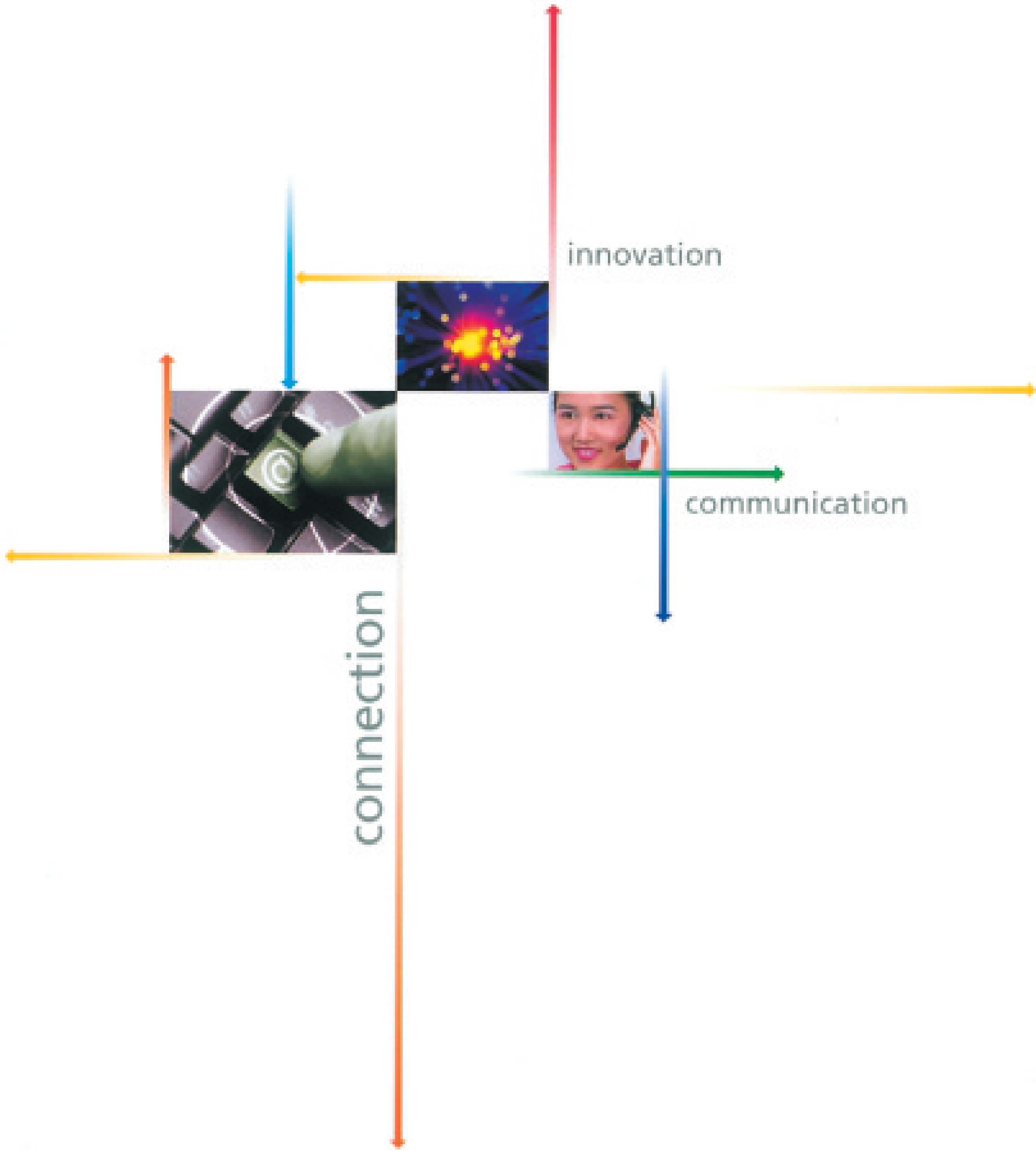
AKuP International Holding Limited

艾 克 國 際 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)



Annual Report 2002

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

The 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 the 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 the 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 the GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on the GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. 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 the GEM-listed issuers.

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CORPORATE PROFILE

AKuP International Holding Limited (the "Company") (Stock Code: 8179) and its subsidiaries (collectively referred to as the "Group") are principally engaged in the design, development, sale and implementation of standardized electronic customer relationship management ("eCRM") solutions and the provision of IT-related consulting and training services for commercial enterprises in Asia, namely Taiwan, the People's Republic of China (the "PRC"), Hong Kong and Singapore. With its origination from Taipei, Taiwan, the Group has set up offices in Beijing, Shanghai, Guangzhou, Nanjing, Wuhan, Hong Kong and Singapore. The Company's shares were listed on the GEM of the Stock Exchange on 5 November 2001.

The Group's overall business objective is to become a leading customer relationship management ("CRM") software provider in the Asia Pacific region, with particular emphasis on the Greater China Region. In order to accomplish the Group's overall business objective, the Group continues to develop a standardized total eCRM solution, which integrates the functions of computer telephony integration ("CTI"), Internet applications, data warehousing and mining, sales automation and marketing campaign. The Group also delivers its products in a cost effective way such that its clients can obtain the most benefits at relatively lower costs when compared to other international providers of the CRM solutions.

The Group offers total CRM solutions for both front-end and back-end applications. At the front-end, the Group provides solutions, namely *CT-Ware, CT-Approach, CT-Web, Web Personalizer* and *E-mail Master*, to enable companies to construct their own unified contact centre, making it possible for companies to communicate with their customers via all available channels such as telephone, fax, e-mail and the Web. At the back-end, the Group provides solutions, namely *One-to-One Analyzer* and *Enterprise Analyzer* for storage of customer profiles and behaviour records, data mining for customer services and sales, customer knowledge building, campaign planning and initiating one-to-one marketing strategy. The Group has consolidated these front-end and back-end applications into one complete package named "eNterprise I".

In addition, the Group has launched two other CRM solutions, namely eBrokerage for securities industry and eFC Consultant System ("eFC System") for banking 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. eFC System enables financial management consultants of banks and other financial institutions to conduct detailed analysis and understanding of customers' financial status for development of suitable investment portfolio and adjustment of investment strategies and plans for customers.

The Group has also built up a strong clientele in banking and finance, insurance, securities and other industries such as IT, manufacturing, retailing and mass media in Taiwan, the PRC, Hong Kong and Singapore, providing them with CRM solutions.

FOUR YEAR FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

	2002	2001	2000	1999
	$'000	*$'000*	*$'000*	*$'000*
Results				
Revenue	**29,435**	29,875	25,965	6,968
Profit / (Loss) before taxation	**453**	2,263	(3,716)	(6,193)
Taxation	**(751)**	189	1,202	1,731
(Loss)/Profit attributable to shareholders	**(298)**	2,452	(2,514)	(4,462)
Assets and liabilities				
Fixed assets	**8,475**	5,095	3,898	2,007
Investments	**15,796**	8,000	—	—
Other assets	**778**	1,258	1,143	964
Deferred taxation	**2,513**	3,203	3,175	1,731
Net current assets	**30,579**	34,438	7,888	14,314
Convertible bonds	**(6,304)**	—	—	—
	51,837	51,994	16,104	19,016
Share capital	**63,000**	63,000	1,071	23,810
Reserves	**(11,163)**	(11,006)	15,033	(4,794)
	51,837	51,994	16,104	19,016
(Loss)/Earnings per share *(note)*				
Basic	**(0.05) cents**	0.46 cents	(0.49) cents	(0.87) cents

The Company was incorporated in the Cayman Islands on 14 June 2000 as an exempted company with limited liabilities 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"). The Group has been treated as a continuing entity and accordingly the consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group since 1 January 1999, rather than from 29 October 2001.

Accordingly, the results of the Group for the three years ended 31 December 2001 have been prepared on the basis of merger accounting as if the group structure immediately after the Reorganisation had been in existence since 1 January 1999. This financial summary includes the results of the Company and its subsidiaries with effect from 1 January 1999 or since their respective dates of incorporation, whichever is a shorter period. The combined balance sheets at 31 December 1999 and 2000 are the combination of the balance sheets of all the companies comprising the Group as at 31 December 1999 and 2000. In the opinion of the Directors, the resulting combined financials give a more meaningful view of the results and state of the affairs of the Group as a whole.

Note: There were no protential dilutive ordinary shares in issue as at 31 December 1999, 2000, 2001.

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

CORPORATE INFORMATION

Registered office

P.O. Box 1320 GT
Suite D-2
Cayman Business Park
George Town
Grand Cayman
Cayman Islands
British West Indies

Head office and principal place of business in Taiwan

4F-1, No. 213
Sec. 5, Nanking East Road
Taipei
Taiwan

Principal place of business in Hong Kong

Unit 906
9th Floor
Asia Orient Tower
Town Place
33 Lockhart Road
Wanchai
Hong Kong

Stock Code

8179

Company website

http://www.akup.com

Company secretary

PAU Wai Lun, Willy ACCA, AHKSA

Qualified accountant

PAU Wai Lun, Willy ACCA, AHKSA

Compliance officer

HU Shin-Min, Alex

Audit committee

HSU Hsiang-Jen *(Chairman)*
LEE Mun Chee
HU Shin-Min, Alex

Authorised representatives *(for the purpose of the GEM Listing Rules)*

CHIANG Li-Chin, Grace
PAU Wai Lun, Willy

Principal share registrar and transfer office

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
Fort Street
P.O. Box 705 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong branch share registrar and transfer office	Hong Kong Registrars Limited Rooms 1901-5, 19/F Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
Principal bankers	*Hong Kong:* The Hongkong and Shanghai Banking Corporation Limited *Taiwan:* Bank SinoPac （建華銀行） Chang Hwa Bank （彰化銀行） COTA Commercial Bank （三信商業銀行） Far Eastern International Bank （遠東國際商業銀行） Taishin International Bank （台新國際商業銀行） The Chinese Bank （中華商業銀行） Union Bank of Taiwan （聯邦銀行） United World Chinese Commercial Bank （世華聯合商業銀行） *The People's Republic of China:* China Industrial and Commercial Bank （中國工商銀行） China Merchants Bank （中國招商銀行） Citic Industrial Bank （中信實業銀行）
Auditors	Morison Heng *Certified Public Accountants* 17/F, One Hysan Avenue Causeway Bay Hong Kong
Sponsor	Core Pacific-Yamaichi Capital Limited 36/F, Cosco Tower Grand Millennium Plaza 183 Queen's Road Central Hong Kong

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of AKuP International Holding Limited and its subsidiaries (collectively referred to as the "Group"), I present herewith the Group's audited consolidated financial statements for the year ended 31 December 2002.

After the listing of the Company's shares on the GEM of the Stock Exchange in November 2001, the Group has focused on its business objective to become a leading CRM software provider in the Asia Pacific Region through the continuous enhancement of existing software products and development of new CRM solutions, as well as the formation of strategic alliance and acquisition of potential IT companies. In addition, the Group has further strengthened its financial position by way of issue of unlisted convertible debt securities in September 2002.

BUSINESS REVIEW

In view of the keen competition among the software companies in the IT industry, the Group has successfully adjusted its business strategy by evolving from a provider of single generic CRM solutions on a horizontal basis across different industries to a provider of specific CRM applications on a vertical basis focused on the finance industry in 2002 in order to maintain its well-positioning over its competitors. This business strategy has increased the Group's competitive edge through the offer of comprehensive total CRM solutions that address the specific needs of enterprises in particular industries. As a result, two new CRM solutions, namely eBrokerage and eFC System, were launched in the second quarter of 2002 for enterprises in securities and banking industries respectively.

With an aim to further strengthen the Group's financial position, the Company has issued unlisted convertible debt securities to independent third parties in September 2002. The Group raised net proceeds of approximately HK$6.1 million from the issue of convertible bonds to fund the expansion of its operations and research and development of software products for banking industry. The Directors believe that the subscription of the convertible bonds by independent third parties has demonstrated the investors' confidence in the Group's future.

In October 2002, the Group entered into a share subscription agreement with Universal Enterprise Development Limited ("UED") in respect of the subscription of news shares of UED, representing 12.24% of its enlarged issued share capital. In this regard, the Group has formed strategic alliance with UED to develop eGovernment solutions and markets its software products through the established distribution network of UED in the PRC.

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 kind 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.

APPRECIATION

On behalf of the Board, I would like to express my sincere gratitude to our valuable customers for their continuous support in our CRM solutions and shareholders for their solid confidence in the Group throughout the year of 2002. I would also like to take this opportunity to offer my appreciation to our fellow directors, our executives, management and employees for their strong commitments and contributions to the Group's operations. In return for the continuous support and solid confidence from our shareholders, we will continue to make every endeavor to seek every opportunity for business growth and obtain maximum benefits for the Group and our shareholders in 2003.

Hu Shin-Min, Alex
Chairman

Taipei, Taiwan, 26 March 2003

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 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 to be due in September 2005 and total short term bank loan 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 mainly 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 to be 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 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 loan. 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 Directors of the Group and consultants of and advisers to the Group, to take up options to subscribe for shares of the Company at a price to be determined by the Board. Details of the options granted under the share option scheme of the Company during the year ended 31 December 2002 are set out in the section "Share Option Scheme" on the Report of the Directors.

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.

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	**Actual use of proceeds**
	HK$'million	*HK$'million*
Product enhancement	5	5
Research and development	3	3
Marketing, promotion and brand building	5	5
Business expansion *(note)*	11	11
	24	24

Note: 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 for the Company's business plan as set out in the Prospectus principally through internally generated cashflows supplemented by bank financings or raising funds in the international capital and debt markets or through a combination of these methods, 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	**Actual use of proceeds**
	HK$' million	*HK$' 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

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 Systems 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".

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (Continued)

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** (continued)	
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 Chambers 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.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (Continued)

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** (continued)	
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	

	Business objectives as disclosed in the Company's Prospectus dated 30 October 2001	Actual business progress from 1 January 2002 to 31 December 2002
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" ("UCC") 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, 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.

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
B	**Enhancement and development of products and technology** (continued)	
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.

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
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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. **HU** Shin-Min, Alex (胡興民), aged 41, is one of the founders, the president and chief executive officer of the Group. He is responsible for the strategic planning and the overall development of the Group. He has over 12 years of experience in the IT industry in Asia. Prior to establishing the Group, he was an area sales manager of Intel Hong Kong and Taiwan and a marketing representative and segment manager of IBM. Mr. Hu holds a master's degree of business administration from Chiao-Tung University (交通大學), Taiwan.

Ms.. **CHIANG** Li-Chin, Grace (江麗卿), aged 34, is a director of corporate marketing of the Group. She joined the Group in January 1997 and is responsible for corporate marketing communication and database marketing. She has over 12 years of experience in public relations. Prior to joining the Group, she was an account executive of PC WEEK Chinese version and the president's secretary of Infopro Group and public relationship project management of Interculture Press Group (樺舍公關). Ms. Chiang graduated from Ming-Chuan University (銘傳大學), Taiwan with a bachelor's degree of mass communication. She is the wife of Mr. Hu.

Mr. **HUANG** Hsian-Cheng (黃祥徵), aged 39, is the chief operating officer of the Group. He was nominated as the Director by Mr. Hu. He joined the Group in July 1999 and is responsible for global sales operation. He has over 12 years of experience in the IT industry in international sales and marketing. Prior to joining the Group, he was a vice president of Pacific Star Technology Corp., a marketing director of Tripod Technologies Corp. and a marketing representative of IBM Taiwan.

Mr. **CHANG** Jun-Min (張潤明), aged 42, is the chief technology officer and general manager of the Taiwan subsidiary of the Group. He was nominated as the Director by Mr. Hu. He joined the Group in May 1999 and is responsible for technology development. He has over 14 years of experience in the IT industry. Prior to joining the Group, he was a system engineer of Acer Inc. and a system engineer and network engineer of IBM Taiwan. Mr. Chang holds a bachelor's degree of civil engineering from Cheng-Kong University (成功大學), Taiwan.

Mr. **CHU** Han-Ping (朱漢平), aged 35, is the vice president of product development of the Group. He was nominated as the Director by Mr. Hu. He joined the Group in April 1998 and is responsible for the development of software products. He has over 14 years of experience in the IT industry. Prior to joining the Group, he was a vice president of technology of Chung Tai Information Co., Ltd..

Independent Non-executive Directors

Mr. **HSU** Hsiang-Jen (許相仁), aged 41, was appointed as a non-executive Director on 24 October 2001. He is the general manager of Chung Shin (Suzhou) Consulting Co., Ltd. (眾信(蘇州)企業管理顧問有限公司), a company engaged in the provision of consulting services in the PRC's investment for Taiwan enterprises. Prior to this, he was a partner of Deloitte & Touche in Taiwan, a certified public accountants firm and has over 12 years of experience in auditing and taxation. He holds a bachelor's degree of business management degree from Tatung Institute of Technology, Taiwan and a master's degree of accounting from Shu-Chow University (東吳大學), Taiwan.

Mr. **LEE** Mun Chee (李萬志), aged 37, was appointed as a non-executive Director on 24 October 2001. He is the founder and president of Centurywind International Corporation, a company engaged in software development, online travel and distribution. Prior to this, he served as a marketer and senior manager of several US companies. Mr. Lee holds a bachelor's degree of science in electronics engineering from Texas A&M University, the United States of America and a master's degree of business administration from the University of Hull, the United Kingdom.

SENIOR MANAGEMENT

Mr. **CHOU** Sung-Yi (周頌義), aged 41, is the chief finance officer of the Group. He joined the Group in June 2000 and is responsible for financial planning. He has over 12 years of experience in the finance industry. Prior to joining the Group, he was a vice president of Grand Pacific Securities Investment Trust Co., Ltd., an assistant vice president of Capital Investment Consulting Co., Ltd., an assistant vice president of Taiwan Cellular Corporation and an industry analyst of Capital Securities Crop. Mr. Chou holds a bachelor's degree of science in electronics engineering and a master's degree of business administration from Chiao-Tung University (交通大學), Taiwan.

Ms. **WANG** Min-Yen (王敏燕), aged 36, is the assistant vice president of the Group. She joined the Group in November 2000 and is responsible for all treasury activities of the Group. She has over 8 years of experience in the finance and accounting field. Prior to joining the Group, she was a financial manager of Merial Taiwan. Ms. Wang holds a master's degree of business administration from Texas A&M-Commerce University, the United States of America.

Mr. **WANG** Chih-Chin (王志欽), aged 39, is the deputy general manager of the Group. He joined the Group in April 1999 and is responsible for Taiwan sales operation. He has over 12 years of experience in the IT industry in Taiwan. Prior to joining the Group, he was a sales manager of Tekland Computer Co., Ltd. (台聯電腦股份有限公司). Mr. Wang holds a bachelor's degree of business from Fu Jen University (輔仁大學), Taiwan.

Mr. **LIAO** Chien-Chih (廖健智), aged 33, is the district manager of the southern China, Hong Kong and Singapore sales operation of the Group. Mr. Liao joined the Group in October 1998 and is responsible for the operation of both Guangzhou and Hong Kong offices. He has over 5 years of experience in the IT industry. Prior to joining the Group, he was the marketing manager of Tuntex International Telecommunication Corp. Mr. Liao holds a master's degree of business administration from Drexel University, the United States of America.

Ms. **MA** Chia-Yi (馬家怡), aged 34, is the district manager of the eastern China sales operation of the Group. Ms. Ma joined the Group in February 1999 and is responsible for the operation of Shanghai office. She has over 9 years of experience in office management and administration. Prior to joining the Group, she was the general manager of Hon-An Enterprise. Ms. Ma holds a bachelor's degree of arts from Tan-Kong University (淡江大學), Taiwan.

Ms. **ZHANG** Ying (張穎), aged 29, is the general manager of the Group. She joined the Group in January 2000 and is responsible for the northern China sales operation of the Group. She has over 5 years of experience in the IT industry in China. Prior to joining the Group, she was a business development specialist of EPROBITI Information Technology Inc. (易寶北信信息技術有限公司) and project manager of A-1 netCom China Inc (北京統一網絡系統有限公司). Ms. Zhang holds a bachelor's degree of science in electrical technology from North China Electrical Power University (華北電力大學), the PRC.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. **PAU** Wai Lun, Willy (鮑偉倫), aged 29, is the financial controller, qualified accountant and company secretary of the Group. He joined the Group in March 2001 and is responsible for the financial control, accounting and general administration of the Group. He has over 5 years of experience in auditing and taxation. Prior to joining the Group, he worked for KPMG, an international certified public accountants firm, in Hong Kong as an assistant manager. Mr. Pau holds a bachelor's degree of arts in accountancy from the City University of Hong Kong. He is an associate member of the Hong Kong Society of Accountants and an associate member of the Association of Chartered Certified Accountants.

REPORT OF THE DIRECTORS

The Directors submit herewith the annual report together with the audited consolidated financial statements of AKuP International Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2002.

GROUP REORGANISATION AND LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

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 Group underwent and completed a group reorganisation in preparation for the listing of the Company's shares on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 29 October 2001. The Company's shares were listed on the GEM of the Stock Exchange on 5 November 2001.

Details of the Group reorganisation scheme and the basis of preparation of the financial statements are set out in notes 1 and 2 to the financial statements.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of custom-made solutions and maintenance services and sale of hardware and software products. The principal activities and other particulars of the subsidiaries are set out in note 16 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in notes 5 and 14 to the financial statements.

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	22%	—
Five largest customers in aggregate	77%	—
The largest supplier	—	56%
Five largest suppliers in aggregate	—	95%

At no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2002 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 33 to 64.

DIVIDENDS

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

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 26 to the financial statements. Shares were issued during the year to broaden the capital base of the Company.

DIRECTORS

The Directors during the financial year and up to the date of this report were:

Executive directors

Hu Shin-Min, Alex
Chiang Li-Chin, Grace
Huang Hsian-Cheng
Chang Jun-Min
Chu Han-Ping

Independent non-executive directors

Hsu Hsiang-Jen
Lee Mun Chee

In accordance with article 87 of the Company's articles of association, Mr. Huang Hsian-Cheng and Mr. Chang Jun-Min retire from the Board by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTOR'S SERVICE CONTRACTS

The independent non-executive directors were appointed by the Board of Directors on 24 October 2001 for a term of two years commencing on 5 November 2001. Their remuneration is determined by the Board on the anniversary of the date of their appointment.

No Director proposed for re-election at the forthcoming Annual General Meeting has an unexpired service contract 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' REMUNERATION AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the Directors' remuneration and individuals with highest emoluments for the year ended 31 December 2002 are set out in notes 9 and 10 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

The Directors and chief executives of the Company who held office at 31 December 2002 had the following interests in the issued share capital of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance) (the "SDI Ordinance") at that date as recorded in the register of directors' share interests:

(i) Interest in the Company

		Ordinary shares of HK$0.1 each				
	Note	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total interests**
Hu Shin-Min, Alex	*1*	—	—	161,254,875	—	161,254,875
Chiang Li-Chin, Grace	*1*	—	—	161,254,875	—	161,254,875
Chang Jun-Min		10,800,000	—	—	—	10,800,000
Huang Hsian-Cheng		5,400,000	—	—	—	5,400,000
Chu Han-Ping		4,500,000	—	—	—	4,500,000

(ii) Interest in associated corporations

AKuP International Technology Co., Ltd. ("AKuP Taiwan")

		Ordinary shares of HK$0.1 each				
	Note	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**	**Total interests**
Hu Shin-Min, Alex	*2*	1	2	—	—	3
Chiang Li-Chin, Grace	*2*	1	2	—	—	3

Notes:

1 Hu Shin-Min, Alex and Chiang Li-Chin,Grace are beneficial shareholders of 59.33% and 27.26% respectively of the issued share capital of Sean & Leo Assets Management Limited which owned 161,254,875 shares in the Company at 31 December 2002.

2 Each of Hu Shin-Min, Alex and Chiang Li-Chin, Grace will be deemed to have interests in 1 share in AKuP Taiwan held by Hu Yao-Hsiang (Hu Shin-Min, Alex and Chiang Li-Chin, Grace's infant child) and Hu Yao-Hsun (Hu Shin-Min, Alex and Chiang Li-Chin, Grace's infant child) respectively under the SDI Ordinance.

(iii) Right to acquire shares

Details of Directors' interests under the Company's share option scheme are set out in the section "Share Option Scheme" below.

Save as disclosed above, none of the Directors or their respective associates had, as at 31 December 2002, any interests in the shares of the Company or any its associated corporations as recorded in the register required to be kept under section 29 of the SDI Ordinance.

SHARE OPTION SCHEME

Pursuant to a written resolution passed on 24 October 2001, a share option scheme was approved 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 Directors of the Group and consultants of and advisers to the Group, to take up options to subscribe for shares of the Company at a price to be determined by the Board. The share option scheme enables the Company to grant options to these persons as incentives or rewards for their contributions to the Group and will remain valid for a period of 10 years until 23 October 2011.

The subscription prices will be at least the highest of:

(i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day;

(ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of grant; and

(iii) the nominal value of a share.

The maximum number of shares in respect of which options may be granted under the share option scheme of the Company must not (when aggregated with shares subject to any other employee share option scheme) in aggregate exceed 10 per cent. of the Company's shares in issue as at the date of listing of shares on the GEM. In addition, the entitlement of each participant under the share option scheme (including both exercised and outstanding options) in any 12-month period must not exceed 1 per cent. of the shares of the Company in issue from time to time, unless approved by shareholders of the Company in general meeting.

At 31 December 2002, the Directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 31 December 2002 is HK$0.18) granted at nominal consideration of HK$1 under the share option scheme of the Company. Each option gives the holder the right to subscribe for one share.

	No. of options outstanding at 1 January 2002	No. of options outstanding at 31 December 2002	Date granted	Period during which options exercisable	Price per share on exercise of options	Market value per share immediately before the date of grant of options
Directors						
Hu Shin-Min, Alex	—	1,510,000	12 April 2002	11 April 2003 to 10 April 2008	HK$0.191	HK$0.178
	—	1,510,000		11 April 2004 to 10 April 2009		
	—	2,020,000		11 April 2005 to 10 April 2010		

SHARE OPTION SCHEME (continued)

	No. of options outstanding at 1 January 2002	No. of options outstanding at 31 December 2002	Date granted	Period during which options exercisable	Price per share on exercise of options	Market value per share immediately before the date of grant of options
Chiang Lin Chin, Grace	—	1,410,000	12 April 2002	11 April 2003 to 10 April 2008	HK$0.191	HK$0.178
	—	1,410,000		11 April 2004 to 10 April 2009		
	—	1,880,000		11 April 2005 to 10 April 2010		
Chang Jun-Min	—	1,210,000	12 April 2002	11 April 2003 to 10 April 2008	HK$0.191	HK$0.178
	—	1,210,000		11 April 2004 to 10 April 2009		
	—	1,610,000		11 April 2005 to 10 April 2010		
Huang Hsian-Cheng	—	1,210,000	12 April 2002	11 April 2003 to 10 April 2008	HK$0.191	HK$0.178
	—	1,210,000		11 April 2004 to 10 April 2009		
	—	1,610,000		11 April 2005 to 10 April 2010		
Chu Han-Ping	—	1,310,000	12 April 2002	11 April 2003 to 10 April 2008	HK$0.191	HK$0.178
	—	1,310,000		11 April 2004 to 10 April 2009		
	—	1,750,000		11 April 2005 to 10 April 2010		
	—	22,170,000				
Chou Sung-Yi	—	1,100,000	12 April 2002	11 April 2003 to 10 April 2008	HK$0.191	HK$0.178
	—	1,100,000		11 April 2004 to 10 April 2009		
	—	1,480,000		11 April 2005 to 10 April 2010		

SHARE OPTION SCHEME (continued)

	No. of options outstanding at 1 January 2002	No. of options outstanding at 31 December 2002	Date granted	Period during which options exercisable	Price per share on exercise of options	Market value per share immediately before the date of grant of options
Liao Chien-Chih	—	650,000	12 April 2002	11 April 2003 to 10 April 2008	HK$0.191	HK$0.178
	—	650,000		11 April 2004 to 10 April 2009		
	—	870,000		11 April 2005 to 10 April 2010		
Ma Chia-Yi	—	600,000	12 April 2002	11 April 2003 to 10 April 2008	HK$0.191	HK$0.178
	—	600,000		11 April 2004 to 10 April 2009		
	—	810,000		11 April 2005 to 10 April 2010		
Wang Chih-Chin	—	600,000	12 April 2002	11 April 2003 to 10 April 2008	HK$0.191	HK$0.178
	—	600,000		11 April 2004 to 10 April 2009		
	—	810,000		11 April 2005 to 10 April 2010		
Zhang Ying	—	550,000	12 April 2002	11 April 2003 to 10 April 2008	HK$0.191	HK$0.178
	—	550,000		11 April 2004 to 10 April 2009		
	—	740,000		11 April 2005 to 10 April 2010		
	—	11,710,000				
Employees	—	7,770,000	12 April 2002	11 April 2003 to 10 April 2008	HK$0.191	HK$0.178
	—	7,770,000		11 April 2004 to 10 April 2009		
	—	10,390,000		11 April 2005 to 10 April 2010		
	—	25,930,000				
Total	—	59,810,000				

SHARE OPTION SCHEME (continued)

The share options granted are not recognised in the financial statements until they are exercised. As the Directors considered that there were no appropriate assumptions for options pricing model used to estimate the value of options of the Company, disclosure of the value of options granted during the year ended 31 December 2002 is not appropriate. During the year ended 31 December 2002, no option was exercised, cancelled or lapsed under the share option scheme.

As at the date of annual report, options carrying the rights to subscribe for up to a total of 53,340,000 shares of the Company (excluding 6,470,000 options lapsed after 31 December 2002 but up to the date of annual report) have been granted under the share option scheme. There is only up to 9,660,000 shares of the Company may be issued pursuant to the grant of further option under the share option scheme.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors 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 corporate, and none of the Directors, or their spouses or children under eighteen years of age, had any right to subscribe for the shares of the Company, or had exercised any such right during the year.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company has been notified of the following interests in the Company's issued shares at 31 December 2002, amounting to 10% or more of the ordinary shares in issue:

	Note	**Ordinary shares held**	**Percentage of total issued shares**
Sean & Leo Assets Management Limited	*3*	161,254,875	25.60%
Mr. Lee Kwok Hung ("Mr. Lee")	4	75,181,794	11.93%
Ms. Tsang Kit Yu ("Ms. Tsang")	4	6,590,000	1.05%
Grand Pacific Investment & Development Co., Ltd. ("Grand Pacific")	*5*	38,829,845	6.16%
Century Venture Capital Co., Ltd. ("Century VC")	*6*	18,968,850	3.01%
H-Com Venture Capital Co., Ltd. ("H-Com VC")	*6*	9,203,859	1.46%
Jupiter Venture Capital Co., Ltd. ("Jupiter VC")	*6*	8,433,859	1.34%
Mercury Venture Capital Co., Ltd. (Mercury VC")	*6*	8,273,859	1.31%
Venus Venture Capital Co., Ltd. ("Venus VC")	*6*	8,573,859	1.36%

Notes:

3 Sean & Leo Assets Management Limited is beneficially owned by Hu Shin-Min, Alex (Mr. Hu), Chiang Li-Chin, Grace (Mr. Hu's wife), Hu Wey-Min (Mr. Hu's brother), and Lin Hsueh-Yun (Mr. Hu's mother) as to approximately 59.33 per cent., 27.26 per cent., 7.58 per cent., and 5.83 per cent. respectively.

4 Mr. Lee and Ms. Tsang (Mr. Lee's wife) are independent third parties who are not connected with the Directors, cheif executives, substantial shareholders or management shareholders of the Company or any of their respective associates.

5 Grand Pacific is owned by the associated parties of 辜濂松 (Jeffrey Lien-Sung Koo) and 駱錦明 (Kenneth C.M. Lo) and other corporate and individual investors.

6 Each of Century VC, H-Com VC, Jupiter VC, Mercury VC and Venus VC (the "VCs") is a separate discretionary investment fund of which Pacific Venture Partners and Pacific Capital Partners are their fund managers. Any new investments made by each of the VCs are subject to the approval of the directors of the respective VC. The shareholders of each of the VCs are mainly individual Taiwanese, investment trusts, financial companies or other corporations.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or its 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.

RELATED PARTY AND CONNECTED TRANSACTIONS

During the year ended 31 December 2002, there are no related party transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

SPONSOR'S INTERESTS

As at the date of annual report, Core Pacific-Yamaichi Capital Limited ("CPY"), their directors, employees or associates, did not have any interest in the share capital of the Company or any of its subsidiaries, or any right to subscribe for or to nominate persons to subscribe for the share capital of the Company or any of its subsidiaries.

Pursuant to the sponsor agreement dated 30 October 2001 entered into between the Company and CPY, CPY received, and will receive, fees for acting as the Company's retained sponsor for the period from 5 November 2001 to 31 December 2003 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

COMPETITION AND CONFLICTS OF INTEREST

None of the directors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Group or has any other conflicts of interest with the Group.

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

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

FOUR YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 3 of the annual report.

RETIREMENT SCHEMES

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 contributions amounted to approximately HK$125,000 for the year (2001: HK$154,000).

RETIREMENT SCHEMES (continused)

Actuarial valuations are carried out annually by Chung-Ching Management Consulting Co., Ltd. (the "Actuary"), an independent firm of consulting actuaries. A full actuarial valuation of the defined benefit scheme was carried out at 31 December 2002 and 2001, using projected unit credit cost method. The principal actuarial assumptions used for the 31 December 2002 valuation were a discount rate of 3.75% (2001: 4.5%), an expected rate of return on plan assets of 3.75% (2001: 4.5%) net of salary increment of 2.75% (2001: 3.5%), together with appropriate allowances for expected rates of mortality, turnover and retirements. The Actuary was able to confirm that, at the valuation dates:

— the defined benefit scheme was solvent, with assets more than adequate to cover the aggregate value of members' vested benefits had all members left the scheme; and

— the value of the defined benefit scheme assets, together with the future contributions recommended by the Actuary and adopted by the Board of Directors, will be sufficient to meet the accruing liabilities of the scheme on an on-going basis.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Scheme Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

The contributions amounted to approximately HK$29,000 for the year (2001: HK$17,000).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Group's Directors and senior management are set out on pages 19 and 20.

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.

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.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer shares on a pro rata basis to existing shareholders.

AUDITORS

Morison Heng were first appointed as auditors of the Company in February 2003 to fill the vacancy created by the resignation of KPMG in December 2002.

Morison Heng retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Morison Heng as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Hu Shin-Min, Alex
Chairman

Taipei, Taiwan, 26 March 2003

REPORT OF THE AUDITORS

AUDITORS' REPORT TO THE SHAREHOLDERS OF AKuP INTERNATIONAL HOLDING LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 33 to 64 which have been prepared with accounting principles generally accepted in Hong Kong.

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 the 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 documentations 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 December 31, 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 statements of the investee company shows a net tangible assets of RMB19,447,857 (HK$18,322,835) as at December 31, 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 positions 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.

There 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 December 31, 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 statements give a true and fair view of the state of affairs of the Company and of the Group as at December 31, 2002 or of the loss and cash flows 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 Software Co. Ltd. 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.

Morison Heng
Chartered Accountants
Certified Public Accountants

Hong Kong, March 26, 2003

CONSOLIDATED INCOME STATEMENT

for the year ended December 31, 2002

	Notes	2002 HK$'000	2001 HK$'000
Revenue	*5*	**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	*6*	**505**	1,509
Net finance (costs)/income	*7*	**(52)**	754
Profit before taxation		**453**	2,263
Taxation	*8(a)*	**(751)**	189
(Loss)/Profit attributable to shareholders	*11*	**(298)**	2,452
(Loss)/Earnings per share	*13*		
Basic		**(0.05 cents)**	0.46 cents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended December 31, 2002

	Share capital	Share premium	Accumulated losses	Exchange reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at December 31, 2000	1,071	22,738	(7,306)	(399)	16,104
Currency translation differences	—	—	—	(2,180)	(2,180)
Net gains and losses not recognised in the income statement				(2,579)	13,924
Net profit for the year	—	—	2,452	—	2,452
Issue of share capital	270	11,753	—	—	12,023
Share issuance expenses	—	(5,585)	(3,580)	—	(9,165)
Exchange difference on the consolidation of the Company's share	(7)	—	—	7	—
Capitalisation issue	49,966	(49,966)	—	—	—
Placing of share for cash	11,700	21,060	—	—	32,760
Balance at December 31, 2001	63,000	—	(8,434)	(2,572)	51,994
Currency translation differences	—	—	—	141	141
Net gains and losses not recognised in the income statement				(2,431)	52,135
Net loss for the year	—	—	(298)	—	(298)
Balance at December 31, 2002	63,000	—	(8,732)	(2,431)	51,837

CONSOLIDATED BALANCE SHEET

at December 31, 2002

	Notes	2002 HK$'000	2001 HK$'000
ASSETS			
Non-current assets			
Fixed assets	15	**8,475**	5,095
Investments	17	**15,796**	8,000
Other assets	18	**778**	1,258
Deferred taxation	19	**2,513**	3,203
		27,562	17,556
Current assets			
Inventories	20	**1,167**	1,218
Gross amounts due from customers for contract work	21	**254**	252
Trade receivables	22	**27,600**	25,132
Prepayments and other receivables	22	**6,825**	3,597
Cash and cash equivalents		**152**	7,271
		35,998	37,470
Current liabilities			
Short-term bank loan	23	**220**	—
Trade payables	24	**13**	40
Accrued expenses and other payables	24	**5,168**	2,992
Tax payable	8(b)	**18**	—
		5,419	3,032
Net current assets		**30,579**	34,438
Total assets less current liabilities		**58,141**	51,994
Non-current liabilities			
Convertible bonds	25	**6,304**	—
NET ASSETS		**51,837**	51,994
CAPITAL AND RESERVES			
Share capital	26	**63,000**	63,000
Reserves	27(a)	**(11,163)**	(11,006)
		51,837	51,994

Approved and authorised for issue by the Board of Directors on March 26, 2003.

Mr. Hu Shin-Min, Alex
DIRECTOR

Mr. Chang Jun-Min
DIRECTOR

BALANCE SHEET

at December 31, 2002

	Notes	**2002** **HK$'000**	2001 HK$'000
ASSETS			
Non-current assets			
Interest in subsidiaries	*16*	**32,074**	30,077
Investments	*17*	**8,000**	8,000
		40,074	38,077
Current assets			
Prepayments and other receivables	*22*	**2,391**	1,508
Cash and cash equivalents		**1**	6
		2,392	1,514
Current liabilities			
Accrued expenses and other payables	*24*	**1,403**	693
Net current assets		**989**	821
Total assets less current liabilities		**41,063**	38,898
Non-current liabilities			
Convertible bonds	*25*	**6,304**	—
NET ASSETS		**34,759**	38,898
CAPITAL AND RESERVES			
Share capital	*26*	**63,000**	63,000
Reserves	*27(b)*	**(28,241)**	(24,102)
		34,759	38,898

Approved and authorised for issue by the Board of Directors on March 26, 2003.

Mr. Hu Shin-Min, Alex
DIRECTOR

Mr. Chang Jun-Min
DIRECTOR

CONSOLIDATED CASH FLOW STATEMENT

for the year ended December 31, 2002

	Note	2002 **$'000**	2001 *$'000*
Cash flows from operating activities			
Profit before taxation		**453**	2,263
Adjustment for:			
Depreciation		**2,659**	1,592
Provision for doubtful debts		**1,803**	4,202
Provision for foreseeable losses of contract work		**1**	84
Write down of inventories		**3**	406
Interest expenses		**83**	72
Interest income		**(59)**	(26)
Foreign exchange differences		**28**	(1,123)
Operating profit before working capital changes		**4,971**	7,470
Decrease/(Increase) in inventories		**30**	(342)
(Increase)/Decrease in gross amounts due from customers for contract work		**(2)**	384
Increase in trade receivables		**(4,271)**	(16,975)
Increase in prepayments and other receivables		**(3,228)**	(4,065)
Decrease in gross amounts due to customers for contract work		**—**	(120)
Decrease in trade payables		**(27)**	(883)
Increase in accrued expenses and other payables		**2,176**	368
Cash used in operations		**(351)**	(14,163)
Interest paid		**(29)**	(72)
Income tax paid		**(22)**	(265)
Income tax refund		**—**	147
Net cash from operating activities		**(402)**	(14,353)
Cash flows from investing activities			
Acquisition of fixed assets	*28(a)*	**(6,211)**	(2,789)
Acquisition of investments		**(7,796)**	(8,000)
Increase in other assets		**480**	(115)
Interest received		**59**	26
Net cash used in investing activities		**(13,468)**	(10,878)
Cash flows from financing activities			
Short-term bank loan		**220**	—
Repayment of employees' loan		**—**	(70)
Loans from the then shareholders		**—**	965
Proceeds from the issuance of shares before capitalisation		**—**	7,243
Net proceeds from the placing of shares		**—**	23,594
Proceeds from issurance of convertible bonds		**6,250**	—
Net cash from financing activities		**6,470**	31,732
Net increase in cash and cash equivalents		**(7,400)**	6,501
Cash and cash equivalents at beginning of year		**7,271**	823
Effect of foreign exchange rates changes		**281**	(53)
Cash and cash equivalents at end of year	*28(b)*	**152**	7,271

NOTES TO THE FINANCIAL STATEMENTS

for the year ended December 31, 2002

1. REORGANISATION

AKuP International Holding Limited (the "Company") was incorporated in the Cayman Islands on June 14, 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 October 29, 2001 through a reorganisation (the "Reorganisation").

2. BASIS OF PREPARATION

The Company and its subsidiaries (the "Group") resulting from the Reorganisation have been regarded as a continuing group. Accordingly the consolidated financial statements have been prepared on the basis of merger accounting in accordance with the Statement or Standard Accounting Practice ("SSAP") 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 October 29, 2001. In the circumstances, the results of the Group for the years ended December 31, 2001 and 2002 include the results of the Company and its subsidiaries with effect from January 1, 2001 or since their respective dates of incorporation, whichever is a shorter period. In the opinion of the Directors, the resulting consolidated financial statements give a more meaningful view of the results and the state of affairs of the Group as a whole.

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. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standard issued by HKSA. The financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules of the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Basis of consolidation

The consolidation financial statements include the financial statements of the Company and all its subsidiaries prepared on the basis of presentation as described in note 2. All material inter-company transactions and balances are eliminated on consolidation.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided to write off the cost of fixed assets over their expected useful lives using the straight-line method at the following rates per annum:

Computer and other equipment	20% - $33\frac{1}{3}$%
Leasehold improvements	50%
Computer software	$33\frac{1}{3}$%

Investment in subsidiaries

A company is a subsidiary in which the Group, directly or indirectly, controls more than half of the voting power or issued share capital or controls the composition of board of directors. Investments in subsidiaries in the Company's balance sheet are carried at cost less provision for permanent diminution in value, if any.

Investments

Investments held on a continuing basis for an identified long-term purpose are classified as "Investments". Investments are stated in the balance sheet at cost less impairment losses. Provisions are made when the fair values have declined below the carrying amount, unless there is evidence that the decline is temporary, and are recognised as an expense in the income statement, such provisions being determined for each investment individually.

Profits or losses on disposal of investments are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period in which it is incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete the development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses. Other development expenditure is recognised as an expense in the period in which it is incurred.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. If these conditions are met, the subsequent expenditure is added to the cost of the intangible asset.

Amortisation of capitalised development costs is charged to the income statement on a straight-line basis over the life of the project from the date of commencement of commercial operation subject to a maximum of two years.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on invoiced value of goods purchased and calculated using weighted average method. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Service contracts

The accounting policy for the revenue derived from custom-made solutions and consultancy services is set out in revenue recognition. When the outcome of a service contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract activity at the balance sheet date. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a service contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Service contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amounts due from customers for contract work" (as an asset) or the "Gross amounts due to customers for contract work" (as a liability), as applicable. Progress billings not yet paid by the customer are included in the balance sheet under "Trade receivables". Amounts received before the related work is performed are included in the balance sheet, as a liability, as "Receipt in advance".

Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

- *Custom-made solutions and consultancy services*

  Revenue arising from the provision of custom-made solutions and consultancy services is recognised when the underlying services are rendered which is estimated by apportionment over the expected duration of each engagement; and the outcome of the contract can be estimated with reasonable certainty.

- *Sale of computer hardware and software*

  Revenue from the sale of computer hardware and software is recognised when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

- *Maintenance services*

  Maintenance services income represents fees for the provision of after-sale maintenance services and are recognised when the underlying maintenance services are rendered.

- *Interest income*

  Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is estimated based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Operating lease

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rentals applicable to such leases are charged to the income statement as incurred over the leases term. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits and short-term, highly liquid investments which are readily convertible into known amount of cash and which are subject to an insignificant risk of change in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

Deferred taxation

Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable a liability or an asset will crystallise in the foreseeable future.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in foreign currencies are recorded at the applicable rates of exchange ruling at the transactions dates. Monetary assets and liabilities denominated in foreign currencies are translated at the applicable rates ruling at the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the balance sheet of overseas subsidiaries are translated in Hong Kong dollar at the rates ruling on the balance sheet date. Income and expenses items are translated at an average rates for the year. The resulting exchange differences arising on consolidation are dealt with in the exchange reserve.

Retirement costs

The Group operates a defined benefit retirement scheme in Taiwan and participates in a Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance.

Contributions to these retirement schemes are charged to the income statement as and when incurred.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

5. 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
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
PRC (excluding Taiwan and Hong Kong)	**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

6. 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 *(note 30)*	**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 retirement 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 December 31, 2002.

(b) **Other items**

	2002	2001
	HK$'000	*HK$'000*
Research and development costs	**7,563**	4,734
Less: amount capitalised *(note 18)*	**—**	(477)
	7,563	4,257
Net finance costs/(income) *(note 7)*	**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.

7. 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

8. TAXATION

(a) Taxation in the consolidated income statement represents:

	2002 HK$'000	2001 HK$'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 *(note 19(a))*	**711**	(234)
	751	(189)

No provision for Hong Kong Profits Tax has been provided for the year ended December 31, 2002 (2001: 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 mainly comprises the future benefit of tax losses in respect of a subsidiary, unrealised loss on investment in a subsidiary and deferred deduction of the provisions for doubtful debts and inventories for tax purposes (note 19(b)).

(b) Taxation in the consolidated balance sheet comprises:

	2002 HK$'000	2001 HK$'000
Provision for taxation outside Hong Kong for the year	**40**	32
Income tax paid	**(22)**	(32)
Tax payable	**18**	—

9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	2002	2001
	HK$'000	*HK$'000*
Executive directors:		
Basic salary, allowances and other benefits	**1,736**	1,755
Contributions to pension fund	**35**	35
	1,771	1,790
Non-executive directors:		
Fees	**94**	16

Included in the directors' remuneration were fees of HK$94,000 (2001: HK$16,000) paid to independent non-executive directors during the year.

The directors' remuneration is within the following bands:

	Number of directors	
	2002	2001
Nil to HK$200,000	**2**	2
HK$200,001 to HK$400,000	**3**	3
HK$400,001 to HK$600,000	**2**	2

During the year, no emoluments were paid by the Group to the Directors or any of the five highest paid individuals (note 10) as an inducement to join or upon joining the Group or as compensation for loss of office. No Directors have waived or agreed to waive any emoluments during the year ended December 31, 2002.

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three (2001: three) are executive directors whose emoluments are disclosed in note 9. The aggregate of the emoluments in respect of the other two (2001: two) individuals are as follows:

	2002	2001
	HK$'000	*HK$'000*
Basic salary, allowances and other benefits	**845**	713
Contributions to pension fund	**24**	17
	869	730

The above emoluments are within the following band:

	Number of individuals	
	2002	2001
HK$400,001 to HK$600,000	**2**	2

11. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated (loss)/profit attributable to shareholders includes a loss of HK$4,139,000 (2001: HK$20,529,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

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

13. (LOSS)/EARNINGS PER SHARE

(a) **Basic (loss)/earnings per share**

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

The calculation of basic earnings per share for the year ended December 31, 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 December 31, 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 December 31, 2001.

14. 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 standardised software products.

iii) *Sales of hardware products*

The trading of hardware products.

iv) *Maintenance services*

The provision of after-sale maintenance services.

During the year ended December 31, 2002, more than 90 percent of the operations of the Group in terms of both revenue and operating profit were derived from the sales of software products. In addition, the operating assets of the business segment for the sales of software products represent more than 40 percent of the total operating assets of the Group.

The Group revenue and contribution to profit from operations by business segments is disclosed in note 5.

14. SEGMENT REPORTING (continued)

(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 Taiwan is 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. Segment assets and capital expenditure are based on the geographical location of the assets.

	Taiwan		**Hong Kong**		**PRC (excluding Taiwan and Hong Kong)**		**Singapore**	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue from external customers	**6,448**	7,110	**—**	1,710	**22,987**	20,570	**—**	485
Segment assets	**21,345**	76,127	**20,775**	31,258	**22,252**	45,224	**—**	—
Segment liabilities	**4,027**	65,604	**7,989**	16,907	**519**	19,914	**—**	—
Capital expenditure incurred during the year	**5,990**	2,099	**11,070**	214	**150**	8,953	**—**	—

Contribution to profit from operations by geographical locations is disclosed in note 5.

15. FIXED ASSETS

The Group

	Computers and other equipment	Leasehold improvements	Computer software	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
COST				
At January 1, 2002	4,325	459	2,949	7,733
Additions	218	24	5,969	6,211
Disposal or written off	(181)	—	—	(181)
Transfer to inventories	(56)	—	—	(56)
Exchange translation differences	(108)	(10)	(69)	(187)
At December 31, 2002	**4,198**	**473**	**8,849**	**13,520**
DEPRECIATION				
At January 1, 2002	1,772	300	566	2,638
Charge for the year	1,056	126	1,477	2,659
Disposal or written off	(179)	—	—	(179)
Transfer to inventories	(35)	—	—	(35)
Exchange translation differences	(31)	(7)	—	(38)
At December 31, 2002	**2,583**	**419**	**2,043**	**5,045**
NET BOOK VALUE				
At December 31, 2002	**1,615**	**54**	**6,806**	**8,475**
At December 31, 2001	2,553	159	2,383	5,095

16. INTEREST IN SUBSIDIARIES

	The Company	
	2002	2001
	HK$'000	*HK$'000*
Unlisted shares, at cost	**23,810**	23,810
Amounts due from subsidiaries	**77,836**	37,834
Amounts due to subsidiaries	**—**	(12,222)
	101,646	49,422
Less: impairment losses	**(69,572)**	(19,345)
	32,074	30,077

Interest in subsidiaries mainly represents advances to these subsidiaries as working capital. Impairment losses are recognised by comparing the carrying amounts of these advances with the recoverable amounts which are estimated by the net asset values of these subsidiaries as at December 31, 2002.

Details of the subsidiaries at December 31, 2002 are as follows. The class of shares held is ordinary unless otherwise stated.

16. INTEREST IN SUBSIDIARIES (continued)

All of these are controlled subsidiaries as defined under note 4 and have been consolidated into the Group financial statements.

Name of company	Place of incorporation/ establishment and operation	Percentage of equity: Group's effective holding	Held by the Company	Held by subsidiary	Issued/ registered capital	Principal activities
AKuP International (BVI) Holding Limited	British Virgin Islands ("BVI")	100%	100%	—	US$1	Investment holding
AKuP Holding Limited	BVI	100%	—	100%	US$1	Investment holding
AKuP Software Development Holding Limited	BVI	100%	—	100%	US$1	Investment holding
AKuP Technology Holding Limited	BVI	100%	—	100%	US$1	Investment holding
AKuP Digital Holding Limited	BVI	100%	—	100%	US$1	Investment holding
AKuP Technology Development Holding Limited	BVI	100%	—	100%	US$1	Investment holding
AKuP International Technology Co., Ltd. ("AKuP Taiwan")	Taiwan	100%	—	100%	NT$ 100,000,000	Provision of custom-made solution and consultancy services and sale of hardware and software products
AKuP International Technology Inc.	United States of America ("USA")	100%	—	100%	US$100,000	Sale of software products
AKuP Digital (HK) Limited	Hong Kong	100%	—	100%	HK$2	Sale of software products
Nanjing AKuP Software Limited	People's Republic of China	100%	—	100%	US$2,100,000	Provision of custom-made solution and consultancy services and sale of hardware and software products

17. INVESTMENTS

	The Group		The Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted equity securities, at cost	**15,796**	8,000	**8,000**	8,000

Included above is a 6% interest of the issued share capital of Beijing ZYD Software Co. Ltd. acquired on December 21, 2001 for a consideration of HK$8,000,000. 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. The Directors consider that formal approval will be granted and the formality will be completed in near future.

18. OTHER ASSETS

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Guarantee deposits for contracts	**—**	67
Rental and other deposits	**710**	714
Development costs *(note 6(b))*	**—**	477
Other	**68**	—
	778	1,258

19. DEFERRED TAXATION

(a) Movements on deferred taxation comprise:

	The Group	
	2002	2001
	HK$'000	*HK$'000*
At the beginning of the year	**(3,203)**	(3,175)
Exchange adjustments	**(21)**	206
Transfer to the income statement *(note 8(a))*	**711**	(234)
At the end of the year	**(2,513)**	(3,203)

(b) Major components of deferred tax assets are set out below:

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Tax losses	**744**	908
Unrealised loss on investment in a subsidiary	**1,107**	—
Tax incentive for research and development costs	**—**	1,020
Unrealised exchange gain	**(148)**	(246)
Provisions for doubtful debts and inventories	**808**	1,521
Retirement costs	**2**	—
	2,513	3,203

20. INVENTORIES

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Merchandise for resale	**1,167**	1,218
	1,167	1,218

Inventories represent items purchased for custom-made solutions projects or resale which are stated at the lower of cost and net realisable value. All merchandise for resale are stated net of a general provision of HK$3,000 (2001: HK$406,000), which was made in order to state these inventories at the lower of their cost and estimated net realisable value.

21. GROSS AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	The Group	
	2002	2001
	HK$'000	*HK$'000*
Costs incurred	**733**	728
Add: recognised profits	**244**	242
	977	970
Less: progress billings	**(638)**	(634)
	339	336
Less: provision for foreseeable losses	**(85)**	(84)
	254	252

The gross amounts due from customers for contract work at December 31, 2002 and 2001 are expected to be recovered in the next twelve months.

22. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2002	2001	**2002**	2001
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*
Debtors and bills receivable	**27,600**	25,132	**—**	—
Subscriptions receivable	**935**	813	**—**	813
Deposit for development of software	**—**	1,889	**—**	—
Prepayments	**2,606**	877	**2,391**	677
Other receivables	**3,284**	18	**—**	18
	6,825	3,597	**2,391**	1,508
	34,425	28,729	**2,391**	1,508

Included in other receivable is a deposit of HK$3,274,000 paid by a subsidiary of the Group for acquisition of a long-term investment. Subsequent to the balance sheet date, the agreement was automatically discharged and the amount was refunded to the subsidiary in full.

All of the trade and other receivables, apart from the deposit for development of software and prepayments of HK$2,606,000 (2001: HK$2,766,000), are expected to be received within one year.

Included in trade and other receivables are trade debtors and bills receivable (net of provisions for bad and doubtful debts) with the following ageing analysis:

	2002	2001
	HK$'000	*HK$'000*
Current	**14,235**	19,049
Aged over 1 month but less than 3 months	**—**	573
Aged over 3 months but less than 6 months	**6,942**	412
Aged over 6 months but less than 12 months	**5,301**	2,890
Aged over 1 year	**1,122**	2,208
	27,600	25,132

Credit terms granted to customers are normally in the range of 100 to 160 days.

23. SHORT-TERM BANK LOAN

	2002	2001
	HK$'000	*HK$'000*
Bank loan	**220**	—

The loan is unsecured, bearing interest at 7.25% p.a. and repayable within one year.

24. TRADE AND OTHER PAYABLES

	The Group		**The Company**	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Creditors and bills payable	**13**	40	**—**	—
Accrued salaries and bonus	**2,029**	1,369	**—**	—
Accrued expenses	**3,139**	1,623	**1,403**	693
	5,168	2,992	**1,403**	693
	5,181	3,032	**1,403**	693

All of the trade and other payables are expected to be settled within one year.

Included in trade payables are creditors and bills payable with the following ageing analysis:

	2002	2001
	HK$'000	*HK$'000*
Overdue within one month or on demand	**13**	40

25. CONVERTIBLE BONDS

	2002	2001
	HK$'000	*HK$'000*
Aggregate amount - convertible bonds		
Current portion	—	—
Long term portion		
– principal	**6,250**	—
– interest payable	**54**	—
	6,304	—

The details of the Group's and the Company's convertible bonds outstanding as at December 31, 2002 as set out below:

Issued date	:	September 30,2002
Aggregate principal amount	:	HK$6,250,000
Interest	:	– 2% of principal amount if redeem before maturity date *(note (b))*
		– 10.87% of pincipal amount if redeem on maturity date *(note (c))*
Initial conversion price	:	HK$0.20
Adjusted conversion price	:	N/A
Conversion period	:	15 days after issue
Collaterals	:	Nil
Maturity date	:	September 30, 2005

(a) The bondholders are entitled to convert all or part of the bond at the conversion price, subject to limits set out in respective bond agreements, into ordinary shares which rank pari passu in all respects with the ordinary shares in issue on the relevant dates.

(b) The bondholders have the right at any time after 180 days from the Issue Date and before the end of 270 days from the Issue Date, having given notices to the Company, to require the Company to redeem all or part of the outstanding principal amount of the bond (in principal amounts of HK$50,000 or an integral multiple thereof) at a price equal to 102% of the principal amount of the bonds to be redeemed. However, no such redemption may be made unless the weighted average closing price of the share of the Company published in the Hong Kong Stock Exchange's Daily Quotation Sheet for a period of 30 consecutive dealing days, is lower than the Conversion Price in effect on each such dealing date.

(c) Unless previously redeemed or purchased and cancelled or the conversion rights having been exercised in respect thereof, each bond will be redeemed on the Maturity Date at 110.87% of its principal amount.

(d) The Company has the right at any time after 10 days from the Issue Date and before the end of 180 days from the Issue Date, having given notices to each of the bondholders, to redeem all or part of the bonds (in principal amounts of HK$50,000 or an integral multiple thereof) at HK$0.26 per conversion share.

26. SHARE CAPITAL

	2002		2001	
	No. of shares		**No. of shares**	
	('000)	***HK$'000***	*('000)*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.1 each	**2,000,000**	**200,000**	2,000,000	200,000
Issued and fully paid:				
At January 1	**630,000**	**63,000**	136,000	1,071
Issuance of shares for the acquisition of subsidiaries	**—**	**—**	—	—
Capital eliminated on combination	**—**	**—**	—	—
Issuance of shares of US$0.001 each	**—**	**—**	35,000	270
	630,000	**63,000**	171,000	1,341
Consolidation of shares	**—**	**—**	13,338	1,334
Capitalisation issue	**—**	**—**	499,662	49,966
Placing of shares for cash	**—**	**—**	117,000	11,700
At December 31	**630,000**	**63,000**	630,000	63,000

Share option scheme

Pursuant to a written resolution passed on October 24, 2001, a share option scheme was approved 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. The subscription price will be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share.

The maximum number of shares in respect of which options may be granted under the share option scheme of the Company must not (when aggregated with shares subject to any other employee share option scheme) in aggregate exceed 10 percent of the Company's shares in issue as at the date of listing of shares on the GEM.

Details of the options granted under the share option scheme during the year ended December 31, 2002 are set out on the report of the directors.

27. RESERVES

(a) **The Group**

	Share premium HK$'000	Accumulated losses HK$'000	Exchange reserve HK$'000	Total HK$'000
At January 1, 2001	22,738	(7,306)	(399)	15,033
Premium arising on the issuance of shares by the Company	11,753	—	—	11,753
Capitalisation issue	(49,966)	—	—	(49,966)
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 December 31, 2001	—	(8,434)	(2,572)	(11,006)
At January 1, 2002	—	(8,434)	(2,572)	(11,006)
Loss for the year	—	(298)	—	(298)
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	141	141
At December 31, 2002	—	(8,732)	(2,431)	(11,163)

Legal reserve

According to the articles of association of the Group's subsidiary in Taiwan, AKuP Taiwan should appropriate 10 percent 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 December 31, 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 percent of the outstanding balance and the balance of legal reserve before conversion reaches 50 percent of the issued share capital.

Exchange reserve

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

27. RESERVES (continued)

(b) **The Company**

	Share premium HK$'000	Accumulated losses HK$'000	Exchange reserve HK$'000	Total HK$'000
At January 1, 2001	22,738	—	—	22,738
Premium arising on the issuance of shares by the Company	11,753	—	—	11,753
Capitalisation issue	(49,966)	—	—	(49,966)
Premium arising on the placing of shares by the Company	21,060	—	—	21,060
Share issue expenses	(5,585)	(3,580)	—	(9,165)
Loss for the year	—	(20,529)	—	(20,529)
Exchange difference on the consolidation of the Company's shares	—	—	7	7
At December 31, 2001	—	(24,109)	7	(24,102)
At January 1, 2002	—	(24,109)	7	(24,102)
Loss for the year	—	(4,139)	—	(4,139)
At December 31, 2002	**—**	**(28,248)**	**7**	**(28,241)**

Under the Companies Law (revised) of the Cayman Islands, the funds in the share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

As at December 31, 2002, in the opinion of the Directors of the Company, the Company did not have reserve available for distribution to shareholders.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) **Fixed assets**

During the year, the Group acquired fixed assets with an aggregate cost of HK$6,211,000 by cash.

(b) **Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

	2002	2001
	HK$'000	*HK$'000*
Cash and bank balances	**152**	7,271

29. OPERATING LEASES COMMITMENTS

At December 31, 2002, the total future minimum lease payment under operating leases are payable as follows:

	2002	2001
	HK$'000	*HK$'000*
Within one year	**1,583**	1,654
After one but within five years	**30**	1,115
	1,613	2,769

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to five years, with an option to renew the lease upon the expiry date. Lease payments are usually increased annually to reflect market rentals. None of the leases includes contingent rentals.

30. RETIREMENT COSTS

A subsidiary of the Group operates a defined benefit retirement scheme in Taiwan (the "defined benefits scheme"), which provides for retirement benefits to the eligible employees. Contributions to the defined benefits scheme are made in accordance with the recommendations of independent actuaries who prepare an independent valuation of the retirement scheme annually, and are charged to the income statement as incurred. The contributions amounted to approximately HK$125,000 for the year (2001: HK$154,000).

Actuarial valuations are carried out by Chung-Ching Management Consulting Co., Ltd (the "Actuary"), an independent firm of consulting actuaries. A full actuarial valuation of the defined benefits scheme was carried out at December 31, 2002 and 2001, using projected unit credit cost method. The principal actuarial assumptions used for the December 31, 2002 valuation were a discount rate of 3.75% (2001: 4.5%), an expected rate of return on plan assets of 3.75% (2001: 4.5%) net of salary increment of 2.75% (2001: 3.5%), together with appropriate allowances for expected rates of mortality, turnover and retirements. The Actuary was able to confirm that, at the valuation dates:

– the defined benefits scheme was solvent, with assets more than adequate to cover the aggregate value of members' vested benefits had all member left the scheme, and

– the value of the defined benefits scheme assets, together with the future contributions recommended by the Actuary and adopted by the Board of Directors, will be sufficient to meet the accruing liabilities of the scheme on an on-going basis.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Scheme Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme.

The contributions amounted to approximately HK$29,000 for the year (2001: HK$17,000).

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of AKuP International Holding Limited (the "Company") will be held at 4F-1, No. 213, Sec. 5, Nanking East Road, Taipei, Taiwan on 16 May 2003 (Friday) at 10.00 a.m. (Taiwan Time) for the following purposes:

1. to consider and adopt the Audited Financial Statements of the Company and the Report of the Directors and Auditors for the year ended 31 December 2002;

2. to re-elect retiring Directors;

3. to fix the amount of ordinary remuneration of the Directors;

4. To re-appoint Auditors and authorise the Directors to fix their remuneration;

5. To appoint a new independent non-executive director, Mr. Chou Lian-Su; and

6. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"THAT:

(a) subject to paragraph (c) of this Resolution, the Directors be and are hereby granted an unconditional general mandate to exercise during the Relevant Period (as hereinafter defined in this Resolution) all the power of the Company to allot, issue and deal with additional shares in the Company (the "Shares") and to allot, issue or grant securities convertible or exchangeable into Shares, or options, warrants or similar rights to subscribe for Shares or such convertible or exchangeable securities and to make or grant offers, agreements and options in respect thereof;

(b) the mandate referred to in paragraph (a) shall authorize the Directors during the Relevant Period to make or grant offers, agreements, options and rights of exchange or conversion which might require the exercise of such power after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted or issued or dealt with (whether pursuant to options or otherwise) by the Directors pursuant to the mandate referred to in paragraph (a) above, otherwise than pursuant to:

(i) a Rights Issue;

(ii) the exercise of rights of subscription or conversion under the terms of any warrants or convertible securities (including, without limitation, the Notes) issued by the Company or any securities which are convertible or exchangeable into Shares;

(iii) the exercise of the subscription rights under options granted under any option scheme or similar arrangement of the Company for the time being adopted for the grant or issue to officers and/or employees and/or consultants and/or advisers of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares; or

(iv) any scrip dividend or similar arrangement providing for the allotment and issue of Shares or other securities of the Company in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution and the said approval in paragraph (a) shall be limited accordingly;

(d) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution up to:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest; and

"Rights Issue" means an offer of Shares or warrants, options or other securities of the Company giving rights to subscribe for Shares open for a period fixed by the Directors to holders of Shares on the register of members on a fixed record date in proportion to their then holdings of such Shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company)."

7. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"THAT:

(a) subject to paragraph (b) of this Resolution, the exercise by the Directors of all powers of the Company during the Relevant Period (as hereinafter defined in this Resolution) to repurchase its own shares (the "Shares") be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of Shares which may be repurchased by the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), or any other stock exchange or any other stock exchange recognized for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchases pursuant to the approval in paragraph (a) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution, and the said approval shall be limited accordingly; and

(c) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution up to:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the articles of association of the Company to be held; or

(iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest."

8. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"THAT conditional upon the passing of Ordinary Resolutions No. 6 and 7 set out in this notice, of which this Resolution forms part, the aggregate nominal amount of share capital of the Company that may be allotted, issued or dealt with or agreed conditionally or unconditionally to be allotted, issued or dealt with by the Directors pursuant to and in accordance with the mandate granted under Ordinary Resolution No. 6 be and is hereby increased and extended by the addition thereto of the aggregate nominal amount of the shares in the Company repurchased by the Company pursuant to and in accordance with the mandate granted under Ordinary Resolution No. 7 since the granting of such repurchase mandate, provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this Resolution."

9. By way of special business, to consider and, if thought fit, pass with or without amendments, the following resolution as ordinary resolution:

ORDINARY RESOLUTION

"THAT pursuant to Clause 8.2 of the share option scheme (**"Scheme"**) adopted by the Company on 24 October, 2001, approval be and is hereby generally and unconditionally granted for "refreshing" the 10% limit under the Scheme provided that (i) the total number of shares of HK$0.10 each in the capital of the Company which may be issued upon the exercise of all options to be granted under the Scheme and any other share option schemes of the Company under the limit as "refreshed" hereby shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this resolution and (ii) options previously granted under the Scheme and any other share option schemes of the Company (including options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Scheme or any other share otpion schemes of the Company) shall not be counted for the purpose of calculating the 10% limit as "refreshed" hereby."

By Order of the Board
AKuP International Holding Limited
Pau Wai Lun, Willy
Company Secretary

Hong Kong, 28 March 2003

Notes:

1. A member entitled to attend and vote at the Annual General Meeting convened by the above notice is entitled to appoint one or, if he holds two or more shares in the Company, more proxies to attend and vote on his behalf. A proxy need not be a member of the Company.

2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited with the Company's branch share registrar and transfer office in Hong Kong, Hong Kong Registrars Limited, at Rooms 1901-5, 19/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude a member from attending and voting in person.

3. If two or more persons are joint holders of a share of the Company, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the other joint holder(s). For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.