



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
2003**

** for identification purpose only*

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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

- The Group achieved total revenue of approximately HK\$6.2 million for the three months ended 31 March 2003, representing an increase of 9% over the corresponding period of 2002.
- Loss attributable to shareholders for the three months ended 31 March 2003 was approximately HK\$4.4 million as compared with profit attributable to shareholders of approximately HK\$1.6 million for the corresponding period of 2002.
- Loss per share for the three months ended 31 March 2003 was approximately HK cents 0.70 as compared with earnings per share of approximately HK cents 0.25 for the corresponding period of 2002.
- The Directors of the Company do not recommend the payment of an interim dividend for the three months ended 31 March 2003.

CONSOLIDATED RESULTS

The board of directors (the "Board") of AKuP International Holding Limited (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months ended 31 March 2003 together with the unaudited comparative figures for the corresponding period of 2002 as follows:

		Three months ended 31 March	
	<i>Note</i>	2003 <i>HK\$'000</i> (unaudited)	2002 <i>HK\$'000</i> (unaudited)
Revenue	2	6,240	5,726
Cost of services and merchandise sold		(2,746)	(118)
Gross profit		3,494	5,608
Research and development costs		(1,864)	(861)
Selling expenses		(2,543)	(1,546)
General and administrative expenses		(3,342)	(2,002)
(Loss)/profit from operations	2&3	(4,255)	1,199
Net finance (costs)/income	4	(123)	57
(Loss)/profit before taxation		(4,378)	1,256
Taxation	5	(4)	312
(Loss)/profit attributable to shareholders		(4,382)	1,568
(Loss)/earnings per share	6		
Basic		(0.70) cents	0.25 cents

Notes to the unaudited first quarterly report:

1. Basis of preparation

The unaudited first quarterly report has been reviewed by the Company's audit committee and prepared in accordance with the applicable disclosure requirements of the GEM Listing Rules.

The first quarterly report has been prepared under the historical cost convention and the same accounting policies adopted in the 2002 annual accounts have been applied to this report.

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	
	Three months	
	ended 31 March	
	2003	2002
	HK\$'000	HK\$'000
Principal activities		
Custom-made solutions	97	—
Sales of software products	6,012	5,584
Sales of hardware products	1	142
Revenue from maintenance services and professional services	130	—
	<u>6,240</u>	<u>5,726</u>
Geographical locations		
Taiwan	6,120	142
The People's Republic of China (excluding Taiwan and Hong Kong) (the "PRC")	106	5,584
Hong Kong	14	—
	<u>6,240</u>	<u>5,726</u>

	Contribution to (loss)/ profit from operations Three months ended 31 March	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Principal activities		
Custom - made solutions	78	—
Sales of software products	3,286	5,584
Sales of hardware products	—	24
Revenue from maintenance services and professional services	130	—
	<u>3,494</u>	5,608
Operating expenses	<u>(7,749)</u>	(4,409)
	<u>(4,255)</u>	<u>1,199</u>
Geographical locations		
Taiwan	3,393	24
The PRC	87	5,584
Hong Kong	14	—
	<u>3,494</u>	5,608
Operating expenses	<u>(7,749)</u>	(4,409)
	<u>(4,255)</u>	<u>1,199</u>

3. (Loss)/profit from operations

(Loss)/profit from operations is arrived after charging/(crediting):

(a) Staff costs

	Three months ended 31 March	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, wages and allowances	2,104	2,508
Contributions to retirement benefit schemes	182	45
	<u>2,286</u>	<u>2,553</u>
Average number of employees during the period	<u>69</u>	<u>70</u>

Staff costs include HK\$1,025,000 (2002: HK\$1,195,000) relating to salaries and retirement benefits of staff engaged in research and development activities and Directors' remuneration totalling HK\$411,000 (2002: HK\$403,000) for the period ended 31 March 2003.

(b) Other items

	Three months ended 31 March	
	2003 HK\$'000	2002 HK\$'000
Research and development costs	1,864	2,071
Less: amount capitalised	—	(1,210)
	<u>1,864</u>	<u>861</u>
Operating lease charges in respect of properties	539	556
Less: amount capitalised	—	(133)
	<u>539</u>	<u>423</u>
Depreciation	1,011	478
Less: amount capitalised	—	(290)
	<u>1,011</u>	<u>188</u>
Cost of inventories	2,746	118
Auditors' remuneration	131	126
Provision for doubtful debts	1,366	—
	<u><u>1,366</u></u>	<u><u>—</u></u>

4. Net finance (costs)/income

	Three months ended 31 March	
	2003 HK\$'000	2002 HK\$'000
Interest on other borrowings repayable within five years	(59)	—
Interest income	1	10
Exchange (loss)/gain	(65)	47
	<u>(123)</u>	<u>57</u>

5. Taxation

Taxation represents:

	Three months ended 31 March	
	2003 HK\$'000	2002 HK\$'000
Taxation outside Hong Kong for the period	4	4
Deferred taxation	—	(316)
	<u>4</u>	<u>(312)</u>

No provision for Hong Kong Profits Tax has been provided for the three months ended 31 March 2003 (2002: 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, unrealised loss on investment of a subsidiary 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. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic loss per share for the three months ended 31 March 2003 is based on the loss attributable to shareholders of HK\$4,382,000 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 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.

(b) Diluted (loss)/earnings per share

Diluted loss per share as at 31 March 2003 has not been presented as the effect of any dilution is anti-dilutive.

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

7. Dividend

The Directors of the Company do not recommend the payment of an interim dividend for the three months ended 31 March 2003 (2002: HK\$Nil).

8. Capital and reserves

	Share capital	Accumulated losses	Exchange reserves	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2002	63,000	(8,434)	(2,572)	51,994
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	276	276
Profit for the period	—	1,568	—	1,568
	<u>63,000</u>	<u>(6,866)</u>	<u>(2,296)</u>	<u>53,838</u>
At 31 March 2002	63,000	(6,866)	(2,296)	53,838
At 1 January 2003	63,000	(8,732)	(2,431)	51,837
Exchange difference on translation of financial statements of subsidiaries outside Hong Kong	—	—	(206)	(206)
Loss for the period	—	(4,382)	—	(4,382)
	<u>63,000</u>	<u>(13,114)</u>	<u>(2,637)</u>	<u>47,249</u>
At 31 March 2003	63,000	(13,114)	(2,637)	47,249

FINANCIAL REVIEW

As a result of the continuous economic downturn to the Asian economy, the war broke out in Iraq and the outbreak of Severe Acute Respiratory Syndrome in the People's Republic of China (the "PRC") and Hong Kong during the first quarter of 2003, the Group faced with a difficult operating environment as the capital expenditure in IT remained stagnant or even on a decline trend when some enterprises suspended their IT expenditure and also reduced their IT budgets for 2003. Most enterprises in Asian countries have slowed down the IT projects on hand which made the business environment faced by the IT industry even worse than the corresponding period of last year. Despite the persisting unfavourable market condition and keen competition among the software companies, the Group recorded a total revenue of approximately HK\$6.2 million for the three months ended 31 March 2003 (2002: HK\$5.7 million), representing an increase of 9% when compared with the corresponding period of last year. Sales of software products amounted to HK\$6.0 million for the three months ended 31 March 2003 (2002: HK\$5.6 million), which remained the major Group revenue and accounted for approximately 96% of total revenue (2002: 98%). During the period under review, the Group sold both self-developed standardised software products, customer relationship management ("CRM") solutions, and other software products, management information system ("MIS") solutions, purchased from independent suppliers.

During the period under review, the Group's gross profit amounted to approximately HK\$3.5 million, representing a decrease of 38% when compared with the gross profit of approximately HK\$5.6 million for the corresponding period of last year. The decrease in the Group's gross profit was mainly contributed from the sales of other software products purchased from independent suppliers of which their profit margins are lower than that of self-developed standardised software products. As a result, the Group's gross profit margin reduced from 98% to 56%. The Group recorded a loss before taxation of approximately HK\$4.4 million for the three months ended 31 March 2003 as compared with profit before taxation of HK\$1.3 million for the corresponding period of 2002. The turnaround was mainly due to the reduction in gross profit of software products and the increase in operating costs from research and development costs of software products, provision for doubtful debts and depreciation changes. Loss attributable to shareholders for the three months ended 31 March 2003 was approximately HK\$4.4 million as compared with profit attributable to shareholders of approximately HK\$1.6 million for the corresponding period of 2002.

BUSINESS REVIEW

During the period under review, the revenue contributed from Taiwan increased to HK\$6.1 million as compared with HK\$0.1 million for the corresponding period of 2002. The substantial increase was mainly due to the recovery of finance sector in Taiwan during the first quarter of 2003 after the financial reform in 2002 and the Group's efforts on the promotion of its CRM solutions in Taiwan. In addition, the Group started to sell other software products, MIS solutions, purchased from independent suppliers which also contributed revenue to the Group in Taiwan.

After evaluating the business performances and prospects of the Group in Singapore and Wuhan, the PRC, the Group has decided to close these two representative offices in the first quarter of 2003 due to the streamlining of its operations and reduction of operating costs. In order to maintain the Group's business presence in Singapore, the Group has granted distribution rights of its CRM solutions to an independent reseller in Singapore and the Group's operations in Wuhan, the PRC will be taken over by its Shanghai representative office. The Directors believe that the closure of such representative offices will not have any significant impact on the Group's operations and business plan and such move will enable the Group to operate in a more cost effective manner.

PROSPECTS

Looking ahead, the Group will continue its focus on the development of new CRM solutions and the enhancement of existing CRM solutions for enterprises in finance sector and other sectors such as manufacturing and recreation. In addition, the Group will also focus on the reduction of operating costs through the adoption of effective cost control measures such as streamlining its operations in different areas and the formation of strategic alliances with potential business partners for sales distribution. The Directors believe that the Group is well positioned to exploit growth opportunities notwithstanding the continuous economic downturn and worsened market sentiment faced by the IT industry as the Group has established an effective sales distribution network for its software products and possesses strong research and development capabilities to develop and enhance CRM solutions for enterprises in the Asia Pacific region.

DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 31 March 2003, 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 31 March 2003.
- 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

At 31 March 2003, the Directors of the Company had the following interests in options to subscribe for shares of the Company 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 2003	No. of options outstanding at 31 March 2003	Date granted	Period during which options exercisable	Price per share on exercise of options	Market value per share immediately before the date of grant of options
Directors						
Mr. Hu	1,510,000	1,510,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.178
	1,510,000	1,510,000		11 April 2004 to 10 April 2009		
	2,020,000	2,020,000		11 April 2005 to 10 April 2010		
Ms. Chiang	1,410,000	1,410,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.178
	1,410,000	1,410,000		11 April 2004 to 10 April 2009		
	1,880,000	1,880,000		11 April 2005 to 10 April 2010		
Mr. Chang	1,210,000	1,210,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.178
	1,210,000	1,210,000		11 April 2004 to 10 April 2009		
	1,610,000	1,610,000		11 April 2005 to 10 April 2010		
Mr. Huang	1,210,000	1,210,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.178
	1,210,000	1,210,000		11 April 2004 to 10 April 2009		
	1,610,000	1,610,000		11 April 2005 to 10 April 2010		
Mr. Chu	1,310,000	1,310,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.178
	1,310,000	1,310,000		11 April 2004 to 10 April 2009		
	1,750,000	1,750,000		11 April 2005 to 10 April 2010		
	<u>22,170,000</u>	<u>22,170,000</u>				

The options granted are not recognised in the financial statements until they are exercised. During the three months ended 31 March 2003, no option was exercised under the share option scheme of the Company.

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 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.

Save as disclosed above, none of the Directors or their respective associates had, as at 31 March 2003, 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.

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 2003, 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:

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

Notes:

- 3 Sean & Leo Assets Management Limited is beneficially owned by 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.
- 4 Mr. Lee and Ms. Tsang (Mr. Lee's wife) are independent third parties who are not connected with the Directors, chief executives, substantial shareholders or management shareholders of the Company or any of their respective associates.
- 5 Grand Pacific is owned by the associated parties of 辜濂松 (Mr. Jeffrey Lien-Sung Koo) and 駱錦明 (Mr. 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.

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 2003.

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 31 March 2003 or at any time during the three months ended 31 March 2003.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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.

SPONSOR'S INTERESTS

As notified by the Company's sponsor, neither Core Pacific-Yamaichi Capital Limited ("CPY") nor its directors, employees or associates have any interest in the share capital of the Company or any of its subsidiaries, or any option or right to subscribe for the share capital of the Company or any of its subsidiaries as at 31 March 2003.

Pursuant to a sponsor's agreement dated 30 October 2001 entered into between CPY and the Company, 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.

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 to 5.25 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 the committee 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 first quarterly report for the three months ended 31 March 2003 before its publication.

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

During the three months ended 31 March 2003, 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 three months ended 31 March 2003, the Company has complied with the Board Practices and Procedures concerning the general management responsibilities of the Board as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

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

Taipei, Taiwan, 13 May 2003