



KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

金蝶國際軟件集團有限公司

(incorporated in the Cayman Islands with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE, 2001

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This report, for which the directors of Kingdee International Software Group Company Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Kingdee International Software Group Company Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading; there are no other matters the omission of which would make any statement in this report misleading; and 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.

Financial highlights for the six months ended 30th June, 2001

- Turnover increased by approximately 33.2% over the same period in 2000 to approximately RMB88,022,000.
- Profit attributable to shareholders increased by approximately 204.1% over the same period in 2000 to approximately RMB10,088,000.
- Basic earnings per share increased by approximately 156.0% over the same period in 2000 to approximately RMB2.427 cents.

The board of directors (the “Board”) of Kingdee International Software Group Company Limited (“Kingdee International” or the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30th June, 2001, together with the comparative unaudited consolidated figures for the corresponding periods in 2000 as follows:

	<i>Notes</i>	Three months ended 30th June,		Six months ended 30th June,	
		2001 unaudited <i>RMB'000</i>	2000 unaudited <i>RMB'000</i>	2001 unaudited <i>RMB'000</i>	2000 unaudited <i>RMB'000</i>
Turnover	2	49,224	36,277	88,022	66,073
Cost of sales		(7,558)	(6,713)	(15,921)	(12,347)
Gross profit		41,666	29,564	72,101	53,726
Selling expenses		(22,511)	(19,053)	(41,972)	(37,556)
General and administrative expenses		(10,317)	(4,467)	(19,497)	(13,526)
Other income, net		1,006	369	1,005	40
Operating profit		9,844	6,413	11,637	2,684
Finance income (costs), net		(161)	(103)	83	(166)
Share of results of an associate		(171)	—	(203)	—
Profit before taxation		9,512	6,310	11,517	2,518
Taxation	3	(1,679)	(241)	(1,880)	(241)
Profit after taxation		7,833	6,069	9,637	2,277
Minority interests		210	856	451	1,040
Profit attributable to shareholders		8,043	6,925	10,088	3,317
Dividends		—	—	—	—
Earnings per share -					
- basic	4	RMB1.838 cents	RMB1.979 cents	RMB2.427 cents	RMB0.948 cent
- diluted	4	RMB1.835 cents	N/A	RMB2.425 cents	N/A

Notes:

1. Group reorganisation and basis of preparation

The Company was incorporated as an exempted company with limited liability on 22nd September, 1999 under the Company Law (1998 revision) of the Cayman Islands. Listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM”) commenced on 15th February, 2001.

Pursuant to a group reorganisation (the “Reorganisation”) in preparation for the listing of the Company’s shares on the GEM, the Company became the holding company of the Group on 15th June, 2000. The Reorganisation involved companies under common control, and the Group resulting from the Reorganisation were regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated results have been prepared as if the Group had been in existence since the beginning of the six months ended 30th June, 2001 and 30th June, 2000 respectively.

Details of the Reorganisation are set out in the prospectus (the “Prospectus”) issued by the Company dated 9th February, 2001.

All significant intercompany balances and transactions, including intercompany profits, are eliminated on consolidation. The financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The consolidated results have been prepared in accordance with International Accounting Standards (“IAS”) issued by the International Accounting Standard Committee.

2. Turnover

Turnover comprises the following:

	Three months ended		Six months ended	
	30th June,		30th June,	
	2001	2000	2001	2000
	unaudited	unaudited	unaudited	unaudited
	RMB'000	RMB'000	RMB'000	RMB'000
Sales of software	42,115	25,095	76,499	51,888
Sales of hardware	1,335	2,864	1,384	2,918
Technical support service income	5,774	8,318	10,139	11,267
	<u>49,224</u>	<u>36,277</u>	<u>88,022</u>	<u>66,073</u>

Turnover disclosed above is net of applicable business tax and value added tax in Mainland China.

3. Taxation

Taxation represents:

	Three months ended		Six months ended	
	30th June,		30th June,	
	2001	2000	2001	2000
	unaudited	unaudited	unaudited	unaudited
	RMB'000	RMB'000	RMB'000	RMB'000
Mainland China income tax				
- Current income tax	1,283	241	2,076	241
- Deferred income tax relating to the origination and reversal of temporary differences	396	—	(196)	—
	<u>1,679</u>	<u>241</u>	<u>1,880</u>	<u>241</u>

As the Group had no income assessable for profit tax in the Cayman Islands or in Hong Kong for the six months ended 30th June, 2001 (the six months ended 30th June, 2000: Nil), no provision had been made for profit taxes for both jurisdictions.

The Group's subsidiary, Kingdee Software Technology (Shenzhen) Co., Ltd. ("Shenzhen Kingdee"), is a wholly foreign-owned enterprise located in Shenzhen Special Economic Zone and is entitled to full exemption from Mainland China Enterprise Income Tax ("EIT") for two years and a 50% reduction in the next three years thereafter starting from the first profit making year after offsetting prior year losses. According to the "Provisions on further support to the high-technology enterprises" Shen Fu [1998] No. 29 issued by the Shenzhen Municipal Government, enterprises that are recognized as a high-technology enterprise are entitled to a further tax holiday on EIT. Pursuant to an approval document issued by the tax bureau dated 5th March, 1999, Shenzhen Kingdee is subject to income tax at the rate of 7.5% for 5 years starting from 1999 as it is recognized as a high-technology enterprise.

4. Earnings per share

Earnings per share had been prepared on the assumption that the 1,000,000 shares of HK\$0.10 each issued at par and fully paid during the Reorganisation and the capitalisation issue of 349,000,000 shares by the then owners had taken place prior to the aforesaid presentation period.

Basic earnings per share for the three months and six months ended 30th June, 2001 had been calculated by dividing profit attributable to shareholders of approximately RMB8,043,000 and RMB10,088,000 respectively (the three months and six months ended 30th June, 2000 were approximately RMB6,925,000 and RMB3,317,000 respectively) by the weighted average number of 437,500,000 shares and 415,625,000 shares respectively (the three months and six months ended 30th June, 2000: 350,000,000 shares) in issue during the period.

Diluted earnings per share for the three months and six months ended 30th June, 2001 had been calculated by dividing diluted profit attributable to shareholders of approximately RMB8,052,000 and RMB10,103,000 respectively by the weighted average number of 438,800,000 shares and 416,600,000 shares respectively after adjusting for the effects of all potential dilutive shares during the period.

No diluted earnings per share were presented for the three months and six months ended 30th June, 2000 as there was no dilutive potential ordinary shares issued during the period.

5. Movements of capital and reserves

Movements in the capital and reserves of the Group for the three months and six months ended 30th June, 2001 and the three months and six months ended 30th June, 2000 were as follows:

	Share Capital unaudited RMB'000	Share Premium unaudited RMB'000	Merger Reserve unaudited RMB'000	Capital Reserve unaudited RMB'000	Reserve Fund unaudited RMB'000	Retained Earnings unaudited RMB'000	Total unaudited RMB'000
Balances as at							
1st April, 2000	6,677	—	—	19,255	2,983	5,853	34,768
Profit for the period	—	—	—	—	—	6,925	6,925
Balances as at							
30th June, 2000	<u>6,677</u>	<u>—</u>	<u>—</u>	<u>19,255</u>	<u>2,983</u>	<u>12,778</u>	<u>41,693</u>
Balances as at							
1st April, 2001	46,813	30,834	6,570	19,255	3,334	33,519	140,325
Profit for the period	—	—	—	—	—	8,043	8,043
Balances as at							
30th June, 2001	<u>46,813</u>	<u>30,834</u>	<u>6,570</u>	<u>19,255</u>	<u>3,334</u>	<u>41,562</u>	<u>148,368</u>
Balances as at							
1st January, 2000	6,677	—	—	19,255	2,983	9,461	38,376
Profit for the period	—	—	—	—	—	3,317	3,317
Balances as at							
30th June, 2000	<u>6,677</u>	<u>—</u>	<u>—</u>	<u>19,255</u>	<u>2,983</u>	<u>12,778</u>	<u>41,693</u>
Balances as at							
1st January, 2001	107	—	6,570	19,255	3,334	31,474	60,740
Capitalisation issue	37,343	(37,343)	—	—	—	—	—
Shares issued on							
14th February, 2001 (net amount having taken into account issuing expenses of approximately RMB18,894,000)	9,363	68,177	—	—	—	—	77,540
Profit for the period	—	—	—	—	—	10,088	10,088
Balance as at							
30th June, 2001	<u>46,813</u>	<u>30,834</u>	<u>6,570</u>	<u>19,255</u>	<u>3,334</u>	<u>41,562</u>	<u>148,368</u>

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June, 2001 (the six months ended 30th June, 2000: Nil).

FINANCIAL PERFORMANCE

The financial results of the Group for the first half year in 2001 showed a remarkable growth and improvements compared to the financial results for the same period in 2000. Turnover of the Group for the six months ended 30th June, 2001 amounted to approximately RMB88,022,000, representing an increase of approximately 33.2% compared to same period in 2000, which could be attributed to the significant increase in sales of *K/3* ERP software of the Group during the first half year in 2001. Gross profit of the Group increased by approximately 34.2% from approximately RMB53,726,000 to approximately RMB72,101,000. In accordance with the Group's strategy to provide quality technical support services to its customers, cost of sales increased from approximately RMB12,347,000 to approximately RMB15,921,000. Profit attributable to shareholders for the six months ended 30th June, 2001 amounted to approximately RMB10,088,000.

BUSINESS REVIEW

Starting from 2001, the focus of the Group's business has been transformed from traditional accounting software to enterprise management software, with the aim of providing more comprehensive, in-depth enterprise application solution to customers. With the positive response in its product applications and market sales in the last six months, the Group has gained increasing recognition and is widely welcomed by customers, and has achieved good results in application.

Product and R&D

During the first half of the year, the Group continued to focus on the development and the optimisation of its enterprise management software, where new transmission and compression technology have been adopted for its Internet-based infrastructure in product upgrading. New versions of the cashflow and accounting central management system modules had been launched successively, with newly added functions of more centralised management and easy operation in connection with statement preparation. In the *K/3 WEB* version series, two new modules "Fixed Assets" and "Payroll" have been added, and so far the total *K/3* application modules with internet-based features increased to 12.

For the *K/3 ERP* system software as the Group's leading product, a new version was launched in the second quarter of the year, which focussed on the improvement of its product stability and system integration. It also provided enterprises with system and tools such as group control system, multi-use spread-sheet, secondary development tool, management accounting, production line management, as well as significantly improving the existing industrial planning system and developing innovative WEB-based product series.

Shenzhen Kingdee Middleware Co., Ltd. ("Kingdee Middleware"), a subsidiary of the Group, launched an upgraded version v1.1 of Apusic Application Server with enhanced functions in the second quarter, and has concluded OEM cooperation agreements with some large information technology providers in the PRC. Besides actively marketing its products, Kingdee Middleware also provides consultation services on its Apusic Application Server and Java technology. In addition, Kingdee Middleware, together with some reputable companies, jointly initiated the formation of Java Club, which promotes the application of Java in the PRC and fosters the market.

In early June, the R&D Centres of Kingdee International in Beijing and Shanghai were established which further expanded the R&D strength of Shenzhen Kingdee. Fully capitalising on the local expertise to conduct scalable R&D and coupled with the Group's capitalisation strategy, it also strengthened cooperation with local manufacturers possessing competitive edge and development potential.

Technical support and services

During the period under review, the Group specifically emphasised the product and technical support as well as service training for its staff and agents. From March to June 2001, the Group carried out nationwide training sessions on the enhanced functions of software, application methods, *KINGDEE 2000* series product technology, customer-based tools to the staff in various regions, with full implementation of service models of "Six Steps Implementation" and "Blue Chain Ring" covering customer after-sales services, product upgrading, secondary development, consultation and training. In accordance with the adjustment in the Company service system, the Group's customer support centre has set up a series of management system in connection with institutional service, revising and rearranging service procedures, in line with the Group's 2000 version of the ISO 9000 certification which will commence in the second half of the year.

Starting from the first half of the year, the CRM (Customer Relationship Management) software developed by the R&D Centre of the Group has commenced Beta testing, and will be marketed and sold in the second half of the year.

Marketing and sales

During the first half of the year, in order to cope with the current enterprise awareness of enterprise digitalised management in the PRC and its pressing needs, and capitalising on the advantage of the initial success of the Group's products in the various sectors in the PRC, the Group held and participated in a series of marketing activities such as promotion, exhibitions and forums. Through results demonstration to typical users and introduction of overall solution in consultation services, the Group has illustrated how to consolidate enterprise management competitiveness in the internet era by using digitalised tools.

On 16th May this year, Kingdee International held a press conference in Beijing and announced the development strategy of Kingdee International from 2001 to 2005. On the same date, a "Way to Digitalisation of Modern Enterprises" Summit Forum was held to introduce the internationalisation of the Group and the "3e" enterprise digitalisation solution.

From 24th to 27th May, 2001, Kingdee International participated in the 17th Hong Kong International Computer Exhibition held at the Hong Kong Convention Centre, with the aim of promoting the Chinese version and the Internet version of its *K/3* products as well as the Apusic application server.

Starting from June 2001, the promotion for Kingdee 2001 enterprise management digitalised application solution has been commenced. This promotion, which lasted for two months, was a nationwide large-scale activity of Kingdee International, covering nearly 50 large and medium-sized cities in the PRC, to exhibit the advanced and reliable enterprise application software products and the superb enterprise information system solutions of Kingdee International to help enhancing its management competitiveness in the Internet era. At the same time, the Company sponsored the "Digitalised Enterprise Summit Forum" in some cities to hold joint discussion on the pressing need of enterprise digitalisation and the challenges to be faced.

Targeting on enterprise digitalised management in the PRC, Kingdee International launched the "3e Theories" (e-Management, e-Solution and e-Service) to realise its mission of enhancing management competitiveness in the internet era. e-Management refers to modern management models, which includes "Digitalised Management" and "Emotional Management". e-Solution refers to the ways to realise e-Management, which includes Kingdee International technological platform and Kingdee International application framework. e-Service refers to the method to make use of e-Solution to realise e-Management, and is a comprehensive service system which includes solution consultation, multi-level training, information system implementation and continuous improvement.

Since the beginning of the year, the Group has consolidated its regional sales hubs, implemented new sales systems and carried out reforms in some individual sales sub-branches of its subsidiaries in order to enhance management relationship and to reduce management costs.

In order to better capture market developments, strengthen public relation of the industry and enhance our leading capability, the market hub of the Group has been moved to Beijing. During the first half of the year, the Group's liaison office in the Silicon Valley in the United States and the Hong Kong representative office have been set up and have commenced operation, thereby taking out the first step in the Group's international operation expansion plan.

Alliances and cooperation

In early June, the Group and the world's leading business analysis software provider Hyperion Solutions and the world renowned management consultation company, the founder of the EVA[®] (Economic Value Added), Stern Stewart & Co. announced the formation of strategic alliances of the three parties, to joint efforts in the introduction of EVA[®] software solution into the PRC.

EVA[®] is an integrated framework for performance management developed by Mr. Joel Stern and Mr. G. Bennett Stewart III, the founders of Stern Stewart & Co., which targeted in providing professional consultation on financial management, capital structure, planning and incentive and penalty system to enterprises, in particular the listed companies, so as to enhance the market value of the enterprises. It is the best corporate value management system being well recognised by securities analysts of the Wall Street in the United States.

Upon the establishment of the strategic alliance by the three companies, Stern Stewart & Co. will supply the EVA[®] application solution on the ERP and the software design specifications to Kingdee International exclusively, and assist Kingdee International to adopt the EVA[®] functions into the existing *K/3 ERP* system, and on the basis of the consultation team of the company in Shanghai and Hong Kong. Stern Stewart & Co. and Kingdee International will jointly research and promote the implementation strategy suitable for the enterprises in the PRC. At the same time, Hyperion Solutions will assign Kingdee International as the sole independent software developer within the PRC to represent EVA[®] related business performance management products and solutions and to complete the localisation of the existing solutions of Hyperion Solutions.

Staff

As at 30th June, 2001, details of the staff of the Group were as follows :

R&D staff	269
Management staff	155
Marketing and sales staff	355
Technical support and services staff	403
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Total	1,182
	<hr/> <hr/>

The total number of staff was increased as compared with the number as at the end of the previous year.

PROSPECTS

Under the impact of the imminent entry of the PRC into the World Trade Organisation (“WTO”) and the prospering web-based economy, competition among enterprises become more intensified, and these enterprises urgently need to get in line with the international standard through management software to enhance their own management standard, efficiency and competitiveness. Following the market economic system and the improved overall social digitalised construction, higher requirements are correspondingly made on enterprise digitalised construction.

In view of this, the directors of the Company believe that the future enterprise management software market in the PRC has bright prospects, and the Group’s software products will be able to maintain good sales in the PRC market, and will further increase its market share.

During the second half of the year, the Group plans to cooperate with other software companies in respect of the development and sales of some potential rich projects and may pursue development through acquisition, merging and investments, in order to complement with the existing product functions of Kingdee International. It can also expand the scope of coverage and development direction of the Group’s products and seek new profit growth areas.

The Group will put more emphasis on the research and development of the *K/3* new generation products. The new version products will support multiple data-base, multi-platforms and multi-currencies, with greater enhancement in functions and application. During the third quarter of the year, the Group will formally launch its CRM (Customer Relationship Management) software products, and Kingdee Middleware will also commence its R&D on the Apusic Application Server V2.0 version. During the second half of the year, the Group will continue with the next stage development of the CMM (Capability Maturity Model) implementation.

Regarding sales management, the Group plans to continue to enhance the construction of regional market hubs, expand channel network, set up new sales agent teams, strengthen training to the sales agents and carry out various cooperation with other industrial partners in the second half of the year.

The promotion on Kingdee International 2001 enterprise management digitalised application solution will continue to be held in various large and medium-sized cities in the PRC. The Directors believe that the Group’s products will gain more and more recognition and appreciation among enterprises, and the Group will also continue to progress as it is being motivated by the mission of “Helping Customers to Succeed”.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

According to the business plans from the Latest Practicable Date (as defined in the Prospectus) to 30th June, 2001 as stated in the Prospectus

Actual business progress

Product development

1. *KINGDEE 2000*

- Improve the existing packages and develop upgraded version with improved functions
- Continue to develop *KINGDEE 2000* with the ability to be incorporated into *K/3*
- HK\$1.5 million of the proceeds would be invested to achieve the above business plans
- The Groups' R&D Department continued to upgrade and complement the *KINGDEE 2000* products according to its development plan, and due to the shift of the Group's product focus to *K/3* products, no new upgraded version of *KINGDEE 2000* was launched.
- The application integration of *KINGDEE 2000* products with *K/3* products had been realised.
- Approximately HK\$128,000 of the proceeds had been invested to achieve the above business plans.

2. *K/3*

- Release upgraded versions with improved application modules
- New versions (*K/3* v8.8.2) were officially launched at the end of May, with significant improvement in its functions and application. Upgraded versions of other modules were also launched in the first half of the year.

- Develop new application modules of *K/3* including CRM and SCM modules
- Continue to analyse and develop the technicalities of the existing *K/3* application modules with Web-based capability
- Analyse and develop the technicalities of *K/3* with multi-platform applicability
- HK\$4 million of the proceeds would be invested to achieve the above business plans
- During the first half of the year, the Group has completed the R&D on *K/3* CRM and testing of alpha version. Tests on the beta version were proceeding, and the products will be officially launched in the third quarter of the year. At the same time, research on SCM had also been commenced.
- In the *K/3* Web-based version series, two modules namely “Fixed Assets” and “Payroll” were newly added, and so far the number of *K/3* application modules with Web-based features have been increased to 12.
- The R&D Department of the Group had proceeded with the initial development and researches on the *K/3* new version, and the new version product will possess the adapting ability with various platforms.
- Approximately HK\$4,315,000 of the proceeds had been invested to achieve the above business plans.

3. ASP platform products

- Develop and improve the online EAS platform to cater with the latest development of the Web-based versions of *K/3* application modules (including CRM, SCM and e-commerce modules)
- HK\$500,000 of the proceeds would be invested to achieve the above business plans
- The Company continued to provide services to customers in connection with the trial use of the ASP products through the Company’s *kanba.com* Web-site.
- Approximately HK\$126,000 of the proceeds had been invested to achieve the above business plans.

4. Apusic Middleware

- Analyse and develop the improved version of Apusic Middleware
- HK\$1 million of the proceeds would be invested to achieve the above business plans
- In May 2001, Kingdee Middleware launched Apusic software version 1.1.
- Approximately HK\$1,217,000 of the proceeds had been invested to achieve the above business plans.

Technical support services

- Continue utilising the Group's sales and distribution network as the backbone of the Group's technical support service network
- Establish regional technical support centres to improve the efficiency of the Group's technical support services
- Develop a service support database containing information about the Group's clients, including name and address of the client, software purchased, historical service records and hardware employed
- Continue to train members of the Group's marketing and technical support servicing staff regarding the Group's products
- Develop service working handbook for members of the Group's marketing and technical support servicing staff in order to guide them in providing the Group's technical support services with an aim to maintain a consistent standard for the Group's technical support services
- HK\$3 million of the proceeds would be invested to achieve the above business plans
- The Group provided timely and quality technical support services to customers through the sales network of its branches and agents in China.
- In June 2001, the Group announced the set up of the Shanghai and Beijing R&D Centres in order to fully capitalise on the advantage of local expertise to form scale development, strengthen cooperation, and enhance the quality and efficiency of the Group in its technical support services.
- The Group had preliminarily established a client information database and is in the process of fine-tuning the information such as clients' background and sales record.
- During March to June, the Group carried out a nationwide training on newly added software functions, technical training on Kingdee series products, and rotation training of the Group's service personnel and training on implementation methods on the services personnel and agents and implementation personnel respectively.
- During the year so far, the Group made some adjustments to the service system, and its customer support centre had also set up a series of corresponding management systems in connection with institutional services, which were fully launched in June, whereas the service manual will also be launched in the second half of the year.
- Approximately HK\$2,810,000 of the proceeds had been invested to achieve the above business plans.

Marketing

- Continue to advertise and promote **KINGDEE 2000** and **K/3** via media and by attending or organising conferences and seminars
- Advertise and promote the Apusic Application Server via media and by attending or organising conferences and seminars
- Advertise and promote the online EAS platform by direct marketing to accounting professional firms and ASP service providers and via media and by attending or organising conferences and seminars
- HK\$3.5 million of the proceeds would be invested to achieve the above business plans
- During the first half of the year, the Group held and participated in a series of marketing activities such as promotion, exhibitions and forums, through presentation in typical user implementation results and introduction of overall solution in consultation services, to exhibit the **KINGDEE 2000** and **K/3** products, and to fully explain how to consolidate enterprise management competitiveness in the internet era by using digitalised tools.
- Kingdee Middleware together with other reputable companies initiated the establishment of Java supporters' Club to hold periodic activities to jointly promote the popularisation of Java application and the promotion of the application of Apusic products in the PRC. At the same time, Kingdee Middleware also promoted its products through the participation in the relevant exhibitions, forums and via media publicity.
- The Group exhibited its ASP products via media publicity and exhibitions.
- Approximately HK\$2,156,000 of the proceeds had been invested to achieve the above business plans.

Sales and distribution network

- Evaluate opportunities to establish co-operation arrangement with other software vendors
- In early June, the Group and a business analysis software provider Hyperion Solutions and the world renowned management consultation company, the founder of the EVA[®] (Economic Value Added), Stern Stewart & Co. announced the formation of strategic alliances of the three parties, to joint efforts in the introduction of EVA[®] software solution into the PRC.
- Expand the number of authorised sales agents in order to enhance the sales and distribution network of the Group
- New authorised sales agents have been appointed nationwide, which complemented for the Group's sales network. In the first half of the year, the Group also took out its first step for the exploration of overseas market, and set up branch offices in the Silicon Valley in the United States and in Hong Kong.
- HK\$1 million of the proceeds would be invested to achieve the above business plans
- Approximately HK\$1,135,000 of the proceeds had been invested to achieve the above business plans.

Personnel

- Employ additional programmers and system analysts or replace retired programmers and systems analysts
- In the first half of the year, the Group had recruited additional professional technicians according to the recruitment plan.
- Employ additional technical servicing staff
- During the first half of the year, additional technical service staff had been recruited from the whole country.
- HK\$2 million of the proceeds would be invested to achieve the above business plans
- Approximately HK\$900,000 of the proceeds had been invested to achieve the above business plans.

INTERESTS OF DIRECTORS IN EQUITY SECURITIES

As at 30th June, 2001, the beneficial interests of the Directors (within the meaning of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) ("SDI

Ordinance”) required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have been taken under section 31 of, or Part 1 of the Schedule to the SDI Ordinance), or required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or required pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the GEM (“GEM Listing Rules”) to be notified to the Company and the Stock Exchange, were as follows:

(a) The Company

Name of Directors	Number of shares	Nature of interests	Approximate percentage of interest
Xu Shao Chun	83,606,250	Corporate (<i>note 1</i>)	19.11%
	39,550,000	Other (<i>notes 2 and 3</i>)	9.04%
Xu Wen Hui	2,754,500	Personal (<i>note 4</i>)	0.63%
	1,599,500	Other (<i>note 3</i>)	0.37%
Zhang Wen Xing	58,310,000	Corporate (<i>note 5</i>)	13.33%
	39,550,000	Other (<i>notes 2 and 3</i>)	9.04%
Hugo Shong	5,250,000	Personal (<i>note 6</i>)	1.20%

(b) Guangdong Kingdee Software Technology Co. Ltd.

Name of Directors	Amount of registered capital	Nature of interests	Percentage of interest
Xu Shao Chun	RMB250,000	Corporate (<i>note 7</i>)	50%

Notes:

1. The 83,606,250 shares were held by Oriental Gold Limited.
2. Of the 39,550,000 shares, 37,950,500 shares were held by Project China Limited, a company wholly-owned by Mr. Zhang Wen Xing, as nominee for 154 employees of the Group (including Mr. Xu Wen Hui, an executive director), one former employee of the Group and Mr. Hugo Shong, a non-executive director and consultant of the Group who have granted rights of first refusal to Oriental Gold Limited, a company wholly-owned by Mr. Xu Shao Chun, in the future sale of the shares. Each of the 154 employees of the Group had undertaken to Project China Limited that if he/she is, within one year after he/she leaves the employment of the Group, involved in any business which may compete with the Group, Project China Limited will have an option to buy back his/her Shares.
3. Of the 39,550,000 shares held by Project China Limited, a company wholly-owned by Mr. Zhang Wen Xing, 1,599,500 shares were held as trustee of a discretionary trust established for the benefit of all the former and existing employees and consultants of the Group including Mr. Xu Shao Chun and Mr. Xu Wen Hui, executive directors.

4. The 2,754,500 shares were held by Project China Limited as nominee for Mr. Xu Wen Hui.
5. The 58,310,000 shares were held by Billion Ocean Limited.
6. The 5,250,000 shares were held by Mr. Hugo Shong as a consultant of the Group.
7. Such registered capital was held by Shenzhen APT Computer Technology Co., Ltd. which was owned as to 90% by Mr. Xu Shao Chun and 10% by Mr. Zhang Wen Xing.

SHARE OPTION SCHEME AND PRE-IPO SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company adopted on 30th January, 2001 (the “Share Option Scheme”), the full-time employees of any company in the Group (including any executive directors of any member of the Group) may be granted options to subscribe for share of HK\$0.10 each of the Company (“Shares”). As at 30th June, 2001, the Company had not granted any share options pursuant to the Share Option Scheme.

Pursuant to the terms of the pre-IPO share option scheme adopted on 30th January, 2001 (“Pre-IPO Share Option Scheme”), options to subscribe for 1,000,000 Shares and 300,000 Shares respectively were granted to Mr. Huang Xiao Jian, Vice President of Shenzhen Kingdee, and Mr. Liu Fan, General Manager of Shenzhen Kingdee’s Beijing branch office, both being full-time employees of the Group, at a subscription price equal to HK\$1.03, i.e. the price per share at which the Shares were offered under the placing of 87,500,000 Shares in February 2001.

On 1st February, 2001, the Company received acceptances of the offers for grant of share options to subscribe for and aggregate of 1,300,000 Shares from Mr. Huang Xiao Jian and Mr. Liu Fan. All of these options have a duration of 10 years from the date on which dealings in the Shares commenced on GEM (i.e. 15th February, 2001, “listing date”) provided that the options can only be exercised in respect of up to 25%, 50% and 75% of the underlying Shares within 12 months, 24 months and 36 months respectively from the listing date.

As at 30th June, 2001, Mr. Huang Xiao Jian and Mr. Liu Fan had not exercised any share options to subscribe for shares.

Subsequent to 30th June, 2001, by a written notice dated 2nd July, 2001, Mr. Huang Xiao Jian had exercised his share option to subscribe for 250,000 Shares at a subscription price of HK\$1.03 each, representing 25% of the 1,000,000 Shares under the said option. Such 250,000 Shares were issued and allotted to Huang Xiao Jian on 5th July, 2001. As at the date hereof, Mr. Liu Fan has not exercised any share options to subscribe for any Shares.

Save as disclosed above, the Company has not granted or agreed to grant any share options pursuant to the Pre-IPO Share Option Scheme.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

Save as disclosed in the sections headed “Interests of Directors in Equity Securities” and “Share Option Scheme and Pre-IPO Share Option Scheme”, at no time during the six months ended 30th June, 2001 was the Company, its fellow subsidiaries or its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in the Company.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2001, the register maintained under Section 16(1) of the SDI Ordinance for substantial shareholders shows that shareholders interested in 10% or more of the issued share capital of the Company were as follows:

Name	Number of Shares	Approximate percentage of share capital
IDG Technology Venture Investment, Inc.	87,500,000	20.00%
International Data Group, Inc.	87,500,000 (<i>Note 1</i>)	20.00%
Oriental Gold Limited	83,606,250	19.11%
Mr. Xu Shao Chun	83,606,250 (<i>Note 2</i>)	19.11%
Ms. Chao Shi Yan	81,033,750	18.52%
Billion Ocean Limited	58,310,000	13.33%
Mr. Zhang Wen Xing	58,310,000 (<i>Note 3</i>)	13.33%
	1,599,500 (<i>Note 4</i>)	0.37%

Notes:

1. The Shares were held by IDG Technology Venture Investment, Inc., a company wholly-owned by International Data Group, Inc.
2. The Shares were held by Oriental Gold Limited, a company wholly-owned by Mr. Xu Shao Chun.

Each of the 156 employees, former employee and consultant of the Group had given Oriental Gold Limited a right of first refusal in respect of future sale of an aggregate of 37,950,500 Shares held through Project China Limited.

In addition to the 83,606,250 Shares held by Oriental Gold Limited, Mr. Xu Shao Chun was also interested in 1,599,500 Shares as one of the discretionary objects of the discretionary trust set up for the benefit of the existing and former employees and consultant of the Group which such Shares were held by Project China Limited.

3. The Shares were held by Billion Ocean Limited, a company wholly-owned by Mr. Zhang Wen Xing.
4. The Shares were held by Project China Limited, a company wholly-owned by Mr. Zhang Wen Xing, as trustee of a discretionary trust set up for the benefit of the existing and former employees and consultants of the Group (including Mr. Xu Shao Chun and Mr. Xu Wen Hui, executive directors). In addition, Project China Limited held an aggregate of 37,950,500 Shares as nominee for 154 employees of the Group (including Mr. Xu Wen Hui, an executive director), one former employee of the Group and Mr. Hugo Shong, a non-executive director and consultant of the Group. Each of the 154 employees of the Group had also undertaken to Project China Limited that if he/she is, within one year after he/she leaves the employment of the Group, involved in any business which may compete with the Group, Project China Limited will have an option to buy back his/her Shares.

PURCHASE, SALE OR REDEMPTION OF SHARES

At the first annual general meeting of the Company held on 26th April, 2001 (“AGM”), an ordinary resolution was passed to grant a general mandate to the directors of the Company to exercise the powers of the Company to purchase Shares up to a maximum of 10% of the issued share capital of the Company as at the date of the resolution.

None of the Company nor any of its subsidiaries had purchased, sold or redeemed any of its listed securities for the six months ended 30th June, 2001.

CHANGE OF DIRECTORS

Pursuant to article 116 of the articles of association of the Company, Mr. Wang Shu retired by rotation at the AGM. However, Mr. Wang Shu had notified the Company that, due to his personal reasons, he decided not to offer himself for re-election as a non-executive director of the Company at the AGM. In accordance with articles 117 and 120 of the articles of association of the Company, the Board recommended Mr. Hugo Shong be elected as a non-executive director at the AGM.

Mr. Shong was elected as the non-executive director of the Company at the AGM in place of Mr. Wang Shu with effect from the closure of the AGM.

COMPETING INTERESTS

None of the directors had an interest in a business which competes or may compete with the business of the Group. International Data Group, Inc. (“IDG”) and IDG Technology Venture Investment, Inc. (“IDGVC”), being the Initial Management Shareholders of the Company (as defined in the GEM Listing Rules), had direct and indirect shareholding interests and board representations in the following business in the PRC that compete or may compete with the business of the Group:

Name of company invested	Nature of business	Shareholding interests owned by IDGVC	Number of board members representing IDGVC
SuperData Technology (Asia) Limited	Accounting and inventory management software	28.4%	2 non-executive directors (out of 7 non-executive directors on the board of directors)
Zhuhai Yuanguang Xinjiyuan Software Co. Ltd.	Financial software system for power industry	5.5%	nil

Save as disclosed above, the other investments of IDG and IDGVC and their respective associates were not engaged in business in the PRC that competed or might compete with the business of the Group. Although neither IDG nor IDGVC is involved in the day-to-day management of the companies operating such competing business, there is no assurance that in future, IDG or IDGVC will not be engaged, directly or indirectly, in any other business that compete or may compete with the business of the Group.

SPONSOR'S INTERESTS

As at 30th June, 2001, none of the Company's sponsor, BNP Paribas Peregrine Capital Limited, its directors, employees or associates hold any interest in the securities of the Company or any member of the Group, or the right to subscribe for or to nominate persons to subscribe for securities in the Company or any member of the Group.

Pursuant to the sponsorship agreement dated 1st February, 2001 entered into between the Company and BNP Paribas Peregrine Capital Limited, BNP Paribas Peregrine Capital Limited will receive usual sponsorship fees for acting as the Company's retained sponsor for the period from 15th February, 2001 to 31st December, 2003.

AUDIT COMMITTEE AND ITS DUTIES

The audit committee of the Company was established on 1st February, 2001, which comprises of Mr. Xu Wen Hui, executive director, Ms. Yang Zhou Nan and Mr. Zhu Qi Heng, both being the independent non-executive directors. Mr. Zhu Qi Heng is the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The third meeting of the audit committee was convened and held on 7th August, 2001 to review the accounts of the Group, and to provide advice and recommendations to the Board.

On behalf of the Board

Kingdee International Software Group Company Limited

Xu Shao Chun

Chairman

Hong Kong, 9th August, 2001