



AKuP International Holding Limited

艾克國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT

2002

** for identification purpose only*

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

- The Group achieved total revenue of approximately HK\$13.0 million for the six months ended 30 June 2002, representing an increase of 13.6% over the corresponding period of 2001.
- Profit attributable to shareholders for the same period increased to HK\$4.1 million as compared with loss attributable to shareholders of HK\$2.4 million for the corresponding period of 2001.
- Earnings per share for the same period increased to HK cents 0.65 as compared with loss per share of HK cents 0.47 for the corresponding period of 2001.
- The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2002.

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 six months and three months ended 30 June 2002 together with the unaudited comparative figures for the corresponding periods of 2001 as follows:

	Note	Six months ended 30 June		Three months ended 30 June	
		2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)
Revenue	2	13,030	11,469	7,304	4,582
Cost of services and merchandise sold		(143)	(1,024)	(25)	(312)
Gross profit		12,887	10,445	7,279	4,270
Research and development costs		(1,407)	(2,619)	(546)	(1,145)
Selling expenses		(3,089)	(6,360)	(1,543)	(4,658)
General and administrative expenses		(4,338)	(5,986)	(2,336)	(3,056)
Profit/(loss) from operations	2	4,053	(4,520)	2,854	(4,589)
Net finance (costs)/ income	3	(537)	1,002	(594)	859
Profit/(loss) before taxation	3	3,516	(3,518)	2,260	(3,730)
Taxation	4	569	1,093	257	1,014
Profit/(loss) attributable to shareholders		4,085	(2,425)	2,517	(2,716)
Earnings/(loss) per share	5				
Basic		0.65 cents	(0.47) cents	0.40 cents	(0.53) cents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2002

		Six months ended 30 June	
	Note	2002 HK\$'000 (unaudited)	2001 HK\$'000 (unaudited)
Capital and reserves			
At 1 January	15	51,994	16,104
Net gain/(loss) not recognised in the consolidated income statement:			
Exchange differences arising on the consolidation of the Company's shares and translation of financial statements of subsidiaries outside Hong Kong	15	1,411	(533)
Net profit/(loss) for the period	15	4,085	(2,425)
Issuance of shares by the Company		—	270
Premium arising on the issuance of shares by the Company		—	11,753
At 30 June		57,490	25,169

CONSOLIDATED BALANCE SHEET

at 30 June 2002

	Note	At 30 June 2002 HK\$'000 (unaudited)	At 31 December 2001 HK\$'000 (audited)
Fixed assets	7	6,049	5,095
Investments		8,000	8,000
Other assets		4,388	1,258
Deferred taxation		3,928	3,203
		22,365	17,556
Current assets			
Inventories	8	1,227	1,218
Gross amounts due from customers for contract work	9	263	252
Trade receivables	10	16,772	25,132
Prepayments and other receivables	10	488	3,597
Cash and cash equivalents	11	20,262	7,271
		39,012	37,470
Current liabilities			
Trade payables	12	183	40
Accrued expenses and other payables	12	3,468	2,992
Bank loans	13	232	—
Tax payable		4	—
		3,887	3,032
Net current assets		35,125	34,438
NET ASSETS		57,490	51,994
CAPITAL AND RESERVES			
Share capital	14 & 15	63,000	63,000
Reserves	15	(5,510)	(11,006)
		57,490	51,994

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2002

		Six months ended 30 June	
		2002	2001
		HK\$'000	HK\$'000
Note		(unaudited)	(unaudited)
	Net cash inflow/(outflow) from operating activities	16,907	(2,935)
	Net cash outflows in investing activities	(5,417)	(251)
	Net cash inflows in financing activities	232	3,468
		<hr/>	<hr/>
	Net increase in cash and cash equivalents	11,722	282
	Effect of foreign exchange rates changes	1,269	(593)
	Cash and cash equivalents at 1 January	7,271	823
		<hr/>	<hr/>
	Cash and cash equivalents at 30 June	20,262	512
		<hr/> <hr/>	<hr/> <hr/>

Notes on the unaudited interim report:

1. Group reorganisation and basis of presentation

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").

The Company and its subsidiaries resulting from the Reorganisation have been regarded as a continuing group. Accordingly the unaudited consolidated results have been prepared on the basis of merger accounting in accordance with the Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants (the "HKSA"). On this basis, the Company was the holding company of the Group for all the periods presented, rather than from 29 October 2001. In the circumstances, the results of the Group for the six months and three months ended 30 June 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 unaudited consolidated results give a more meaningful view of the results of the Group as a whole.

The unaudited interim report has been reviewed by the Company's audit committee. The interim report has been prepared in accordance with the applicable disclosure requirements of the Listing Rules of the GEM of the Stock Exchange, including compliance with SSAP 25 "Interim financial reporting" issued by the HKSA.

The financial information relating to the financial year ended 31 December 2001 included in the interim report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. The auditors have expressed an unqualified opinion on the statutory accounts for the year ended 31 December 2001 in their report dated 22 March 2002.

The accounting policies and basis of preparation used in the preparation of the interim report are the same as those used in the 2001 annual accounts, except for the following new or revised SSAPs issued by the HKSA which have been adopted for the first time in the preparation of the interim report and are effective for accounting periods beginning on or after 1 January 2002:

SSAP 11 (revised)	"Foreign currency translation"
SSAP 15 (revised)	"Cash flow statements"
SSAP 25 (revised)	"Interim financial reporting"
SSAP 26 (revised)	"Segment reporting"
SSAP 33	"Discontinuing operations"
SSAP 34	"Employee benefits"

The notes on the interim report include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2001 annual accounts.

2. Segmental information

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

	Group revenue			
	Six months ended 30 June		Three months ended 30 June	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Principal activities				
Custom-made solutions	—	978	—	—
Sales of software products	12,770	9,175	7,186	3,949
Sales of hardware products	194	1,316	52	633
Revenue from maintenance services	66	—	66	—
	<u>13,030</u>	<u>11,469</u>	<u>7,304</u>	<u>4,582</u>
Geographical locations				
Taiwan	504	6,598	362	3,196
Hong Kong	—	1,829	—	—
The People's Republic of China (excluding Taiwan and Hong Kong) (the "PRC")	12,526	2,524	6,942	1,386
Singapore	—	518	—	—
	<u>13,030</u>	<u>11,469</u>	<u>7,304</u>	<u>4,582</u>

	Contribution to profit/(loss) from operations			
	Six months		Three months	
	ended 30 June		ended 30 June	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities				
Custom - made solutions	—	755	—	—
Sales of software products	12,770	9,117	7,186	3,950
Sales of hardware products	51	573	27	320
Revenue from maintenance services	66	—	66	—
	<u>12,887</u>	<u>10,445</u>	<u>7,279</u>	<u>4,270</u>
Operating expenses	<u>(8,834)</u>	<u>(14,965)</u>	<u>(4,425)</u>	<u>(8,859)</u>
	<u>4,053</u>	<u>(4,520)</u>	<u>2,854</u>	<u>(4,589)</u>
Geographical locations				
Taiwan	361	5,631	337	2,884
Hong Kong	—	1,829	—	—
The PRC	12,526	2,524	6,942	1,386
Singapore	—	461	—	—
	<u>12,887</u>	<u>10,445</u>	<u>7,279</u>	<u>4,270</u>
Operating expenses	<u>(8,834)</u>	<u>(14,965)</u>	<u>(4,425)</u>	<u>(8,859)</u>
	<u>4,053</u>	<u>(4,520)</u>	<u>2,854</u>	<u>(4,589)</u>

3. Profit/(loss) before taxation

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

(a) Net finance (costs)/income

	Six months ended 30 June		Three months ended 30 June	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Interest on other borrowings repayable within five years	(2)	(6)	(2)	(2)
Interest income	27	15	17	12
Exchange (loss)/gain	(562)	993	(609)	849
	<u>(537)</u>	<u>1,002</u>	<u>(594)</u>	<u>859</u>

(b) Other items

Research and development costs	3,776	2,619	1,705	1,145
Less: amount capitalized	(2,369)	—	(1,159)	—
	<u>1,407</u>	<u>2,619</u>	<u>546</u>	<u>1,145</u>
Operating lease charges in respect of properties	1,048	1,059	492	457
Less: amount capitalised	(252)	—	(119)	—
	<u>796</u>	<u>1,059</u>	<u>373</u>	<u>457</u>
Depreciation	2,917	836	2,439	403
Less: amount capitalised	(636)	—	(346)	—
	<u>2,281</u>	<u>836</u>	<u>2,093</u>	<u>403</u>
Cost of inventories	143	1,024	25	312
Auditors' remuneration	263	13	137	13
Provision for doubtful debts	664	2,696	664	2,696
	<u>664</u>	<u>2,696</u>	<u>664</u>	<u>2,696</u>

4. Taxation

Taxation represents:

	Six months ended 30 June		Three months ended 30 June	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Taxation outside Hong Kong for the period	15	—	11	—
Deferred taxation	(584)	(1,093)	(268)	(1,014)
	<u>(569)</u>	<u>(1,093)</u>	<u>(257)</u>	<u>(1,014)</u>

No provision for Hong Kong Profits Tax has been provided for the six months and three months ended 30 June 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.

5. Earnings/(loss) per share

(a) Basic earnings/(loss) per share

The calculation of basic earnings per share for the six months and three months ended 30 June 2002 is based on the profit attributable to shareholders of HK\$4,085,000 and HK\$2,517,000 respectively divided by 630,000,000 shares in issue during the relevant period.

The calculation of basic loss per share for the six months and three months ended 30 June 2001 is based on the loss attributable to shareholders of HK\$2,425,000 and HK\$2,716,000 respectively divided by 513,000,000 shares after adjusting for the capitalisation issue in 2001 during the relevant period.

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share have not been presented as there were no potential dilutive ordinary shares in issue as at 30 June 2002 and 2001.

6. Dividend

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2002 (2001: HK\$Nil).

7. Fixed assets

During the six months ended 30 June 2002, the Group acquired fixed assets comprising computers and other equipment, leasehold improvements and computer software of HK\$2,288,000.

8. Inventories

Inventories represent merchandise purchased for resale which are stated net of a general provision of HK\$424,000 (At 31 December 2001: HK\$406,000) in order to state these inventories at the lower of their cost and estimated net realisable value.

9. Gross amounts due from customers for contract work

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Costs incurred	760	728
Add: recognised profits	253	242
	<u>1,013</u>	<u>970</u>
Less: progress billings	(662)	(634)
	<u>351</u>	<u>336</u>
Less: provision for foreseeable losses	(88)	(84)
	<u>263</u>	<u>252</u>

The gross amounts due from customers for contract work at 30 June 2002 and 31 December 2001 are expected to be recovered in the next twelve months.

10. Trade and other receivables

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Debtors and bills receivable	16,772	25,132
Subscriptions receivable	—	813
Deposit for development of software	—	1,889
Prepayments	467	877
Others	21	18
	<u>488</u>	<u>3,597</u>
	<u>17,260</u>	<u>28,729</u>

All of the trade and other receivables, apart from the prepayments of HK\$467,000 (At 31 December 2001: HK\$2,766,000), are expected to be received in the next twelve months.

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:

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Current	7,257	19,049
Aged over 1 month but less than 3 months	5,584	573
Aged 3 months but less than 6 months	—	412
Aged over 6 months but less than 12 months	160	2,890
Aged over 1 year	3,771	2,208
	<u>16,772</u>	<u>25,132</u>

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

11. Cash and cash equivalents

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Cash at bank and on hand	<u>20,262</u>	<u>7,271</u>

At 30 June 2002, the Group pledged bank balances of HK\$18,876,000 (At 31 December 2001: HK\$Nil) with a bank as the security for the short term bank loans granted to an independent third party, Far World Holdings Group Limited, by the bank.

Cash and cash equivalents at 30 June 2002 include balances with banks of HK\$865,000 (At 31 December 2001: HK\$31,000) held by subsidiaries which are not freely remissible to the Company because of currency exchange restrictions.

12. Trade and other payables

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Creditors and bills payable	<u>183</u>	<u>40</u>
Accrued salaries and bonus	719	1,369
Accrued expenses	2,328	1,623
Receipts in advance	421	—
	<u>3,468</u>	<u>2,992</u>
	<u>3,651</u>	<u>3,032</u>

All of the trade and other payables, apart from the receipts in advance of HK\$421,000 (At 31 December 2001: HK\$Nil), are expected to be settled within one year.

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

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Overdue within one month or on demand	<u>183</u>	<u>40</u>

13. Bank loans

At 30 June 2002, the bank loans of HK\$232,000 (At 31 December 2001: HK\$Nil) were unsecured and repayable on demand.

14. Share capital

	At 30 June 2002 and 31 December 2001	
	No. of shares (<i>'000</i>)	<i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.1 each	<u>2,000,000</u>	<u>200,000</u>
Issued and fully paid:		
At 1 January and 30 June 2002	<u>630,000</u>	<u>63,000</u>

Details of the movements in share capital of the Company during the period are set out in note 15.

During the six months ended 30 June 2002, the Company granted to its directors and employees options to subscribe for shares of the Company under the share option scheme of the Company at nominal consideration but no options was exercised during the period. At 30 June 2002, the outstanding options were:

Date granted	Period during which options exercisable	Price per share on exercise of options	Number of options outstanding at 30 June 2002
12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	17,920,000
	11 April 2004 to 10 April 2009	HK\$0.191	17,920,000
	11 April 2005 to 10 April 2010	HK\$0.191	23,970,000
			<u>59,810,000</u>

15. Capital and reserves

	Share capital HK\$'000	Share premium HK\$'000	Accumulated losses HK\$'000	Exchange reserves HK\$'000	Total HK\$'000
At 1 January 2001	1,071	22,738	(7,306)	(399)	16,104
Exchange differences arising on the consolidation of the Company's shares and translation of financial statements of subsidiaries outside Hong Kong	—	—	—	(533)	(533)
Net loss for the period	—	—	(2,425)	—	(2,425)
Issuance of shares by the Company	270	—	—	—	270
Premium arising on the issuance of shares by the Company	—	11,753	—	—	11,753
At 30 June 2001	<u>1,341</u>	<u>34,491</u>	<u>(9,731)</u>	<u>(932)</u>	<u>25,169</u>
At 1 January 2002	63,000	—	(8,434)	(2,572)	51,994
Exchange differences arising on the consolidation of the Company's shares and translation of financial statements of subsidiaries outside Hong Kong	—	—	—	1,411	1,411
Net profit for the period	—	—	4,085	—	4,085
At 30 June 2002	<u>63,000</u>	<u>—</u>	<u>(4,349)</u>	<u>(1,161)</u>	<u>57,490</u>

16. Operating leases

At 30 June 2002, the total future minimum lease payment under operating leases are payable as follows:

	At 30 June 2002 HK\$'000	At 31 December 2001 HK\$'000
Within one year	2,088	1,654
After one but within five years	406	1,115
	<u>2,494</u>	<u>2,769</u>

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.

17. Contingent liabilities

At 30 June 2002, the Group pledged bank balances of HK\$18,876,000 (At 31 December 2001: HK\$Nil) with a bank as the security for the short term bank loans granted to an independent third party, Far World Holdings Group Limited, by the bank.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group achieved total revenue of approximately HK\$13.0 million for the six months ended 30 June 2002, representing an increase of 13.6% from revenue of approximately HK\$11.5 million for the corresponding period of 2001. 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\$12.8 million for the period of 2002 (2001: HK\$9.2 million), being the major revenue of the Group and accounted for approximately 98.0% of total revenue (2001: 80.0%). Sales of self-developed standardized software products increased because the Group has placed significant emphasis on the sale of standardized Customer Relationship Management ("CRM") software products in the PRC. As a result, revenue generated from the PRC amounted to approximately HK\$12.5 million (2001: HK\$2.5 million), constituting over 96.1% of the total sales of the Group for the period of 2002 (2001: 22.0%).

Gross profit

For the six months ended 30 June 2002, the Group's gross profit amounted to approximately HK\$12.9 million, representing an increase of 23.4% over the gross profit of approximately HK\$10.4 million for the corresponding period of 2001. In addition, the Group's gross profit margin increased by 8.6% to approximately 98.9% for the period of 2002 as compared with approximately 91.1% for the corresponding period of 2001.

Profit before taxation

Despite the unfavourable business environment during the six months ended 30 June 2002, the Group recorded profit before taxation of approximately HK\$3.5 million, representing a turnaround from loss before taxation of approximately HK\$3.5 million for the corresponding period of 2001. The turnaround was mainly contributed by the increase in gross profit from the sales of self-developed standardized software products and the reduction in provision for doubtful debts and general and administrative expenses as a result of the effective cost control measures on personnel and other operating expenses such as rentals.

Borrowing

As at 30 June 2002, the Group had short term bank loans of approximately HK\$0.2 million which were unsecured and repayable on demand. The Group pledged bank balances of HK\$18.9 million (At 31 December 2001: HK\$Nil) with a bank as the security for the short term bank loans granted to an independent third party, Far World Holdings Group Limited, by the bank. Apart from the foregoing, the Group did not have any other charges on its assets, guarantees or other material contingent liabilities.

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.

The Group's gearing ratio as at 30 June 2002 was 0.4% (At 31 December 2001: Nil), which is expressed as a percentage of the total short-term borrowings over the total assets.

Liquidity, financial resources and capital structure

As at 30 June 2002, the Group had total assets of HK\$61.4 million (At 31 December 2001: HK\$55.0 million) which were financed by current liabilities of HK\$3.9 million (At 31 December 2001: HK\$3.0 million) and shareholders' equity of HK\$57.5 million (At 31 December 2001: HK\$52.0 million). The Group did not have any non-current liabilities outstanding at 30 June 2002 and 31 December 2001.

The Group generally services its debts primary through cash generated from its operations. As at 30 June 2002, the Group had cash and bank balances, of approximately HK\$20.3 million (At 31 December 2001: HK\$7.3 million) and short term bank loans of HK\$0.2 million (At 31 December 2001: HK\$Nil).

Foreign exchange risk

The business activities of the Group do not expose to material fluctuations in exchange rates except for the operations through its subsidiaries in Taiwan and the PRC, which are subject to fluctuations in exchange rates between new Taiwan dollars and Hong Kong dollars, and between Renminbi and Hong Kong dollars respectively. The Group will conduct periodic review of its exposure to foreign exchange risk and use derivative financial instruments to hedge against such risk, as considered appropriate in the circumstances. As at 30 June 2002 and 31 December 2001, the Group did not have any outstanding derivative financial instruments for hedging purposes.

Treasury policies

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

BUSINESS REVIEW

Overview

The growth of both Group revenue and profit attributable to shareholders for the six months ended 30 June 2002 was mainly contributed by the broadening of client base and the expansion of the Group's sales distribution network in the PRC.

For the period under review, the Group continued to develop an effective sales distribution network in the PRC, apart from the major cities such as Beijing, Shanghai, Guangzhou, Chengdu and Wuhan, a wholly-owned subsidiary which is also the Group's research and development centre (the "R&D Centre") was set up in Nanjing in January 2002. The R&D Centre in Nanjing became fully operational in June 2002. The R&D Centre not only enhances the Group's research and development ("R&D") capabilities but also helps to reduce its R&D costs.

The first half of 2002 represents the Group's turning to a new leaf. During the period, the Group has successfully evolved from the provision of single generic CRM software product on a horizontal basis across different industries to the provision of specific CRM applications on a vertical basis focused on the finance sector.

Launch of new products

During the six months ended 30 June 2002, the Group has successfully launched two important CRM solutions, namely eBrokerage and Linux-based eFinancial Consultant System ("eFC" System), with the target markets on securities and banking industries respectively.

Since after the admission of the PRC and Taiwan to the World Trade Organization ("WTO") was approved in December 2001, driven by and in anticipation of growing competition from multi-national enterprises, both the securities and banking industries in the PRC have been undergoing drastic changes. Mainland securities companies are aware of the need to rationalize its business operations to cope with the international standards and leading banks in the PRC hasten the launch of their "Customer Personal Financial Management Services" in order to compete with foreign banks by solidifying its relationship with customers. The launch of both eBrokerage and eFC System enables the Group to capture the ample market potentials of securities and banking industries in the PRC.

At the date of the interim results announcement, the Directors believe that there is no existing CRM solution in the PRC which is comparable with the Group's eFC System and the requirement of computer telephony integration ("CTI") skills, especially in the development of financial management consultancy models, which is in short supply in the PRC, barred the PRC's IT enterprises from entering the CRM market. As a result, the Group takes the competitive advantage over its competitors and a leading bank in the PRC is testing the Group's eFC System.

In March 2002, the Group has entered into an agreement with China Securities Company Limited ("China Securities") for the provision of eBrokerage at one of its major sales offices. It will take two years for the completion of installation and implementation of eBrokerage before its deployment by all major sales offices of China Securities throughout the PRC. Apart from China Securities, another leading securities company in the PRC is testing the Group's eBrokerage.

The Directors believe that both eBrokerage and eFC System will play an important role of the Group in the next two years and revenue from the sales of both eBrokerage and eFC System will be generated from the second half of 2002.

Strong brand awareness in the PRC

As a leading software provider in eCRM solutions, the Group's brand name, "AKuP", is well recognized by the users in the PRC. According to a survey on "CRM Technology Promotion in the Securities Industry" conducted by the Sub-Association for Financial Software and IT Products (金融軟體及資訊產品分會) during a seminar on CRM applications in the securities industry in June 2002, the Company was among the top three well-known CRM solution providers in the PRC, ranking before multi-national companies such as Siebel Systems, Inc. ("Siebel"), SAP AG ("SAP"), International Business Machines Corporation ("IBM") and NCR Corporation ("NCR").

The results of survey has affirmed the Group's position and popularity among securities companies in the PRC as on a par with international CRM solution providers and that the Group holds a leading position in the PRC's CRM market.

Strategic alliance and acquisition

During the six months ended 30 June 2002, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies, and future plans for material investments or acquisition of capital assets.

Employees

During the six months ended 30 June 2002, the average number of employees is 73 (2001: 115) with remuneration for the period amounting to approximately HK\$4.9 million (2001: HK\$6.3 million). As at 30 June 2002, the Group's total headcount is 75 employees (At 31 December 2001: 84). It is the Group's remuneration policies to keep the pay levels of its employees competitive and reward its employees on a performance related basis. Other employee benefits include grant of options under the Company's share option scheme, contributions to retirement scheme and performance bonus.

FUTURE PROSPECTS

Looking forward, the Directors believe that the demand for CRM solutions in Asia, especially the PRC, will continue to experience strong growth with the changing economic environment. The Directors also believe that having strong R&D capabilities is crucial for the Group to compete successfully in the rapidly changing IT industry. Therefore, the Group will actively seek and strive to form strategic alliances with suitable IT companies to further enhance the Group's R&D capabilities and business operations.

Apart from continuing to focus on expanding our business in the finance sector through the launch of eBrokerage and eFC System, the Group is conducting feasibility studies on the development of other new software products such as mobile CRM solutions and electronic government ("eGovernment") solutions in order to broaden our revenue base and client base.

With extensive professional expertise in the IT industry, a management team that has strong market sense, outstanding R&D capabilities and strong brand awareness, the Directors believe that the Group is well positioned to explore growth opportunities for its business emerging from the rapidly changing IT industry .

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

from 1 January 2002 to 30 June 2002

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

Business objectives as disclosed in the Company's Prospectus dated 30 October 2001

Actual business progress from 1 January 2002 to 30 June 2002

A Brand building, marketing and distribution

1 Continue the brand building campaign in a view to establish "AKuP" as the leading brand in eCRM software products

The Group continued to establish "AKuP" as the leading brand in eCRM software products through the active participation in various brand building campaigns such as seminars, exhibitions and conferences.

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

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

Business objectives as disclosed in the Company's Prospectus dated 30 October 2001

Actual business progress from 1 January 2002 to 30 June 2002

- | | | |
|---|---|--|
| 2 | For the Taiwan market, to continue the marketing campaigns, including advertising, organizing seminars, participating in trade shows, and to promote new products and revised versions of existing products | The Group continued the marketing campaigns through the participation as speakers in the master of business administration ("MBA") and executive MBA programmes organised by Chang Gung University (長庚大學企研所) in Taipei in March 2002 and in CRM workshops organised by Small and Medium Enterprises Administration of Ministry of Economic Affairs and Taipei Computer Association respectively during the second quarter of 2002. |
| 3 | For the markets of Beijing, Guangzhou, Shanghai, Hong Kong and Singapore, to explore more joint marketing opportunities with multi-national IT companies and consultancy firms | The Group acted as a sponsor of the Executive Workshop on Electronic Customer Relationship Management for Banking, Insurance and Finance Industry (the "Workshop") organised by City University of Hong Kong and participated the Workshop as speakers in April 2002.

The Group also promoted itself in the IT industry through a television programme "Business Guide" of China Central Television in the PRC and international magazines such as "Business Management Asia" in order to introduce the Group's CRM software products, establish its corporate image and maintain the market awareness. |

Business objectives as disclosed in the Company's Prospectus dated 30 October 2001

Actual business progress from 1 January 2002 to 30 June 2002

- | | | |
|---|--|---|
| 4 | Evaluate the performance of the offices in Wuhan and Chengdu, the PRC and if positive, explore opportunities for alliance with independent software vendors, agents, resellers and distributors in central and southwestern parts of the PRC | The Group set up the fifth representative office in Wuhan, the PRC in February 2002. As the representative offices in Chengdu and Wuhan, the PRC are at their early establishment, the Group will closely evaluate their performances and explore opportunities for business alliances in other parts of the PRC. |
| 5 | Evaluate the performance of the office in San Jose, the United States of America (the "USA") and if positive, extend the marketing channels to the southern part of California, the USA | Due to the unfavourable current political and economic environment after the alleged terrorist attacks in New York, the USA, on 11 September 2001, the Group decided to postpone the establishment of its branch office in San Jose, the USA and slow down the plan to extend the marketing channels to the southern part of California, the USA until the recoveries of the global economy. The Directors believe that such postponement will not have any significant impact on the Group's business development. |
| 6 | Evaluate the performance of the office in Seoul, South Korea and if positive, expand its operations and build up more marketing channels through alliance with resellers, agents and distributors | In view of the current volatile market conditions and economic downturn, the Group decided to set aside temporarily the plan to set up its branch office in Seoul, South Korea and will conduct market research again in the second half of 2002 to evaluate the feasibility of the establishment of the office in Seoul, South Korea. |

Business objectives as disclosed in the Company's Prospectus dated 30 October 2001

Actual business progress from 1 January 2002 to 30 June 2002

B Enhancement and development of products and technology

- | | |
|--|--|
| <p>1 Enhancement of existing products</p> <p>1.1 Upgrade the Group's existing products to Java based solutions to support cross computer operating systems</p> <p>1.2 Enhance the Group's existing products to support database products provided by different companies, such as IBM, Oracle Corporation and Sybase Inc.</p> <p>2 Development of new products</p> <p>2.1 Develop a marketing campaign related software</p> <p>2.2 Develop CRM solutions which are related to sales automation</p> <p>3 Strengthening R&D capabilities</p> <p>3.1 Evaluate the performance of research and development centre and expand the operation when necessary</p> <p>3.2 Provide training to staff from time to time</p> | <p>The Group upgraded its existing products , "Unified Contact Centre" and "eNterprise I", to Java based solutions to support cross computer operating systems.</p> <p>The Group enhanced its existing products, "Unified Contact Centre" and "eNterprise I", to support database products provided by different companies.</p> <p>The Group continued the development of a marketing campaign related software for data mining and campaign management which is at its final stage and will launch to the market in the second half of 2002.</p> <p>The Group continued the development of eFC System for financial consulting in the banking industry and eBrokerage for portfolio management and decision making in the securities industry respectively. Both products have been launched to the market in the second quarter of 2002.</p> <p>The R&D Centre in Nanjing, the PRC commenced its operations and continued to expand with an aim to recruit 100 PRC staff by the end of 2002 for the development of new products and enhancement of existing products in order to provide software products of high quality with low production costs to satisfy the demand from PRC enterprises.</p> <p>The Group provides training to its staff on a concurrent basis in order to keep them with up-to-date knowledge on IT technology and features of software products, and also evaluates the effectiveness of the training courses for staff development.</p> |
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Business objectives as disclosed in the Company's Prospectus dated 30 October 2001

Actual business progress from 1 January 2002 to 30 June 2002

C Strategic alliances and acquisitions

- | | | |
|---|---|---|
| 1 | Identify potential ISP or telecommunications companies in Taiwan, Hong Kong and Singapore to explore business collaboration opportunities for the development of the ASP business | The Group is identifying potential ISP or telecommunications companies and will conduct review on suitable companies. |
| 2 | Negotiate with multi-national IT companies and software vendors to bundle the Group's software with servers or other standard software packages | The Group is negotiating with suitable multi-national IT companies and software vendors. |
| 3 | Identify potential universities and consultancy firms for collaboration on CRM training and consulting services | The Group 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 is negotiating with suitable IT companies with CRM technology or marketing channels for business expansion. |

USE OF PROCEEDS FROM THE PLACEMENT OF NEW SHARES

During the six months ended 30 June 2002, the Group has applied approximately HK\$22.2 million in accordance with the statement of business objectives as set out in the Prospectus as follows:

	<i>Notes</i>	Planned use of proceeds up to 30 June 2002 as set out in the Prospectus <i>HK\$'million</i>	Actual use of proceeds <i>HK\$'million</i>
Product enhancement	1	3	2.0
Research and development	2	2	4.2
Marketing, promotion and brand building	3	3	2.3
Business expansion*	4	10	8.9
		<hr/>	<hr/>
		18	17.4
Working capital	5	—	4.8
	6	18	22.2
		<hr/> <hr/>	<hr/> <hr/>

* Original time schedule on the intended use of proceeds for business expansion is revised from HK\$5 million as set out in the Prospectus to HK\$10 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 enhance its newly developed CRM solutions, "eBrokerage", which are used by brokers in the securities industry to manage the customer portfolio. In addition, the Group upgraded the functions of other existing products, "Unified Contact Centre" and "eNterprise I", 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 as originally planned.
- 2 To cope with the increasing demand for various kinds of CRM solutions by enterprises of specialised industries, the Group accelerated the development of new CRM solutions for securities and banking industries in order to diversify the Group's product lines and increase its market share. As a result, the Group applied additional proceeds of HK\$2.2 million for the development of such CRM solutions.
- 3 To build up "AKuP" as a leading brand in CRM solutions and to develop the Group's marketing channels in the PRC, the Group incurred expenditures in marketing and promotional activities, mainly brand building and marketing campaigns as originally planned.
- 4 The Group applied approximately HK\$8 million to acquire 6% interest in the issued share capital of Beijing ZYD Software Co. Ltd. in the last quarter of 2001 and approximately HK\$0.9 million for the set up of the R&D centre in Nanjing and the fifth representative office in Wuhan, the PRC during the first half of 2002.
- 5 A sum of HK\$4.8 million out of the remaining proceeds from the placement of 117,000,000 new shares on 5 November 2001 (the "Placement") was temporarily used as working capital of the Group.
- 6 Net proceeds received from the Placement 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 of Directors 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 with a bank in Hong Kong.

As at 30 June 2002, the Group had cash and bank balances of approximately HK\$20.3 million, of which approximately HK\$0.4 million was placed with a bank in Hong Kong.

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 30 June 2002, the interests of the Directors in the issued share capital and options of the Company and 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 ("Mr. Chang")		10,800,000	—	—	—	10,800,000
Mr. Huang Hsian-Cheng ("Mr. Huang")		5,400,000	—	—	—	5,400,000
Mr. Chu Han-Ping ("Mr. Chu")		4,500,000	—	—	—	4,500,000

(ii) Interest in associated corporations

AKuP International Technology Co., Ltd. ("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:

- 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 30 June 2002.
- 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

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

Save as disclosed above, none of the Directors or their respective associates had, as at 30 June 2002, any interests in the shares of the Company or any of 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.

At 30 June 2002, the directors and employees of the Company had the following interests in options to subscribe for shares of the Company (market value per share at 30 June 2002 is HK\$0.147) granted at nominal consideration under the share option scheme of the Company. Each option gives the holder the right to subscribe for one share.

	No. of options outstanding at 1 January 2002	No. of options outstanding at 30 June 2002	Date granted	Period during which options exercisable	Price per share on exercise of options	Market value per share at date of grant of options
Directors						
Mr. Hu	—	1,510,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.173
	—	1,510,000		11 April 2004 to 10 April 2009		
	—	2,020,000		11 April 2005 to 10 April 2010		
Ms. Chiang	—	1,410,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.173
	—	1,410,000		11 April 2004 to 10 April 2009		
	—	1,880,000		11 April 2005 to 10 April 2010		
Mr. Chang	—	1,210,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.173
	—	1,210,000		11 April 2004 to 10 April 2009		
	—	1,610,000		11 April 2005 to 10 April 2010		

	No. of options outstanding at 1 January 2002	No. of options outstanding at 30 June 2002	Date granted	Period during which options exercisable	Price per share on exercise of options	Market value per share at date of grant of options
Directors						
Mr. Huang	—	1,210,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.173
	—	1,210,000		11 April 2004 to 10 April 2009		
	—	1,610,000		11 April 2005 to 10 April 2010		
Mr. Chu	—	1,310,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.173
	—	1,310,000		11 April 2004 to 10 April 2009		
	—	1,750,000		11 April 2005 to 10 April 2010		
	—	22,170,000				
Management Shareholders other than Directors						
Mr. Chou Sung-Yi	—	1,100,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.173
	—	1,100,000		11 April 2004 to 10 April 2009		
	—	1,480,000		11 April 2005 to 10 April 2010		
Mr. Liao Chien-Chih	—	650,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.173
	—	650,000		11 April 2004 to 10 April 2009		
	—	870,000		11 April 2005 to 10 April 2010		
Ms. Ma Chia-Yi	—	600,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.173
	—	600,000		11 April 2004 to 10 April 2009		
	—	810,000		11 April 2005 to 10 April 2010		
Mr. Wang Chih-Chin	—	600,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.173
	—	600,000		11 April 2004 to 10 April 2009		
	—	810,000		11 April 2005 to 10 April 2010		

	No. of options outstanding at 1 January 2002	No. of options outstanding at 30 June 2002	Date granted	Period during which options exercisable	Price per share on exercise of options	Market value per share at date of grant of options
Management shareholders other than Directors						
Ms. Zhang Ying	—	550,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.173
	—	550,000		11 April 2004 to 10 April 2009		
	—	740,000		11 April 2005 to 10 April 2010		
	—	<u>11,710,000</u>				
Employees	—	7,770,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.173
	—	7,770,000		11 April 2004 to 10 April 2009		
	—	10,390,000		11 April 2005 to 10 April 2010		
	—	<u>25,930,000</u>				
Total	—	<u>59,810,000</u>				

The share options granted are not recognised in the financial statements until they are exercised. During the six months ended 30 June 2002, no option was exercised under the share option scheme.

Save as disclosed above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other corporate, and none of the Directors, or their spouses or children under eighteen years of age, had any right to subscribe for the shares of the Company, or had exercised any such right during the period.

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 30 June 2002, amounting to 10% or more of the ordinary shares in issue as recorded in the register of substantial interests maintained by the Company under section 16(1) of the SDI Ordinance:

	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:

- 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 30 June 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 second quarter of 2002 or at any time during the six months ended 30 June 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 30 June 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, in draft form, the Company's annual report and accounts, half year report and quarterly reports, and 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 reviewed the Company's unaudited interim results announcement and report for the six months ended 30 June 2002 before its publication. During the period, the audit committee held a meeting with the Company's auditors, the qualified accountant and the Group's senior management.

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

During the six months ended 30 June 2002, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

BOARD PRACTICES AND PROCEDURES

During the six months ended 30 June 2002, the Company has complied with the Board Practices and Procedures concerning the general management responsibilities of the Board as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

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

Hong Kong, 7 August 2002