



**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, 2003**

**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.**

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*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 of Hong Kong Limited (“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, 2003

- Total revenue increased by approximately 29.88% over the same period in 2002 to approximately RMB174,213,000.
- Net profit attributable to shareholders increased by approximately 10.73% over the same period in 2002 to approximately RMB14,524,000.
- Basic earnings per share increased by approximately 10.06% over the same period in 2002 to approximately RMB3.294 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, 2003, together with the comparative unaudited consolidated figures for the corresponding period of 2002 as follows:

	Notes	Three months ended 30th June,		Six months ended 30th June,	
		2003 Unaudited RMB'000	2002 Unaudited RMB'000	2003 Unaudited RMB'000	2002 Unaudited RMB'000
Sales	2(a)	88,307	77,702	157,738	124,528
Value-added tax refund	2(b)	7,378	4,821	16,475	9,606
Cost of sales		95,685 (12,973)	82,523 (9,854)	174,213 (22,786)	134,134 (17,222)
Gross profit		82,712	72,699	151,427	116,912
Other operating income, net		6,215	(1,126)	6,561	(714)
Sells expenses		(45,262)	(39,190)	(82,131)	(64,473)
General and administrative expenses		(33,247)	(21,800)	(60,316)	(37,296)
Profit from operation		10,418	10,553	15,541	14,429
Finance (expense) income, net	3	(22)	178	(63)	405
Share of results of an associates		(509)	–	(596)	–
Profit before tax	4	9,887	10,731	14,882	14,834
Taxation	5	(419)	(1,047)	(986)	(1,612)
Profit after tax		9,468	9,684	13,896	13,222
Minority interests		335	30	628	(105)
Net profit attributable to shareholders		<u>9,803</u>	<u>9,714</u>	<u>14,524</u>	<u>13,117</u>
Dividends		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Earnings per share					
– basic	6	<u>RMB2.223 cent</u>	<u>RMB2.213 cent</u>	<u>RMB3.294 cent</u>	<u>RMB2.993 cent</u>
– diluted	6	<u>RMB2.154 cent</u>	<u>RMB2.191 cent</u>	<u>RMB3.208 cent</u>	<u>RMB2.972 cent</u>

## CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>30th June, 2003</b> <b>unaudited</b> <i>RMB'000</i>	<b>31st December, 2002</b> <b>unaudited</b> <i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in associates		4,287	5,382
Available-for-sale investments		335	335
Property, plant and equipment		45,009	42,736
Intangible asset		47,506	53,178
Deferred tax assets		6,120	6,771
Total non-current assets		<u>103,257</u>	<u>108,402</u>
<b>Current assets</b>			
Inventories		2,960	2,861
Trade receivables	7	50,721	55,238
Bills receivables		280	639
Other receivables and prepayments		22,870	14,580
Amounts due from related parties		1,690	594
Cash and bank balances		111,528	131,426
Total current assets		<u>190,049</u>	<u>205,338</u>
<b>Total assets</b>		<u><u>293,306</u></u>	<u><u>313,740</u></u>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholder's equity</b>			
Share capital		47,172	47,172
Share premium		37,504	37,504
Reserves		130,796	125,619
<b>Total shareholder's equity</b>	8	<u>215,472</u>	<u>210,295</u>
<b>Minority interests</b>		<u>527</u>	<u>1,156</u>
<b>Non-current liabilities</b>			
Borrowings	9	<u>1,434</u>	<u>1,587</u>
<b>Current liabilities</b>			
Trade payables	10	2,472	4,926
Borrowings		20,274	26,256
Deferred income		19,659	19,100
Salary and staff welfare payable		3,491	4,909
Taxes payable		8,944	15,233
Provisions		3,108	3,005
Customer's deposits		8,882	11,507
Accruals and other payables		9,043	15,766
Total current liabilities		<u>75,873</u>	<u>100,702</u>
Total liabilities		<u>77,307</u>	<u>102,289</u>
<b>Total equity and liabilities</b>		<u><u>293,306</u></u>	<u><u>313,740</u></u>

## CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended 30th June, 2003 Unaudited RMB'000</b>	<b>Six months ended 30th June, 2002 Unaudited RMB'000</b>
<i>Notes</i>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net Profit</b>	14,524	13,117
Adjustments for:		
Provision for doubtful debts	6,621	2,967
Depreciation of fixed assets	5,461	4,058
Loss on disposal of fixed assets	15	354
Amortisation of intangible asset	7,418	1,533
Share of associates' operating result	596	–
Interest income on bank deposits	(258)	(507)
Interest expense on bank loans	289	62
Subsidiaries liquidation loss	–	1,152
Provisions of support service	103	–
Minority interests	(628)	105
Provisions of income tax	986	1,612
	<hr/>	<hr/>
<b>Operating profit before working capital changes</b>	35,127	24,453
(Increase)/decrease in prepayments and other current assets	(7,900)	(9,861)
(Increase)/decrease in amount due from related parties	(1,096)	(181)
(Increase)/decrease in inventories	(99)	(83)
(Increase)/decrease in accounts receivable, net	(2,105)	(18,104)
(Increase)/decrease in deferred income	559	1,103
(Increase)/decrease in salary and staff welfare payable	(1,419)	(1,886)
(Increase)/decrease in customers' deposit	(2,625)	(6,086)
(Increase)/decrease in accruals and other payables	(9,178)	(14,552)
(Increase)/decrease in VAT and business taxed payable	(338)	2,474
	<hr/>	<hr/>
<b>Cash generated from operating activities</b>	10,926	(22,723)
Interest paid	(289)	(62)
Mainland China income tax paid	(5,661)	(2,705)
	<hr/>	<hr/>
<b>Net cash from operating activities</b>	4,976	(25,490)
	<hr/>	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	(9,651)	(6,317)
Investment in an associate	–	(5,001)
Purchase of shares of subsidiaries	–	(3,018)
Proceeds from disposal of fixed assets	–	26
Interest received	258	507
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	(9,393)	(13,803)
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	<b>Six months ended 30th June, 2003 Unaudited RMB'000</b>	<b>Six months ended 30th June, 2002 Unaudited RMB'000</b>
<i>Notes</i>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of shares	–	–
Proceeds from execution of share option	20,000	–
Proceeds from new bank loans	–	–
Payment for listing expenses	–	–
Repayment of bank loans	(26,134)	(128)
Dividends paid	(9,347)	(4,640)
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<b>Net cash from financing activities</b>	<b>(15,481)</b>	<b>(4,768)</b>
	<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>(19,898)</b>	<b>(44,061)</b>
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<b>Cash and cash equivalents at beginning of reporting period</b>	<b>131,426</b>	<b>125,431</b>
	<hr/>	<hr/>
<b>Effect of foreign exchange rate change</b>	<b>–</b>	<b>–</b>
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of reporting period</b>	<b>111,528</b>	<b>81,370</b>
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*Notes:*

**1. Basis of presentation**

The financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) which include International Accounting Standards and Interpretations issued by the International Accounting Standards Board, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM issued by the Stock Exchange.

The books and records of the Company and its subsidiaries, except for those subsidiaries established in the PRC (the “PRC subsidiaries”), are maintained in Hong Kong dollars. The books and records of the PRC subsidiaries are maintained in Renminbi (“RMB”). Owing to the fact that the Group principally operates in the PRC and its business activities are principally transacted in RMB, these financial statements are prepared in RMB.

## 2. Turnover, sales and value-added tax refund

(a) Turnover is net of applicable business tax and value-added tax (“VAT”) in the PRC and comprises the following:

	Three months ended 30th June,		Six months ended 30th June,	
	2003	2002	2003	2002
	unaudited RMB'000	unaudited RMB'000	unaudited RMB'000	unaudited RMB'000
Sales of software	70,233	64,972	126,760	106,657
Sales of hardware	840	44	1,244	65
Software solution consulting and support services income	17,234	12,686	29,734	17,806
	<u>88,307</u>	<u>77,702</u>	<u>157,738</u>	<u>124,528</u>

(b) Pursuant to the document Cai Shui Zi [2000] No.25 (“Document 25”) issued jointly by the Ministry of Finance, State Administration of Taxation and General Administration of Customs, for subsidiaries engaging in the development and distribution of software, sales of software are subject to VAT at the rate of 17% and any VAT paid exceeding 3% of the sales will be refunded. In the opinion of directors, the effective rate of VAT of these subsidiaries on sales of software is 3% taking into account of the refund.

## 3. Finance (expense) income, net

	Three months ended 30th June,		Six months ended 30th June,	
	2003	2002	2003	2002
	unaudited RMB'000	unaudited RMB'000	unaudited RMB'000	unaudited RMB'000
Interest income	147	222	258	507
Less: Interest expense on bank loans	(137)	(28)	(289)	(62)
Other	(32)	(16)	(32)	(40)
	<u>(22)</u>	<u>178</u>	<u>(63)</u>	<u>405</u>

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

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

	<b>Six months ended 30th June, 2003 unaudited RMB'000</b>	<b>Six months ended 30th June, 2002 unaudited RMB'000</b>
Crediting:		
Interest income on the bank deposit	<u>(258)</u>	<u>(507)</u>
Charging:		
Development costs	26,039	9,462
Add: amortisation of capitalization costs	<u>4,479</u>	<u>1,245</u>
	30,518	10,707
Interest expense on bank loans repayable		
– within five years	231	48
– over five years	<u>58</u>	<u>14</u>
	289	62
Cost of raw materials consumed	3,342	1,318
Staff costs:		
– salaries, wages and other benefits	69,873	53,175
– contribution to retirement scheme	<u>2,911</u>	<u>2,213</u>
	72,784	55,388
Depreciation of fixed assets	5,461	4,058
Amortisation of goodwill on acquisition of an associate	500	42
Amortisation of goodwill of investment in subsidiaries	–	248
Amortisation of intangible asset	2,939	–
Provision for doubtful debts	6,621	2,967
Loss on disposal of subsidiaries	–	1,152
Operating lease rentals on premises	7,977	5,305
Loss on disposal of fixed assets	<u>15</u>	<u>354</u>

#### 5. Taxation

Taxation represents PRC income tax charged to:

	<b>Three months ended 30th June,</b>		<b>Six months ended 30th June,</b>	
	<b>2003 unaudited RMB'000</b>	<b>2002 unaudited RMB'000</b>	<b>2003 unaudited RMB'000</b>	<b>2002 unaudited RMB'000</b>
The Group				
– current income tax	530	1,294	335	1,863
– deferred income tax	<u>(111)</u>	<u>(247)</u>	<u>651</u>	<u>(251)</u>
	<u>419</u>	<u>1,047</u>	<u>986</u>	<u>1,612</u>

- (a) No provision for profits tax in the Cayman Islands and Hong Kong has been made as the Group has no income assessable for profits tax for the six months ended 30th June, 2003 in those jurisdictions (the six months ended 30th June, 2002: Nil).
- (b) Majority of the subsidiaries and associates of the Group are established in the PRC and subject to an income tax rate of 33%, unless preferential rates are applicable in the cities where the subsidiaries are located.
- (c) Certain subsidiaries and associates of the Group are foreign owned enterprises and are entitled to full exemption from 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.

## 6. Earnings per share

Basic earnings per share are calculated by dividing the net profit for the three months and six months ended 30th June, 2003, by the weighted average number of ordinary shares outstanding during the period.

For the purpose of calculating diluted earnings per share, the net profit and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares from exercise of share options. The amount of net profit for the year is adjusted by the after-tax effect of interest recognised in the year for the proceeds from exercise of share options. The number of ordinary shares is the weighted average number of ordinary shares plus the weighted average number of ordinary shares which would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. Share options are deemed to have been converted into ordinary shares on the date when the options were granted.

Information on net profit and number of shares outstanding for the six months ended 30th June, 2003 is as follows:

	Three months ended 30th June,		Six months ended 30th June,	
	2003 unaudited RMB'000	2002 unaudited RMB'000	2003 unaudited RMB'000	2002 unaudited RMB'000
Net Profit	9,803	9,713	14,524	13,117
After-tax effect of interest on proceeds from exercise of share options	23	8	41	11
Net profit (diluted)	<u>9,826</u>	<u>9,721</u>	<u>14,565</u>	<u>13,128</u>

  

	Three months ended 30th June,		Six months ended 30th June,	
	2003 unaudited Number'000	2002 unaudited Number'000	2003 unaudited Number'000	2002 unaudited Number'000
Issued ordinary shares at 1st January	440,887	437,750	440,887	437,750
Effect of shares issued	–	1,150	–	575
Effect of exercise of shares options	–	–	–	–
Weighted average number of ordinary shares for the reporting period	<u>440,887</u>	<u>438,900</u>	<u>440,887</u>	<u>438,325</u>
Effect of share options outstanding	15,170	4,830	13,078	3,425
Weighted average number of ordinary shares (diluted) for the reporting period	<u>456,057</u>	<u>443,730</u>	<u>453,965</u>	<u>441,750</u>

## 7. Trade receivables

The aging analysis of trade receivables is as follows:

	30th June, 2003 unaudited RMB'000	31st December, 2002 unaudited RMB'000
Within 180 days	33,629	52,529
Over 180 days but within 360 days	32,206	14,551
Over 360 days	16,035	12,686
Less: provision for doubtful debts	(31,149)	(24,528)
	<u>50,721</u>	<u>55,238</u>



## 8. Statement of changes in equity

Statement of changes in equity of the Group for the three and six months ended 30th June, 2003 is as follows:

	Share capital unaudited <i>RMB'000</i>	Share premium unaudited <i>RMB'000</i>	Reserves unaudited <i>RMB'000</i>	Total unaudited <i>RMB'000</i>
Balance at 1st April, 2002	46,840	31,083	93,015	170,938
Net Profit	–	–	9,714	9,714
Translation adjustment	–	–	(17)	(17)
Shares issued as at 27th May, 2002	332	6,421	–	6,753
Final dividends for 2001	–	–	(4,640)	(4,640)
	<u>47,172</u>	<u>37,504</u>	<u>98,072</u>	<u>182,748</u>
Balance at 30th June, 2002	<u>47,172</u>	<u>37,504</u>	<u>98,072</u>	<u>182,748</u>
Balance at 1st April, 2003	47,172	37,504	130,342	215,018
Net Profit	–	–	9,803	9,803
Translation adjustment	–	–	(2)	(2)
Final dividends for 2002	–	–	(9,347)	(9,347)
	<u>47,172</u>	<u>37,504</u>	<u>130,796</u>	<u>215,472</u>
Balance at 30th June, 2003	<u>47,172</u>	<u>37,504</u>	<u>130,796</u>	<u>215,472</u>
Balance at 1st January, 2002	46,840	31,083	89,595	167,518
Net Profit	–	–	13,117	13,117
Translation adjustment	–	–	–	–
Shares issued as at 27th May, 2002	332	6,421	–	6,753
Final dividends for 2001	–	–	(4,640)	(4,640)
	<u>47,172</u>	<u>37,504</u>	<u>98,072</u>	<u>182,748</u>
Balance at 30th June, 2002	<u>47,172</u>	<u>37,504</u>	<u>98,072</u>	<u>182,748</u>
Balance at 1st January, 2003	47,172	37,504	125,619	210,295
Net Profit	–	–	14,524	14,524
Translation adjustment	–	–	–	–
Final dividends for 2002	–	–	(9,347)	(9,347)
	<u>47,172</u>	<u>37,504</u>	<u>130,796</u>	<u>215,472</u>
Balance at 30th June, 2003	<u>47,172</u>	<u>37,504</u>	<u>130,796</u>	<u>215,472</u>

## 9. Borrowings

	30th June, 2003 unaudited <i>RMB'000</i>	31st December, 2002 unaudited <i>RMB'000</i>
Bank borrowings		
Unsecured bank loans wholly due within 1 year	20,000	25,000
Mortgage bank loan		
Portion due with 1 year	274	256
Portion due between 2 to 5 years	1,300	1,279
Portion due over 5 years	134	308
	<u>–</u>	<u>1,000</u>
Other loan wholly due within 1 year	–	1,000
Total borrowing	<u>21,708</u>	<u>27,843</u>
Included in:		
Current liabilities	20,274	26,256
Non-current liabilities	1,434	1,587
	<u>21,708</u>	<u>27,843</u>

## 10. Trade payables

The aging analysis of trade payables is as follow:

	<b>30th June, 2003</b>	<b>31st December, 2002</b>
	<b>unaudited</b>	<b>unaudited</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 180 days	2,228	3,684
Over 180 days but within 360 days	244	1,242
	<u>2,472</u>	<u>4,926</u>

## 11. Contingent liabilities

The Group had no significant contingent liabilities as of 30th June, 2003 (30th June, 2002: Nil).

## 12. Commitments

### *Operating lease commitments*

As of 30th June, 2003, total minimum future lease payments under non-cancellable operating leases in respect of buildings are as follows:

	<b>30th June, 2003</b>	<b>31st December, 2002</b>
	<b>unaudited</b>	<b>unaudited</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Payable:		
Within one year	15,600	3,871
Over one year and within five years	2,100	3,103
	<u>17,700</u>	<u>6,974</u>

## 13. Subsequent events

No material events subsequent to the end of the interim period that have not been reflected in the financial statements for the reporting period.

## **INTERIM DIVIDEND**

The Board did not recommend the payment of an interim dividend for the six months ended 30th June, 2003 (the six months ended 30th June, 2002: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

Stimulated by the growth of China economy, Chinese enterprise application software market experienced rapid growth over the last few years. Competition and opportunities emerged from every aspect of market, enterprises are encountering more challenges and opportunities. During the period under review, Kingdee International announced its strategic development plan in 2003-2005 of “Product Leadership, Partner Oriented, Prompt Response and Capability Oriented”. The Group will focus on product research and development (“R&D”) and product innovation in the coming three years so as to sustain its momentum of innovation and maintain its advantages in advanced technology and capture the enterprise application software market in the PRC. Meanwhile, Kingdee International will work with strategic partners to jointly explore high value-added products and services markets and form a complete management software industrial eco-chain.

#### **Product Leadership**

After strengthening and perfecting its R&D capabilities, there was a significant progress in R&D of Kingdee International. During the period under review, the Group had launched Kingdee EAS (Enterprise Application Suite) and formed a Kingdee product range including Kingdee EAS, Kingdee K/3 and KINGDEE 2000 as core products to serve different markets. During the reviewing period, EAS for J2EE V3.0 was approved and launched. EAS is a high-end ERP II product, further solidifies the leading technology position of Kingdee International in the industry and demonstrates its ability and confidence in adhering the strategy of “Product Leadership”.

Being the core part of the new strategy, Kingdee EAS demonstrates the most advanced ERP II management philosophy and covers various aspects of enterprise management. It forms synergies among enterprises, integrates the applications of e-commerce and enhances the internal management of an enterprise. EAS was established based on Kingdee’s self-developed business operating system, Kingdee BOS, which enables the mid to large-scale enterprises to establish their application system catering to their management models. It effectively links up the scattered departments and resources and creates internal synergies among the various departments. The close linkage and business synergies between enterprises and customers, enterprises and suppliers and enterprises and partners will enable mid to large-scale enterprises to carry out their globalisation strategies. Being a new generation of enterprise management software, Kingdee EAS is characterized by its platform, integration and personalization. Kingdee EAS is constructed on the platform of Kingdee BOS (Business Operating System). The platform provides a strong data exchange ability and a free self-develop capacity. Besides, Kingdee EAS covers the various application modules of financial management, manufacturing management, supply management, sales and channel management, customer relationship management, quality management, equipment management, product enterprise management, data management, knowledge management, business intelligence in enterprise management. It is highly integrated in every aspect of an application within a comprehensive and unified application system. Moreover, Kingdee EAS provides a human touch working platform. The system presets the relevant incoming information according to the user identity and role.

During the period under review, Kingdee International strictly followed the CMM (Capability Maturity Model) Level 3 Standards. By standardizing the development process and maintaining product's continuous enhancement and innovation, the Group completed the product upgrade of K/3 V9.4 and K/3 OA V7.2.1. Moreover, Kingdee was heading for the CMM level 4 assessments. Such achievement demonstrated that the software development process management of Kingdee has met the international high-grade standards. Further to successful bidding in three States "863" projects in 2002, Kingdee International was engaged with other software providers in "Research in New Generation ERP System" under the "Substantial Project of Software" of State "863" project.

### **Partner Oriented**

During the period under review, Kingdee International continued to develop alliance partnership and placed alliance development and joint development of service market with strong significance. Along with the concept of "Partner Oriented", Kingdee International perfected the comprehensive service system with its partners together to provide services to customers. Kingdee International and partners formed various alliances in consultation, implementation, technology, services, training, distribution, customer, government and specialist partners and brought tailor made services and products to customers through alliances.

Regarding the consultation alliance, Kingdee International cooperates with 29 prestigious domestic consultation enterprises. Kingdee International provides software products while partners provide professional consultation, so as to bring better informatisation solutions and professional management consultation services to customers. Regarding the implementation alliance, Kingdee International is able to standardize implementation services, shorten the services lead-time to local customers and enhance implementation service efficiency by its alliances with 36 associates, including consultation institutions, software companies and etc. Regarding the technology alliance, Kingdee International undergoes technological cooperation with internationally renowned vendors such as Intel, IBM, Microsoft and etc. Kingdee International provides enterprise application software to customers while vendors provide professional technological solutions, so as to provide complete solutions to customers and greatly reduce the implementation cost and risk of customers. Regarding the services alliances, Kingdee International works closely with experienced distributors and renowned IT enterprises and it enables customers to have tailor made services from Kingdee International and other cooperation partners by having more choices of services and enjoying timely maintenance supports. Furthermore, Kingdee International enhances its product sales efficiency and enlarges its product sales coverage through its distribution alliances, conducts effective marketing promotion, pre-sales support and technology support services through its government and professional alliances.

During the period under review, Kingdee International focused on cultivating potential market growth engines and fostering future senior management talents. Kingdee International further enhanced its cooperation with renowned education institutions in the PRC. The Group donated software to 17 tertiary institutions and established "Kingdee Enterprise Management Laboratory".

### **Marketing and Sales**

During the reporting period, Kingdee International paid great efforts in promoting Kingdee EAS products. The Group has held a nationwide "Innovative Quality, Tailor-made Management – Kingdee EAS Nationwide Roadshow 2003" for over 2 months. It also held roadshow exhibitions and presentations in 99 medium and large cities such as Beijing, Shanghai, Guangzhou and etc. to promote Kingdee EAS. The roadshows cemented the reputation of EAS as high-end enterprise management software. As a result of the roadshows, the ability of Kingdee in exploring and capturing grand customers was enhanced. During the reporting period, the number of orders which amount above 1 million increased by 200%

comparing to the same period in 2002. Furthermore, the net cash flows from operating activities increased rapidly during the reporting period, which reflected the cementation of the Group's marketing capability and the improvement of the Group's income quality.

On 18th June, Kingdee International launched a new round of "Eastern Pearl Project 2003" under joint collaboration with various partners. The new round of Eastern Pearl Project is the extension of the activities in 2002. It spans through 229 cities and districts throughout China with an aim to increase the interflow between Kingdee International and customers and among customers, development to share the successful application experience of enterprise informatization and find out the direction of enterprise application software in China. As at 30th June, 2003, the members of Eastern Pearl club has increased to more than 500. Eastern Pearl Project, with its focus on customers, provides a platform for Kingdee International's key customers to share their successful experience and cases with the existing and potential customers of Kingdee International. Beside, the project built an honorable relationship between Kingdee and its customers, with the cooperating and information sharing. Moreover, Eastern Pearl Project stresses research and making conclusion to the unique management model of enterprises in China. It provides advices and suggestions to Kingdee International for its product upgrade and promotion in the future.

During the period under review, the outbreak of SARS brought a certain extent of impacts to the economy of China and the sales performance of Kingdee International. Due to the effect from SARS, Kingdee International adopted contactless product promotion measures timely like online promotion, telephone sales and etc. The Group also strengthened its online technological support system in order to provide contactless but tailor-made services.

## **FUTURE PROSPECTS**

It is expected that there will be a continuous high growth of the China economy in the coming years. The increase in hardware investment of enterprises, the enhancement in informatisation of enterprise and the further promotion of the encouragement of industry development policy will speed up the growth and development of China's application software market. Kingdee International believes that there will be an enormous application opportunities and market potential for the Group's software products and Group's business will maintain a stable and rapid growth.

In the second half of this year, along with the subsiding of SARS, the rapid growth of Chinese enterprise management software market should be expectable. Kingdee International will continue its strategy of "Product Leadership, Partner Oriented, Prompt Response and Capability Oriented". On the one hand, the Group will strengthen its research in innovation product, perfect and promote EAS series products with the new generation of ERP II management philosophy, so as to better satisfy different needs of customers. On the other hand, the Group will continue the upgrade and new module development of its existing products, so as to enlarge the application and strengthen the functions of products. Kingdee International will further capture the market share by its innovative products and advanced technology and solidify its leading position. The Group will jointly form the eco-chain of management software industry by allying with consultation, technology, implementation and services partners, so as to provide tailor-made informatization services to customers and help customers succeed.

## **FINANCIAL PERFORMANCE**

### **Consolidated results of operations**

The Group's consolidated revenue for the six months ended 30th June, 2003 was approximately RMB174,213,000 representing an increase of approximately 29.88% when compared to the same period in 2002 (for the six months ended 30th June, 2002: RMB134,134,000). The increase was mainly attributable to the sales of ERP software and the rapid growth of software solution consulting and support services income. The Group realized software sales income of RMB126,760,000 and software solution consulting and support services income of RMB29,734,000 during the reporting period, representing an increase of 18.85% and 66.99% approximately over the same period in 2002 respectively.

Profit attributable to shareholders of the Group for the six months ended 30th June, 2003 was approximately RMB14,524,000, representing an increase of approximately 10.73% compared to the same period in 2002 (for the six months ended 30th June, 2002: RMB13,117,000). The basic earning per share was RMB3.294 cents (for the six months ended 30th June, 2002: RMB2.993 cents).

### **Gross profit**

The Group's gross profit increased by approximately 29.52% from RMB116,912,000 for the corresponding period of 2002 to approximately RMB151,427,000 for the six months ended 30th June, 2003. During the reporting period, a gross profit margin was approximately 86.92% (the six months ended 30th June, 2002: approximately 87.2%).

### **Selling expenses**

Selling expenses for the six months ended 30th June, 2003, amounted to approximately RMB82,131,000, representing an increase of approximately 27.39% over the corresponding period of 2002. Selling expenses as a percentage of total revenue for the period decreased from 48.07% in 2002 to 47.14% in 2003. The reasons for the slightly decrease in selling expenses as a percentage of total revenue for the year were mainly contributed by the efficient cost management in the aspects of marketing promotion and selling.

### **General and administrative expenses**

General and administrative expenses for the six months ended 30th June, 2003 amounted to approximately RMB60,316,000, representing an increase of approximately 61.72% over the same period in 2002. General and administrative expenses as a percentage of the total revenue for the year increase to approximately 34.62% as compared to approximately 27.8% for the six months ended 30th June, 2002.

Among these expenses, research and development costs accounted for approximately 50.6% of the total general and administrative expenses for the six months ended 30th June, 2003. The provision for doubtful debts for the reporting period was approximately RMB6,621,000, representing an increase of approximately 123.2% over 2002.

### **Financial resources and liquidity**

The Group maintained a sound cash flow position. As at 30th June, 2003, cash and cash equivalents amounted to RMB111,528,000, representing a current ratio of 2.5 (as at 31st December, 2002: 2.0). Gearing ratio, expressed as a ratio of total liability and minority interests to shareholders' equity, was 0.36 (as at 31st December, 2002: 0.49). The main reason for the increase of current ratio was that the Group more effectively and efficiently managed its doubtful debt.

The Group intends to finance its daily operations and product development with internal funds and the Group implements stringent controls on treasury activities. Unused amounts will be placed in banks to earn interest income.

As at 30th June, 2003, the Group's short-term bank loan balance amounted to RMB20,000,000 (as at 30th June, 2002: RMB26,000,000). As at 30th June, 2003, the long-term bank loan balance, with an interest rate of 6.0% per annum, amounted to RMB1,434,000, which was secured by the Group's property of book value of approximately RMB3,692,081.

As at 30th June, 2003, 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 fluctuations (as at 30th June, 2002: nil).

The Group had no significant contingent liabilities as at 30th June, 2003 (as at 30th June, 2002: nil).

### **Capital expenditures**

During the period, the main capital expenditures of the Group were on the purchase of electronic equipment. There were no other significant capital expenditures of the Group.

### **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**

Employees of the Group are remunerated according to their performance and work experience. The Group has maintained a bonus incentive scheme to reward well performed staffs. Throughout the year, the Group enforced its staff training to raise the competitiveness of the staffs; this helps staffs to succeed, and thus helps customers to succeed.

On 20th February, 2003, the Group granted a total of 7,530,000 options to 76 employees. It is the fourth time option distribution since the listing. This time, options were granted to the senior management team and major technical staff, who worked in the subsidiaries of the Group, and to sales and technical talents such as returned students from overseas.

## STATEMENT OF BUSINESS OBJECTIVES

### **Business objective for the period ending 31st December, 2003 as stated in the prospectus of the Company dated 9th February, 2001**

Improve the then packages of KINGDEE 2000; analyse and develop the technicalities of the then K/3 application modules with Web-based capability; and analyse and develop improved version of Apusic Middleware.

Utilise the group's sales and distribution network as the backbone of the Group's technical support service network.

Advertise and promote the Group's products via media and by attending or organizing conferences and seminars.

Evaluate opportunities to establish co-operation arrangement with other software vendors and expand the number of authorized sales agents in order to expand the sales and distribution network of the Group.

Employ additional programmers and system analysts or replace retired programmers and system analysts.

### **Actual business progress for the period January – June 2003**

Kingdee kept improving KINGDEE 2000, K/3 and related products during this period. The Group launched new business management software, Kingdee EAS (Enterprise Application Suite) on 30th May, 2003, and perfected Apusic Middleware.

The Group advanced its service alliance and expanded its service coverage, in order to provide its customer with more professional and personal service.

Kingdee attended conferences and organized the EAS national roadshow, "2003 Project of Oriental Pearl" and other public relation activities that enhanced Kingdee's brand name and the reputation of Group's product.

The Group concentrated to develop sales alliance, expand its market share and will continue to identify partners that will complement and enhance the Group's business.

The Group organized recruitment seminars and recruited suitable senior IT professionals successfully.



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

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

### LONG POSITIONS IN SHARES/UNDERLYING SHARES OF THE COMPANY

Name of Directors	Number of Shares/ underlying shares (where appropriate)	Capacity	Percentage of issued share capital
Xu Shao Chun	141,916,250	Interests of controlled corporation ( <i>Note 1</i> )	
	24,691,000	Interests of controlled corporation ( <i>Note 2</i> )	
	8,000,000	Beneficial owner	
	1,599,500	Beneficiary of a trust ( <i>Note 3</i> )	
	1,500,000	Other/Share option ( <i>Note 4</i> )	
Aggregate:	177,706,750		40.31%
Xu Wen Hui	454,500	Beneficial owner	
	1,599,500	Beneficiary of a trust ( <i>Note 3</i> )	
	900,000	Other/Share option ( <i>Note 4</i> )	
Aggregate:	2,954,000		0.67%
Luo Ming Xing	2,100,000	Beneficial owner	
	1,599,500	Beneficiary of a trust ( <i>Note 3</i> )	
	700,000	Other/Share Option ( <i>Note 4</i> )	
Aggregate:	4,399,500		1.00%
Hugo Shong	5,250,000	Beneficial owner	
	1,599,500	Beneficiary of a trust ( <i>Note 3</i> )	
Aggregate:	6,849,500		1.55%
Zhao Yong	64,237,750	Beneficial owner	
Aggregate:	64,237,750		14.57%

*Notes:*

- Of the 141,916,250 shares, 83,606,250 shares were held through Oriental Gold Limited and 58,310,000 shares were held through Billion Ocean Limited.

2. 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 executive directors, Mr. Xu Wen Hui and Mr. Luo Ming Xing), 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. As at 30th June, 2003, 24,691,000 shares are subject to this arrangement.
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.
4. Details of the share options are set out in the paragraph headed "Share Option Schemes".

Save as disclosed in this paragraph, as at 30th June, 2003, none of the Directors and chief executive had any the interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations) within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

### **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 total 1,300,000 shares of HK\$0.10 each of the Company at a subscription price of HK\$1.03 per share were granted to the former and current employee of Company.

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, 2003, 250,000 shares option was exercised, 750,000 shares option was canceled and 300,000 shares option remained outstanding under the Pre-IPO Share Option Scheme.

### **SHARE OPTION SCHEMES**

Pursuant to the share option scheme of the Company adopted on 30th January, 2001 (the "Old Scheme"), 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, pursuant to the implementation rules for share option scheme approved under the Old Scheme, options to subscribe for a total of 1,720,000 shares at a subscription price equal to HK\$1.49 per share were granted to 33 full-time employees of the Group and its subsidiaries.

The Old Scheme was terminated and replaced by a new share option scheme (the "New Scheme") by an ordinary resolution 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 5,620,000 shares at a subscription price of HK\$1.78 per share were granted to 22 full-time employees (including executive directors, Mr. Xu Shao Chun, Mr. Xu Wen Hui and Mr. Luo Ming Xing) of the Group pursuant to the New Scheme.

At the board meeting of the Company held on 20th February, 2003, options to subscribe for a total of 7,530,000 shares at a subscription price of HK\$1.39 per share were granted to 76 full-time employees (including executive directors, Mr. Xu Wen Hui and Mr. Luo Ming Xing) of the Group pursuant to the New Scheme.

Details of the share options as at 30th June, 2003 which had been granted under the Old Scheme and the New Scheme were as follows:

	Options held at 1st January, 2003	Options granted during the reporting period <sup>(1)</sup>	Options exercised during the reporting period	Options held at 30th June, 2003	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	-	400,000	-	400,000	1.39	20/02/2003 <sup>(5)</sup>
	500,000	-	-	500,000	1.78	15/05/2002 <sup>(3)</sup>
Luo Ming Xing	-	400,000	-	400,000	1.39	20/02/2003 <sup>(5)</sup>
	300,000	-	-	300,000	1.78	15/05/2002 <sup>(3)</sup>
Continuous contract employees	-	6,730,000	-	6,730,000	1.39	20/02/2003 <sup>(5)</sup>
	3,320,000	-	-	3,320,000	1.78	15/05/2002 <sup>(3)</sup>
	1,720,000 <sup>(2)</sup>	-	-	1,720,000	1.49	27/09/2001 <sup>(4)</sup>

*Notes:*

- (1) At the date immediate before the options were granted (i.e. 19th February, 2003), the closing price of the share was HK\$1.36.
- (2) The share options were granted in 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.
- (5) 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 20th February, 2004.

Rule 23.08 of the GEM Listing Rules stipulate that listed issuers are encouraged to disclose in their interim 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 in appropriate 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 Scheme" and "Pre-IPO Share Option Scheme", at no time during the year ended 30th June, 2003 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' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June, 2003, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

### LONG POSITIONS IN SHARES/UNDERLYING SHARES OF THE COMPANY

Name	Number of Shares/ underlying shares (where appropriate)	Capacity	Percentage of issued share capital
Oriental Gold Limited	83,606,250 <hr/> 24,691,000	Beneficial owner Other ( <i>Note 1</i> )	<hr/>
Aggregate:	108,297,250		24.56%
Billion Ocean Limited	<hr/> 58,310,000	Beneficial owner	<hr/>
Aggregate:	58,310,000		13.23%
Project China Limited	24,691,000 <hr/> 1,599,500	Other ( <i>Note 1</i> ) Trustee ( <i>Note 2</i> )	<hr/>
Aggregate:	26,290,500		5.96%
Zhang Wen Xing	24,691,000 <hr/> 1,599,500	Interests of controlled corporation ( <i>Note 1</i> ) Interests of controlled corporation ( <i>Note 2</i> )	<hr/>
Aggregate:	26,290,500		5.96%

*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 executive directors, Mr. Xu Wen Hui and Mr. Luo Ming Xing), 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, a company wholly-owned by Mr. Zhang Wen Xing, 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. As at 30th June, 2003, 24,691,000 shares are subject to this arrangement.
2. 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.

Save as disclosed in this paragraph, as at 30th June, 2003, the directors were not aware of any other person (other than the directors and chief executive of the Company) who had an interest and short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

At the annual general meeting of the Company held on 25th April, 2003 ("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.

None of the Company or the any of its subsidiaries had purchased, sold or redeemed any of its listed securities for the six months ended 30th June, 2003.

### **CHANGE OF DIRECTORS**

Pursuant to article 116 of the articles of association of the Company, Mr. Zhao Yong retired as a Non-executive director of the Company by rotation as retirement at the AGM and had been re-elected as a Non-executive director of the Company at the AGM.

Mr. Zhang Wen Xing had tendered his resignation as a Non-executive Director of the Company at the AGM in his own accord due to his personal reasons. The board recommended to elect Mr. Luo Ming Xing as an Executive Director of the Company in accordance with Article 119 of the Articles of Association of the Company at the AGM.

Mr. Luo Ming Xing had been elected as an Executive Director of the Company at the AGM.

Mr. Yeung Kwok On had been appointed as an Independent Non-executive Director of the Company at 26th June, 2003.

### **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, 2003, 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, 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 during the six months period ended 30th June, 2003.

## **AUDIT COMMITTEE AND ITS DUTIES**

As at 30th June, 2003, the audit committee of the Company comprises of Mr. Xu Wen Hui, an executive director, Ms. Yang Zhou Nan and Mr. Wu Cheng, both being the independent non-executive directors of the Company. 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 meetings of the audit committee for the year 2003 were convened and held on 20th March, 2003, 13th May, 2003 and 8th August, 2003 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, 8th August, 2003