34 (Revised) concerned with the presentation and disclosure of financial information. The presentation in the current year's financial statements has been modified to conform with the requirements of those Standards. Comparative amounts have been restated in order to achieve a consistent presentation.

SSAP 11 (Revised) specifies the accounting treatment for translation of foreign currency transactions and financial statements. The new revised standard requires the income statement of a foreign enterprise to be translated at an average rate of the period on consolidation. The SSAP is required to be applied prospectively and therefore, has had no effect on amount previously reported in prior year financial statements.

4 Revenue

The principal activities of the Group are the provision of custom-made solutions and maintenance services and sale of hardware and software products.

Revenue represents income arising from the provision of custom-made solutions and maintenance services and the sale of hardware and software products. Revenue excludes value added or other sales taxes and is after deduction of any trade discounts.

Under the value added tax ("VAT") regulations in Taiwan, a Taiwan subsidiary of the Group is subject to VAT which is calculated at the rate of 5% on the invoiced value of sales ("output VAT"). Output VAT is borne by customers in addition to the invoiced value of sales. VAT paid by this subsidiary on its purchases and assets acquisitions ("input VAT") is recoverable out of output VAT collected from its customers on its sales.

The analysis of the principal activities and geographical locations of the Group's operations are as follows:

	Group revenue		Contribution to profit from operations	
	2002	**2001**	**2002**	**2001**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Principal activities				
Custom-made solutions	1,875	915	1,724	367
Sales of software products	26,506	27,674	26,449	27,257
Sales of hardware products	960	1,286	566	158
Revenue from maintenance services	94	—	94	—
	29,435	**29,875**	28,833	27,782
Operating expenses			(28,328)	(26,273)
			505	**1,509**
Geographical locations				
Taiwan	2,171	7,110	1,569	5,079
Hong Kong	—	1,710	—	1,710
The People's Republic of China (excluding Taiwan and Hong Kong) (the "PRC")	27,264	20,570	27,264	20,561
Singapore	—	485	—	432
	29,435	**29,875**	28,833	27,782
Operating expenses			(28,328)	(26,273)
			505	**1,509**

5 Profit from operations

Profit from operations is arrived after charging/(crediting):

(a) Staff costs

	2002	2001
	HK$'000	*HK$'000*
Salaries, wages and allowances	8,887	11,723
Contributions to retirement benefit schemes	401	171
	9,288	**11,894**
Average number of employees during the year	**77**	**101**

Staff costs include HK$3,517,000 (2001: HK$2,627,000) relating to salaries and retirements benefits of staff engaged in research and development activities and Directors' remuneration totalling HK$1,771,000 (2001: HK$1,790,000) for the year ended 31 December 2002.

(b) Other items

	2002	2001
	HK$'000	*HK$'000*
Research and development costs	7,563	4,734
Less: amount capitalized	—	(477)
	7,563	4,257
Net finance costs/(income)	52	(754)
Cost of inventories*	602	2,000
Auditors' remuneration	435	516
Depreciation	2,659	1,592
Operating lease charges in respect of properties	1,871	2,147
Provision for doubtful debts	1,803	4,202
Provision for foreseeable losses of contract work	1	84

* Cost of inventories includes a write-down of HK$3,000 (2001: HK$406,000) to state the inventories at net realisable value.

6 **Net finance (costs)/income**

	2002	2001
	HK$'000	*HK$'000*
Interest on other borrowings repayable within five years	(83)	(72)
Interest income	59	26
Exchange (loss)/gain	(28)	800
	(52)	**754**

7 **Taxation**

Taxation represents:

	2002	2001
	HK$'000	*HK$'000*
Taxation outside Hong Kong for the year	40	32
Under-provision for taxation outside Hong Kong in respect of prior year	—	13
	40	45
Deferred taxation	711	(234)
	751	**(189)**

No provision for Hong Kong Profits Tax has been provided for the year ended 31 December 2002 (2001: HK$Nil) as the Group sustained a loss for taxation purposes in Hong Kong during the year.

Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant jurisdiction.

Deferred tax asset reversed mainly comprises the future benefit of tax losses in respect of a subsidiary, tax incentive for research and development costs and deferred deduction of the provisions for doubtful debts and inventories for tax purposes. There is no significant deferred taxation liability not provided for during the year.

8 **Dividends**

The Directors of the Company do not recommend the payment of a dividend in respect of the year ended 31 December 2002 (2001: HK$Nil).

9 **(Loss)/Earnings per share**

(a) Basic (loss)/earnings per share

The calculation of basic loss per share for the year ended 31 December 2002 is based on the loss attributable to shareholders of HK$298,000 divided by 630,000,000 shares in issue during the year.

The calculation of basic earnings per share for the year ended 31 December 2001 is based on the profit attributable to shareholders of HK$2,452,000 divided by the weighted average number of 532,500,000 shares in issue during the year.

(b) Diluted (loss)/earnings per share

Diluted loss per share as at 31 December 2002 has not been presented as the effect of any dilution is anti-dilutive.

There were no potential dilutive ordinary shares in issue as at 31 December 2001.

10 Capital and reserves

	Share capital *HK$'000*	Share premium *HK$'000*	Accumulated losses *HK$'000*	Exchange reserves (note (ii)) *HK$'000*	Total *HK$'000*
At 1 January 2001	1,071	22,738	(7,306)	(399)	16,104
Issuance of shares by the Company	270	—	—	—	270
Premium arising on the issuance of shares by the Company	—	11,753	—	—	11,753
Capitalisation issue	49,966	(49,966)	—	—	—
Placing of shares by the Company	11,700	—	—	—	11,700
Premium arising on the placing of shares by the Company	—	21,060	—	—	21,060
Share issuance expenses	—	(5,585)	(3,580)	—	(9,165)
Profit for the year	—	—	2,452	—	2,452
Exchange difference on the consolidation of the Company's shares	(7)	—	—	7	—
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	—	(2,180)	(2,180)
At 31 December 2001	63,000	—	(8,434)	(2,572)	51,994
Loss for the year	—	—	(298)	—	(298)

	Share capital	Share premium	Accumulated losses	Exchange reserves (note (ii))	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Exchange difference on transaction of financial statements of subsidiaries outside Hong Kong	—	—	—	141	141
At 31 December 2002	**63,000**	**—**	**(8,732)**	**(2,431)**	**51,837**

(i) *Legal reserve*

According to the articles of association of the Group's subsidiary in Taiwan, AKuP International Technology Co., Ltd. ("AKuP Taiwan") should appropriate 10 per cent. of its net income, determined in accordance with accounting principles generally accepted in Taiwan, after making good losses in previous years, to a legal reserve. No appropriation was made to the legal reserve as AKuP Taiwan has accumulated losses as at 31 December 2002.

Pursuant to the Company Law in Taiwan, legal reserve can be used to make good losses and the balance of legal reserve can be converted into paid up capital to the extent that the conversion would not exceed 50 per cent. of the outstanding balance and the balance of legal reserve before conversion reaches 50 per cent. of the issued share capital.

(ii) *Exchange reserves*

Exchange reserves represent exchange differences arising from the consolidation of the Company's shares and the translation of the financial statements of subsidiaries operating outside Hong Kong.

11 Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

(a) *Business segments*

i) Custom-made solutions

To develop and implement custom-made solutions for customers which are specifically designed and developed for the specific needs and requirements of a particular customer.

ii) Sales of software products

The development and sale of a range of self-developed standardized software products.

iii) Sales of hardware products

The trading of hardware products.

iv) Revenue from maintenance services

The provision of after-sale maintenance services.

During the year ended 31 December 2002, more than 90 per cent. of the operations of the Group in terms of both revenue and operating profit were derived from the sales of software products.

The Group revenue and contribution to profit from operations by business segments is disclosed in note 4.

(b) *Geographical segments*

The Group's business is managed on a worldwide basis, but participates in three principal economic environments. Taiwan and the PRC are major markets for all of the Group's businesses and the development centre of custom-made solutions and standardised software products.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

Contribution to profit from operations by geographical locations is disclosed in note 4.

REPORT OF THE AUDITORS

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as set out below.

1. The Group consolidation includes a subsidiary, AKuP Software Development Holding Ltd which operates mainly in Taiwan. The subsidiary has solicited sales of HK$19,497,280 through distributors and contributed a profit of HK$19,497,280. We have not been able to obtain adequate assurance concerning the validity of these amounts included in the consolidated financial statements and consequently we are unable to satisfy ourselves as to whether sales and profit respectively of HK$19,497,280 and the accounts receivable of HK$19,497,280 arising from the sales are fairly stated.

2. The following amounts have been included in the consolidated financial statements:

   — Prepayments of consultancy fees of HK$2,438,396

   — Acquisition costs of software of HK$5,789,052

   We are unable to obtain adequate third party supporting documentation in relation to the above payments. Accordingly, we have been unable to satisfy ourselves as to whether these amounts are fairly stated in the financial statements.

3. Included in the investment in the consolidated balance sheet as at 31 December 2002 are:

   a. a 6% equity investment in an unlisted company in the People's Republic of China, representing RMB857,250 (HK$807,660) out of the total registered capital of RMB14,287,500 (HK$13,460,995) at an investment cost of HK$8,000,000. The audited financial statement of the investee company shows a net tangible assets of RMB19,447,857 (HK$18,322,835) as at 31 December 2002.

   b. a 12% equity investment in an unlisted company in the British Virgin Islands with a paid up capital of US$2,450,000 (HK$19,110,000) at an investment cost of US$1,000,000 (HK$7,800,000). The auditors' report of the investee company contained a qualified opinion in that they were unable to express an opinion on the value of the inventory of NT$25,211,875 (HK$5,657,961).

   Given the operating results and the financial position of the above investee companies, we were unable to determine whether these investments are fairly stated and therefore whether a provision for any impairment of the investment is necessary.

These were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs (1) to (3) above. Any adjustments to the above figures would affect the net assets of the Company and the Group as at 31 December 2002 and the loss of the Group for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

DISCLAIMER OF OPINION

Because of the significance of the possible effect of the limitations in evidence available to us as stated in paragraphs (1) to (3) referred to the basis of opinion section of this report, we are unable to form an opinion as to whether the financial statement give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 or of the loss and cash flow of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

— we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

— we were unable to determine whether proper books of accounts have been kept.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to the Group's acquisition of a 6% interest of the issued share capital of Beijing ZYD on December 21, 2001 for a consideration of HK$8,000,000, details of which are referred to in paragraph 3(a) above. The title to the investment has not been registered in the Company's name as the Chinese party has not filed the relevant documents to the relevant PRC authority to grant formal approval for equity transfer. It is the responsibility of the management to ensure that the approval is granted. The Directors consider that formal approval will be granted and the formality will be completed in the near future, and will have no material impact on the financial position and operations of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

In view of the continuous economic downturn and worsened market sentiment together with the war threatened to be broke out in Iraq throughout the year of 2002, the capital expenditure in IT of most enterprises remained stagnant and such enterprises also slowed down the IT projects on hand. Despite the unfavourable business environment and keen competition among the software companies, the Group recorded total revenue of approximately HK$29.4 million for the year ended 31 December 2002, representing a decrease of approximately 1.5% from revenue of approximately HK$29.9 million for the year ended 31 December 2001. Sales of self-developed standardized software products amounted to approximately HK$26.5 million for the year of 2002 (2001: HK$27.7 million), which remained the major Group revenue and accounted for approximately 90.0% of total revenue (2001: 92.6%). Revenue generated from the PRC was approximately HK$27.3 million, constituting over 92.6% of the Group revenue for the year ended 31 December 2002 (2001: 68.9%) as the Group placed significant emphasis on the sale of standardized Customer Relationship Management ("CRM") software products in the PRC.

Gross profit

For the year ended 31 December 2002, the Group's gross profit amounted to approximately HK$28.8 million, representing an increase of approximately 3.8% when compared with the gross profit of approximately HK$27.8 million for the year ended 31 December 2001. In addition, the Group's gross profit margin remained relatively high at approximately 98.0% for the year ended 31 December 2002 when compared with approximately 93.0% for the year ended 31 December 2001. The Group's high gross profit margin is mainly contributed by the higher profit margin of self-developed standardized software products as compared to that of custom-made solutions, which is a result of the Group's focus on the business of self-developed standardized software products.

Profit before taxation

The Group recorded a profit before taxation of approximately HK$0.5 million for the year ended 31 December 2002, representing a decrease of approximately 80% when compared with profit before taxation of approximately HK$2.3 million for the previous year. The decrease in profit before taxation was mainly due to the increase in research and development costs for the development of new CRM solutions, eBrokerage and eFC System.

Borrowings

As at 31 December 2002, the Group had total long term borrowings from issue of unlisted convertible bonds in an aggregate principal amount of HK$6.3 million which were due in September 2005 and total short term bank loans of approximately HK$0.2 million which were borrowed at fixed interest rates. Apart from intra-group liabilities, the Group did not have outstanding balances on 31 December 2001 of any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits.

The Group's gearing ratio as at 31 December 2002 was 10% (2001: Nil%), which is expressed as a percentage of the total borrowings over the total assets.

Liquidity, financial resources and capital structure

As at 31 December 2002, the Group's total assets were approximately HK$63.6 million (2001: HK$55.0 million), comprising computer equipment, software and other fixed assets of approximately HK$8.5 million (2001: HK$5.1 million), investments of approximately HK$15.8 million (2001: HK$8.0 million), other assets of approximately HK$0.8 million (2001:

HK$1.2 million), deferred tax assets of approximately HK$2.5 million (2001: HK$3.2 million), inventories of approximately HK$1.1 million (2001: HK$1.2 million), gross amounts due from customers for contract work of approximately HK$0.3 million (2001: HK$0.3 million), trade receivables of approximately HK$27.6 million (2001: HK$25.1 million), prepayments and other receivables of approximately HK$6.8 million (2001: HK$3.6 million) and cash and cash equivalents of approximately HK$0.2 million (2001: HK$7.3 million).

As at 31 December 2002, the Group's current liabilities were approximately HK$5.4 million comprising accured expenses and other payables of approximately HK$5.2 million and bank loans of approximately HK$0.2 million. The Group had non-current liabilities of approximately HK$6.3 million from issue of unlisted convertible bonds which were due in September 2005. As at 31 December 2001, the Group's current liabilities were mainly comprised accrued expenses and other payables of approximately HK$3.0 million. The Group did not have any non-current liabilities outstanding at 31 December 2001.

The Group generally services its debts primary through cash generated from its operations supplemented by bank financings or raising funds in the international capital and debt markets or through a combination of these methods, as considered appropriate in the circumstances. As at 31 December 2002, the Group had cash and bank balances, of approximately HK$0.2 million (2001: HK$7.3 million).

Pledge of assets, capital commitments and contingent liabilities

As at 31 December 2002, the Group did not have any charges on its assets and future plans for material investments or acquisition of capital assets. In addition, the Group did not have any significant contingent liabilities as at 31 December 2002.

Exchange risk

The business activities of the Group do not expose to material fluctuations in exchange rates except for the operations through its subsidiaries in Taiwan and the PRC, which are subject to fluctuations in exchange rates between new Taiwan dollars and Hong Kong dollars, and between Renminbi and Hong Kong dollars respectively. The Group will conduct periodic review of its exposure to foreign exchange risk and use derivative financial instruments to hedge against such risk, as considered appropriate in the circumstances. As at 31 December 2002, the Group did not have any outstanding derivative financial instruments for hedging purposes.

Treasury policies

With the focus on risk management, the Group adopts a conservative approach towards its treasury policies in order to monitor its foreign exchange risk, credit risk and liquidity risk. Financial assets of the Group include cash and cash equivalents, investments, trade receivables, prepayments and other receivables. Financial liabilities of the Group include trade payables, accrued expenses and other payables, tax payables and short term bank loans. The Group strives to minimise the foreign exchange risk by achieving a balance between monetary assets and monetary liabilities in foreign currencies against Hong Kong dollars. To reduce exposure to credit risk, the Group performs ongoing credit evaluations of the financial condition of its counterparties. To manage liquidity risk, the Group closely monitors its liquidity to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding needs.

OPERATION REVIEW

With an aim to enhance the leading position of being a well-known CRM solutions provider in the Asia Pacific Region, the Group has successfully adjusted its business strategy by evolving from a provider of single generic CRM software products on a horizontal basis across different industries to a provider of specific CRM applications on a vertical basis focused on the finance sector in 2002. As a result, the Group has successfully launched two new CRM solutions, namely eBrokerage and eFC System of which their target markets are securities and banking industries respectively.

eBrokerage

As a CRM solution which caters for the securities industry, eBrokerage has the capabilities to analyze the customers' trading portfolios and group customers with similar trading behaviours and characteristics into different categories for effective management. By implementing eBrokerage, the securities brokers will be able to provide their customers with timely advices on investment plans and instant responses to their requests as well as risk management in order to enhance the service quality and customer satisfaction. In addition, the securities brokers can better understand the customers' trading behaviours and manage effectively their portfolios through the use of eBrokerage.

eFC System

The Linux-based eFC System enables financial management consultants from banks and other financial institutions to have detailed analysis and understanding of customers' financial status so that they can develop suitable investment portfolio and adjust immediately of the investment strategies and plans for customers. This innovative eFC System with business intelligence also allows financial management consultants to effectively perform risk management and to satisfactorily fulfill the requests for customers.

Issue of Convertible Bonds

With a view to further strengthen the Group's financial position, the Company and each of Golden J&N Investment Inc. ("Golden J&N") and Sinopac Securities (Asia) Limited ("Sinopac Securities") ("the Subscribers") entered into the Subscription Agreements dated 30 September 2002 pursuant to which the Subscribers have agreed to subscribe for the convertible bonds in an aggregate principal amount of HK$6,250,000 (the "Bonds"). The three-year-to-maturity convertible bonds are convertible into ordinary shares of HK$0.10 each in the share capital of the Company (the "Shares") at a conversion price of HK$0.20 per share (the "Conversion Price') subject to adjustment. The Bonds are not listed on the Stock Exchange or any other stock exchange.

The maximum number of new Shares which may be issued upon full conversion of the Bonds based on the Conversion Price is 31,250,000, representing approximately 4.96% and approximately 4.72% of the existing issued share capital and the enlarged issued share capital respectively. During the year ended 31 December 2002, none of the Bonds was converted into ordinary shares of the Company and the Company did not redeem, purchase or cancel any of the Bonds.

The Directors believe that the subscription of the Bonds by Golden J&N and Sinopac Securities has demonstrated the investors' confidence in the Group.

Strategic alliance and acquisition

In October 2002, the Group entered into a share subscription agreement with Universal Enterprise Development Limited ("UED"), a market leader in eGovernment solutions industry in the PRC and Taiwan, to subscribe for 6 million new shares of UED representing approximately 12.24% of its enlarged issued share capital at an aggregate consideration of approximately HK$7.8 million which was satisfied entirely by the Group's internally generated working capital. The Directors believe that the subscription and the strategic alliance with UED represents a long-term investment in the field of eGovernment solutions, which applies the Group's CRM technologies in order to obtain synergetic effect on research and development of eGovernment solutions as well as distribution network of software products.

Save as disclosed above, the Group did not have other material acquisitions and disposals of subsidiaries and affiliated companies for the year ended 31 December 2002.

Employees

During 2002, the average number of employees is 77 (2001: 101) with remuneration for the year amounting to approximately HK$9.3 million (2001: HK$11.9 million). As at 31 December 2002, the Group's total headcount is 78 employees (2001: 84). It is the Group's remuneration policies to keep the pay levels of its employees competitive and reward its employees on a performance related basis. Other employee benefits include grant of options under the Company's share option scheme, contributions to retirement scheme and performance bonus.

The Group adopted a share option scheme on 24 October 2001 and the Directors may, at their discretion, invite any employee (except part time employee who has spent less than 10 hours per week in providing services to the Group) or director of the Group and consultants of and advisors to the Group, to take up options to subscribe for shares of the Company at a price to be determined by the Board.

A subsidiary of the Group operates a defined benefit retirement scheme in Taiwan, (the "defined benefit scheme") which provides for retirement benefits to the eligible employees. Contributions to the defined benefit scheme are made in accordance with the recommendations of independent actuaries who prepare an independent valuation of the retirement scheme annually. The Group also participates in a Mandatory Provident Fund ("MPF"), managed by an independent approved MPF trustee, which provides for retirement benefits to all employees in Hong Kong. Pursuant to the Mandatory Provident Fund Schemes Ordinance, the minimum requirement of mandatory contributions from each of the employers and employees is calculated at 5% of the employee's basic salaries.

FUTURE PROSPECTS

After years of efforts, the Group has established a strong base in the PRC as a result of its solid background, strong R&D capabilities and management team with strong market sense. The Directors believe that the Group is well positioned to exploit growth opportunities emerging from the rapidly changing IT industry and the economic environment in the Asia Pacific region, especially the PRC. In order to maintain the Group's leading position in the CRM market, the Group will focus on the enhancement of existing CRM solutions and development of new CRM solutions for different types of industries, in particular, for securities, banking and insurance companies.

As the Directors believe that the development of new CRM solutions and other kinds of software products for exploiting business growth as well as effective cost control measures on operating expenses for cost-savings are very important for the Group's development, the Group will further enhance its R&D capabilities through the expansion of its R&D centre in Nanjing, the PRC in order to develop new solutions at reduced costs.

Looking forward, the Group will further penetrate into the PRC market by continuing to develop an effective distribution network and enhance its R&D capabilities by identifying opportunities of forming strategic alliances and acquisition of suitable IT companies. The Directors believe that these business strategies will not only increase the Group's market share and broaden its revenue and client base but also further consolidate the Group's position as the leading CRM solutions provider in the Asia Pacific region.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS from 1 January 2002 to 31 December 2002

The Company stated its business objectives for the period from 25 October 2001 to 31 December 2003 in the prospectus dated 30 October 2001. The actual business progress mentioned below covers the period from 1 January 2002 to 31 December 2002.

	Business objectives as disclosed in the Company's Prospectus dated 30 October 2001	Actual business progress from 1 January 2002 to 31 December 2002
A	**Brand building, marketing and distribution**	
1	Continue the brand building campaign in a view to establish "AKuP" as the leading brand in eCRM software products	The Group continued to establish "AKuP" as the leading brand in eCRM software products through the active participation in various brand building campaigns such as seminars, exhibitions and conferences.

In April 2002, the Group organised a conference on “Impact of PRC’s Entry to World Trade Organisation on Securities Industry and Related Strategies of CRM Applications” for chief executive officers of PRC enterprises in Shenzhen, the PRC.

According to a survey on “CRM Technology Promotion in the Securities Industry” conducted by the Sub-Association for Financial Software and IT Products (金融軟體及資訊產品分會) during a seminar on CRM applications in the securities industry in June 2002, the Company was among the top three well-known CRM solution providers in the PRC, ranking before multinational companies such as Siebel System, Inc., SAP AG, International Business Machines Corporation and NCR Corporation.

In December 2002, the Group won the “200 Best eGovernment solutions in 2002” award under the auspices of China Internet Weekly. Of the eGovernment solutions, “Grievances System and Operational Enquiries System of AKuP eGovernment solutions” were awarded “The Most Outstanding Application Solutions”.

2	For the Taiwan market, to continue the marketing campaigns, including advertising, organizing seminars, participating in trade shows, and to promote new products and revised versions of existing products	The Group continued the marketing campaigns through the participation as speakers in the master of business administration ("MBA") and executive MBA programmes organised by Chang Gung University (長庚大學企研所) in Taipei in March and November 2002 and in CRM workshops organised by Small and Medium Enterprises Administration of Ministry of Economic Affairs and Taipei Computer Association during the second quarter of 2002. In December 2002, the Group also acted as a speaker in the "Computer Telephoney Integration Seminar" organised by Integrated Communication Group and sponsored by Intel Corporation in Taiwan.
3	For the markets of Beijing, Guangzhou, Shanghai, Hong Kong and Singapore, to explore more joint marketing opportunities with multi-national IT companies and consultancy firms	The Group acted as both a sponsor and speaker of the Executive Workshop on Electronic Customer Relationship Management for Banking, Insurance and Finance Industry (the "Workshop") organised by City University of Hong Kong ("City U") and participated the Workshop as speakers in April 2002. In addition, the Group also acted as speakers in CRM seminars and workshops for Hong Kong Chamber of Commerce and Bank of Communications Hong Kong Branch during the second half of 2002. The Group also promoted itself in the IT industry through a television programme "Business Guide" of China Central Television in the PRC and international magazines such as "Business Management Asia" in order to introduce the Group's CRM software products, establish its corporate image and maintain the market awareness.

4	Evaluate the performance of the offices in Wuhan and Chengdu, the PRC and if positive, explore opportunities for alliance with independent software vendors, agents, resellers and distributors in central and southwestern parts of the PRC	The Group set up the fifth representative office in Wuhan, the PRC in February 2002. As the representative office in Wuhan, the PRC is at its early establishment, the Group will closely evaluate its performance. In December 2002, the Group decided to close its representative office in Chengdu, the PRC due to the streamlining of operations in central and southwestern parts of the PRC. The Directors believe that such closure will not have any significant impact on the Group's business development.
5	Conduct market research on the Southern part of the PRC and if positive, set up a branch office in Xiamen, the PRC to market the Group's products	As the Group acquired a 12.24% equity interest of UED in October 2002, the Group can use the distribution network of its subsidiary in Xiamen, the PRC to market the Group's products. As a result, the Group decided not to set up a branch office in Xiaman, the PRC in order to reduce operating costs.
6	Evaluate the performance of the office in San Jose, the United States of America (the "USA") and if positive, extend the marketing channels to the southern part of California, the USA	Due to the unfavourable current political and economic environment, the Group decided to postpone the establishment of its branch office in San Jose, the USA and slow down the plan to extend the marketing channels to the southern part of California, the USA until the recoveries of the global economy. The Directors believe that such postponement will not have any significant impact on the Group's business development as the Group's major focus is on the Asia Pacific Region.

7 Conduct market research on the eastern coast of the US and if positive, set up a branch office in New York, the US to explore the market and alliance opportunities	In view of the current volatile market conditions and economic downturn, the Group decided to set aside temporarily the plan to set up its branch offices in New York, the US, Tokyo, Japan and Seoul, South Korea and will conduct market research again in the first half of 2003 to evaluate the feasibility of the establishment of such offices.
8 Evaluate the performance of the office in Seoul, South Korea and if positive, expand its operations and build up more marketing channels through alliance with resellers, agents and distributors	
9 Conduct market research on Japan and if positive, set up a branch office in Tokyo, Japan to explore market opportunities	
B Enhancement and development of products and technology	
1 Enhancement of existing products	
1.1 Upgrade the Group's existing products to Java based solutions to support cross computer operating systems	The Group upgraded its existing products, "Unified Contact Centre" and "eNterprise I", to Java based solutions to support cross computer operating systems.
1.2 Enhance the Group's existing products to support database products provided by different companies, such as IBM, Oracle Corporation and Sybase Inc.	The Group enhanced its existing products, "Unified Contact Centre" ("UCC") and "eNterprise I", to support database products provided by different companies.
1.3 Enhance the voice quality and transmission speed of the Group's existing VOIP related products	The Group enhanced the voice quality and transmission speed of its existing product, UCC.

2 Development of new products	
2.1 Develop a marketing campaign related software	The Group continued the development of a marketing campaign related software known as "Integrated Direct Marketing System" for data mining and campaign management and its launch date will be postponed to the first quarter of 2003 as a result of the changing requirements of the CRM market.
2.2 Develop CRM solutions which are related to sales automation	In the second quarter of 2002, the Group launched two new CRM solutions, namely eBrokerage for portfolio management and decision making in the securities industry and eFC System for financial consulting in the banking industry.
2.3 Continue to develop process automation related software on marketing automation	The Group continued to develop process automation related software on marketing automation for suitable companies in different industries.
3 Strengthening R&D capabilities	
3.1 Evaluate the performance of research and development centre and expand the operation when necessary	The R&D Centre in Nanjing, the PRC commenced its operations in the second quarter of 2002 and continued to expand for the development of new products and enhancement of existing products in order to provide software products of high quality with low production costs to satisfy the demand from PRC enterprises. This R&D Centre successfully took the lead role of the Group for research and development of software products which was previously performed by the Group's Taiwan head office.

3.2	Provide training to staff from time to time	The Group provides training to its staff on a concurrent basis in order to keep them with up-to-date knowledge on IT technology and features of software products, and also evaluates the effectiveness of the training courses for staff development.
C	**Strategic alliances and acquisitions**	
1	Identify potential ISP or telecommunications companies in Taiwan, Hong Kong and Singapore to explore business collaboration opportunities for the development of the ASP business	The Group is identifying potential ISP or telecommunications companies and will conduct review on suitable companies.
2	Negotiate with multi-national IT companies and software vendors to bundle the Group's software with servers or other standard software packages	The Group is negotiating with suitable multi-national IT companies and software vendors.
3	Identify potential universities and consultancy firms for collaboration on CRM training and consulting services	The Group and City U jointly held executive workshops on CRM for banking, industry and finance industry in Hong Kong in April 2002 for the public pursuant to a collaboration agreement. In addition, the Group is identifying other potential universities in the PRC for collaboration on CRM training and consulting services.

4 Identify potential IT companies with CRM technology or marketing channels for investment, acquisition or alliance purposes	In October 2002, the Group acquired a 12.24% equity interests of UED for strategic alliance which enables the Group to apply its CRM technologies in eGovernment solutions in order to obtain synergetic effect on both research and development, and distribution network. The Group is also negotiating with other suitable IT companies with CRM technology or marketing channels for business expansion.

USE OF PROCEEDS

From the placement of new shares on 5 November 2001, the Group raised net proceeds of approximately HK$24 million through placing of shares upon the listing of the Company's shares on 5 November 2001. Up to 31 December 2002, the Group has applied the net proceeds from the placement of new shares in accordance with the statement of business objectives as set out in the Company's prospectus dated 30 October 2001 (the "Prospectus") as follows:

	Planned use of proceeds up to 31 December 2002 as set out in the Prospectus *HK$'million*	**Actual use of proceeds** *HK$'million*
Product enhancement	5	5
Research and development	3	3
Marketing, promotion and brand building	5	5
Business expansion**	11	11
	24	24
Working capital	—	—
	24	24

** Original time schedule on the intended use of proceeds for business expansion is revised from HK$8 million as set out in the Prospectus to HK$11 million as set out in the Circular dated 14 January 2002.

The Group intends to meet the remaining funding requirement from the Company's business plan as set out in the Prospectus principally through internally generated cashflows supplemented by bank financing or raising funds in the international capital and debt markets or through a combination of these methods, as considered appropriate in the circumstances.

From the issue of convertible bonds on 30 September 2002, the Group raised net proceeds of approximately HK$6.1 million from the issue of convertible bonds in an aggregate principal amount of HK$6.25 million. The Group has applied the net proceeds from the issue of convertible bonds as follows:

	Planned use of proceeds *HK$' million*	**Actual use of proceeds** *HK$' million*
Expansion of the Group's operations	2.5	2.1
Research and development	2.0	2.3
Working capital	1.6	1.7
	6.1	6.1

AUDIT COMMITTEE

The Company established an audit committee on 24 October 2001 with written terms of reference in compliance with the requirements as set out in rules 5.23 and 5.24 of the GEM Listing Rules. The audit committee comprises two independent non-executive directors, Mr. Hsu Hsiang-Jen and Mr. Lee Mun Chee and an executive director, Mr. Hu Shin-Min, Alex and reports to the Board. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments to the Board.

The audit committee met twice during the year ended 31 December 2002.

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

During the year ended 31 December 2002, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of its listed shares.

BOARD PRACTICES AND PROCEDURES

During the year ended 31 December 2002, the Company has complied with the Board Practices and Procedures concerning the general management responsibilities of the Board as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

By Order of the Board
AKuP International Holding Limited
Hu Shin-Min, Alex
President & Chief Executive Officer

Taipei, Taiwan, 26 March 2003

This announcement will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting.

** For identification purpose only*