



## 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)*

### ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2003

#### **Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)**

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*This announcement, 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 announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement 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 year ended 31st December, 2003

- Turnover increased by approximately 24.1% over 2002 to approximately RMB365,573,000.
- Profit attributable to shareholders increased by approximately 45.3% over 2002 to approximately RMB59,130,000.
- Basic earnings per share increased by approximately 44.4% over 2002 to approximately RMB0.13.
- The Board of Directors recommended a final dividend of HK\$0.01 per share.

The board of directors (the “Board”) of Kingdee International Software Group Company Limited (“Kingdee International” or the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2003, together with the comparative audited consolidated figures for 2002 are as follows:

	<i>Notes</i>	<b>2003</b> <i>RMB'000</i>	<b>2002</b> <i>RMB'000</i>
Turnover	2	365,573	294,532
Cost of sales		(58,097)	(47,122)
Gross profit		307,476	247,410
Other income		50,012	33,223
Selling expenses		(192,624)	(163,004)
General and administrative expenses		(93,816)	(71,275)
Other expenses		(1,678)	(4,362)
Operating profit	4	69,370	41,992
Finance income (cost), net	3	(24)	403
Share of results of an associate		(1,121)	381
Profit before taxation		68,225	42,776
Taxation	5	(10,184)	(2,809)
Profit after taxation		58,041	39,967
Minority interests		1,089	731
Profit attributable to shareholders		<u>59,130</u>	<u>40,698</u>
Dividends	6	<u>4,691</u>	<u>9,357</u>
Earnings per share			
– basic	7	<u>RMB0.13</u>	<u>RMB0.09</u>
– diluted	7	<u>RMB0.13</u>	<u>RMB0.09</u>

Notes:

### 1. Basis of preparation

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

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.

These financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

### 2. Turnover

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

	<b>2003</b> <i>RMB'000</i>	<b>2002</b> <i>RMB'000</i>
Sales of software	296,898	235,289
Sales of hardware	5,165	3,370
Solution consulting and support service income	39,506	40,421
Software implementation income	24,004	15,452
	<u>365,573</u>	<u>294,532</u>

No segment information is presented as the Group operates in one single industry and one single segment. The Group operates within one geographic segment as its revenues are primarily generated in the PRC and its major assets are located in the PRC.

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

	<b>2003</b> <i>RMB'000</i>	<b>2002</b> <i>RMB'000</i>
Interest income	538	808
Net exchange losses	–	(127)
Interest expense on bank loans:		
– wholly repayable within five years	(488)	(51)
– wholly repayable over five years	–	(129)
Others	(74)	(98)
	<u>(24)</u>	<u>403</u>

#### 4. Profit from Operation

Profit from operations was arrived at after charging/(crediting) the following:

	<b>2003</b> <i>RMB'000</i>	<b>2002</b> <i>RMB'000</i>
Research and development costs		
Amount	52,395	27,311
<i>Less:</i> amounts capitalized	(40,976)	(17,685)
<i>Add:</i> amortisation of capitalized costs	14,351	5,296
	<u>25,770</u>	<u>14,922</u>
Staff costs	166,746	123,759
Cost of raw materials consumed	5,600	4,927
Depreciation of property, plant and equipment	12,566	12,271
Amortisation of goodwill arising on acquisitions of:		
– subsidiaries and a joint venture	2,488	1,899
– associates	790	527
Amortisation of negative goodwill	(23)	(23)
Impairment of goodwill	2,576	–
Trade receivables-impairment charge for bad and doubtful debts	12,459	7,429
Operating lease rentals on premises	17,997	16,297
Loss on disposals of property, plant and equipment	1,140	2,435
Auditors' remuneration	1,180	1,060

#### 5. Taxation

Taxation represents PRC income tax charged to:

	<b>2003</b> <i>RMB'000</i>	<b>2002</b> <i>RMB'000</i>
The Group		
– Current income tax	6,341	6,383
– Deferred income tax	3,843	(3,574)
	<u>10,184</u>	<u>2,809</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 year in those jurisdictions (2002: Nil).
- (b) Majority of the subsidiaries and associates of the Group is established in the PRC and subject to Enterprise Income Tax (“EIT”) at a 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 investment enterprises and are entitled to full exemption from 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.
- (d) According to various circulars issued by the Shenzhen Municipal Government, those subsidiaries located in Shenzhen and recognised as a high-technology or important enterprise are entitled to a further tax exemption on EIT in 2002 and 2003.

## 6. Dividends

	<b>2003</b> <i>RMB'000</i>	<b>2002</b> <i>RMB'000</i>
Final of HK\$0.01 (2002: HK\$0.02) per share	<u>4,691</u>	<u>9,357</u>

At the meeting held on 10th March, 2004, the Board of Directors recommended a final dividend of RMB0.01 (HK\$0.01) (2002: RMB0.02 (HK\$0.02)) per share to shareholders for the year ended 31st December, 2003. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings after transferring adequate amount from contributed surplus account, in the year ending 31st December, 2004.

## 7. Earnings per share

Basic earnings per share are calculated by dividing the net profit for 2003, by the weighted average number of ordinary shares outstanding in 2003.

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 year is as follows:

	<b>2003</b> <i>RMB'000</i>	<b>2002</b> <i>RMB'000</i>
Net Profit	59,130	40,698
After-tax effect of interest on proceeds from exercise of share options	<u>8</u>	<u>36</u>
Net profit (diluted)	<u>59,138</u>	<u>40,734</u>

  

	<b>2003</b> <i>Number'000</i>	<b>2002</b> <i>Number'000</i>
Issued ordinary shares at 1st January	440,887	437,750
Effect of shares issued	<u>107</u>	<u>1,856</u>
Weighted average number of ordinary shares for year	<u>440,994</u>	<u>439,606</u>
Weighted average number of ordinary shares for year	440,994	439,606
Effect of share options outstanding	<u>15,313</u>	<u>5,533</u>
Weighted average number of ordinary shares (diluted) for the reporting period	<u>456,307</u>	<u>445,139</u>

## 8. Movement on shares issued

	Number of shares '000	Nominal value HK\$'000	Nominal value RMB'000
Share capital as of 1st January, 2003	440,887	44,089	47,172
Add: shares issued	<u>609</u>	<u>61</u>	<u>65</u>
Share capital as of 31st December, 2003	<u>441,496</u>	<u>44,150</u>	<u>47,237</u>

Note: Increase in shares issued in this year was due to the exercise of options.

Exercise Date	Exercise Price	Amount
14th August, 2003	1.03	225,000
17th November, 2003	1.78	25,000
25th November, 2003	1.49	30,000
25th November, 2003	1.78	50,000
26th November, 2003	1.78	50,000
8th December, 2003	1.49	75,000
23rd December, 2003	1.49	30,000
24th December, 2003	1.78	<u>124,000</u>
		<u>609,000</u>

## 9. Statement of changes in equity

Statement of changes in equity of the Group for the year ended 31st December, 2003 is as follows:

	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Total RMB'000
Balance at 1st January, 2002	46,840	31,083	89,595	167,518
Issue of shares	332	6,421	–	6,753
Liquidation of subsidiaries	–	–	(45)	(45)
Dividend relating to 2001	–	–	(4,643)	(4,643)
Net profit	–	–	40,698	40,698
Translation adjustment	–	–	14	14
Balance at 31st December, 2002	<u>47,172</u>	<u>37,504</u>	<u>125,619</u>	<u>210,295</u>
Balance at 1st January, 2003	47,172	37,504	125,619	210,295
Issue of shares	65	872	–	937
Dividend relating to 2002	–	–	(9,357)	(9,357)
Net profit	–	–	59,130	59,130
Translation adjustment	–	–	149	149
Balance at 31st December, 2003	<u>47,237</u>	<u>38,376</u>	<u>175,541</u>	<u>261,154</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Industry Review**

China continued to experience rapid economic growth in 2003. Demand for enterprise informatization kept on expanding, thus fuelling the robust development in application software industry in the PRC. To capture the high growth market, domestic and foreign software providers have hasten the pace of business development and expansion and strengthened their competitive advantages. In 2003, the competition among international and domestic software providers was intense in both high-end and low-end markets.

After China's entry into the WTO, enterprises paid more attention to efficiency enhancement and cost control than before. Chinese enterprises are more aware of and understand more about the value of application software during the process of seeking quality management method. Management software gradually becomes an important means for enhancing management and competitiveness. The market demand for enterprise application management software continued to grow in 2003, with group application and business performance management becoming the market focus.

In 2003, the Chinese government continued to implement favourable policies to the domestic software industry. Following the policy of "informatization-led industrialization", the Chinese government has created a better environment for industry development, strived to meet the domestic market demand and expanded exports by encouraging market orientation. Leveraging on system reform and technological innovation, the government has paid more efforts in training, implemented structural adjustment, expanded scale of industrial development, and enhanced competitiveness in international market, so as to develop software industry with autonomous intellectual property rights and speed up the development of the software industry in the PRC.

In 2003, the outbreak of SARS brought certain impacts to the software industry of China. It hindered the sales and marketing and service business of the industry. Leverage on the quality products and strong customer base, Kingdee International explored markets by online promotion, telephone sales and etc. Moreover, the Group stressed the optimization of internal resource and cost control. As a result, the Group recorded encouraging results during the period under review.

### **Business Review**

Kingdee International announced its development strategy "Product Leadership, Partners Oriented" in Beijing early 2003. Following its continuous dedication to innovation, Kingdee International has put much efforts into product research and development. The Group not only maintained but consolidated its leading position in technology aspect so as to predominate the enterprise application software market in China. At the same time, Kingdee International will collaborate with partners and jointly develop of software services market to complete the eco-chain of management software industry.

### **Development of Product Technology**

Enable customer success is the target of Kingdee International. Chinese enterprises require the upgrade of enterprise informatization from basic management to strategy execution and management decision making in the process of rapid development. In 2003, Kingdee International closely monitored the market and customers' needs and speeded up the improvement and upgrade of product technology. The Group launched strategic management solution K/3 V10.0 version, released the high-end management software EAS which was based on ERP II concept and debuted of its own brand Apusic applications server 3.0. The Group was highly appraised for providing a more pragmatic management philosophy and management tool to its clients.

In May 2003, Kingdee International released its high-end management software Kingdee EAS in Shenzhen. The product targets at an even higher-end industry applications and customized needs for finance, automobile, tobacco, consumer durables and non-durable goods and high tech industries. The product is successfully put into use by large scale corporations such as Hangzhou Tobacco Factory, China FAW and China Travel Hong Kong. This is the third generation product of Kingdee International subsequent to Kingdee KIS and Kingdee K/3.

In November 2003, Kingdee International organized the “Kingdee International Technology World 2003” in Beijing, promoting the idea of “Realisation of new business targets with new technologies”. There were 600 senior managements from Top 100 Chinese enterprises participating in the keynote speech. Furthermore, there were 108 cities involved in the activity. At the same time, Kingdee International invited strategic partners such as Intel, IBM, Microsoft, IDC to participate. It reinforced the Group’s strategy of “Product Leadership and Partner Oriented” launched at the beginning of the year.

By the end of 2003, Kingdee International released the BPM-based (Business Performance Management) enterprise management solution Kingdee K/3 V10.0, which is the first product in China. The product helps China’s growing enterprises to successfully change from basic management towards advanced management. K/3 V10.0 combines the three applications of ERP (Enterprise Resource Planning) for business operation, BI (business intelligence) and SEM (Strategic Enterprise Management), which can trace the normal operation activities of an enterprise and carry out consolidated analysis on all business data, reinforcing the ability of enterprise analysis and execution.

By the end of 2003, Kingdee International released the 3.0 version of Apusic application server in Beijing. Compared with other application server, it is more efficient, more reliable, better resource consumption, supportive to rapid development and all kinds of open platforms. Moreover, with its superior performance and reasonable price, tailor-made localized services, supreme stability and reliability, Apusic application server earns the recognition of customers such as the People’s Bank of China and Industry and Commerce Bureau of Guangdong Province.

## **Partnership Alliance**

Another important pursuit of Kingdee International in 2003 was to strengthen partnership development. Kingdee International encouraged partners’ all-round participation to jointly develop software market through a series of marketing activities. The Group highly values the unique function and value delivered by partners in the area of services. With concerted efforts from our partners in accelerating the pace of service and product development, the Group was able to provide multi-level, systematic and tailor-made services to customers.

By the end of 2003, there were 52 consultation partners in more than 10 cities in China and 57 implementation partners. The Group was in contact and negotiation with many potential cooperation targets. During 2003, Kingdee International signed cooperation agreements with renowned informatization management advisory service enterprises such as AtosOrigin and AMT. Both parties would make use of their respective comparative advantages, jointly provide professional training and services to Chinese enterprises which are undergoing the process of informatization. In August, Kingdee International was accredited by Microsoft as the best ISV business partner, demonstrating the overall success and recognition in the cooperation with Microsoft in marketing, sales and research. In November, Kingdee International and IBM held a grand opening ceremony of “Kingdee-IBM Joint Laboratory” to jointly establish the high-end joint laboratory, with main focus on handling problems related to software and hardware resources. It aims to promote scientific research and training, and strengthen the technological cooperation between Kingdee International and IBM.



## Customers and Sales

In terms of customer development, Kingdee International further consolidated its leading position in 2003 in manufacturing industry, and accomplished breakthrough in markets of property, trust, tobacco, pharmaceutical and automobile industries. Kingdee International has formed alliances with domestic and foreign renowned enterprises such as China Southern Locomotive and Rolling Stock Industry Corporation, FAW Toyato, Agricultural Bank of China, Mianyang Forgood Distillery, Shaoguan Iron & Steel Group Co. Ltd., Chu Kong Shipping Development Company Limited, China National Pharmaceutical Group, Wuhu Cigarette Factory, Guangzhou China Tobacco Company, Yangtze River Pharmacy Group. It clearly proves that Kingdee International's industry-oriented solutions on various market segments have received widespread recognition from industries and customers. The Group consolidated its domestic market, at the same time, it actively explored business opportunities in international markets. Kingdee International has successful accumulated international customers such as China Resources (Holdings) Company Limited, TOM Group and achieved breakthroughs in the outsourcing business in North America.

Continuing the momentum of last year, Kingdee International's "Eastern Pearl Project 2003" introduced promotional activities with "Typical Applications, Typical Tales" as the theme. It aimed to promote the typical industrial applications in eight areas – manufacturing, group finance, property, trust, pharmaceutical, automobile, insurance and banking – by collecting and organizing the successful cases, recruiting government and professional expertise as well as third party renowned institutions to draw conclusions on and refine the typical applications so as to have an in-depth understanding of the applications and their representatives of the industries. It is worth mentioning that, by analyzing the application experience and lesson gained from these customers, Kingdee International was able to cater for the customers' critical demand towards business performance management. Thus, the launch of enterprise management tool K/3V10.0 immediately caught the attention of the senior management of customers. In November, Kingdee Technology Meeting 2003 was held in Beijing. On 28th November, the "Modern Business Process Management Forum" was held at China Europe international business school in Shanghai with many existing and potential customers expressed their enthusiasm towards the new product. K/3V10.0 stands out in the new BPM aspect and is expected to become the new source of profit growth for the Company.

## FINANCIAL REVIEW

### *Operating Results*

The Group's turnover for the year ended 31st December, 2003 was approximately RMB365,573,000, representing an increase of 24.1% as compared with 2002 (2002: RMB294,532,000). This increase is mainly attributable to the significant growth in the sales of enterprise application software Kingdee K/3. During the year, the Group gained RMB296,898,000 from sales of software, representing an increase of approximately 26.2% compared with 2002 (2002: RMB235,289,000); Income from the service amounted to RMB63,510,000, an increase of approximately 13.7% when compared with 2002 (2002: RMB55,873,000). During the period, the Group's cash flow come from operation was approximately RMB105,867,000, an increase of approximately 170.4% (2002: RMB39,158,000).

The Group has strengthened its management and recovery on accounts receivable. Accounts receivable turnover is shortened from 99 days in 2002 to 84 days in 2003.

Net profit of the Group for the year ended 31st December, 2003 was RMB59,130,000, representing an increase of approximately 45.3% over year 2002 (2002: RMB40,698,000). The earnings per share amounted to RMB0.13 (2002: RMB0.09).

### *Gross profit*

The Group's gross profit increased by approximately 24.3% from RMB247,410,000 for the year 2002 to approximately RMB307,476,000 for the year 2003. During the year, the gross profit margin was approximately 84.1% (2002: approximately 84.0%).

### *Selling expenses*

Selling expenses for the year 2003 amounted to approximately RMB192,624,000 (2002: RMB163,004,000), representing an increase of approximately 18.2% over the previous year. Selling expenses as a percentage of total revenue for the period decrease from 55.3% to 52.7%. The reasons for the decrease in selling expenses as a percentage of total revenue for the year were mainly because the Group optimized resource allocation and enhanced cost control. In addition, as a result of the growth and expansion, the Group benefited from the economies of scale.

### *General and administrative expenses*

General and administrative expenses for the year 2003 amounted to approximately RMB93,816,000 (2002: RMB71,275,000), representing an increase of approximately 31.6% over the previous year. The general and administrative expenses as a percentage of total revenue increased to approximately 25.7% as compared to approximately 24.2% for the year 2002. The reasons for the increase in the general and administrative expenses as a percentage of total revenue for the year were mainly because the Group increased the R&D investment in high-end enterprise application software Kingdee EAS. Among the general and administrative expenses, research and development costs amounted to RMB25,770,000, representing an increase of approximately 72.7% over the previous year (2002: RMB14,922,000), provision for the doubtful debt during the year amounted to RMB12,459,000, representing an increase of 67.7% over the previous year (2002: RMB7,429,000).

### *Capital expenditures*

As at 31st December, 2003, the Group did not have any significant capital expenditure (2002: capital contribution of HK\$5,000,000 to establish Beijing KINGCB International Information System Co., Ltd.).

### *Financial resources and liquidity*

The Group maintained a sound cash flow position. As at 31st December, 2003, cash and cash equivalents were at approximately RMB164,458,000 (2002: RMB131,426,000) representing a current ratio of 2.2 (2002: 2.0). Gearing ratio, expressed as a ratio of total liability and minority interests to shareholders' equity, was 41.7% (2002: 50%). During the reporting period, the Group recorded a better current ratio and gearing ratio over 2002, mainly because of the Group's strong management of working capital and debt. The management considers the Group maintains a strong financial position.

The Group intends to finance its daily operations and production with its internal funds and the Group implements stringent control on its financial activities. Unused amounts will be placed in banks to generate interest income.

As at 31st December, 2003, the Group had outstanding short term bank loan of RMB20,000,000 (2002: RMB25,000,000) and none outstanding long term bank loan existed (2002: RMB1,834,000).

As at 31st December, 2003, the Group was not subject to material exchange rate fluctuation risk, and had not entered into any foreign currency future contracts to hedge against the fluctuation.

As at 31st December, 2003, the Group had no significant contingent liabilities (2002: nil).

## **FUTURE PROSPECTS**

The enterprise application software industry will sustain a rapid growth in the foreseeable future under strong customer demand and favourable government policies. The Group believes that there will be an enormous application and market potentials for the software products developed by Kingdee International. The Group will continue to experience exponential and steady growth. Leverage on the competitive edges of product technology, alliance partnership, customer and distribution network, Kingdee International will uphold the strategy “Product Leadership, Customer Oriented”. While paying more efforts on research and innovations, upgrading existing products and developing new modules which bring broader and quicker response of products in order to better cater for everchanging customers’ needs. Kingdee International also strengthens the implementation services to ensure the prompt application and effectiveness to customers and collaborates with partners in areas such as joint consultation, implementation and training in order to share customer resources and explore business opportunities and to provide worldclass products, solutions and customised informatization services. Consequently, by forming an eco-chain of management software industry with partners, Kingdee International strives to enables customers’ success.

## **FINAL DIVIDENDS**

At the Annual General Meeting of the Company to be held on 16th April, 2004, the Board will recommend a final dividend of HK\$0.01 per share to the shareholders of the Company for the year ended 31st December, 2003 (2002: HK\$0.02 per share). Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividend will be payable on 16th June, 2004 to shareholders whose names appear on the register of members of the Company on 16th April, 2004.

## **CLOSURE OF REGISTER**

The register of members of the Company will be closed from 14th April, 2004 (Wednesday) to 16th April, 2004 (Friday) (both days inclusive), and during which no transfer of shares will be effected. In order to qualify the shareholders of the Company to attend, act and vote at the forthcoming Annual General Meeting and to qualify the entitlement of the final dividends, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:00 p.m. on 13th April, 2004 (Tuesday).

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

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 during the year.

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

As at 31st December, 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> )	
	17,364,000	Interests of controlled corporation ( <i>Note 2</i> )	
	3,614,000	Beneficial owner	
	617,500	Beneficiary of a trust ( <i>Note 3</i> )	
	1,500,000	Other/Share option ( <i>Note 4</i> )	
Aggregate:	165,011,750		37.38%
Xu Wen Hui	617,500	Beneficiary of a trust ( <i>Note 3</i> )	
	776,000	Other/Share option ( <i>Note 4</i> )	
Aggregate:	1,393,500		0.32%
Luo Ming Xing	1,800,000	Beneficial owner	
	617,500	Beneficiary of a trust ( <i>Note 3</i> )	
	700,000	Other/Share Option ( <i>Note 4</i> )	
Aggregate:	3,117,500		0.71%
James Ming King	617,500	Beneficiary of a trust ( <i>Note 3</i> )	
	1,000,000	Other/Share Option ( <i>Note 4</i> )	
Aggregate:	1,617,500		0.37%
Hugo Shong	5,250,000	Beneficial owner	
	617,500	Beneficiary of a trust ( <i>Note 3</i> )	
Aggregate:	5,867,500		1.33%
Zhao Yong	60,989,750	Beneficial owner	
Aggregate:	60,989,750		13.81%

*Notes:*

1. 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 31st December, 2003, 17,364,000 shares were subject to this arrangement.
3. Project China Limited, a company wholly-owned by Mr. Zhang Wen Xing, held 617,500 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 31st December, 2003, none of the Directors and chief executive had any of 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 31st December, 2003, 475,000 share options was exercised, 825,000 share options was canceled and no more option remained outstanding under the Pre-IPO Share Option Scheme.

#### **SHARE OPTION SCHEME**

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.

At the board meeting of the Company held on 8th August, 2003, options to subscribe for a total of 4,740,000 shares at a subscription price of HK\$2.05 per share were granted to 2,370 full-time employees of the Group pursuant to the New Scheme.

At the board meeting of the Company held on 30th December, 2003, options to subscribe for a total of 1,000,000 shares at a subscription price of HK\$2.69 per share were granted to Mr. James Ming King, executive directors of the Group, pursuant to the New Scheme.

Details of the share options as at 31st December, 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	Options exercised during the reporting period	Options held at 31st December, 2003	Exercise price HK\$	Grant date
Xu Shao Chun	1,500,000	–	–	1,500,000	1.78	15/05/2002 <sup>(5)</sup>
Xu Wen Hui	–	400,000 <sup>(1)</sup>	–	400,000	1.39	20/02/2003 <sup>(7)</sup>
	500,000	–	124,000	376,000	1.78	15/05/2002 <sup>(5)</sup>
Luo Ming Xing	–	400,000 <sup>(1)</sup>	–	400,000	1.39	20/02/2003 <sup>(7)</sup>
	300,000	–	–	300,000	1.78	15/05/2002 <sup>(5)</sup>
James Ming King	–	1,000,000 <sup>(3)</sup>	–	1,000,000	2.69	30/12/2003 <sup>(9)</sup>
Continuous contract employees	–	4,740,000 <sup>(2)</sup>	–	4,740,000	2.05	08/08/2003 <sup>(8)</sup>
	–	6,730,000 <sup>(1)</sup>	–	6,730,000	1.39	20/02/2003 <sup>(7)</sup>
	3,320,000	–	125,000	3,195,000	1.78	15/05/2002 <sup>(5)</sup>
	1,720,000 <sup>(4)</sup>	–	135,000	1,585,000	1.49	27/09/2001 <sup>(6)</sup>

*Note:*

- (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) At the date immediate before the options were granted (i.e. 7th August, 2003), the closing price of the share was HK\$2.00.
- (3) At the date immediate before the options were granted (i.e. 29th December, 2003), the closing price of the share was HK\$2.675.
- (4) The share options were granted in pursuant to the Old Scheme.
- (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 15th May, 2003.
- (6) 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 27th September, 2001.
- (7) 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 20th February, 2004.
- (8) All of these options have a duration of 10 years from the grant date, provided that the options can only be exercised from 8th August, 2004.
- (9) 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 30th December, 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 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 Scheme" and "Pre-IPO Share Option Scheme", at no time during the year ended 31st December, 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 31st December, 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 <u>17,364,000</u>	Beneficial owner Other ( <i>Note 1</i> )	<hr/>
Aggregate:	100,970,250		22.87%
Billion Ocean Limited	<u>58,310,000</u>	Beneficial owner	<hr/>
Aggregate:	58,310,000		13.21%

#### 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 31st December, 2003, 17,364,000 shares are subject to this arrangement.

Save as disclosed in this paragraph, as at 31st December, 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.

### 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 31st December, 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.



Pursuant to the sponsorship agreement dated 1st February, 2001 entered into between the Company and BNP Paribas Peregrine Capital Limited (“Sponsorship Agreement”), BNP Paribas Peregrine Capital Limited received usual sponsorship fees for acting as the Company’s retained sponsor for the period from 15th February, 2001 to 31st December, 2003.

The Sponsorship Agreement ceased with effect from 1st January 2004. The Group does not maintained sponsor since 1st January 2004.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the financial year 31st December, 2003.

## **AUDIT COMMITTEE AND ITS DUTIES**

As at 31st December, 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. 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 four meetings during the year ended 31st December, 2003 to review the accounts and reports of the Group and to provide advices and recommendations to the Board.

At the Board meeting held on 10th March, 2004, Mr. Xu Wen Hui resigned as a member of the audit committee. Mr. Zhao Yong, non-executive Director, was appointed as an audit Committee members.

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

The People’s Republic of China, 10th March, 2004

*This announcement will remain on the “Latest Company Announcement” page of the GEM Website at [www.hkgem.com](http://www.hkgem.com) for 7 days from the date of its publication and the website of the Company at [www.kingdee.com](http://www.kingdee.com).*