



**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 REPORT FOR THE SIX MONTHS  
ENDED 30TH JUNE, 2002**

**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. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website 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 however arising from or in reliance upon the whole or any part of the contents of this report.*

*This report, for which the directors of Kingdee International Software Group Company Limited (the “Directors”) 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 (“GEM Listing Rules”) 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: (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.*

### Financial highlights for the six months ended 30th June, 2002

- Turnover increased by approximately 52.4% over the same period in 2001 to approximately RMB134,134,000.
- Profit attributable to shareholders increased by approximately 30.0% over the same period in 2001 to approximately RMB13,117,000.
- Basic earnings per share increased by approximately 23.3% over the same period in 2001 to approximately RMB2.993 cents.

### The Unaudited Consolidated Results of the Company

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, 2002, together with the comparative unaudited consolidated figures for the corresponding periods in 2001 are as follows:

	Notes	Three months ended 30th June,		Six months ended 30th June,	
		2002 Unaudited RMB'000	2001 Unaudited RMB'000	2002 Unaudited RMB'000	2001 Unaudited RMB'000
Turnover	2	82,523	49,224	134,134	88,022
Cost of sales		(9,854)	(7,558)	(17,222)	(15,921)
Gross profit		72,669	41,666	116,912	72,101
Selling expenses		(39,190)	(22,511)	(64,473)	(41,972)
General and administrative expenses		(21,800)	(10,317)	(37,296)	(19,497)
Other (expenses) income, net		(1,126)	1,006	(714)	1,005
Operating profit		10,553	9,844	14,429	11,637
Finance income (cost), net	3	178	(161)	405	83
Share of results of an associate		–	(171)	–	(203)
Profit before taxation	4	10,731	9,512	14,834	11,517
Taxation	5	(1,047)	(1,679)	(1,612)	(1,880)
Profit after taxation		9,684	7,833	13,222	9,637
Minority interests		30	210	(105)	451
Profit attributable to shareholders		<u>9,714</u>	<u>8,043</u>	<u>13,117</u>	<u>10,088</u>
Dividends		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Earnings per share					
– basic	6	<u>RMB2.213 cents</u>	<u>RMB1.838 cents</u>	<u>RMB2.993 cents</u>	<u>RMB2.427 cents</u>
– diluted	6	<u>RMB2.191 cents</u>	<u>RMB1.835 cents</u>	<u>RMB2.972 cents</u>	<u>RMB2.425 cents</u>

**Balance Sheets**

		<b>Consolidated</b>	
		<b>30th June, 2002</b>	<b>31st December, 2001</b>
		<b>unaudited</b>	<b>audited</b>
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets, net		37,926	31,958
Long-term investments		235	190
Deferred tax assets, net		3,449	3,197
Intangible assets, net		24,863	5,757
		<hr/>	<hr/>
Total non-current assets		66,473	41,102
		<hr/>	<hr/>
<b>Current assets</b>			
Prepayments and other current assets		34,361	16,740
Amounts due from related parties		933	752
Inventories		1,626	1,389
Accounts receivable, net		49,277	28,438
Pledged bank deposit		–	–
Cash and cash equivalents		81,370	125,431
		<hr/>	<hr/>
Total current assets		167,567	172,750
		<hr/>	<hr/>
<b>Total assets</b>		<b>234,040</b>	<b>213,852</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	7	47,171	46,840
Reserves		135,574	120,678
		<hr/>	<hr/>
<b>Total capital and reserves</b>	8	182,745	167,518
		<hr/>	<hr/>
<b>Minority interests</b>		(1,375)	952
		<hr/>	<hr/>
<b>Non-current liabilities</b>			
Long-term bank loans		1,717	1,843
		<hr/>	<hr/>
<b>Current liabilities</b>			
Current portion of long-term bank loans		256	256
Short-term bank loans		–	–
Other short-term loans		1,000	1,000
Dividends payable		–	–
Deferred income		14,658	13,110
Salary and staff welfare payable		3,027	3,580
Taxes payable		10,730	7,756
Customers' deposit		6,756	5,587
Accruals and other payables		14,526	12,250
		<hr/>	<hr/>
Total current liabilities		50,953	43,539
		<hr/>	<hr/>
<b>Total equity and liabilities</b>		<b>234,040</b>	<b>213,852</b>
		<hr/> <hr/>	<hr/> <hr/>

**Consolidated Cash Flow Statement (unaudited)** (For the six months ended 30th June)

	<b>Consolidated</b>	
	<b>2002</b>	<b>2001</b>
<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit before tax</b>	14,834	11,517
Adjustments for:		
Provision for doubtful debts	2,967	2,237
Depreciation of fixed assets	4,058	2,187
Loss on disposal of fixed assets	354	–
Amortisation of goodwill of investment in subsidiaries	248	–
Amortisation of goodwill on acquisition of an associate	42	–
Interest income on bank deposits	(507)	(471)
Interest expense on bank loans	62	344
Subsidiaries liquidation loss	1,152	–
Amortisation of deferred development costs	1,243	333
	<hr/>	<hr/>
<b>Operating profit before working capital changes</b>	24,453	16,147
(Increase)/decrease in prepayments and other current assets	(9,861)	2,971
(Increase)/decrease in amount due from related parties	(181)	847
(Increase)/decrease in inventories	(83)	215
(Increase)/decrease in accounts receivable, net	(18,104)	(322)
Increase/(decrease) in deferred income	1,103	(1,196)
Decrease in salary and staff welfare payable	(1,886)	(1,538)
Decrease in customers' deposit	(6,086)	(362)
Decrease in accruals and other payables	(14,552)	(4,056)
Increase in VAT and business taxes payable	2,474	1,169
	<hr/>	<hr/>
<b>Cash generated from operating activities</b>	(22,723)	13,875
Interest paid	(62)	(344)
Mainland China income tax paid	(2,705)	(1,391)
	<hr/>	<hr/>
<b>Net cash from operating activities</b>	(25,490)	12,140
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of fixed assets	(6,317)	(2,786)
Investment in an associate	(5,001)	–
Purchase of shares of subsidiaries	9 (3,018)	–
Proceeds from disposal of fixed assets	26	–
Interest received	507	471
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	(13,803)	(2,315)
	<hr/>	<hr/>

	<i>Notes</i>	<b>Consolidated</b>	
		<b>2002</b>	<b>2001</b>
		<i>RMB'000</i>	<i>RMB'000</i>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from issuance of shares		–	96,434
Proceeds from execution of share option		–	276
Proceeds from new bank loans		–	1,000
Payment for listing expenses		–	(13,514)
Repayment of bank loans		(128)	(5,691)
Dividends paid		(4,640)	(2,790)
<b>Net cash from financing activities</b>		<u>(4,768)</u>	<u>75,715</u>
<b>Net increase in cash and cash equivalents</b>		(44,061)	85,540
<b>Cash and cash equivalents at beginning of year</b>		125,431	33,938
<b>Effect of foreign exchange rate change</b>		–	–
<b>Cash and cash equivalents at end of year</b>		<u>81,370</u>	<u>119,478</u>

*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.

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 Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board.

#### 2. Turnover

Turnover comprises the following:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>30th June,</b>		<b>30th June,</b>	
	<b>2002</b>	<b>2001</b>	<b>2002</b>	<b>2001</b>
	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>	<b>Unaudited</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Sales of software	69,793	42,115	116,263	76,499
Sales of hardware	44	1,335	65	1,384
Solution consulting and support service income	12,686	5,774	17,806	10,139
	<u>82,523</u>	<u>49,224</u>	<u>134,134</u>	<u>88,022</u>

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

**3. Finance income (costs), net**

	Three months ended 30th June,		Six months ended 30th June,	
	2002 Unaudited RMB'000	2001 Unaudited RMB'000	2002 Unaudited RMB'000	2001 Unaudited RMB'000
Interest income	222	48	507	471
Less: Interest expenses on bank loans	(28)	(186)	(62)	(344)
Others	(16)	(23)	(40)	(44)
	<u>178</u>	<u>(161)</u>	<u>405</u>	<u>83</u>

**4. Consolidated profit (loss) before taxation**

Consolidated profit before taxation was arrived at after charging (crediting) the following:

	Six months ended 30th June,	
	2002 Unaudited RMB'000	2001 Unaudited RMB'000
Crediting:		
Interest income on bank deposits	<u>507</u>	<u>471</u>
Charging:		
Development costs	9,462	3,654
Less: Amount capitalized	–	–
Add: Amortisation of capitalized costs	<u>1,245</u>	<u>333</u>
	10,707	3,987
Interest expenses on bank loans repayable		
– within five years	48	241
– over five years	<u>14</u>	<u>103</u>
	62	344
Cost of raw materials consumed	1,318	854
Staff costs:		
– salaries, wages and other benefits	53,175	25,307
– contribution to retirement scheme	<u>2,213</u>	<u>1,121</u>
	55,388	26,428
Depreciation of fixed assets	4,058	2,187
Amortisation of goodwill on acquisition of an associate	42	–
Amortisation of goodwill of investment in subsidiaries	248	–
Provision for doubtful debts	2,967	2,237
Loss on disposal of subsidiaries	1,152	–
Operating lease rentals on premises	5,305	4,081
Loss on disposal of fixed assets	<u>354</u>	<u>–</u>

## 5. Taxation

Taxation represents:

	Three months ended 30th June,		Six months ended 30th June,	
	2002	2001	2002	2001
	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000	Unaudited RMB'000
Mainland China income tax				
– Current income tax	1,294	1,283	1,863	2,076
– Deferred income tax	(247)	396	(251)	(196)
	<u>1,047</u>	<u>1,679</u>	<u>1,612</u>	<u>1,880</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, 2002 (the six months ended 30th June, 2001: Nil), no provision had been made for profit tax for both jurisdictions.

The Group's subsidiary, Kingdee Software (China) Co., Ltd. ("Kingdee China"), is a wholly foreign-owned enterprise located in the 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, Kingdee China 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.

## 6. 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, 2002 had been calculated by dividing profit attributable to shareholders of approximately RMB9,714,000 and RMB13,117,000 respectively (the three months and six months ended 30th June, 2001 were approximately RMB8,043,000 and RMB10,088,000 respectively) by the weighted average number of 438,900,000 shares and 438,325,000 shares respectively (the three months and six months ended 30th June, 2001: 437,500,000 shares and 415,625,000 shares respectively) in issue during the period.

Diluted earnings per share for the three months and six months ended 30th June, 2002 had been calculated by dividing diluted profit attributable to shareholders of approximately RMB9,721,000 and RMB13,128,000 respectively (the three months and six months ended 30th June, 2001 were approximately RMB8,052,000 and 10,103,000 respectively) by the weighted average number of 443,730,000 shares and 441,750,000 shares respectively (the three months and six months ended 30th June, 2001: 438,800,000 shares and 416,600,000 shares) after adjusting for the effects of all potential dilutive shares during the period.

## 7. Movement on shares issued

	Number of shares '000	Nominal value HK\$'000	Nominal value RMB'000
Share capital as of 1st January, 2002	437,750	43,775	46,840
Add: shares issued to TCL (note)	3,137	314	331
Share capital as of 30th June, 2002	440,887	44,089	47,171

Note: Increase in shares issued was due to the Group issued 3,136,908 shares at HKD2.03 per share on 27th May, 2002 to TCL Industries Holdings (H.K) Limited ("TCL") as payment of the consideration for the acquisition of Beijing Case Software Technology Company Limited.

## 8. Movements of capital and reserves

Movements in the capital and reserves of the Group for the three months and six months ended 30th June, 2002 and the six months ended 30th June, 2001 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	Exchange Reserve unaudited RMB'000	Retained Earnings unaudited RMB'000	Total unaudited RMB'000
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
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>–</u>	<u>41,562</u>	<u>148,368</u>
Balances as at								
1st April, 2002	46,840	31,083	6,570	18,864	8,184	(666)	60,063	170,938
Shares issued as at 27th May, 2002	331	6,419	–	–	–	–	–	6,750
Final dividends for 2001	–	–	–	–	–	–	(4,640)	(4,640)
Translation adjustments	–	–	–	–	–	(17)	–	(17)
Profit for the period	–	–	–	–	–	–	9,714	9,714
Balance as at 30th June, 2002	<u>47,171</u>	<u>37,502</u>	<u>6,570</u>	<u>18,864</u>	<u>8,184</u>	<u>(683)</u>	<u>65,137</u>	<u>182,745</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
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>–</u>	<u>41,562</u>	<u>148,368</u>
Balances as at								
1st January, 2002	46,840	31,083	6,570	18,864	8,184	(683)	56,660	167,518
Shares issued as at 27th May, 2002	331	6,419	–	–	–	–	–	6,750
Final dividends for 2001	–	–	–	–	–	–	(4,640)	(4,640)
Translation adjustments	–	–	–	–	–	–	–	–
Profit for the period	–	–	–	–	–	–	13,117	13,117
Balance as at 30th June, 2002	<u>47,171</u>	<u>37,502</u>	<u>6,570</u>	<u>18,864</u>	<u>8,184</u>	<u>(683)</u>	<u>65,137</u>	<u>182,745</u>



**9. (1) Purchase of shares of subsidiaries**

	<i>RMB'000</i>
Net assets acquired	
Fixed assets	4,072
Inventories	153
Intangible assets	1,378
Trade and other receivables	13,345
Bank balances and cash	1,038
Other assets	491
Trade and other payables	(26,513)
Minority shareholders' interests	2,103
	<hr/>
	(3,933)
Goodwill	14,739
	<hr/>
	10,806
	<hr/> <hr/>
Satisfied by	
Allotment of shares	6,750
Cash	4,056
	<hr/>
	10,806
	<hr/> <hr/>

The principle non cash transactions are the issue of shares as consideration for the purchase of subsidiaries.

**(2) Analysis of the net outflow in respect of the purchase of subsidiaries**

	<i>RMB'000</i>
Cash consideration	4,056
Bank balances and cash in hand acquired	(1,038)
	<hr/>
Net cash outflow in respect of the purchase of subsidiaries	3,018
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## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Consolidated results of operations**

The Group's consolidated turnover for the six months ended 30th June, 2002 was approximately RMB134,134,000 representing an increase of approximately 52.4% when compared to the same period in 2001 (for the six months ended 30th June, 2001: RMB88,022,000). The increase was mainly attributable to the sales of ERP software K/3. The Group sold 17,667 ERP software modules during the reporting period, thus realized sales income of RMB87,843,000, representing 46.6% and 86.5% of increase over the same period in 2001 respectively.

Profit attributable to shareholders of the Group for the six months ended 30th June, 2002 was approximately RMB13,117,000, representing an increase of approximately 30% compared to the same period in 2001 (for the six months ended 30th June, 2001: RMB10,088,000). The basic earnings per share was RMB2.993 cents (for the six months ended 30th June, 2001: RMB2.427 cents).

### **Gross profit**

The Group's gross profit increased by approximately 62.2% from RMB72,101,000 for the six months ended 30th June, 2001 to approximately RMB116,912,000 for the six months ended 30th June, 2002. During the year, a gross profit margin of approximately 87.2% was recorded (for the six months ended 30th June, 2001: 81.9%).

### **Selling expenses**

Selling expenses for the six months ended 30th June, 2002 amounted to approximately RMB64,473,000, representing an increase of approximately 53.6% over the same period in 2001. Selling expenses as a percentage of total turnover for the reporting period increased to approximately 48.0% as compared to approximately 47.7% for the six months ended 30th June, 2001. In addition to selling fees increased in line with the increase of turnover, the reasons for the increase in selling expenses as a percentage of total turnover for the reporting period were mainly contributed to the increase in salaries and fringe benefits for staff, and provision of more bonuses schemes for its sales personnel. It was for the purpose to attract and retain sales persons who are familiar with both the technical and sales operations and are experienced in implementation and consultancy.

### **General and administrative expenses**

General and administrative expenses for the six months ended 30th June, 2002 amounted to approximately RMB37,296,000, representing an increase of approximately 91.3% over the same period in 2001. General and administrative expenses as a percentage of total turnover for the year increase to approximately 27.8% as compared to approximately 22.2% for the six months ended 30th June, 2001. Among them, research and development costs, salaries and staff welfare, provision for doubtful debts, depreciation of fixed connectivity expenses, staff training expenses and professional services fees accounted for approximately 28.7%, 39.4%, 8.0%, 10.7%, 2.0% and 2.7% of the total general and administrative expenses for the six months ended 30th June, 2002 respectively. The provision for doubtful debts for the reporting period was approximately RMB2,967,000, representing an increase of 32.6% over 2001. The additional provision for doubtful debts was mainly attributable to enlarged ERP software business of the Group and the increased account receivables. Professional services fees mainly included Sponsor's professional fees, Legal Advisor's professional fees and other expenses incurred for maintaining the Company's listing of shares.

## **Liquidity and financial resources**

The Group had a sound cash flow position. As at 30th June, 2002, cash and cash equivalents were at RMB81,370,000, the current ratio was 3.3 (as at 31st December, 2001: 4.0). Gearing ratio which is expressed as a ratio of total liability and minority interests to shareholders' equity was 0.3 (as at 31st December, 2001: 3.7). The main reason for the decrease of the current ratio was the reduction in the balance of cash and cash equivalents. The reduced portion of cash and cash equivalents was mainly used for the payment of dividends in 2001, the payment of the investment amounts for acquisition, the increase of marketing expenses and the purchase of fixed assets.

The Group intends to finance its daily operations and product development with internal funds and the Group implements stringent control on treasury activities. Unused financial resources will be placed in bank for interest.

The Group had no additional loans at the end of the reporting period. As at 30th June, 2002, the Group had no short-term bank loan outstanding (as at 30th June, 2001: RMB13,600,000). As at 30th June, 2002, the long-term loan balance was RMB1,717,000, which was secured by the Group's property of book value of approximately RMB3,755,000 as at 30th June, 2002, at an interest rate of 6.0% per annum.

The Group was not subject to material foreign exchange rate fluctuation exposure, and had not entered into any foreign currency futures contract to hedge against foreign currency fluctuation as at 30th June, 2002 (as at 30th June, 2001: nil).

The Group had no significant contingent liabilities as at 30th June, 2002 (as at June 2001: nil).

## **Capital expenses**

At the end of 2001, the Group entered into a sales and purchase agreement with TCL Industries Holdings (H.K.) Limited ("TCL") through its wholly-owned subsidiary to acquire 90% equity interests in Beijing Case Software Technology Company Limited ("Beijing Case") from TCL at a consideration of RMB 13.5 million. During the reporting period, the actual investment amount paid was RMB 4,750,000, and an approval was obtained from the Stock Exchange for the issue of 3,136,908 newly issued consideration shares at HKD2.03 each, raising a total of RMB6,750,000. The acquisition balance will be settled in the near future. During the reporting period, the Group basically completed the business integration after the acquisition of Beijing Case, the staff experienced a smooth transition, and the research and development capacity of its flagship product TEEMS was further enhanced.

At the end of 2001, the Group had reached an agreement with Asia 21-Cybics Technology Limited ("Asia 21-Cybics") to subscribe for shares in Asia 21-Cybics at RMB5 million representing 25% equity interests of Asia 21-Cybics, and the agreement was completed in the reporting period.

## **Plans for material investments or capital assets**

The Group has no other plans that will require sources of funding from the internal resources of the Group.

## **Employees**

As at 30th June, 2002, the number of staff of the Group in total increased from 1,497 at the beginning of the year to 1,868. Employees are remunerated according to their performance and work experience. The Group has maintained a bonus incentive scheme to reward well performed staff. Throughout the year, the Group enforced its staff training to raise the competitiveness of the staff; this helps staff to succeed, and thus helps customers to succeed.

On 15th May, 2002, the Group granted a total of 5,620,000 options to its 22 employees. This was the third time options distributed since the grant of 1,720,000 options to 2 employees during the listing and to 33 employees after the listing. This time, options were granted to the senior management team and major technical staff of Kingdee Software (China) Company Ltd, Beijing Case Software Technology Company Limited, Shanghai Case Software Technology Company Limited, which are the subsidiaries of the Group, and to sales and technical talents such as returned students from overseas.

## **BUSINESS OBJECTIVE REVIEW**

By implementing the strategic policy of informatization bringing forward the industrialization in China, Kingdee International meets the challenge by continued creativity and break-throughs. Being a leader in the industry, it leads to the development of new trends, Kingdee International determined to become the industry leader of enterprise informatization of China. Since 2002, Kingdee International has implemented new strategies to open up the market in various industries and transformed itself from a software product provider to a total solutions provider. Through a series of merger and acquisition transactions, the Group has developed full range of products for enterprises with different size and for different applications. The Group also developed total solution products for enterprises of different industries and to meet the demand for enterprises at different development stages.

According to “Marketing Research Report of the Market of Management Software in China 2001-2002” of the Computer Market Research Centre (CCW Research), it was stated that the products of Kingdee International had 15.4% market coverage in the ERP software brands in China and are highly recognized and trusted by the enterprise customers in China.

Since the beginning of the year, the Group has continued to promote and expand customers in different industries. The industry-based business department of the Group released new versions of industry-based software in Beijing and Shanghai respectively. Tremendous progresses were made in financial and tobacco industries. Not only is the Group actively promoting the informatization of Chinese enterprises, it became the best partner of the enterprises, equipped with the overall advantage of its product and solutions. The Group plays an active role in promoting the building of e-commerce and e-administration in China.

## Kingdee International's Total Solutions

The Group formally launched its Kingdee complete enterprise informatization solution in early 2002. This signified the advance position of Kingdee International in this industry within China. Again, Kingdee International took the lead and progressed by leaps and bounds and sustained its industry leadership, and further established itself a new identity of a total enterprise informatization solutions provider.

Kingdee International's total enterprise informatization solutions comprised of years of research and experiences on total software technology, which includes supporting fundamental enterprise management and demand at ERP Stage and **K3** and **CASE/KM** system, **TEEMS**, a system that supports e-commerce operation, supply chain management system and customer management system and platform tools, **APUSIC** middleware system which supports e-commerce, and other systems that are designed to help clients succeed. During the period under review, through acquiring and merging with Shanghai Case Software Technology Company Limited ("Shanghai Case") and cooperating with Brio Company, the Group expanded its total solutions to knowledge management solutions and commercial intelligence solutions. Kingdee International's enterprise informatization total solution is suitable and applicable for different industries. It satisfies customized requirements of various enterprises in different industries and enterprises at different stage of development. It formed a superior customer application platform and satisfied a diverse range of aspects, such as technology, product, solution, enquiry and services.

During the first half of the year, the Group commenced a large-scale nationwide road show for its total solutions, held a series of seminars and participated and organized various activities like "Management Problem, Total Solution", "Knowledge Storm" and "Accounting Storm", etc. By proactively and aggressively introducing its total solutions to customers, customers learned that Kingdee International can provide a total enterprise management information system solution and services that assist them in resolving management problems in every stage of business development and help to enhance management efficiency and boost competitiveness.

Products of the Group continued to improve and satisfy the ever-changing requirements of enterprise informatization management. The mainstream product of the Group, the **K/3** series, had released its V9.1 version. The new generation of product **K/3.NET** had recently completed the analyses and design of its prototype. In the first half of the year, **K/3** human resource system V9.0 and **K/3** for financial industry V9.0 had been launched in the market in all aspects. Its traditional key product, **KINGDEE 2000**, has also been upgraded to **2000XP**. After the launch of the upgraded version of the **APUSIC** application server V1.2, V2.0 Beta version is open for public testing. It is expected that the formal version will be launched in the second half of the year. Beijing Case has also launched the V2.0 version of **TEEMS CRM** and **TEEMS** Enterprise Information Portal R2.0. Both products are more functional, stable and user friendly than the previous products.

During the reporting period, Kingdee Software (China) Company Limited, a subsidiary of Kingdee International, has successfully passed the 2nd Level assessment of CMM (Capability Maturity Model) and is heading for the 3rd level of assessment. Such achievement demonstrated that Kingdee International is basically capable of exporting software.

## Marketing and Sales

Since this year, the Group has actively promoted the sales of its Total Solutions. Through proactive measures such as merging with Beijing Case and Shanghai Case, investing in Asia 21-Cybits, and cooperating with Tsinghua University to set up the Institute of Enterprise Informatization, the Group's competence in research and development ("R&D") and products for financial, automobile, tobacco and construction industries has been greatly strengthened. It also established a solid foundation for the Group to fully explore the market in different industries.

Kingdee International has 42 subsidiaries and associated companies throughout China, including six large regions of Eastern China, Southern China, South Western China, Shenzhen, North Eastern China and Northern China respectively, to actively explore the national market and to build and establish a larger market share. In addition, the Company has also set up a Hong Kong branch to explore the overseas market and has successfully entered into agreements with many customers.

During the first half of the year, the revenue received from the Group's sales and service continued to grow substantially as compared to the same period of last year. Within the first half year, the Group implemented the "3 horizontal and 5 vertical" management philosophy to realize the integration of three management levels which include organization, regional and headquarter, with the five vertical lines which include general manager, marketing, direct sales, distribution and services. The goal is to strengthen the functions of regional management centers and support centers and to establish on the expertise and professionalism of the vertical business line. Through its successful implementation, the Group has nurtured and established its own professional consultation and management teams.

In particular, the Group also enforced its channel management, completed the fundamental construction of new channel structure, set up operation management team and enhanced the capacity of operation. At the same time, the Group established an operational analysis model and system and enhanced support towards its operational decision. During the period under review, the Group provided training to its sales agents on the different levels of services as well as updating and educating staff on new products and solutions. The Group also actively promoted new sales and management models.

In the first half of the year, the Group, has actively implemented its sales policy of a "Developing Industry-based customers" and had successfully achieved tremendous progress in exploring and capturing customers in different industries. The Group had entered into various sales agreements with many well-known enterprises and organizations in China, such as Jiangxi Coal Group (江西煤炭集團), Shenzhen Sanjiu Sophisticated Chemical Company Limited (深圳三九精細化工有限公司), Heilongjiang Power Development Limited (黑龍江電力開發公司), Jiangsu Province Telecom Industrial Group (江蘇省電信實業集團) and Jiangsu Province Tobacco Sales Bureau (江蘇省煙草專賣局), etc. The Group's tailor-made solutions fulfilled the need of management informatization for different enterprises in various industries. It also assists the enterprises to strengthen their overall management and control over the capital flow and logistics. The highly experienced staff of Kingdee International and its unique "Golden Finger 6 Steps Method" ensured the successful implementation of various projects.

On 18th June, 2002, twelve reputable and renowned partners including Kingdee International, e-Commerce Association of China, China informatization evaluating center (國家信息化評測中心), Microsoft, Intel, Brio, Tsinghua University National CIMS Engineering Technology Centre, Hong Kong Productivity Council, Computer World, IT Manager World, e-Commerce World, Chinabbc.com.cn (中國國家企業網) and Yesky.com (天極網), jointly launched the “Project of Oriental Pearl” in Shanghai under the leadership of the Office of National Informatization Working Group. The program will last for 4 months and will be extended throughout China. This proved to be a successful restructuring plan to capture valuable customers. Kingdee International will be in a position to share and to explore its success with its valuable corporate customers, to commit continuous management upgrading, to enhance the value of the software system, continue to establish practical management model and solutions for different industries as so to support and promote informatization in China.

### **Strategic cooperation**

On 25th June, 2002, Industry and Commercial Bank of China (“ICBC”), the largest commercial bank in China, and Kingdee International, announced the formation of a strategic partnership in Beijing. By applying the software from Kingdee International, customers of ICBC can conveniently use the bank’s electronic banking services. It indicated that the electronic banking has entered into ERP.

Through cooperation of both parties, not only can customers enjoy complete electronic banking services through their own management software, but also they can carry out corporate account enquiries, account transactions, salary pay out, Internet settlement and group financial management, etc. Both parties will develop respective gateway software and realize the connection of Kingdee International’s enterprise management software with ICBC’s electronic banking system to enable data exchange.

According to the latest published research report by CCW Research, statistics on the management software in the financial industry showed that the Kingdee **K/3 ERP** outperformed its counterparts to top the list with a 24.7% market share. Kingdee International has been a loyal partner of the PRC’s financial industry, and the strategic cooperation with ICBC is bound to enhance its services to customers of different industries to an unprecedented level.

During the reporting period, the Group entered into a cooperation agreement with Brio Software Limited, a new-generation business intelligence solutions provider, so as to combine their efforts and resources to explore the enterprise management software market in the PRC.

According to the cooperation agreement, Kingdee International, as the top-tier agent of Brio, will integrate **Brio Performance Suite** with its enterprise informatization total solution with its **K/3 ERP** and **TEEMS** e-commerce system to better serve the users in the PRC. Kingdee International has established synergistic strategic partnerships with numerous leading IT vendors, such as Microsoft and IBM, to name a few, and received tremendous support in many aspects, including highly advanced technical resources and synergistic market system. The Group will proactively generate feedbacks from customers and form a strong community with common interests for customers. Kingdee International and its cooperative partners, will continue to leverage on the win-win cooperation to enhance its services and products for customers.

## PROSPECTS

For the past ten years, while IT infrastructure in the PRC has improved immensely, enterprises needed to allocate huge capital investment into hardware development in order to increase efficiency to generate better returns. On the other hand, with increasingly global competitions and the need to comply with international practices, various industries in the PRC are undergoing in depth reforms to improve their management practices and to enhance their competitiveness by choosing high-end application software. The PRC government has also set targets to upgrade the PRC's overall IT application level as a whole. According to forecasts by IDC on the PRC software market for year 2001 to year 2006, the PRC's package application software market will grow at an annual average rate of 36% for the coming five years. The Board believes that there is enormous room for the development of software products and solutions offered by the Group, and that the business of the Group will maintain stable and rapid growth.

For the second half of this year, the Group will continue its strategic policy to “march towards all industries and continue to strengthen transformation”. The Group will further upgrade its products, implement new versions and develop new modules. In addition, the Group has already completed the necessary organizational structure adjustment to prepare for its full-fledged commitment to research and develop industry-based software in the second half of this year. There are also plans to develop new systems for certain industry resolutions to meet the ever-changing customer need. The Group intends to expand its R&D team to cope with the development requirements of its current and future projects. Last but not least, the Group will strengthen the support, training, cooperation and exchange between its R&D staffs in the Headquarter with those of other projects.

The priority in the second half of the year is to continue focusing on image building and promotion activities for “Kingdee Total Solutions” and aiming to enhance customer satisfaction and to fulfill customer needs. The product of the Group will be uniquely positioned. The Group will dedicate much effort into integrating its products with advanced technologies, while its strategic focus is to explore the market to seek after potential opportunities. The next goal is to generate greater achievements in the industry-based business market, not only in terms of scope, but also in terms of depth. Meantime, the Group will strive to expand into the international market. In respect of that, the Group will make adjustments in organization and human resources accordingly to maximize efficiency. On one hand, the Group will continue to intensify its R&D capacity of related products, the implementation capacity of related projects as well as to facilitate the integration between the acquired companies and Kingdee. On the other hand, it will formulate well-defined market expansion plans, reinforce industry knowledge accumulation and industry operations, introduce new sales models and management models and enhanced the professional level of its services.

The Group will realize its expansion in product range and production scale by way of cooperation, acquisitions, mergers and investment. The Group will make prudent assessment and analysis in order to ensure that expansion in any way will be conducive to the further development of Kingdee International and be conducive to the effectuation of its future prospects. The Group aims to become the best cooperation partner of enterprise informatization and to help customers succeed. With the concerted effort of the Group, the Directors believe that Kingdee International is bound to become the leader of the industry with an unique and unrivaled achievement and to prosper in the promising future with our customers by leaps and bounds.



## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

According to the business plans from 1st January, 2002 to 30th June, 2002 as stated in the Prospectus	Actual business progress	
<b>Product</b>		
<b><i>Kingdee 2000</i></b>	<ul style="list-style-type: none"> <li>• Improve the then packages</li> <li>• HK\$500,000 of proceeds to be invested</li> </ul>	<ul style="list-style-type: none"> <li>• <b>KINGDEE 2000</b> upgraded to <b>2000XP</b> during the reporting period</li> <li>• Actual investment of RMB58,000</li> </ul>
<b><i>K/3</i></b>	<ul style="list-style-type: none"> <li>• Release multi-platform (Windows, Linux, Unix) applicable versions</li> <li>• Continue to analyse and develop the technicalities of the then <b>K/3</b> application modules with Web-based capability</li> <li>• HK\$6,000,000 of proceeds to be invested</li> </ul>	<ul style="list-style-type: none"> <li>• The Group undertook to develop the fundamental platform of <b>K/3.net</b>, a new generation of the product</li> <li>• The Group continued to upgrade and develop <b>K/3 WEB</b> version</li> <li>• Actual total investment of RMB9,314,000</li> </ul>
<b><i>ASP platform products</i></b>	<ul style="list-style-type: none"> <li>• Continue to improve the online EAS platform to cater with the latest development of the Web-based versions of <b>K/3</b> application modules</li> <li>• Continue analyzing the feasibility of developing the rental business of ASP platform products</li> <li>• HK\$500,000 of proceeds to be invested</li> </ul>	<ul style="list-style-type: none"> <li>• The Group basically discontinued the development of KANBA.com web site. Technical personnel of ASP platform was transferred to the R&amp;D department of CRM products</li> <li>• Actual total investment of RMB198,000</li> </ul>
<b><i>Apusic Middleware</i></b>	<ul style="list-style-type: none"> <li>• Release Beta version of improved version of <b>Apusic</b> Middleware for free trial use</li> <li>• HK\$1,000,000 of proceeds to be invested</li> </ul>	<ul style="list-style-type: none"> <li>• The Group released <b>APUSIC</b> application server V2.0 Beta Version during the reporting period</li> <li>• Actual total investment of RMB1,280,000</li> </ul>

**According to the business plans from  
1st January, 2002 to 30th June, 2002  
as stated in the Prospectus**

**Actual business progress**

***Technical  
support  
services***

- |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Continue utilising the Group's sales and distribution network as the backbone of the Group's technical support service network</li> <li>• Continue to train members of the Group's marketing and technical support servicing staff regarding the Group's products</li> <li>• Update service working handbook</li> <li>• Continue briefing the service working handbook to members of the Group's marketing and technical support servicing staff</li> <li>• Update service support database</li> <li>• HK\$2,000,000 of proceeds to be invested</li> </ul> | <ul style="list-style-type: none"> <li>• The Group provided technical support services to customers via branch institutions and agents throughout the PRC</li> <li>• According to the routine plan, the Group provided related training to marketing and technical-support services staff during the first half of 2002</li> <li>• Updated service working information</li> <li>• Sent updated information to staff of the Company in time</li> <li>• Updated service support database according to the Company's business progress</li> <li>• Actual total investment of RMB2,411,000</li> </ul> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

***Marketing***

- |                                                                                                                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Promote and advise the improved version of Apusic Middleware via media and by attending or organizing conferences and seminars</li> <li>• Continue to advertise and promote the Group's products including new modules of K/3 and online EAS platform via media and by attending or organizing conferences and seminars</li> <li>• HK\$3,500,000 of proceeds to be invested</li> </ul> | <ul style="list-style-type: none"> <li>• The Group promoted <b>APUSIC</b> Product through participating in exhibitions, seminars, etc., and received positive feedback</li> <li>• The Group organized and took part in various large-scale marketing activities, and had achieved fruitful results in promoting the Group's products</li> <li>• Actual total investment of RMB4,160,000</li> </ul> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

**According to the business plans from  
1st January, 2002 to 30th June, 2002  
as stated in the Prospectus**

**Actual business progress**

<b><i>Sales and distribution network</i></b>	<ul style="list-style-type: none"> <li>• Evaluate opportunities to establish co-operation arrangement with other software vendors</li> <li>• Expand the number of authorized sales agents in order to expand the sales and distribution network of the Group</li> <li>• HK\$1,000,000 of proceeds to be invested</li> </ul>	<ul style="list-style-type: none"> <li>• The Group entered into cooperative alliance with, among them IBM, Microsoft China</li> <li>• The Group continued to expand its sales agent team during the year</li> <li>• Actual total investment of RMB1,860,000</li> </ul>
<b><i>Personnel</i></b>	<ul style="list-style-type: none"> <li>• Employ additional programmers and systems analysts or replace retired programmers and system analysts</li> <li>• HK\$ 1,500,000 of proceeds to be invested</li> </ul>	<ul style="list-style-type: none"> <li>• Employed additional professional technicians under the recruitment scheme</li> <li>• Actual total investment of RMB1,980,000</li> </ul>

**INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 30th June, 2002 (the six months ended 30th June, 2001: Nil).

**INTERESTS OF DIRECTORS IN EQUITY SECURITIES**

As at 30th June, 2002, the beneficial interests of the Directors in the shares or securities of the Company or any associated corporation (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:

Name of Directors	Number of Shares/Shares available under the share option (where appropriate)	Nature of Interests	Approximate percentage of interest
Xu Shao Chun ( <i>note 1</i> )	141,916,250	Corporate ( <i>note 2</i> )	32.19%
	1,599,500	Other ( <i>note 3</i> )	0.36%
	1,500,000	Share option ( <i>note 4</i> )	N/A
Xu Wen Hui	2,154,500	Personal	0.49%
	1,599,500	Other ( <i>note 3</i> )	0.36%
	500,000	Share option ( <i>note 4</i> )	N/A

Name of Directors	Number of Shares/Shares available under the share option (where appropriate)	Nature of Interests	Approximate percentage of interest
Zhang Wen Xing ( <i>note 1</i> )	1,599,500	Other ( <i>note 3</i> )	0.36%
Hugo Shong	5,250,000 1,599,500	Personal Other ( <i>note 3</i> )	1.19% 0.36%
Zhao Yong	66,601,750	Personal	15.11%

*Notes:*

1. In February 2001, Oriental Gold Limited, a company wholly-owned by Mr. Xu Shao Chun, was granted rights of first refusal in the future sale of 37,950,500 shares held by 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 a 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.
2. The 83,606,250 shares were held by Oriental Gold Limited, and the 58,310,000 shares were held by Billion Ocean Limited.
3. Project China Limited, a company wholly-owned by Mr. Zhang Wen Xing, held 1,599,500 shares 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 share option were granted on 15th May, 2002 upon approval of the new share option scheme by the shareholders of the Company at the extraordinary general meeting held on 26th April, 2002.

## THE PRE-IPO SHARE OPTION SCHEME

Pursuant to the pre-IPO share option scheme adopted by the Company on 30th January, 2001, options to subscribe for 1,000,000 shares and 300,000 shares of HK\$0.01 each of the Company were granted to Mr. Huang Xiao Jian and Mr. Liu Fan respectively at a subscription price equal to HK\$1.03 per share.

All of these options have a duration of 10 years from the date on which dealings in the Shares commence 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.

Mr. Huang had exercised his share option to subscribe for 250,000 shares on 2nd July, 2001. As Mr. Huang left the Group on 31st December, 2001, his outstanding option to subscribe for the remaining 750,000 shares lapsed on the same date.

As at 30th June 2002, Mr. Liu had not exercised any share option to subscribe for any shares and 300,000 options remained outstanding under the pre-IPO share option scheme.

## THE SHARE OPTION SCHEMES

Pursuant to the share option scheme of the Company adopted on 30th January, 2001 (the “Old Scheme”), the full-time employees of any member of the Group (including any executive directors of any member of the Group) may be granted options to subscribe for shares of HK\$0.10 each of the Company.

At the board meeting of the Company held on 27th September, 2001, the Implementation Rules for the Old Scheme (the “Implementation Rules”) were approved to serve as a practical guideline for the issue and grant of the share options, and options to subscribe for a total of 1.72 million shares were granted to 33 full-time employees of the Group at a subscription price equal to HK\$1.49 per share.

This Old Scheme was terminated and replaced by a new share option scheme (“New Scheme”) by ordinary resolution of the shareholders of the Company passed at the Extraordinary General Meeting of the Company held on 26th April 2002. The existing options under the Old Scheme will continue to be valid and exercisable in accordance with its provisions.

At the board meeting of the Company held on 15th May, 2002, options to subscribe for a total of 5.62 million shares were granted to 22 full-time employees (including Executive Directors Mr. Xu Shao Chun and Mr. Xu Wen Hui) of the Group at a subscription price of HK\$1.78 per share pursuant to the New Scheme.

Details of the share options as at 30th June, 2002 which have been granted under the Old Scheme and the New Scheme are as follows:

	Options held at 1st January, 2002	Options granted during the year <sup>(1)</sup>	Options exercised during the year	Options held at 30th June, 2002	Exercise price HK\$	Grant date
Xu Shao Chun	–	1,500,000	–	1,500,000	1.78	15/05/2002 <sup>(3)</sup>
Xu Wen Hui	–	500,000	–	500,000	1.78	15/05/2002 <sup>(3)</sup>
Continuous contract employees	1,720,000 <sup>(2)</sup>	–	–	1,720,000	1.49	27/09/2001 <sup>(4)</sup>
	–	3,620,000	–	3,620,000	1.78	15/05/2002 <sup>(3)</sup>

*Notes:*

- (1) At the date before the options were granted (i.e. 14th May, 2002), the closing price of the share was HK\$1.73.
- (2) The share options were granted pursuant to the Old Scheme.
- (3) All of these options have a duration of 10 years from the grant 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 date of 15th May, 2003.
- (4) These options have a duration of 10 years from the grant 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 grant date.

Rule 23.08 of the GEM Listing Rules stipulate that listed issuers are encouraged to disclose in their half-year reports the value of options granted to participants set out in (1) to (5) of Rule 23.07 during the period. The Directors consider it inappropriate to value the options under all the schemes of the Company on the assumption that a number of factors crucial for the valuation cannot be determined. Such factors include the exercise period, the date of exercise and the conditions, such as performance targets, if any, that an option is subject to. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful but would be misleading to the shareholders.

## DIRECTOR'S RIGHTS TO ACQUIRE SHARES

Save as disclosed in the sections headed "Interests of Directors in Equity Securities", "Share Option Schemes" and "Pre-IPO Share Option Scheme" of the 2001 Annual Report of the Group, at no time during the six months ended 30th June, 2002 was the Company, or any of 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, 2002, the register maintained under Section 16(1) of the SDI Ordinance for substantial shareholders showed 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
Oriental Gold Limited ( <i>note 1</i> )	83,606,250	18.96%
Mr. Xu Shao Chun ( <i>note 1</i> )	141,916,250 ( <i>note 2</i> )	32.19%
Billion Ocean Limited	58,310,000	13.23%
Mr. Zhang Wen Xing	1,599,500 ( <i>note 3</i> )	0.36%
Mr. Zhao Yong	66,601,750	15.11%

*Notes:*

1. In February 2001, Oriental Gold Limited was granted rights of first refusal in the future sale of 37,950,500 shares held by 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 a 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.
2. The 83,606,250 shares were held by Oriental Gold Limited, and the 58,310,000 shares were held by Billion Ocean Limited. 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 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.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

At the 2001 annual general meeting of the Company held on 26th April, 2002 (“AGM”), and 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, 2002.

## **CHANGE OF DIRECTORS**

Pursuant to article 116 of the articles of association of the Company, Mr. Zhu Qi Heng retired as an independent non-executive director of the Company by rotation at the AGM. However, Mr. Zhu Qi Heng had notified the Company that, due to his personal reasons, he decided not to offer himself for re-election as an independent 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. Wu Cheng as an independent non-executive director of the Company to be elected at the AGM.

Mr. Wu Cheng was elected as the independent non-executive director of the Company at the AGM in place of Mr. Zhu Qi Heng.

## **COMPETING INTEREST**

None of the directors had an interest in a business which competes or may compete with the business of the Group.

## **SPONSOR’S INTEREST**

As at 30th June, 2002, none of the Company’s sponsor, BNP Paribas Peregrine Capital Limited, its directors, employees or associates held 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.

## **PRACTICES AND PROCEDURES OF THE BOARD**

The directors considered that the Company has complied with the requirement of Board practices and procedures of Rules 5.28 to 5.39 of the GEM Listing Rules since its shares were listed on the GEM on 15th February, 2001.

## **AUDIT COMMITTEE AND ITS DUTIES**

As at 30th June, 2002, the audit committee of the Company comprises of Mr. Xu Wen Hui, executive director, Ms. Yang Zhou Nan and Mr. Wu Cheng, both being the independent non-executive directors. Ms. Yang Zhou Nan 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 audit committee had convened and held the meetings on 25th March 2002, 14th May 2002 and 12th August, 2002 respectively to review the accounts and reports of the Group and to provide financial advices and recommendations to the Board.

On behalf of the Board  
**Kingdee International Software Group Company Limited**  
**Xu Shao Chun**  
*Chairman*

The People's Republic of China, 13th August, 2002