AKuP International Holding Limited

艾 克 國 際 控 股 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2001

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") software 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, Chengdu, 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, front-end applications such as sales automation. 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 eCRM solutions.

We believe that the information technology ("IT") industry in Asia, North America and Western Europe are generally in different stages of development and thus, the IT requirements, including infrastructure, hardware equipment and software products, for corporations in Asia can be quite different from those for corporations in the United States of America. The Group has developed software products such as *CT-Ware, CT-Approach, CT-Web, Web Personalizer, E-mail Master, One to One Analyzer, Enterprise Analyzer* and custom-made solutions, which are particularly suitable for the IT environment in Asia.

The Group entered into a collaboration agreement with the City University of Hong Kong (the "City U") for a term of two years commencing in April 2001 under which the Company uses its eCRM software products to provide training courses on CRM. In addition, the Company and the City U jointly hold CRM seminars and workshops for the public.

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.

THREE YEAR FINANCIAL SUMMARY

(Expressed in Hong Kong dollars)

	2001	2000	1999
	$'000	*$'000*	*$'000*
Results			
Revenue	**29,875**	25,965	6,968
Profit/(loss) before taxation	**2,263**	(3,716)	(6,193)
Taxation	**189**	1,202	1,731
Profit/(loss) attributable to shareholders	**2,452**	(2,514)	(4,462)
Assets and liabilities			
Fixed assets	**5,095**	3,898	2,007
Investments	**8,000**	—	—
Other assets	**1,258**	1,143	964
Deferred taxation	**3,203**	3,175	1,731
Net current assets	**34,438**	7,888	14,314
	51,994	16,104	19,016
Share capital	**63,000**	1,071	23,810
Reserves	**(11,006)**	15,033	(4,794)
	51,994	16,104	19,016
Earnings/(loss) per share *(note)*			
Basic	**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 potential dilutive ordinary shares in issue as at 31 December 1999, 2000 and 2001.

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 2nd Floor Vicwood Plaza 199 Des Voeux Road Central Hong Kong
Principal bankers	*Hong Kong:* The Hongkong and Shanghai Banking Corporation Limited *Taiwan:* 台新國際商業銀行 (Taishin International Bank) 世華聯合商業銀行 (United World Chinese Commercial Bank) 華信商業銀行 (Bank SinoPac) 彰化銀行 (Chang Hwa Bank) 遠東國際商業銀行 (Far Eastern International Bank) *The People's Republic of China:* China Merchants Bank Citic Industrial Bank
Auditors	KPMG *Certified Public Accountants* 8th Floor, Prince's Building 10 Chater Road Central Hong Kong
Sponsor	Core Pacific-Yamaichi Capital Limited 30th Floor, Two Pacific Place 88 Queensway 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 am pleased to present the Group's first audited consolidated financial statements for the year ended 31 December 2001 since our listing on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The fiscal year of 2001 was a remarkable year for the Group. Despite the recent volatile market conditions and global economic downturn, the Group was successfully listed on the GEM of the Stock Exchange on 5 November 2001. And the over-subscription of the placement of new shares indicates that the Group has managed to secure solid interest and support from professional and institutional investors in our business and future prospects. The Group raised net proceeds of approximately HK$23.6 million from the new issue of shares by way of placement to fund its future expansion.

INDUSTRY OVERVIEW

Although there is a worldwide slowdown in the IT industry, CRM services market is expected to boom in the years to follow. According to the estimation of International Data Corporation, global CRM services market will expand from about US$34.4 billion in 1999 to about US$125.2 billion in 2004 at a compound annual growth rate of about 29.5%. Of the US$125.2 billion CRM revenue in 2004, US$6.26 billion is estimated to come from Asia Pacific (excluding Japan). The figure represents a compound annual growth rate of 43.4% for the period from 1999 to 2004. As one of the leading CRM solutions providers in Asia, the Group is strategically positioned to take full advantage of these opportunities.

Following the entry into the World Trade Organisation ("WTO") in December 2001, the PRC is expected to sustain its phenomenal growth rate for the next decade. As a result, the Directors believe that the Group will benefit from the PRC's entry into WTO in view of the growing demand of eCRM solutions from the PRC enterprises in order to let them compete with the giant foreign competitors.

BUSINESS REVIEW

In view of the highly competitive IT environment and increasing demand of eCRM solutions in Asia, the Directors believe that the Group is well positioned over our competitors in the provision of eCRM solutions. The Group's competitive edge is demonstrated by its ability to offer a comprehensive total eCRM solution that addresses the specific needs of Asian enterprises in CRM. Based in Asia, our management and technical experts have a thorough understanding of the constraints of the IT infrastructure of the region, and are therefore able to develop software solutions suitable for the IT environment in Asia.

As the fully integrated solution developed by the Group is a comprehensive package of customer communications and data mining solutions, it integrates front-end and back-end customer relations and related application software products. Therefore the Group provides user companies with valuable information on customer profile and behaviour, facilitating systematic cost-effective sales pitch.

In December 2001, the Group entered into an agreement with Jiangsu Zongyi Co., Ltd. in respect of the acquisition of 6% interest in the issued share capital of Beijing ZYD Software Co., Ltd ("Beijing ZYD"). In addition, The Group also entered into a memorandum of understanding with Hua Xia Securities Company Limited ("HX Securities"), which is a first-tier securities house in the PRC, under which the Group provides eCRM solutions to HX Securities and both parties also form a strategic alliance in the PRC.

To further expand the Group's business in the PRC in 2001, the Group set up the fourth representative office in Chengdu, the PRC in December 2001.

FUTURE PROSPECTS

In order to meet the Group's overall objectives of becoming a leading CRM software provider in the Asia Pacific region, the Group will focus on maintaining and expanding its current client base by providing comprehensive e-business solutions to different industries and enhancing the competitiveness of its products by improving existing products and developing new products. The Group also plans to increase the market penetration through the collaboration with potential IT companies and maintain our business growth through the strengthening of the research and development capabilities.

Through the acquisition of 6% interest in the issued share capital of Beijing ZYD in December 2001, the Group expects to strengthen its clientele based on the strong customer base and business connections of Beijing ZYD in the PRC. In addition, the strategic alliance with HX Securities also puts the Group in a favourable position to develop eCRM solutions for securities industries in the PRC.

As the Directors believe that continuing research and development is crucial for the Group to compete successfully in the rapidly changing IT solutions market. In January 2002, the Group obtained the business license from the Industrial and Business Bureau of the PRC Government to set up a research and development centre (the "R&D Centre") in Nanjing, the PRC in order to enhance the Group's research and development capabilities in the PRC, which is the major business focus of the Group in 2002. The R&D Centre will be fully operated in April 2002. As PRC becomes the largest source of revenue for the Group in 2001 which accounts for 68.9% of the Group revenue, the Group will continue to conduct market research on various parts of the PRC, identify opportunities for collaboration with potential IT companies and software vendors, and universities and consultancy firms, and expand its distribution network in the PRC.

APPRECIATION

On behalf of the Board, I would like to express my appreciation to our fellow directors, our executives, management and all of our employees for their strong commitments and contributions to the business of the Group and our shareholders for their solid confidence in the Group throughout 2001. I would also like to take this opportunity to thank our customers for their continuous support for the past few years. We will continue to make every endeavor to explore potential opportunities for our business growth and place our efforts towards the long-term development for the benefits of the Group as well as our valuable shareholders in 2002.

Hu Shin-Min, Alex
Chairman

Taiwan, 22 March 2002

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group recorded total revenue of approximately HK$29.9 million for the year ended 31 December 2001, representing an increase of approximately 15.1% from revenue of approximately HK$26.0 million for the year ended 31 December 2000. The increase in the Group revenue was mainly due to the increase in the sales of self-developed standardized software products which amounted to approximately HK$27.7 million for the year of 2001 (2000: HK$22.7 million), being the major revenue of the Group and accounted for approximately 92.6% of total revenue (2000: 87.6%). Sales of self-developed standardized software products increased because the Group has placed significant emphasis on the sale of standardized CRM software products in the PRC. As a result, revenue generated from the PRC amounted to approximately HK$20.6 million, constituting over 68.9% of the total sales of the Group for the year ended 31 December 2001 (2000: 42.3%).

Gross profit

For the year ended 31 December 2001, the Group's gross profit amounted to approximately HK$27.8 million, representing an increase of approximately 15.7% over the gross profit of approximately HK$24.0 million for the year ended 31 December 2000. In addition, the Group's gross profit margin remained relatively high at approximately 93.0% for the year ended 31 December 2001 when compared with approximately 92.5% for the year ended 31 December 2000. The Group's high gross profit margin is mainly contributed by the higher profit margin of self-developed standardized software products of approximately 98.5% 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$2.3 million for the year ended 31 December 2001, representing a turnaround from a loss before taxation of approximately HK$3.7 million for the year ended 31 December 2000. The turnaround was mainly contributed by the increase in gross profit from the sales of self-developed standardized software products and the reduction in the provision for doubtful debts which were partly net off by the increase in general and administrative expenses. General and administrative expenses increased as a result of the increase in professional fees and the costs for business expansion. During 2001, the Group has set up offices in Shanghai, Guangzhou and Chengdu, the PRC were established respectively.

Borrowing

Apart from intra-group liabilities, the Group did not have outstanding balances on 31 December 2001 any loan capital, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities. As at 31 December 2000, the Group has total short term borrowing of approximately HK$3.9 million, comprising loan from employees of approximately HK$3.1 million and amount due to the then shareholder of approximately HK$0.8 million.

The Group's gearing ratio as at 31 December 2001 was nil (2000: 16.4%), which is expressed as a percentage of the total short-term borrowing over the total assets.

Liquidity, financial resources and capital structure

As at 31 December 2001, the Group's total assets were approximately HK$55.0 million (2000: HK$23.7 million), comprising computer equipment, software and other fixed assets of approximately HK$5.1 million (2000: HK$3.9 million), investments of approximately HK$8.0 million (2000: HK$Nil), other assets of approximately HK$1.2 million (2000: HK$1.1 million), deferred tax assets of approximately HK$3.2 million (2000: HK$3.2 million), inventories of approximately HK$1.2 million (2000: HK$1.3 million), gross amounts due from customers for contract work of approximately HK$0.3 million (2000: HK$0.7 million), trade receivables of approximately HK$25.1 million (2000: HK$12.4 million), prepayments and other receivables of approximately HK$3.6 million (2000: HK$0.3 million) and cash and bank balances of approximately HK$7.3 million (2000: HK$0.8 million).

As at 31 December 2001, the Group's current liabilities were mainly comprised accrued expenses and other payables of approximately HK$3.0 million. As at 31 December 2000, the Group's current liabilities were approximately HK$7.6 million comprising gross amounts due to customers for contract work of approximately HK$0.1 million, trade payables of approximately HK$0.9 million, loan from employees of approximately HK$3.1 million, amount due to the then shareholder of approximately HK$0.8 million, accrued expenses and other payables of approximately HK$2.6 million and tax payable of approximately HK$0.1 million. The Group did not have any non-current liabilities outstanding at 31 December 2000 and 2001.

The Group generally services its debts primary through cash generated from its operations. As at 31 December 2001, the Group had cash and bank balances, of approximately HK$7.3 million (2000: HK$0.8 million).

As at 31 December 2001, the Group did not have any charges on its assets and future plans for material investments or capital assets.

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 2001, the Group did not have any outstanding derivative financial statements 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, investments, trade receivables, prepayments and other receivables. Financial liabilities of the Group include accrued expenses and other payables. 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

Business development

Beijing

Pursuant to the memorandum of understanding signed with HX Securities in December 2001, the Group forms a strategic alliance with HX Securities in the PRC and is responsible for the provision of electronic Customer Relationship Management ("eCRM") solutions to HX Securities, which is the Group's first corporate user in the securities industry of the PRC. The Group expects to provide eCRM solutions to more securities companies in the PRC in 2002.

In December 2001, the Group acquired 6% interest of the issued share capital of Beijing ZYD. Through the acquisition of Beijing ZYD, the Group can make use of Beijing ZYD's research and development centres for product development and its extensive distribution network in the PRC to sell the Group's software products. In addition, the strategic alliance with Beijing ZYD can provide potential business opportunities to the Group through the strong customer base and business connections of Beijing ZYD in the PRC.

Chengdu

To further expand the Group's business in the PRC, the fourth representative office was set up in Chengdu, the PRC in December 2001.

Research and development

During the fiscal year of 2001, the Group conducted the following research and development activities:

- Started and completed the development of eBrokerage related to sales automation;
- Continues to develop the marketing campaign related software; and
- Continues to develop the eCRM solutions related to sales forces automation.

Strategic alliance and acquisition

As mentioned above, the Group entered into an agreement with Jiangsu Zongyi Co., Ltd. in respect of the acquisition of 6% interest in the issued share capital of Beijing ZYD (the "Acquisition") for an aggregate consideration of approximately HK$8 million. The Directors believe that the Acquisition and strategic alliance with Beijing ZYD will achieve several business objectives of the Group at a cost lower than developing by itself alone in the PRC, which are listed below:

- Enhancement of research and development capabilities;
- Extension of the marketing and distribution network;
- Expansion of customer base; and
- Strengthening its operations in the PRC.

The unaudited profit before taxation and unaudited profit attributable to the shareholders of Beijing ZYD for the year ended 31 December 2001 as reported under the accounting principles generally accepted in the PRC amounted to approximately RMB10.2 million (approximately HK$9.6 million) and RMB6.1 million (approximately HK$5.7 million) respectively. As at 31 December 2001, the unaudited net assets of Beijing ZYD was approximately RMB17.1 million (approximately HK$16.1 million).

Save as disclosed above and other than in connection with the Reorganisation in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies in the course of the year.

Employees

During 2001, the average number of employees is 101 (2000: 98) with remuneration for the year amounting to approximately HK$11.9 million (2000: HK$11.3 million). As at 31 December 2001, the Group's total headcount is 84 employees (2000: 110). 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.

The Group conditionally adopted a share option scheme on 24 October 2001 and the Directors may, at their discretion, invite any employee (except part time employee who has spent less than 10 hours per week in providing services to the Group) or director of the Group and consultants of and advisors to the Group, to take up options to subscribe for shares of the Company at a price to be determined by the Board. During the year ended 31 December 2001, no option was granted under the share option scheme.

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

Upon the listing of the Company's shares on the GEM of the Stock Exchange in November 2001, the Group raised net proceeds of approximately HK$23.6 million, after deducting all relevant expenses, which is approximately HK$2.4 million less than the estimated amount as stated in the Company's prospectus dated 30 October 2001 (the "Prospectus") from the new issue of 117,000,000 shares by way of placing (the "Placing") to fund its future expansion.

During the period from 5 November (the Company's listing date) to 31 December 2001, the Group has applied approximately HK$15.5 million in accordance with the statement of business objectives as set out in the Prospectus as follows:

	Note	Planned use of proceeds up to 31 December 2001 as set out in the Prospectus	Actual use of proceeds
		HK$'million	*HK$'million*
Product enhancement	*1*	1	0.7
Research and development	*2*	1	2.4
Marketing, promotion and brand building	*3*	1	0.8
Business expansion*	*4*	8	8.0
		11	11.9
Working capital	*5*	—	3.6
	6	11	15.5

* Original time schedule on the intended use of proceeds for business expansion is revised from HK$2 million as set out in the Prospectus to HK$8 million as set out in the Circular dated 14 January 2002.

Reasons for difference between planned and actual use of proceeds are set out below:

1 In view of the rapid development of IT technology, the Group continued to upgrade the functions of its existing products to Java based solutions to support cross computer operating systems and to support database products provided by different companies to maintain its competitiveness in the market.

2 To cope with the increasing demand for various kinds of CRM solutions in different industries, the Group accelerated the development of new eCRM software products, which were related to marketing campaign management and sales automation to diversify the product lines and increase the market share of the Group.

3 To build up "AKuP" as a leading brand in CRM software solutions and to develop the Group's marketing channels in the PRC, the Group incurred expenditures in marketing and promotional activities, mainly brand building campaigns and marketing campaigns.

4 Approximately HK$8 million was used to acquire 6% interest in the issued share capital of Beijing ZYD.

5 Due to the recent volatile market conditions and global economic downturn, the Group experienced price pressures on the sales orders and customers became more cautious in the purchase of eCRM software solutions. As a result, a sum of HK$3.6 million out of the remaining proceeds from the Placing was temporarily used as working capital of the Group.

6 Net proceeds received from the Placing amounted to approximately HK$23.6 million, which is approximately HK$2.4 million less than the estimated amount as stated in the Prospectus The difference was mainly due to the under-estimation of the legal and professional fees, which were subject to final verification after the Company's listing. The Group intends to meet the remaining funding requirement for the Company's business plan 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, as considered appropriate in the circumstances.

The Board expects that the remaining proceeds from the Placing will be used for purposes as disclosed in the Prospectus. Those proceeds which are not immediately applied are placed as deposits with a bank in Hong Kong.

As at 31 December 2001, the Group had cash and bank balances of approximately HK$7.3 million, of which approximately HK$6.5 million was placed with a bank in Hong Kong. In addition, the Group had subscriptions receivable of approximately HK$0.8 million, representing the remaining proceeds from the Placing, which was subsequently received in February 2002.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

from 26 October 2001 to 31 December 2001

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 26 October 2001 to 31 December 2001.

	Business objectives as disclosed in the Company's Prospectus dated 30 October 2001	Actual business progress from 26 October 2001 to 31 December 2001
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 participation in various brand building campaign such as seminars, exhibitions and conferences. The Group was granted as "One of the four major 2001 events in the PRC's CRM market" by a well-known newspaper, China Information World ("CIW"), in the PRC. In addition, the Group was one of the speakers of the "CIW 2001 CRM Revision Session" held in November 2001.
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 presentation of articles in the magazines such as Hong Kong Economic Journal and websites such as CTI Forum, CEO21.org (總裁學院) and GreaterChinaCRM.org (大中華客戶關系管理組織). In addition, the Group has been nominated as an advisor of the GreaterChinaCRM.org. The Group also delivered a speech in the "CRM in Finance Forum" seminar in November 2001 and participated the "Intel Greater China eBusiness Annual Meeting" arranged by Intel Corporation in December 2001 in the PRC.
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	
4	Set up offices in Wuhan and Chengdu, the PRC	The Group set up the fourth representative office in Chengdu, the PRC in December 2001 and will have completed the set up of the fifth representative office in Wuhan, the PRC in February 2002.
5	Set up a branch office in San Jose, the United States of America to explore market and alliance opportunities in the northern part of California, the United States of America	Due to the possible direct and indirect impacts of the alleged terrorist attacks in New York, the USA, on 11 September 2001 on the existing global political and economic conditions, the Group decided to postpone the establishment of its branch office in San Jose, the United States of America, to the 2nd half of 2002. The Directors believe that such postponement will not have any significant impact on the Group's business development.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (Continued)

from 26 October 2001 to 31 December 2001

	Business objectives as disclosed in the Company's Prospectus dated 30 October 2001	Actual business progress from 26 October 2001 to 31 December 2001
A	**Brand building, marketing and distribution** (continued)	
6	Conduct market research on South Korea and, if positive, set up a branch office in Seoul, South Korea to explore market opportunities	As the results of the market research on the current market condition of South Korea is unfavourable, the Group decided to slow down the plan to set up of its branch office in Seoul, South Korea and will conduct the market research again in the 2nd half of 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 continued to upgrade its existing products 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 International Business Machines Corporation, Oracle Corporation and Sybase Inc.	The Group continued to enhance its existing products to support database products provided by different companies.
2	Development of new products	
2.1	Develop a marketing campaign related software	The Group continued the development of the marketing campaign related software.
2.2	Develop CRM solutions which are related to sales automation	The Group completed the development of eBrokerage for sales automation in banking industries and continued the development of other CRM solutions in insurance and securities industries.
3	Strengthening research and development capabilities	
3.1	Establish a software development centre in a major city in the PRC	The Group obtained the business license in January 2002 to set up a research and development centre ("R&D Centre") in Nanjing, the PRC for the development of CRM solutions suitable for the PRC enterprises. The R&D Centre will be fully operated in April 2002.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS (Continued)

from 26 October 2001 to 31 December 2001

	Business objectives as disclosed in the Company's Prospectus dated 30 October 2001	Actual business progress from 26 October 2001 to 31 December 2001
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 is negotiating with a university in the PRC.
4	Identify potential IT companies with CRM technology or marketing channels for investment, acquisition or alliance purposes	The Group acquired 6% interest in the issued share capital of Beijing ZYD from Jiangsu Zongyi Co., Ltd. in December 2001.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. **HU** Shin-Min, Alex (胡興民), aged 40, 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 33, 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 38, 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 41, 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 34, 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 40, was appointed as a non-executive Director on 24 October 2001. He is a partner of Deloitte & Touche in Taiwan, a certified public accountants firm. He 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 36, 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 40, 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 35, 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 38, 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 32, 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 33, 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 28, 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 28, 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 have pleasure in submitting their first annual report together with the audited financial statements of AKuP International Holding Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2001.

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 presentation of the financial statements are set out in notes 1 and 2 on the financial statements and in the Company's prospectus dated 30 October 2001.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the provision of custom-made solutions and consultancy services and sale of hardware and software products. The principal activities and other particulars of the subsidiaries are set out in note 15 on the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year are set out in notes 4 and 13 on 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	38%	—
Five largest customers in aggregate	79%	—
The largest supplier	—	57%
Five largest suppliers in aggregate	—	87%

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 profit of the Group for the year ended 31 December 2001 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 27 to 61.

DIVIDENDS

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2001 (2000: HK$Nil).

FIXED ASSETS

Details of the movements in fixed assets of the Group during the year are set out in note 14 on the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 24 on 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, Ms. Chiang Li-Chin, Grace and Mr. Chu Han-Ping 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 at the forthcoming Annual General Meeting.

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 2001 are set out in notes 8 and 9 on the financial statements.

DIRECTORS' INTERESTS IN SHARES

The Directors who held office at 31 December 2001 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 2001.

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.

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 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;

SHARE OPTION SCHEME (continued)

(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.

During the year ended 31 December 2001, no option was granted under the share option scheme.

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 2001, 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%
Intel Pacific, Inc	*4*	75,991,794	12.06%
Grand Pacific Investment & Development Co., Ltd. ("Grand Pacific")	*5*	39,349,845	6.25%
Century Venture Capital Co., Ltd. ("Century VC")	*6*	18,992,850	3.01%
H-Com Venture Capital Co., Ltd. ("H-Com VC")	*6*	9,227,859	1.46%
Jupiter Venture Capital Co., Ltd. ("Jupiter VC")	*6*	9,227,859	1.46%
Mercury Venture Capital Co., Ltd. (Mercury VC")	*6*	9,227,859	1.46%
Venus Venture Capital Co., Ltd. ("Venus VC")	*6*	9,227,859	1.46%

Notes:

3 Sean & Leo Assets Management Limited is beneficially owned by Hu Shin-Min, Alex (Mr. Hu), Ms. 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 Intel Pacific, Inc. is a wholly-owned subsidiary of Intel Corporation, a company listed on the Nasdaq Market in the USA.

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

Details of the significant related party transactions of the Group are set out in note 29 on the financial statements.

Save as disclosed in note 29 on the financial statements, 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

At the date of this 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's 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.

COMPETITION AND CONFLICT OF INTERESTS

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 conflict of interest with the Group.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

As at 31 December 2001, the Group had a total trade receivable of approximately HK$18.9 million due from the Group's trade customers, Universal Enterprise Development Ltd and Global Market Limited, which are companies under common control. These amounts represent the trade receivables for the sales of software products by the Group in its ordinary course of business and was unsecured and repayable with a credit term of 120 days. No collateral was required to be made by the customers and no interest is charged on such balance. These balances represented 36.7% of the Group's audited consolidated net tangible assets as at 31 December 2001.

The Group did not provide any financial assistance and guarantees to affiliated companies, which exceeded 25% of the Group's audited consolidated net tangible assets as at 31 December 2001, did not have any pledge over the shares of the controlling shareholders to secure debts, guarantees or support of other obligations of the Group, and did not enter into any loan agreements importing specific performance obligations on the controlling shareholders. Save for the aforesaid, the directors are not aware of any circumstances, which could give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

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

During the period from 5 November 2001 (the date of listing of the Company's shares on the GEM of the Stock Exchange) to 31 December 2001, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of its listed shares.

THREE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last three 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$154,000 for the year (2000: $HK144,000).

Actuarial valuations are carried out annually by KPMG Consulting Co., Ltd. (the "Actuary"), an independent firm of consulting actuaries. The latest actuarial valuation of the defined benefit scheme was carried out at 31 December 2001, using projected unit credit cost method. The principal actuarial assumptions used for the 31 December 2001 valuation were a discount rate of 4.5%, an expected rate of return on plan assets of 4.5% net of salary increment of 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 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 employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. The contributions amounted to approximately HK$17,000 for the year (2000: $HK Nil).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Group's Directors and senior management are set out on pages 17 and 18.

BOARD PRACTICES AND PROCEDURES

During the period from 5 November 2001 (the date of listing of the Company's shares on the GEM of the Stock Exchange) to 31 December 2001, 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 the Group's senior management, the qualified accountant and external auditors once since its establishment for the review of the annual report of the Group before the approval by the Board.

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

KPMG were first appointed as auditors of the Company in 2001 upon the listing of the Company's shares on the GEM.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG 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

Taiwan, 22 March 2002

REPORT OF THE AUDITORS

KPMG

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 27 to 61 which have been prepared in accordance 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 financial 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. 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 and performed 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. 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.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants

Hong Kong, 22 March 2002

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2001

(Expressed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000
Revenue	*4*	**29,875**	25,965
Cost of services and merchandise sold		**(2,093)**	(1,960)
Gross profit		**27,782**	24,005
Research and development costs		**(4,257)**	(4,140)
Selling expenses		**(10,757)**	(14,315)
General and administrative expenses		**(11,259)**	(9,809)
Profit/(loss) from operations	4	**1,509**	(4,259)
Net finance income	*6*	**754**	543
Profit/(loss) before taxation	*6*	**2,263**	(3,716)
Taxation	*7(a)*	**189**	1,202
Profit/(loss) attributable to shareholders	*10*	**2,452**	(2,514)
Earnings/(loss) per share	*12*		
Basic		**0.46 cents**	(0.49) cents

The notes on pages 32 to 61 form part of these financial statements.

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

for the year ended 31 December 2001

(Experessed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000
Exchange differences arising on the consolidation of the Company's shares and translation of financial statements of subsidiaries outside Hong Kong	*25(a)*	**(2,173)**	(397)
Share issuance expenses	*25(a)*	**(9,165)**	—
Net loss not recognised in the income statement		**(11,338)**	(397)
Net profit/(loss) for the year	*25(a)*	**2,452**	(2,514)
Total recognised losses		**(8,886)**	(2,911)

The notes on pages 32 to 61 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

at 31 December 2001

(Expressed in Hong Kong dollars)

	Note	**2001** **$'000**	2000 $'000
Fixed assets	*14*	**5,095**	3,898
Investments	*16*	**8,000**	—
Other assets	*17*	**1,258**	1,143
Deferred taxation	*18*	**3,203**	3,175
		17,556	8,216
Current assets			
Inventories	*19*	**1,218**	1,282
Gross amounts due from customers for contract work	*20(a)*	**252**	720
Trade receivables	*21*	**25,132**	12,359
Prepayments and other receivables	*21*	**3,597**	330
Cash and cash equivalents		**7,271**	823
		37,470	15,514
Current liabilities			
Gross amounts due to customers for contract work	*20(b)*	**—**	120
Trade payables	*22*	**40**	923
Loan from employees	*23*	**—**	3,124
Amount due to the then shareholder	*29*	**—**	762
Accrued expenses and other payables	*22*	**2,992**	2,624
Tax payable	*7(b)*	**—**	73
		3,032	7,626
Net current assets		**34,438**	7,888
NET ASSETS		**51,994**	16,104
CAPITAL AND RESERVES			
Share capital	*24*	**63,000**	1,071
Reserves	*25*	**(11,006)**	15,033
		51,994	16,104

Approved and authorised for issue by the Board of Directors on 22 March 2002

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) *Directors*
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The notes on pages 32 to 61 form part of these financial statements.

BALANCE SHEET

at 31 December 2001

(Expressed in Hong Kong dollars)

	Note	*$'000*
Interest in subsidiaries	*15*	30,077
Investments	*16*	8,000
		38,077
Current assets		
Prepayments and other receivables	*21*	1,508
Cash and cash equivalents		6
		1,514
Current liabilities		
Accrued expenses and other payables	*22*	693
Net current assets		821
NET ASSETS		38,898
CAPITAL AND RESERVES		
Share capital	*24*	63,000
Reserves	*25*	(24,102)
		38,898

Approved and authorised for issue by the Board of Directors on 22 March 2002

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) *Directors*
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The notes on pages 32 to 61 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31December 2001

(Expressed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000
Net cash outflows from operating activities	26(a)	**(14,163)**	(9,765)
Returns on investments and servicing of finance			
Interest paid		**(72)**	—
Interest received		**26**	101
Net cash (outflow)/inflow from returns on investments and servicing of finance		**(46)**	101
Taxation			
Income tax paid		**(265)**	(12)
Income tax refund		**147**	33
Net income tax (paid)/refund		**(118)**	21
Investing activities			
Acquisition of fixed assets		**(2,789)**	(2,638)
Acquisition of investments		**(8,000)**	—
Increase in other assets		**(115)**	(179)
Decrease in time deposits over three months of maturity		**—**	7,143
Net cash (outflow)/inflow from investing activities		**(10,904)**	4,326
Net cash outflow before financing		**(25,231)**	(5,317)
Financing activities			
Loan from employees		**—**	3,124
Repayment of employees' loan	26(c)	**(70)**	—
Loans from the then shareholder	26(c)	**965**	761
Proceeds from the issuance of shares before capitalisation		**7,243**	—
Net proceeds from the placing of shares		**23,594**	—
Net cash inflow from investing activities		**31,732**	3,885
Increase/(decrease) in cash and cash equivalents		**6,501**	(1,432)
Effect of foreign exchange		**(53)**	(383)
Cash and cash equivalents at 1 January		**823**	2,638
Cash and cash equivalents at 31 December		**7,271**	823

The notes on pages 32 to 61 form part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1 Reorganisation

AKuP International Holding 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 Company became the holding company of the Group on 29 October 2001 through a reorganisation (the "Reorganisation").

2 Basis of presentation

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". On this basis, the Company was the holding company of the Group for both years presented, rather than from 29 October 2001. In the circumstances, the results of the Group for the years ended 31 December 2000 and 2001 include the results of the Company and its subsidiaries with effect from 1 January 2000 or since their respective dates of incorporation, whichever is a shorter period. The consolidated balance sheet at 31 December 2000 is a combination of the balance sheets of the Company and its subsidiaries as at 31 December 2000. 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 Company was incorporated on 14 June 2000 with an issued share capital of US$2.00. During the period ended 31 December 2000, the Company remained dormant and accordingly no comparative figures are presented in respect of the Company's balance sheet at 31 December 2000.

3 Significant accounting policies

(a) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure requirements of the Listing Rules of the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A summary of the significant accounting policies adopted by the Group is set out as below.

(b) *Basis of preparation of the financial statements*

The measurement basis used in the preparation of the financial statements is historical cost.

(c) *Basis of consolidation*

The consolidated 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.

3 Significant accounting policies (continued)

(d) *Investment in subsidiaries*

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating decisions, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the consolidated income statement as they arise.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 3(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the income statement as they arise.

(e) *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 (note 3(i)). 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.

(f) *Fixed assets*

(i) Valuation

Fixed assets are stated in the balance sheet at cost less accumulated depreciation (note 3(h)) and impairment losses (note 3(i)). The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the income statement. In determining the recoverable amount, expected future cash flows generated by the fixed assets are discounted to their present values.

3 Significant accounting policies (continued)

(f) *Fixed assets* (continued)

(i) Valuation (continued)

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the income statement. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(ii) Disposals

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal.

(g) *Research and development costs*

(i) 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 (note 3(h)) and impairment losses (note 3(i)). Other development expenditure is recognised as an expense in the period in which it is incurred.

(ii) Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it 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.

(h) *Depreciation and amortisation*

(i) Depreciation is calculated to write off the cost of fixed assets over their estimated useful lives on a straight-line basis as follows:

Computers and other equipment	3 years
Leasehold improvements	2 years
Computer software	3 years

3 Significant accounting policies (continued)

(h) *Depreciation and amortisation* (continued)

(ii) 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.

(i) *Impairment of assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment;
— investments in subsidiaries and other investments; and
— capitalised development costs.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where there are assets that do not generate cash inflows largely independent of those from other assets, the recoverable amount are determined for the smallest group of assets that generates cash inflows independently (i.e., a cash-generating unit).

The recoverable amount of capitalised development costs is estimated at each balance sheet date based on the estimated future economic benefits that will be generated by the product or process under development.

(ii) Reversals of impairment losses

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(j) *Service contracts*

The accounting policy for the revenue derived from custom-made solutions and consultancy services is set out in note 3(l)(i). 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.

3 Significant accounting policies (continued)

(j) *Service contracts* (continued)

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".

(k) *Inventories*

Inventories are carried at the lower of cost and net realisable value.

The cost of inventories is calculated based on the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their existing location and conditions.

Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) *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:

(i) 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.

(ii) 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.

3 Significant accounting policies (continued)

(l) *Revenue recognition* (continued)

(iii) Professional service income

Professional service income represents fees for the provision of IT engineering services and are recognised when the underlying professional services are rendered.

(iv) Interest income

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

(m) *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.

(n) *Operating lease charges*

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(o) *Cash equivalents*

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. For the purposes of the cash flow statement, cash equivalents would also include bank overdrafts and advances from bank payable within three months from the date of the advance.

(p) *Deferred taxation*

Deferred taxation is calculated under the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(q) *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.

3 Significant accounting policies (continued)

(q) *Provisions and contingent liabilities* (continued)

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.

(r) *Translation of foreign currencies*

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date.

Exchange gains and losses are dealt with in the income statement. The results and balance sheet items of branches and subsidiaries outside Hong Kong are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a subsidiary outside Hong Kong, the cumulative amount of the exchange differences which relate to that subsidiary is included in the calculation of the profit or loss on disposal.

(s) *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.

(t) *Related parties*

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(u) *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.

3 Significant accounting policies (continued)

(u) *Segment reporting* (continued)

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.

4 Revenue

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

Revenue represents income arising from the provision of custom-made solutions and consultancy 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.

4 Revenue (continued)

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

	Group revenue		Contribution to profit/(loss) from operations	
	2001	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*
Principal activities				
Custom-made solutions	**915**	2,467	**367**	1,439
Sales of software products	**27,674**	22,747	**27,257**	22,209
Sales of hardware products	**1,286**	731	**158**	337
Professional services	**—**	20	**—**	20
	29,875	25,965	**27,782**	24,005
Operating expenses			**(26,273)**	(28,264)
			1,509	(4,259)
Geographical locations				
Taiwan	**7,110**	10,640	**5,079**	8,895
Hong Kong	**1,710**	2,257	**1,710**	2,232
PRC (excluding Taiwan and Hong Kong)	**20,570**	10,985	**20,561**	10,985
Singapore	**485**	2,083	**432**	1,893
	29,875	25,965	**27,782**	24,005
Operating expenses			**(26,273)**	(28,264)
			1,509	(4,259)

5 Personnel expenses

	2001	2000
	$'000	*$'000*
Salaries, wages and allowances	**11,723**	11,123
Contributions to retirement benefit schemes *(note 28)*	**171**	144
	11,894	11,267
Average number of employees during the year	**101**	98

Personnel expenses include $2,627,000 (2000: $2,758,000) relating to salaries and retirement benefits of staff engaged in research and development activities and Directors' remuneration totalling $1,790,000 (2000: $1,875,000) for the year ended 31 December 2001.

6 Profit/(loss) before taxation

Profit/(loss) before taxation is arrived after charging/(crediting):

(a) *Net finance income*

	2001	2000
	$'000	*$'000*
Interest on other borrowings repayable within five years	**72**	—
Interest income	**(26)**	(101)
Exchange gain	**(800)**	(442)
	(754)	(543)

6 Profit/(loss) from ordinary activities before taxation (continued)

(b) *Other items*

	2001	2000
	$'000	*$'000*
Research and development costs	**4,734**	4,140
Less: amount capitalised *(note 17)*	**(477)**	—
	4,257	4,140
Cost of inventories**	**2,000**	1,603
Auditors' remuneration	**516**	119
Depreciation	**1,592**	733
Operating lease charges in respect of properties	**2,147**	1,880
Provision for doubtful debts	**4,202**	8,160
Provision for foreseeable losses of contract work *(note 20(a))*	**84**	—

** Cost of inventories includes a write down of $406,000 (2000: $Nil) to state the inventories at net realisable value.

7 Taxation

(a) Taxation in the consolidated income statement represents:

	2001	2000
	$'000	*$'000*
Taxation outside Hong Kong for the year	**32**	242
Under-provision for taxation outside Hong Kong in respect of prior year	**13**	—
	45	242
Deferred taxation *(note 18(a))*	**(234)**	(1,444)
	(189)	(1,202)

No provision for Hong Kong Profits Tax has been provided for the year ended 31 December 2001 (2000: $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, tax incentive for research and development costs and deferred deduction of the provisions for doubtful debts and inventories for tax purposes (note 18(b)). There is no significant deferred taxation liability not provided for during the year.

7 Taxation (continued)

(b) Taxation in the consolidated balance sheet comprises:

	2001	2000
	$'000	*$'000*
Provision for taxation outside Hong Kong for the year	**32**	242
Income tax paid	**(32)**	(12)
	—	230
Balance of income tax provision/ (refund) relating to prior year	**—**	(157)
Tax payable	**—**	73

8 Directors' remuneration

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

	2001	2000
	$'000	*$'000*
Executive directors:		
Basic salary, allowances and other benefits	**1,755**	1,841
Contributions to pension fund	**35**	34
	1,790	1,875
Non-executive directors:		
Fees	**16**	—

The executive directors received remuneration of approximately $461,000, $443,000, $354,000, $325,000 and $207,000 for the year ended 31 December 2001 and approximately $484,000, $474,000, $379,000, $328,000 and $210,000 for the year ended 31 December 2000.

The non-executive directors received remuneration of approximately $8,000 and $8,000 for the year ended 31 December 2001 (2000: $Nil).

During the year, no emoluments were paid by the Group to the Directors or any of the five highest paid individuals (note 9) 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 31 December 2001.

(Expressed in Hong Kong dollars)

9 Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2000: four) are executive directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other two (2000: one) individuals are as follows:

	2001	2000
	$'000	*$'000*
Basic salary, allowances and other benefits	**713**	265
Contributions to pension fund	**17**	5
	730	270

The individuals received remuneration of approximately $376,000 and $354,000 for the year ended 31 December 2001 and approximately $Nil and $270,000 for the year ended 31 December 2000.

10 Profit/(loss) attributable to shareholders

The consolidated profit/(loss) attributable to shareholders includes a loss of $20,529,000 (2000: $Nil) which has been dealt with in the financial statements of the Company.

11 Dividends

The Directors of the Company do not recommend the payment of a dividend in respect of the year ended 31 December 2001 (2000: $Nil).

12 Earnings/(loss) per share

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

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

The calculation of basic loss per share for the year ended 31 December 2000 is based on the loss attributable to shareholders of $2,514,000 divided by 513,000,000 shares in issue, immediately prior to the placing but after the capitalisation issue dated 4 November 2001.

(b) *Diluted earnings/(loss) per share*

There were no potential dilutive ordinary shares in issue as at 31 December 2001 and 2000.

13 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) Professional services

The provision of IT engineering services.

During the year ended 31 December 2001, more than 90 per cent. of the operations of the Group in terms of both revenue and operating profit were derived from the sales of software products. In addition, the operating assets of the business segment for the sales of software products represent more than 90 per cent. of the total operating assets of the Group.

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

(b) *Geographical segments*

The Group's business is managed on a worldwide basis, but participates in four 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.

13 Segment reporting (continued)

(b) *Geographical segments* (continued)

	Taiwan		Hong Kong		PRC (excluding Taiwan and Hong Kong)		Singapore	
	2001	2000	**2001**	2000	**2001**	2000	**2001**	2000
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**7,110**	10,640	**1,710**	2,257	**20,570**	10,985	**485**	2,083
Segment assets	**76,127**	48,122	**31,258**	54	**45,224**	6,787	**—**	—
Segment liabilities	**65,604**	8,233	**16,907**	275	**19,914**	14,749	**—**	70
Capital expenditure incurred during the year	**2,099**	2,001	**214**	6	**8,953**	589	**—**	—

Contribution to profit/(loss) from operations by geographical locations is disclosed in note 4.

14 Fixed assets

The Group

	Computers and other equipment	Leasehold improvements	Computer software	Total
	$'000	*$'000*	*$'000*	*$'000*
Cost				
At 1 January 2001	3,221	324	1,399	4,944
Additions	1,104	135	1,550	2,789
At 31 December 2001	**4,325**	**459**	**2,949**	**7,733**
Accumulated depreciation				
At 1 January 2001	811	174	61	1,046
Charge for the year	961	126	505	1,592
At 31 December 2001	**1,772**	**300**	**566**	**2,638**
Net book value				
At 31 December 2001	**2,553**	**159**	**2,383**	**5,095**
At 31 December 2000	2,410	150	1,338	3,898

15 Interest in subsidiaries

	2001
	The Company
	$'000
Unlisted shares, at cost	**23,810**
Amounts due from subsidiaries	**37,834**
Amounts due to subsidiaries	**(12,222)**
	49,422
Less: impairment losses	**(19,345)**
	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 31 December 2001.

(Expressed in Hong Kong dollars)

15 Interest in subsidiaries (continued)

Details of the subsidiaries at 31 December 2001 are as follows. The class of shares held is ordinary unless otherwise stated.

All of these are controlled subsidiaries as defined under note 3(d) 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

(Expressed in Hong Kong dollars)

16 Investments

	The Group and the Company	
	2001	2000
	$'000	*$'000*
Unlisted equity securities, at cost	**8,000**	—

17 Other assets

	The Group	
	2001	2000
	$'000	*$'000*
Guarantee deposits for contracts	**67**	500
Rental and other deposits	**714**	643
Development costs *(note 6(b))*	**477**	—
	1,258	1,143

18 Deferred taxation

(a) Movements on deferred taxation comprise:

	The Group	
	2001	2000
	$'000	*$'000*
At the beginning of the year	**(3,175)**	(1,731)
Exchange adjustments	**206**	—
Transfer to the income statement *(note 7(a))*	**(234)**	(1,444)
At the end of the year	**(3,203)**	(3,175)

18 Deferred taxation (continued)

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

	The Group	
	2001	2000
	$'000	*$'000*
Tax losses	**908**	—
Research and development costs capitalised for tax calculation	**—**	125
Unrealised loss on investment in a subsidiary	**—**	2,057
Tax incentive for research and development costs	**1,020**	365
Unrealised exchange gain	**(246)**	(81)
Provisions for doubtful debts and inventories	**1,521**	709
	3,203	3,175

19 Inventories

	The Group	
	2001	2000
	$'000	*$'000*
Merchandise for projects	**—**	435
Merchandise for resale	**1,218**	847
	1,218	1,282

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 $406,000 (2000: $Nil), which was made in order to state these inventories at the lower of their cost and estimated net realisable value.

(Expressed in Hong Kong dollars)

20 Gross amounts due from/(to) customers for contract work

(a) *Gross amounts due from customers for contract work*

	The Group	
	2001	2000
	$'000	*$'000*
Costs incurred	**728**	560
Add: recognised profits	**242**	1,055
	970	1,615
Less: progress billings	**(634)**	(895)
	336	720
Less: provision for foreseeable losses	**(84)**	—
	252	720

(b) *Gross amounts due to customers for contract work*

	The Group	
	2001	2000
	$'000	*$'000*
Costs incurred	**—**	1,537
Add: recognised profits	**—**	1,936
	—	3,473
Less: progress billings	**—**	(3,593)
	—	(120)

The gross amounts due from/(to) customers for contract work at 31 December 2001 and 2000 are expected to be recovered/settled in the next twelve months.

21 Trade and other receivables

	The Group		The Company
	2001	2000	**2001**
	$'000	*$'000*	***$'000***
Debtors and bills receivable	**25,132**	12,359	**—**
Subscriptions receivable	**813**	—	**813**
Deposit for development of software	**1,889**	—	**—**
Prepayments	**877**	330	**677**
Others	**18**	—	**18**
	3,597	330	**1,508**
	28,729	12,689	**1,508**

As at 31 December 2001, the amount due from the following customers exceeded 25% of the Group's net tangible assets.

	The Group		The Company
	2001	2000	**2001**
	$'000	*$'000*	***$'000***
Universal Enterprise Development Ltd ("Universal")	**11,319**	—	**—**
Global Market Limited ("Global")	**7,572**	—	**—**
	18,891	—	**—**

Universal and Global are companies under common control which were incorporated in the British Virgin Islands and Independent State of Samoa respectively. The above amounts represent the trade receivables for the sales of software products with a credit term of 120 days.

All of the trade and other receivables, apart from the deposit for development of software and prepayments of $2,766,000 (2000: $15,000), are expected to be received within one year.

21 Trade and other receivables (continued)

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:

	2001	2000
	$'000	*$'000*
Current	**19,049**	3,858
Aged over 1 month but less than 3 months	**573**	2,158
Aged over 3 months but less than 6 months	**412**	2,485
Aged over 6 months but less than 12 months	**2,890**	3,858
Aged over 1 year	**2,208**	—
	25,132	12,359

Credit terms granted to customers are normally in the range of 60 to 90 days.

22 Trade and other payables

	The Group		**The Company**
	2001	2000	**2001**
	$'000	*$'000*	***$'000***
Creditors and bills payable	**40**	923	**—**
Accrued salaries and bonus	**1,369**	1,631	**—**
Accrued expenses	**1,623**	993	**693**
	2,992	2,624	**693**
	3,032	3,547	**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:

	2001	2000
	$'000	*$'000*
Overdue within one month or on demand	**40**	923

(Expressed in Hong Kong dollars)

23 Loan from employees

Pursuant to a resolution of the Directors' meeting of AKuP Taiwan on 21 July 2000, its share capital was proposed to increase by the issuance of 9,990,000 shares at a price of NT$12 each. The amounts due to employees represent the subscriptions made by employees for the new shares. The above proposal for the issuance of new shares was subsequently cancelled with the consent of the relevant employees and the subscription money received were reclassified as interest free loan. The amounts due to employees were settled by $70,000 cash and the issuance of 10,680,000 ordinary shares in the Company of US$0.001 each at a price of $3,054,000 on 2 February 2001 (note 26(d)).

24 Share capital

		2001		2000	
	Note	**No. of shares (’000)**	***$’000***	No. of shares *(’000)*	*$’000*
Authorised:					
Ordinary shares of HK$0.1 each	*(iii)*	**2,000,000**	**200,000**	—	—
Ordinary shares of US$0.001 each		—	—	300,000	2,363
Issued and fully paid:					
At 1 January	*(i)*	**136,000**	**1,071**	10,000	23,810
Issuance of shares for the acquisition of subsidiaries		—	—	136,000	1,071
Capital eliminated on combination		—	—	(10,000)	(23,810)
Issuance of shares of US$0.001 each	*(ii)*	**35,000**	**270**	—	—
		171,000	**1,341**	136,000	1,071
Consolidation of shares	*(iii)*	**13,338**	**1,334**		
Capitalisation issue	*(iv)*	**499,662**	**49,966**		
Placing of shares for cash	*(v)*	**117,000**	**11,700**		
		630,000	**63,000**		

(i) The Company acquired the entire interest of the subsidiaries, including AKuP Taiwan and became the holding company on 31 December 2000. Share capital as at 31 December 2000 represents the Company's issued capital of US$136,000 divided into 136,000,000 shares of US$0.001 each.

(ii) On 2 February 2001, the Company's share capital was increased from US$136,000 ($1,071,000) to US$171,000 ($1,341,000) by the creation of an additional 35,000,000 shares of US$0.001 each at a price totalling $12,023,000.

24 Share capital (continued)

(iii) Pursuant to the resolutions of shareholders of the Company passed at an extraordinary general meeting held on 25 May 2001:

— the authorised share capital of the Company of US$300,000 divided into 300,000,000 shares of US$0.001 was consolidated and redenominated (at the rate of US$1.00 to HK$7.8 (note 25 (a)) to $2,340,000 divided into 23,400,000 shares of $0.1 each;

— the issued share capital of the Company was correspondingly changed and redominated from US$171,000 divided into 171,000,000 shares of US$0.001 each to $1,333,800 divided into 13,338,000 shares of $0.1 each by consolidating every 12.820512 shares of US$0.001 each into 1 share of par value $0.1; and

— the authorised share capital was increased from $2,340,000 to $200,000,000 by creation of an additional 1,976,600,000 shares of $0.1 each.

(iv) On 4 November 2001, an amount of $49,966,200 standing to the credits of the share premium account was applied in paying up in full at par 499,662,000 shares of $0.1 each which were allotted and distributed as fully paid to the then shareholders pursuant to their equity percentages.

(v) On 5 November 2001, a further 117,000,000 shares of $0.1 each were issued and offered for subscription at a price of $0.28 per share upon the listing of the Company's shares on the Stock Exchange. The Group raised approximately $23,594,000 net of related expenses from the issue.

(vi) All the shares issued by the Company rank pari passu and do not carry pre-emptive rights.

(vii) 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 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 per cent. of the Company's shares in issue as at the date of listing of shares on the GEM.

During the year ended 31 December 2001, no option was granted under the share option scheme.

25 Reserves

(a) *The Group*

	Share premium $'000	Accumulated losses $'000	Exchange reserves $'000 (note (ii))	Total $'000
At 1 January 2000	—	(4,792)	(2)	(4,794)
Premium arising on the issuance of shares by the Company *(note 24 (i))*	22,738	—	—	22,738
Loss for the year	—	(2,514)	—	(2,514)
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	(397)	(397)
At 31 December 2000	22,738	(7,306)	(399)	15,033
At 1 January 2001	22,738	(7,306)	(399)	15,033
Premium arising on the issuance of shares by the Company *(note 24 (ii))*	11,753	—	—	11,753
Capitalisation issue *(note 24 (iv))*	(49,966)	—	—	(49,966)
Premium arising on the placing of shares by the Company *(note 24 (v))*	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 *(note 24 (iii))*	—	—	7	7
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	(2,180)	(2,180)
At 31 December 2001	**—**	**(8,434)**	**(2,572)**	**(11,006)**

(i) Legal reserve

According to the articles of association of the Group's subsidiary in Taiwan, AKuP Taiwan should appropriate 10 per cent. of its net income, determined in accordance with accounting principles generally accepted in Taiwan, after making good losses in previous years, to a legal reserve. No appropriation was made to the legal reserve as AKuP Taiwan has accumulated losses as at 31 December 2001.

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

25 Reserves (continued)

(ii) Exchange reserves

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

(b) *The Company*

	Share premium *$'000*	Accumulated losses *$'000*	Exchange reserve *$'000*	Total *$'000*
At 1 January 2000	—	—	—	—
Premium arising on the issuance of shares by the Company	22,738	—	—	22,738
At 31 December 2000	22,738	—	—	22,738
At 1 January 2001	22,738	—	—	22,738
Premium arising on the issuance of shares by the Company *(note 24 (ii))*	11,753	—	—	11,753
Capitalisation issue *(note 24 (iv))*	(49,966)	—	—	(49,966)
Premium arising on the placing of shares by the Company *(note 24 (v))*	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 *(note 24 (iii))*	—	—	7	7
At 31 December 2001	**—**	**(24,109)**	**7**	**(24,102)**

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 31 December 2001, in the opinion of the Directors of the Company, the Company did not have reserve available for distribution to shareholders.

(Expressed in Hong Kong dollars)

26 Notes to the consolidated cash flow statement

(a) *Reconciliation of net profit/(loss) before taxation to net cash outflows from operating activities*

	2001	2000
	$'000	*$'000*
Profit/(loss) before taxation	**2,263**	(3,716)
Depreciation	**1,592**	733
Provision for doubtful debts	**4,202**	8,160
Provision for foreseeable losses of contract work	**84**	—
Write down of inventories	**406**	—
Interest expenses	**72**	—
Interest income	**(26)**	(101)
Increase in inventories	**(342)**	(1,264)
Decrease in gross amounts due from customers for contract work	**384**	4,887
Increase in trade receivables	**(16,975)**	(19,599)
Decrease in amount due from the then shareholder	**—**	548
Increase in prepayments and other receivables	**(4,065)**	(97)
(Decrease)/increase in gross amounts due to customers for contract work	**(120)**	120
Decrease in trade payables	**(883)**	(955)
Increase in accrued expenses and other payables	**368**	1,519
Effect of foreign exchange differences	**(1,123)**	—
Net cash outflows from operating activities	**(14,163)**	(9,765)

(b) *Analysis of the balances of cash and cash equivalents*

	2001	2000
	$'000	*$'000*
Cash and cash at bank within three months of maturity	**7,271**	823

26 Notes to the consolidated cash flow statement (continued)

(c) *Analysis of changes in financing*

	Share capital (including Share premium)	Loan from employees	Loans from the then shareholder
	$'000	*$'000*	*$'000*
At 1 January 2000	23,810	—	—
Loan from employees	—	3,124	—
Loans repayment from the then shareholder	—	—	761
At 31 December 2000	23,810	3,124	761
At 1 January 2001	23,810	3,124	761
Proceeds from the issuance of shares before capitalisation	12,023	—	—
Settlement of loan from employees by cash	—	(70)	—
Settlement of loan from employees by issuance of shares (note 26(d))	—	(3,054)	—
Loans from the then shareholder	—	—	965
Settlement of loan from the then shareholder by issuance of shares (note 26(d))	—	—	(1,726)
Net proceeds from the placing of shares	23,594	—	—
Share issuance expenses recognised as accumulated losses	3,580	—	—
Exchange difference on the consolidation of the Company's shares *(note 24(iii))*	(7)	—	—
At 31 December 2001	**63,000**	**—**	**—**

(d) *Non cash transactions*

On 2 February 2001, the Company issued 21,380,000 shares of US$0.001 each for the settlement of loans from the then shareholder and employees totalling $1,726,000 and $3,054,000 respectively.

27 Operating leases

At 31 December 2001, the total future minimum lease payment under operating leases are payable as follows:

	2001	2000
	$'000	*$'000*
Within one year	**1,654**	1,412
After one but within five years	**1,115**	1,177
	2,769	2,589

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.

28 Retirement benefit 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, and are charged to the income statement as incurred. The contributions amounted to approximately $154,000 for the year (2000: $144,000).

Actuarial valuations are carried out annually by KPMG 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 2001 and 2000, using projected unit credit cost method. The principal actuarial assumptions used for the 31 December 2001 valuation were a discount rate of 4.5% (2000: 6%), an expected rate of return on plan assets of 4.5% (2000: 6%) net of salary increment of 3.5% (2000: 5.5%), 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 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 employees' relevant income, subject to a cap of monthly relevant income of $20,000. The contributions amounted to approximately $17,000 for the year (2000: $Nil).

The Group does not operate any other scheme for retirement benefits provided to the Group's employees.

29 Related party Transactions

Particulars of significant transactions between the Group and certain related parties, which is a company controlled by the then shareholder of the subsidiary, in which a Director or a substantial shareholder of the Group is in a position to exercise significant influence are as follows:

(a) During the year ended 31 December 2001, the Group granted/obtained loans to/from related parties which were unsecured and interest free.

The maximum outstanding balances of loans to/from related parties during the year ended 31 December 2001 amounted to $202,000 (2000: $Nil) and $1,812,000 (2000: $1,310,000) respectively. No balances were outstanding at 31 December 2001 (2000: loan from a related party of $762,000).

(b) On 2 February 2001, the Company issued 10,700,000 shares of US$0.001 each at a price of $1,726,000 for the settlement of loans from related parities (note 26 (d)).

The Directors of the Company are of the opinion that the above transactions with related parties were conducted on normal commercial terms or on terms described above and in the ordinary course of business. The above transactions ceased after the listing of the shares of the Company.

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 25 April 2002 (Thursday) 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 2001;

2. to re-elect retiring Directors;

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

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

5. 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 issued by the Company or any securities which are 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 advisors 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)."

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 (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."

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 conditional upon the passing of Ordinary Resolutions No. 5 and 6 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. 5 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. 6 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."

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

Hong Kong, 26 March 2002

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 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 2nd Floor, Vicwood Plaza, 199 Dex Voeux Road Central, 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.