



**AKuP International Holding Limited**

**艾克國際控股有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**FIRST QUARTERLY REPORT  
2002**

*\* for identification purpose only*

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

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

## HIGHLIGHTS

- Revenue of the Group for the three months ended 31 March 2002 is approximately HK\$5.7 million.
- Profit attributable to shareholders increased to approximately HK\$1.6 million for the three months ended 31 March 2002, representing an increase of approximately 439% when compared with that of the corresponding period of 2001.
- The directors of the Company do not recommend the payment of an interim dividend for the three months ended 31 March 2002.

## UNAUDITED CONSOLIDATED RESULTS

The board of directors (the "Board") of AKuP International Holding Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2002 together with the comparative figures for the corresponding period of 2001 as follows:

		For the three months ended 31 March	
		2002	2001
	Note	HK\$'000	HK\$'000
Revenue	3	5,726	6,887
Cost of services and merchandise sold		(118)	(712)
<b>Gross profit</b>		5,608	6,175
Research and development costs		(861)	(1,474)
Selling expenses		(1,546)	(1,702)
General and administrative expenses		(2,002)	(2,930)
<b>Profit from operations</b>		1,199	69
Net finance income	4	57	143
<b>Profit before taxation</b>	4	1,256	212
Taxation	5	312	79
<b>Profit attributable to shareholders</b>		1,568	291
<b>Earnings per share</b>			
Basic	6	0.25 cents	0.06 cents

Notes:

## 1 Reorganization

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

## 2 Basis of presentation

The financial information presented has 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. This financial information also complies with the applicable disclosure requirements of the Listing Rules of the GEM of the Stock Exchange.

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

## 3 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.

The analysis of the principal activities of the Group's operations is as follows:

	<b>Group revenue For the three months ended 31 March</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Principal activities		
Custom-made solutions	—	978
Sales of software products	5,584	5,226
Sales of hardware products	142	683
	<u>5,726</u>	<u>6,887</u>

#### 4 Profit before taxation

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

(a) Net finance income

	<b>For the three months ended 31 March</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on other borrowings repayable within five years	—	(4)
Interest income	10	3
Exchange gain	47	144
	<u>57</u>	<u>143</u>

(b) Other items

	<b>For the three months ended 31 March</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Research and development costs	2,071	—
Less: amount capitalized	(1,210)	—
	<u>861</u>	<u>—</u>
Operating lease charges in respect of properties	556	602
Less: amount capitalized	(133)	—
	<u>423</u>	<u>602</u>
Depreciation	478	433
Less: amount capitalized	(290)	—
	<u>188</u>	<u>433</u>
Cost of inventories	118	612
Auditors' remuneration	126	—
	<u>126</u>	<u>—</u>

#### 5 Taxation

Taxation represents:

	<b>For the three months ended 31 March</b>	
	<b>2002</b>	<b>2001</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Taxation outside Hong Kong for the period	4	—
Deferred taxation	(316)	(79)
	<u>(312)</u>	<u>(79)</u>

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

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. There is no significant deferred taxation liability not provided for during the period.

## 6 Earnings per share

### (a) Basic earnings per share

The calculation of basic earnings per share for the three months ended 31 March 2002 is based on the profit attributable to shareholders of HK\$1,568,000 divided by 630,000,000 shares in issue during the period.

The calculation of basic earnings per share for the three months ended 31 March 2001 is based on the profit attributable to shareholders of HK\$291,000 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 per share

There were no potential dilutive ordinary shares in issue as at 31 March 2002 and 2001.

## 7 Dividend

The Directors of the Company do not recommend the payment of an interim dividend for the three months ended 31 March 2002 (2001: HK\$Nil).

## 8 Reserves

	Share premium <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Exchange reserves (note (ii)) <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	22,738	(7,306)	(399)	15,033
Premium arising on the issuance of shares by the Company	11,753	—	—	11,753
Profit for the period	—	291	—	291
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	(46)	(46)
At 31 March 2001	<u>34,491</u>	<u>(7,015)</u>	<u>(445)</u>	<u>27,031</u>
At 1 January 2002	—	(8,434)	(2,572)	(11,006)
Profit for the period	—	1,568	—	1,568
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	276	276
At 31 March 2002	<u>—</u>	<u>(6,866)</u>	<u>(2,296)</u>	<u>(9,162)</u>

(i) *Legal reserve*

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

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

(ii) *Exchange reserves*

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

## **FINANCIAL REVIEW**

In view of the volatile market conditions and global economic downturn throughout the last three quarters of 2001 coupled with the possible direct and indirect impacts of the alleged terrorist attacks in New York, the United States of America on 11 September 2001, enterprises became more concerned on cost controls and also slowed down the capital expenditure in IT up to the first quarter of 2002. Although the business environment in the first quarter of 2002 was unfavourable, the Group recorded a total revenue of approximately HK\$5.7 million, representing only a 17% decrease from approximately HK\$6.9 million for the corresponding period of 2001. Despite the reduction in total revenue, the Group achieved a substantial growth in profit attributable to shareholders to approximately HK\$1.6 million for the three months ended 31 March 2002, representing a 439% increase from approximately HK\$0.3 million for the corresponding period of 2001.

During the period under review, the reduction in the Group revenue was mainly due to the weak global economic environment and tightened controls of enterprises on capital expenditure in IT. In order to cope with the changing business environment, the Group implemented certain cost control measures in order to reduce personnel and other operating expenses. As a result, the Group successfully reduced its operating expenses to approximately HK\$4.4 million for the three months ended 31 March 2002, representing a 28% decrease from approximately HK\$6.1 million for the corresponding period of 2001.

## **BUSINESS REVIEW**

### **Business development**

#### *Overall*

With the solid practical experiences in the IT field, the Group's electronic customer relationship management ("eCRM") solutions have overwhelming influence over various industries, such as banking and finance, insurance, securities, manufacturing, wholesale and retail, in the People's Republic of China (the "PRC"), which is the major source of the Group revenue. The Group has successfully developed an effective sales distribution network in the PRC through its representative offices, which are located in the major cities of the PRC such as Beijing, Shanghai, Guangzhou, Chengdu and Wuhan.

In, March 2002, the Group entered into a sales contract with Hua Xia Securities Company Limited for the provision of eCRM solutions and related after-sale services.

#### *Nanjing*

In January 2002, the Group obtained the business licence from Nanjing Administrative Bureau for Industry and Commerce 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 the second quarter of 2002.

#### *Wuhan*

To further expand the Group's business in the PRC, the fifth representative office was set up in Wuhan, the PRC in February 2002.

### **Research and development**

During the three months ended 31 March 2002, the Group conducted the following research and development activities:

- Continued to develop the marketing campaign related software; and
- Continued to develop the eCRM solutions related to sales forces automation ("SFA") for various industries such as banking and finance, insurance and securities.

### **Brand building and marketing activities**

In order to establish "AKuP" as the leading brand in eCRM solutions, the Group continued to participate in various brand building and marketing campaigns, such as seminars, exhibitions and conferences. The Group delivered a speech in the "Measuring ROI for CRM — Experiences from the United States and Greater China" seminar held in Hong Kong in January 2002 and another speech in the master of business administration/executive master of business administration programme organized by the Department of Business Administration of Chang Gung University (長庚大學企研所) in Taipei in March 2002. The Group also promoted itself in IT sector through television programmes such as "Business Guide" of China Central Television in the PRC and magazines such as "Business Management Asia" in order to introduce the Group's eCRM software products, establish its corporate image and maintain the market awareness.



## FUTURE PROSPECTS

The Directors believe that the demand for eCRM solutions in Asia, especially the PRC market, will keep growing in 2002 in this rapidly changing economic environment. Following the PRC's entry into the World Trade Organisation (the "WTO") in December 2001, there will be more opportunities in the PRC's IT industry because of the new challenges faced by the PRC local enterprises brought by the PRC's entry into the WTO. As a result, the Directors believe that the Group will benefit from the PRC's entry into the WTO because the Group's eCRM solutions will strengthen the PRC enterprises' ability to compete with the giant foreign competitors.

The Directors also believe that continuing research and development is crucial for the Group to compete successfully in the rapidly changing IT market. The Group continued the set up of the R&D Centre in Nanjing, the PRC, which will be fully operated in the second quarter of 2002. With the enhancement of research and development capabilities, the Group can maintain its competitive advantage over its competitors and capture the market share in the PRC in view of the growing demand for eCRM solutions from the PRC enterprises.

With the professional expertise, management strengthens and research and development capabilities, the Group will continue to make every endeavor to explore potential opportunities for our business growth in the rest of 2002.

## DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 31 March 2002, the interests of the Directors in the issued share capital and options 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 maintained by the Company under section 29 of the SDI Ordinance were as follows:

### (i) Interest in the Company

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

(ii) **Interest in associated corporations**

AKuP Taiwan

	Note	Ordinary shares of HK\$0.1 each				Total interests
		Personal interests	Family interests	Corporate interests	Other interests	
Mr. Hu	2	1	2	—	—	3
Ms. Chiang	2	1	2	—	—	3

Notes:

- 1 Mr. Hu and Ms. Chiang (Mr. Hu's wife) 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 March 2002.
- 2 Each of Mr. Hu and Ms. Chiang will be deemed to have interests in 1 share in AKuP Taiwan held by Mr. Hu Yao-Hsiang (Mr. Hu and Ms. Chiang's infant child) and Mr. Hu Yao-Hsun (Mr. Hu and Ms. Chiang's infant child) respectively under the SDI Ordinance.

(iii) **Right to acquire shares**

During the three months ended 31 March 2002, none of the Directors or their associates was granted options to subscribe for the Company's shares, nor had exercised such rights.

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

## **SHARE OPTION SCHEME**

Pursuant to a written resolution passed on 24 October 2001, a share option scheme was approved and the Directors may, at their discretion, invite any employee (except part time employee who has spent less than 10 hours per week in providing services to the Group) or Directors of the Group and consultants of and 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 three months ended 31 March 2002, 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 as at 31 March 2002, amounting to 10% or more of the ordinary shares in issue:

	<i>Note</i>	<b>Ordinary shares held</b>	<b>Percentage of total shares issued</b>
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:

- Sean & Leo Assets Management Limited is beneficially owned by Mr. Hu, Ms. Chiang, Mr. Hu Wey-Min (Mr. Hu's brother) and Ms. 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.
- Intel Pacific, Inc. is a wholly-owned subsidiary of Intel Corporation, a company listed on the Nasdaq Market in the USA.
- Grand Pacific is owned by the associated parties of 辜濂松 (Mr. Jeffrey Lien-Sung Koo) and 駱錦明 (Mr. Kenneth C.M. Lo) and other corporate and individual investors.
- 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.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the issued share capital of the Company as at 31 March 2002.

## 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 first quarter of 2002 or at any time during the three months ended 31 March 2002.

## **SPONSOR'S INTERESTS**

According to the notification from the Company's sponsor, 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 as at 31 March 2002.

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 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

## **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.

## **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 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 has met once since its establishment.

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

During the three months ended 31 March 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

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

Taipei, Taiwan, 14 May 2002