



AKuP International Holding Limited

艾克國際控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT

2003

** for identification purpose only*

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspaper. Accordingly, prospective investors should note that they need to have access to the GEM website at <http://www.hkgem.com> in order to obtain up-to-date information on GEM-listed issuers.

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\$13.1 million for the six months ended 30 June 2003, representing an increase of 1% over the corresponding period of 2002.
- Loss attributable to shareholders for the six months ended 30 June 2003 was approximately HK\$8.8 million as compared with profit attributable to shareholders of approximately HK\$4.1 million for the corresponding period of 2002.
- Loss per share for the six months ended 30 June 2003 was approximately HK cents 1.40 as compared with earnings per share of approximately HK cents 0.65 for the corresponding period of 2002.
- The directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2003.

CONSOLIDATED RESULTS

The board of directors (the "Board") of AKuP International Holding Limited (the "Company") announces 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 2003 together with the unaudited comparative figures for the corresponding periods of 2002 as follows:

	Note	Six months ended 30 June		Three months ended 30 June	
		2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)	2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Revenue	2	13,129	13,030	6,889	7,304
Cost of services and merchandise sold		(4,142)	(143)	(1,396)	(25)
Gross profit		8,987	12,887	5,493	7,279
Research and development costs		(3,555)	(1,407)	(1,691)	(546)
Selling expenses		(8,385)	(3,089)	(5,842)	(1,543)
General and administrative expenses		(6,132)	(4,338)	(2,790)	(2,336)
(Loss)/profit from operations	2&3	(9,085)	4,053	(4,830)	2,854
Net finance costs	4	(328)	(537)	(205)	(594)
(Loss)/profit before taxation		(9,413)	3,516	(5,035)	2,260
Taxation	5	582	569	586	257
(Loss)/profit attributable to shareholders		(8,831)	4,085	(4,449)	2,517
(Loss)/earnings per share	6				
Basic		(1.40) cents	0.65 cents	(0.70) cents	0.40 cents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2003

		Six months ended 30 June	
		2003	2002
	Note	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Capital and reserves			
At 1 January	17	51,837	51,994
Net gains 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	17	37	1,411
Net (loss)/profit for the period	17	(8,831)	4,085
At 30 June		43,043	57,490

CONSOLIDATED BALANCE SHEET

at 30 June 2003

		At 30 June 2003 HK\$'000 (unaudited)	At 31 December 2002 HK\$'000 (audited)
ASSETS			
Non-current assets			
Fixed assets	8	7,593	8,475
Investments		15,796	15,796
Other assets		621	778
Deferred taxation		3,126	2,513
		<u>27,136</u>	<u>27,562</u>
Current assets			
Inventories	9	7,983	1,167
Gross amounts due from customers for contract work	10	255	254
Trade receivables	11	13,248	27,600
Prepayments and other receivables	11	8,273	6,825
Cash and cash equivalents	12	6,901	152
		<u>36,660</u>	<u>35,998</u>
Current liabilities			
Trade payables	13	2,863	13
Accrued expenses and other payables	13	5,490	5,168
Short-term bank loan	14	220	220
Obligations under finance leases	15	3,750	—
Tax payable		10	18
		<u>12,333</u>	<u>5,419</u>
Net current assets		<u>24,327</u>	<u>30,579</u>
Total assets less current liabilities		<u>51,463</u>	<u>58,141</u>
Non-current liabilities			
Obligations under finance leases	15	2,005	—
Convertible bonds		6,415	6,304
		<u>8,420</u>	<u>6,304</u>
NET ASSETS		<u>43,043</u>	<u>51,837</u>
CAPITAL AND RESERVES			
Share capital	16 & 17	63,000	63,000
Reserves	17	(19,957)	(11,163)
		<u>43,043</u>	<u>51,837</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2003

	Note	Six months ended 30 June	
		2003 HK\$'000 (unaudited)	2002 HK\$'000 (unaudited)
Net cash inflows from operating activities		2,021	16,907
Net cash outflows in investing activities		(1,024)	(5,417)
Net cash inflows in financing activities		5,733	232
Net increases in cash and cash equivalents		6,730	11,722
Effect of foreign exchange rates changes		19	1,269
Cash and cash equivalents at 1 January	12	152	7,271
Cash and cash equivalents at 30 June	12	6,901	20,262

Notes on the unaudited interim report:

1. Basis of preparation

The unaudited interim report has been reviewed by the Company's audit committee and prepared in accordance with the applicable disclosure requirements of the Listing Rules of the GEM of the Stock Exchange and the Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

During the six months ended 30 June 2003, the Group adopted SSAP 12 (revised) "Income Taxes" for the first time in the preparation of the interim report. SSAP 12 (revised) has introduced a new basis of accounting for income taxes (including both current tax and deferred tax). The adoption of SSAP 12 (revised) has had no significant effect on the results for the current or prior accounting periods.

Other than as described above, the interim report has been prepared under the historical cost convention and the same accounting policies adopted in 2002 annual accounts have been applied to this report. The financial information relating to the financial year ended 31 December 2002 included in the interim report does not constitute the Company's statutory accounts for that financial year but is derived from those accounts.

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 2002 annual accounts.

3. (Loss)/profit from operations

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

(a) Staff costs

	Six months ended 30 June		Three months ended 30 June	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Salaries, wages and allowances	3,741	4,401	1,637	1,893
Contributions to retirement benefit schemes	291	91	109	46
	<u>4,032</u>	<u>4,492</u>	<u>1,746</u>	<u>1,939</u>
Average number of employees during the period	<u>59</u>	<u>73</u>	<u>49</u>	<u>72</u>

Staff costs include HK\$1,828,000 (2002: HK\$1,573,000) relating to salaries and retirement benefits of staff engaged in research and development activities and Directors' remuneration totalling HK\$694,000 (2002: HK\$832,000) for the period ended 30 June 2003.

(b) Other items

	Six months ended 30 June		Three months ended 30 June	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Research and development costs	3,555	3,776	1,691	1,705
Less: amount capitalised	—	(2,369)	—	(1,159)
	<u>3,555</u>	<u>1,407</u>	<u>1,691</u>	<u>546</u>
Operating lease charges in respect of properties	922	1,048	383	492
Less: amount capitalised	—	(252)	—	(119)
	<u>922</u>	<u>796</u>	<u>383</u>	<u>373</u>
Depreciation	2,052	2,917	1,041	2,439
Less: amount capitalised	—	(636)	—	(346)
	<u>2,052</u>	<u>2,281</u>	<u>1,041</u>	<u>2,093</u>
Cost of inventories*	4,142	143	1,396	25
Auditors' remuneration	263	263	132	137
Provision for doubtful debts	6,543	664	5,177	664

* Cost of inventories includes a write down of HK\$2,000 (2002: HK\$Nil) to state the inventories at net realisable value.

4. Net finance costs

	Six months ended 30 June		Three months ended 30 June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on other borrowings repayable within five years	(119)	(2)	(60)	(2)
Finance charges on obligations under finance leases	(23)	—	(23)	—
Interest income	5	27	4	17
Exchange loss	(191)	(562)	(126)	(609)
	<u>(328)</u>	<u>(537)</u>	<u>(205)</u>	<u>(594)</u>

5. Taxation

Taxation represents:

	Six months ended 30 June		Three months ended 30 June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Taxation outside Hong Kong for the period	21	15	17	11
Deferred taxation	(603)	(584)	(603)	(268)
	<u>(582)</u>	<u>(569)</u>	<u>(586)</u>	<u>(257)</u>

No provision for Hong Kong Profits Tax has been provided for the six months and three months ended 30 June 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 in a subsidiary and deferred deduction of the provisions for doubtful debts and inventories for tax purposes.

6. (Loss)/earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic loss per share for the six months and three months ended 30 June 2003 is based on the loss attributable to shareholders of HK\$8,831,000 and HK\$4,449,000 respectively divided by 630,000,000 shares in issue during the relevant period.

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.

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings per share as at 30 June 2003 and 2002 have not been presented as the effect of any dilution is anti-dilutive.

7. Dividend

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2003 (2002: HK\$Nil).

8. Fixed assets

During the six months ended 30 June 2003, the Group acquired fixed assets comprising computers and other equipment, leasehold improvements and computer software of HK\$1,181,000 (2002: HK\$2,288,000).

The Group leased computer software under finance leases expiring in 18 months. At the end of the lease term, the Group has the option to purchase the software at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

The net book value of computer software held under finance leases of the Group was HK\$715,000 (At 31 December 2002: HK\$Nil).

9. Inventories

Inventories represent merchandise purchased for resale which are stated net of a general provision of HK\$411,000 (At 31 December 2002: HK\$409,000) in order to state these inventories at the lower of their cost and estimated net realisable value.

The Group purchased inventories under finance leases expiring in 18 months. At the end of the lease term, the Group has the option to purchase the inventories at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals.

The net carrying amount of inventories held under finance leases of the Group was HK\$4,015,000 (At 31 December 2002: HK\$Nil).

10. Gross amounts due from customers for contract work

	At 30 June 2003 HK\$'000	At 31 December 2002 HK\$'000
Costs incurred	736	733
Add: recognised profits	245	244
	<u>981</u>	<u>977</u>
Less: progress billings	(641)	(638)
	<u>340</u>	<u>339</u>
Less: provision for foreseeable losses	(85)	(85)
	<u><u>255</u></u>	<u><u>254</u></u>

The gross amounts due from customers for contract work at 30 June 2003 and 31 December 2002 are expected to be recovered within one year.

11. Trade and other receivables

	At 30 June 2003 HK\$'000	At 31 December 2002 HK\$'000
Debtors and bills receivable	13,248	27,600
Subscriptions receivable	—	935
Prepayments	8,132	2,606
Others	141	3,284
	<u>8,273</u>	<u>6,825</u>
	<u>21,521</u>	<u>34,425</u>

All of the trade and other receivables, apart from the prepayments of HK\$8,132,000 (At 31 December 2002: HK\$2,606,000), are expected to be received within one year.

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

	At 30 June 2003 HK\$'000	At 31 December 2002 HK\$'000
Current	720	14,235
Aged over 1 month but less than 3 months	1,159	—
Aged 3 months but less than 6 months	7,774	6,942
Aged over 6 months but less than 12 months	2,925	5,301
Aged over 1 year	670	1,122
	<u>13,248</u>	<u>27,600</u>

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

12. Cash and cash equivalents

	At 30 June 2003 HK\$'000	At 31 December 2002 HK\$'000
Cash at bank and on hand	<u>6,901</u>	<u>152</u>

13. Trade and other payables

	At 30 June 2003 HK\$'000	At 31 December 2002 HK\$'000
Creditors and bills payable	2,863	13
Accrued salaries and bonus	1,519	2,029
Accrued expenses	3,971	3,139
	<u>5,490</u>	<u>5,168</u>
	<u>8,353</u>	<u>5,181</u>

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

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

	At 30 June 2003 HK\$'000	At 31 December 2002 HK\$'000
Overdue within one month or on demand	<u>2,863</u>	<u>13</u>

14. Short-term bank loan

At 30 June 2003, the short-term bank loan of HK\$220,000 (At 31 December 2002: HK\$220,000) was unsecured, bearing interest at 7.25% and repayable within one year.

15. Obligations under finance leases

At 30 June 2003, the Group had obligations under finance leases repayable as follows:

	At 30 June 2003			At 31 December 2002		
	Present value of the minimum lease payments HK\$'000	Interest expense relating to future periods HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Interest expense relating to future periods HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	3,750	423	4,173	—	—	—
After 1 year but within 2 years	2,005	62	2,067	—	—	—
	<u>5,755</u>	<u>485</u>	<u>6,240</u>	<u>—</u>	<u>—</u>	<u>—</u>

16. Share capital

**At 30 June 2003 and
31 December 2002**

	No. of shares	
	('000)	HK\$'000

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 2003	<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 17.

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 granted, cancelled and/or exercised during the period. At 30 June 2003, 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 2003
12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	15,950,000
	11 April 2004 to 10 April 2009	HK\$0.191	15,950,000
	11 April 2005 to 10 April 2010	HK\$0.191	21,440,000
			<u>53,340,000</u>

17. 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 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>(4,349)</u>	<u>(1,161)</u>	<u>57,490</u>
At 1 January 2003	63,000	(8,732)	(2,431)	51,837
Exchange differences arising on the consolidation of the Company's shares and translation of financial statements of subsidiaries outside Hong Kong	—	—	37	37
Net loss for the period	—	(8,831)	—	(8,831)
At 30 June 2003	<u>63,000</u>	<u>(17,563)</u>	<u>(2,394)</u>	<u>43,043</u>

18. Operating leases

At 30 June 2003, the total future minimum lease payment under operating leases are payable as follows:

	At 30 June 2003 <i>HK\$'000</i>	At 31 December 2002 <i>HK\$'000</i>
Within one year	751	1,583
After one but within five years	—	30
	<u>751</u>	<u>1,613</u>

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one year, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group achieved total revenue of approximately HK\$13.1 million for the six months ended 30 June 2003, representing an increase of 1% from revenue of approximately HK\$13.0 million for the corresponding period of 2002. Sales of software products amounted to approximately HK\$10.4 million for the six months ended 30 June 2003 (2002: HK\$12.8 million), which remained the major Group revenue and accounted for approximately 79% of total revenue (2002: 98%). During the period under review, the Group sold both self-developed standardised software products, customer relationship management ("CRM") solution, and other software products, management information system ("MIS") solution, purchased from independent suppliers.

Gross profit

For the six months ended 30 June 2003, the Group's gross profit amounted to approximately HK\$9.0 million, representing a decrease of 30% when compared with the gross profit of approximately HK\$12.9 million for the corresponding period of 2002. In addition, the Group's gross profit margin decreased by 31% to approximately 68.5% for the period of 2003 as compared with approximately 98.9% for the corresponding period of 2002. The decrease of both gross profit and gross profit margin was mainly contributed from the sales of other software products purchased from independent suppliers of which their gross profit and gross profit margin are lower than that of self-developed standardised software products.

Loss before taxation

As a result of the unfavourable business environment during the six months ended 30 June 2003, the Group recorded loss before taxation of approximately HK\$9.4 million, representing a turnaround from profit before taxation of approximately HK\$3.5 million for the corresponding period of 2002. The turnaround was mainly contributed by the decrease in the gross profit of software products and the increase in operating costs such as research and development costs of software products and provision for doubtful debts.

Borrowings

As at 30 June 2003, the Group had total long term borrowings from issue of unlisted convertible bonds in an aggregate principal amount of approximately HK\$6.4 million (At 31 December 2002: HK\$6.3 million) which were to be due in September 2005 and total obligations under finance leases of approximately HK\$5.8 million (At 31 December 2002: HK Nil). In addition, the Group had short-term bank loan of approximately HK\$0.2 million (At 31 December 2002: HK\$0.2 million), which was borrowed at fixed interest rate.

The Group's gearing ratio as at 30 June 2003 was 19% (At 31 December 2002: 10%), which is expressed as a percentage of the total borrowings over the total assets.

Liquidity, financial resources and capital structure

As at 30 June 2003, the Group had total assets of approximately HK\$63.8 million (At 31 December 2002: HK\$63.6 million), current liabilities of approximately HK\$12.3 million (At 31 December 2002: HK\$5.4 million), non-current liabilities of approximately HK\$8.4 million (At 31 December 2002: HK\$6.3 million) from obligations under finance leases and issue of unlisted convertible bonds which were to be due in September 2005 and shareholders' equity of approximately HK\$43.0 million (At 31 December 2002: HK\$51.8 million).

The Group generally services its debts primary through cash generated from its operations. As at 30 June 2003, the Group had cash and bank balances, of approximately HK\$6.9 million (At 31 December 2002: HK\$0.2 million) and short term bank loan of approximately HK\$0.2 million (At 31 December 2002: HK\$0.2 million).

Pledge of assets, capital commitments and contingent liabilities

As at 30 June 2003, the Group did not have any charges on its assets and future plans for material investments or acquisitions of capital assets (2002: Nil). In addition, the Group did not have any significant contingent liabilities as at 30 June 2003 (2002: HK\$Nil). And the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies during the six months ended 30 June 2003.

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 2003 and 31 December 2002, the Group did not have any outstanding derivative financial instruments for hedging purposes.

Treasury policies

With the focus on risk management, the Group adopts a conservative approach towards its treasury policies in order to monitor its foreign exchange risk, credit risk and liquidity risk. Financial assets of the Group include cash, investments, trade receivables, prepayments and other receivables. Financial liabilities of the Group include trade payables, accrued expenses and other payables, tax payable, short-term bank loan, obligations under finance leases and convertible bonds. 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

During the period under review, the revenue contributed from Taiwan increased to approximately HK\$12.6 million as compared with approximately HK\$0.5 million for the corresponding period of 2002. The substantial increase was mainly due to the recovery of finance sector in Taiwan and its financial reforms during the first half of 2003 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.

Streamlining of the Group's business operations

The research and development centre of the Group in Nanjing is now in full operations and major sales activities are currently taken up by both consultants and sales managers of the Group's subsidiary in Nanjing and Shanghai representative office. After taking serious considerations by the Group's senior management and evaluating the business performances and prospects of the Group in Beijing and Guangzhou, the PRC, the Group has decided to close these two representative offices in the second quarter of 2003 in order to streamline its operations and save operating costs. 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.

Employees

During the six months ended 30 June 2003, the average number of employees is 59 (2002: 73) with remuneration for the period amounting to approximately HK\$4.0 million (2002: HK\$4.5 million). As at 30 June 2003, the Group's total headcount is 41 employees (At 31 December 2002: 78). 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

Despite the continuous economic downturn and worsened market sentiment faced by the IT industry, the Directors believe that the Group is well positioned to exploit growth opportunities based on its established sales distribution network and sophisticated research and development centre. Looking forward, 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 order to achieve the Group's business objectives, the Group will also focus on streamlining its business operations and adopting effective cost control measures to reduce its operating costs. In addition, the Group will seek potential business parties for strategic alliances or investment opportunities in order to strengthen and create synergetic effect on its business operations.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

from 1 January 2003 to 30 June 2003

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 2003 to 30 June 2003.

Business objectives as disclosed in the Company's Prospectus dated 30 October 2001	Actual business progress from 1 January 2003 to 30 June 2003
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.
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 of its software products such as eFinancial Consultant System for banks through the participation as speaker in a forum known as "Financial Strategy on Information for Chief Information Officer Forum" (金融高階資訊主管策略會議) arranged by Intel Corporation and PricewaterhouseCoopers in Taiwan during the second quarter of 2003.
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 organised workshops on CRM for senior executives of Bank of Communications in both Hong Kong and Shanghai in January and April 2003 respectively.
4 Conduct market research on the northeastern part of the PRC and if positive, set up a branch office in Shenyang, the PRC to market the Group's products	In view of the current volatile market conditions and economic downturn, the Group decided to set aside temporarily the plan to set up its branch offices in Shenyang, the PRC, New York, the USA and Kuala Lumpur, Malaysia and will conduct market research again in the second half of 2003 to evaluate the feasibility of the establishment of such offices.

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

Actual business progress from 1 January 2003 to 30 June 2003

5 Evaluate the performance of the office in New York, the United States of America (the "USA") and if positive, extend the marketing channels to the eastern coast of the USA

6 Conduct market research on Malaysia and, if positive, set up a branch office in Kuala Lumpur, Malaysia to explore market opportunities

B Enhancement and development of products and technology

1 Enhancement of existing products

Develop the voice portal and voice recognition features for the Group's existing products

The Group developed the voice portal and vice recognition features for its existing product, "Unified Contact Centre".

2 Development of new products

Continue to develop process automation related software on service automation

The Group continued to develop process automation related software on service automation for suitable companies in different industries.

3 Strengthening R&D capabilities

3.1 Evaluate the performance of research and development centre and expand the operation when necessary

The R&D Centre in Nanjing, the PRC has taken a leading role for the development of new products and enhancement of existing products for the Group in order to provide software products of high quality with low production costs to satisfy the demand from Asian enterprises.

3.2 Provide training to staff from time to time

The Group provides training to its staff on a concurrent basis in order to keep them with up-to-date knowledge on IT technology and features of software products, and also evaluates the effectiveness of the training courses for staff development.

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

Actual business progress from 1 January 2003 to 30 June 2003

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 identifying potential multi-national IT companies and software vendors and will conduct review on suitable companies. |
| 3 | Identify potential universities and consultancy firms for collaboration on CRM training and consulting services | The Group is identifying potential universities 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

From the placement of new shares on 5 November 2001, the Group raised net proceeds of approximately HK\$24 million through placing of shares upon the listing of the Company's shares on 5 November 2001. Up to 30 June 2003, the Group has applied the net proceeds from the placement of new shares in accordance with the statement of business objectives as set out in the Company's prospectus dated 30 October 2001 (the "Prospectus") as follows:

	Planned use of proceeds up to 30 June 2003 as set out in the Prospectus <i>HK\$'million</i>	Actual use of proceeds <i>HK\$'million</i>
Product enhancement	6	5
Research and development	4	3
Marketing, promotion and brand building	5	5
Business expansion	11	11
	<hr/>	<hr/>
	26	24
	<hr/> <hr/>	<hr/> <hr/>

As the net proceeds raised from the placement of new shares are approximately HK\$2 million less than the estimated amount as set out in the Prospectus, the Group intends to meet the remaining funding requirement of 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, considered appropriate in the circumstances.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2003, the interests and short positions of the Directors and the chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by Directors as referred to in Rule 5.40 of the GEM Listing Rules, were as follows:

(i) Long positions in shares of the Company

Name of Director	Note	Number of Shares	Capacity	Type of interest	Approximate percentage of interest
Mr. Hu Shin - Min, Alex ("Mr. Hu")	1	161,254,875	Interest of a controlled corporation	Corporate	25.60%
Ms. Chiang Li-Chin, Grace ("Ms. Chiang")	1	161,254,875	Interest of a controlled corporation	Corporate	25.60%
Mr. Chang Jun-Min ("Mr. Chang")		10,800,000	Beneficial owner	Personal	1.71%
Mr. Huang Hsian-Cheng ("Mr. Huang")		5,400,000	Beneficial owner	Personal	0.86%
Mr. Chu Han-Ping ("Mr. Chu")		4,500,000	Beneficial owner	Personal	0.72%

(ii) Long positions in shares of associated corporations

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

Name of Director	Note	Number of Shares	Capacity	Type of interest	Approximate percentage of interest
Mr. Hu		1	Beneficial owner	Personal	0.00001%
	2	2	Interest of child	Family	0.00002%
Ms. Chiang		1	Beneficial owner	Personal	0.00001%
	2	2	Interest of child	Family	0.00002%

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 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 SFO.

(iii) Long positions in underlying shares of the Company pursuant to equity derivatives

Details of Directors' and chief executives' interests in the underlying shares pursuant to equity derivatives under the Company's share option scheme are set out below.

As at 30 June 2003, 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 2003 is HK\$0.034) 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 2003	No. of options lapsed during the period	No. of options outstanding at 30 June 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>—</u>	<u>22,170,000</u>				

	No. of options outstanding at 1 January 2003	No. of options lapsed during the period	No. of options outstanding at 30 June 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
Management Shareholders other than Directors							
Mr. Liao Chien-Chih	650,000	—	650,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.178
	650,000	—	650,000		11 April 2004 to 10 April 2009		
	870,000	—	870,000		11 April 2005 to 10 April 2010		
Ms. Ma Chia-Yi	600,000	—	600,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.178
	600,000	—	600,000		11 April 2004 to 10 April 2009		
	810,000	—	810,000		11 April 2005 to 10 April 2010		
Mr. Wang Chih-Chin	600,000	—	600,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.178
	600,000	—	600,000		11 April 2004 to 10 April 2009		
	810,000	—	810,000		11 April 2005 to 10 April 2010		
	<u>6,190,000</u>	<u>—</u>	<u>6,190,000</u>				
Employees	9,420,000	1,970,000	7,450,000	12 April 2002	11 April 2003 to 10 April 2008	HK\$0.191	HK\$0.178
	9,420,000	1,970,000	7,450,000		11 April 2004 to 10 April 2009		
	12,610,000	2,530,000	10,080,000		11 April 2005 to 10 April 2010		
	<u>31,450,000</u>	<u>6,470,000</u>	<u>24,980,000</u>				
Total	<u>59,810,000</u>	<u>6,470,000</u>	<u>53,340,000</u>				

All the above mentioned outstanding options are unlisted and represent physically settled equity derivatives.

The share options granted are not recognised in the financial statements until they are exercised. During the six months ended 30 June 2003, no option was granted, cancelled and/or exercised under the share option scheme.

(iv) Long positions in debentures

No long positions of Directors and the chief executives of the Company in the debentures of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

(v) Short positions in shares of the Company

No short positions of Directors and the chief executives of the Company in the shares of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

(vi) Short positions in underlying shares

No short positions of Directors and the chief executives of the Company in the underlying shares of the equity derivatives of the Company and its associated corporations were recorded in the register or as otherwise notified to the Company and the Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

Save as disclosed above, as at 30 June 2003, none of the Directors or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated companies (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by Directors as referred to in Rule 5.40 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS AND INTERESTS DISCLOSEABLE UNDER THE SFO

So far as was known to any Director or chief executive of the Company, as at 30 June 2003, the persons or companies (not being a Director or chief executive of the Company) who had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO or who were directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company were as follows:

(i) Long positions in shares of the Company

Name of Shareholder	Note	Capacity	Number of Shares	Approximate percentage of interest
Sean & Leo Assets Management Limited	3	Beneficial owner	161,254,875	25.60%
Mr. Lee Kwok Hung ("Mr. Lee")	4	Beneficial owner	75,181,794	11.93%
	4	Interest of spouse	6,590,000	1.05%
Ms. Tsang Kit Yu ("Ms. Tsang")	4	Beneficial owner	6,590,000	1.05%
	4	Interest of spouse	75,181,794	11.93%
Golden 21 Investment Holdings Limited		Beneficial owner	39,000,000	6.19%
Grand Pacific Investment & Development Co., Ltd. ("Grand Pacific")	5	Beneficial owner	38,829,845	6.16%
Century Venture Capital Co., Ltd. ("Century VC")	6	Beneficial owner	18,968,850	3.01%
H-Com Venture Capital Co., Ltd. ("H-Com VC")	6	Beneficial owner	9,203,859	1.46%
Jupiter Venture Capital Co., Ltd. ("Jupiter VC")	6	Beneficial owner	8,433,859	1.34%
Mercury Venture Capital Co., Ltd. ("Mercury VC")	6	Beneficial owner	8,273,859	1.31%
Venus Venture Capital Co., Ltd. ("Venus VC")	6	Beneficial owner	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 is the spouse of Ms. Tsang and, under section 316 of the SFO, is therefore deemed to be interested in all 6,590,000 Shares in which Ms. Tsang is interested and Ms. Tsang is therefore deemed to be interested in all 75,181,794 Shares in which Mr. Lee is interested.
- 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.

(ii) Long positions in underlying shares

No long positions of substantial shareholders and other persons in the underlying shares of equity derivatives of the Company were recorded in the register.

(iii) Short positions in shares of the Company

No short positions of substantial shareholders and other persons in shares of the Company were recorded in the register.

(iv) Short positions in underlying shares

No short positions of substantial shareholders and other persons in the underlying shares of equity derivatives of the Company were recorded in the register.

Save as disclosed above, as at 30 June 2003, the Company had not been notified of any other person (other than a Director or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company and was required to be recorded in the register required to be kept under Section 336 of the SFO or was directly or indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

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 2003 or at any time during the six months ended 30 June 2003.

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 2003.

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 2003 before its publication.

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

During the six months ended 30 June 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 six months ended 30 June 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, 12 August 2003