

**KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LTD :
A PRC SOFTWARE COMPANY WITH A PROVEN RECORD OF SUCCESSES**

For a change, a computer software company, operating out of the People's Republic of China (PRC), has come to The Growth Enterprise Market (The GEM) of The Stock Exchange of Hongkong Ltd with a product that sells – and appears to be selling very well, thank you very much.

The Company is Kingdee International Software Group Company Ltd (Code: 8133), the producer of an accounting software package, designed for the PRC marketplace.

The Company, originally, Placed a total of 87.50 million, 10-cent shares at between 90 cents per share and \$HK1.08 per share, but ended up with such an initial response to its float that it modified its original float plans, as outlined in its Prospectus of February 9.

As a result of being 3.10 times oversubscribed, the Company reached into its '*share bank*', pulled out another 13.10 million New Shares, thus Placing a total of 100.60 million shares at the price of \$HK1.03 per share.

The Company has a very sellable product, it seems, and Compaq Corporation came into an agreement with it whereby Compaq Computer (Shenzhen) Company Ltd agreed to load some of its Chinese accounting software into its Compaq Prosignia 433 Personal Computer between January 1, 2000 and March 31, 2000.

The software package, chosen by Compaq, was the Kingdee 2000 accounting software.

For Compaq to agree to such an arrangement talks volumes for this public Company, which only saw life in November 1991.

From its humble beginnings, today, Kingdee employs about 1,057 staff members.

According to the Prospectus of the Company, it is forecasting a Net Profit Attributable to Shareholders for the Financial Year, ended on December 31, 2000, of not less than 22 million renminbi (about \$HK20.60 million).

This Net Profit represents a record level for the Company.

The Consolidated Results of the operations of Kingdee for the past 34 months is given in the Prospectus at Page 164 as follows:

	Financial Year ended December 31		
	1998	1999	Ten Months to October 31, 2000
	All Figures are Denominated in renminbi '000		
Turnover	64,598	123,311	121,215
Cost of Sales	(9,042)	(14,460)	(22,516)
Gross Profit	55,556	108,851	98,699
Selling Expenses	(30,635)	(63,738)	(62,057)
General and Administrative Expenses	(18,234)	(31,473)	(25,886)
Other Income (Expenses), Net	4	(154)	17
Operating Profit	6,691	13,486	10,773
Finance Costs	(221)	(702)	(906)
Interest Income	117	160	530
Share of Loss of Associate	Nil	Nil	(60)
Profit before Taxation	6,587	12,944	10,337

Taxation	(129)	(908)	(429)
Profit after Taxation	6,458	12,036	9,908
Minority Interests	(614)	109	208
Profit Attributable to Shareholders	5,844	12,145	10,116
Dividends	Nil	(6,000)	Nil
Earnings Per Share *	0.017 renminbi	0.035 renminbi	0.029 renminbi

* 350 million Shares in Issue

The 2000 Financial Year's forecast Net Profit, therefore, is an increase of about 104 percent, Year-on-Year.

Of course, as is common with many PRC companies, those State-run enterprises (they could hardly be considered limited liability enterprises) and those privately held companies that do deals with the Beijing's Central Government and with Provincial Governments, one sees unreal (in international terms) tax charges and, more often than not, directors do not take much by way of emoluments.

This is often done in order to dress up P & L Account and Balance Sheet. Kingdee is no exception to the rule.

As may be seen by studying the above table, taxation charges over the previous 34 months have been miniscule, relative to earnings, and all this is brushed aside by explanations, contained at Page 131 of the Prospectus, which tells of the various PRC tax regulations and preferential tax treatment, afforded to foreign investment enterprises.

As for Directors' emoluments, Page 168 of the Placing Prospectus shows that, in aggregate, \$HK681,000 was paid out to Directors in the 1998 Financial Year, rising to about \$HK1.17 million in the 1999 Year, but only \$HK511,000 was paid out in the 10 months, ended October 31, 2000.

In each Financial Year, and for the 10 months of the 2000 Year, there were just 5 Directors, Page 169 indicates.

Not much money for people of this calibre, one cannot help but comment.

The Executive Directors, as at the date of the Prospectus, were:

1. Mr Xu Shao Chun, the 37-year-old Chairman and Chief Executive; and,
2. Mr Xu Wen Hui, the 31-year-old Vice President.

The Non-Executive Directors were:

1. Mr Zhao Yong, the 56-year-old Director of Shenzhen Kingdee and the brother of Ms Chao Shi Yan, an initial shareholder of Kingdee (see below);
2. Mr Wang Shu, the 45-year-old General Manager of Guangdong Pacific Technology Venture Company Ltd, a Sino-Foreign Equity Joint Venture, owned as to 10 percent by Guangdong Technology Venture Investment Corporation and 90 percent by IDG Technology Venture Investment Incorporated, formerly known as PTV China, a USA company, which is wholly owned by International Data Group Incorporated, which was an initial shareholder of Kingdee; and,
3. Mr Zhang Wen Xing, the 63-year-old father-in-law of the Mr Xu Shao Chun.

With regard to Mr Xu Shao Chun, who founded the group of companies, which now go under the name of the Kingdee Group, after establishing Shenzhen APT Computer Technology Company Ltd in 1991, along with a PRC citizen, an independent third party, who was/is not associated with Mr Xu or his family, he successfully launched an accounting software, based on the Data Operating System (DOS).

In order to put this proprietary software into production, in August 1993, Mr Xu formed a Sino-Foreign Equity Joint Venture: Shenzhen Panavision Technology Development Company Ltd.

This Sino-Foreign Equity Joint Venture was owned as to:

Shenzhen APT	35 percent
Ms Chao Shi Yan	25 percent
Shekou Social Insurance Company*	40 percent

* A PRC State-owned institution, primarily engaged in social insurance in Shekou, Shenzhen, the PRC.

From these beginnings, as at today's date, the Kingdee Group has 14 operating companies, employing more than 1,000 workers.

The Reasons For Going Public

The Prospectus of Kingdee, at Page 10, gives, as its reasons for going to The GEM, '*... to raise capital through its listing on GEM to continue to develop new enterprise application software ...*'.

It was, originally, anticipated that it would receive about \$HK68.50 million, ... [CLICK TO ORDER FULL ARTICLE](#)

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