

Annual Report
2000



KINGDEE

INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED



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 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. 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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Kingdee International Software Group Company Limited (“Kingdee International”) together with its subsidiaries (the “Group”) is dedicated to become a leader in the development, production, sale and distribution of major software products, which will enable Kingdee International to be the top provider in enterprise application software in the PRC. The corporate mission of Kingdee International comprises of:

- providing total solutions for enterprise application and e-business solutions;
- providing quality support services;
- becoming an enterprise application software provider which customers will find most reliable and staff will find most satisfactory; and
- providing quality products and services for customers by adhering to the objective of “helping customers to succeed”.

EXECUTIVE DIRECTORS

Xu Shao Chun, *Chairman and CEO*
Xu Wen Hui, *Vice President*

NON-EXECUTIVE DIRECTORS

Zhao Yong
Wang Shu
Zhang Wen Xing

INDEPENDENT NON-EXECUTIVE DIRECTORS

Yang Zhou Nan
Zhu Qi Heng

COMPANY SECRETARY

Chung Oi Yin, Irene, *ACS, ACIS*

COMPLIANCE OFFICER

Xu Wen Hui

QUALIFIED ACCOUNTANT

Peng Shao Mei, Nancy, *ACCA*

AUDIT COMMITTEE

Xu Wen Hui
Yang Zhou Nan
Zhu Qi Heng

AUTHORISED REPRESENTATIVES

Xu Shao Chun
Xu Wen Hui

SPONSOR

BNP Paribas Peregrine Capital Limited
36th Floor, Asia Pacific Finance Tower
3 Garden Road, Central
Hong Kong

AUDITOR

Arthur Andersen & Co
21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

LEGAL ADVISERS

Hong Kong:
Kwok & Yih
(in association with Blake Dawson Waldron)
37th Floor, Gloucester Tower
The Landmark, Central
Hong Kong

The PRC:
Commerce & Finance Law Office
Room 1405, Tower B, Shenfang Plaza
3005 Renminnan Road
Shenzhen, the PRC

Cayman Islands:
Maples and Calder Asia
Suite 1002
One Exchange Square
8 Connaught Place
Central
Hong Kong

PRINCIPAL BANKERS

Shenzhen Development Bank
Bank of China Shenzhen Branch
Shenzhen Commercial Bank
China Merchant Bank
The Hongkong and Shanghai Banking
Corporation Limited

**PRINCIPAL SHARE REGISTRAR AND
TRANSFER OFFICE**

Bank of Butterfield International (Cayman) Ltd.
P.O. Box 705
Butterfield House
Fort Street
George Town
Grand Cayman
Cayman Islands
British West Indies

**HONG KONG BRANCH SHARE
REGISTRAR AND TRANSFER OFFICE**

Central Registration Hong Kong Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Ugland House
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

**HEAD OFFICE AND PRINCIPAL
PLACE OF BUSINESS IN THE PRC**

4th Level, Zone B, Block W1
High-New Technology Industrial Estate
Shennan Highway, Nanshan District
Shenzhen, Guangdong Province
The PRC

**PRINCIPAL PLACE OF BUSINESS
IN HONG KONG**

Rooms 3705-6, 37th Floor
Gloucester Tower
The Landmark, Central
Hong Kong

COMPANY WEBSITE

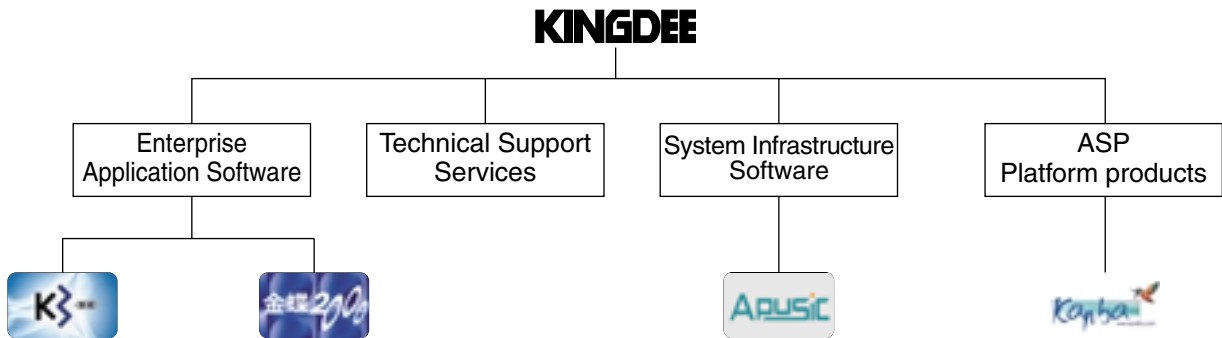
www.kingdee.com

GEM STOCK CODE

8133

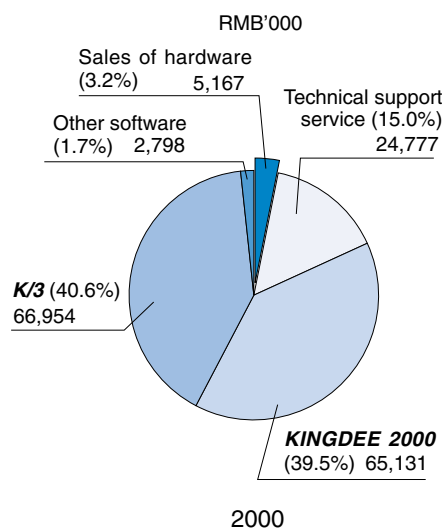
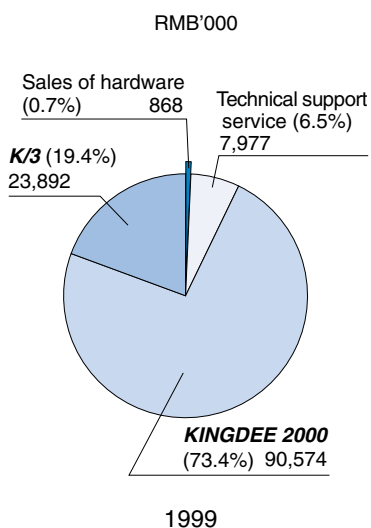
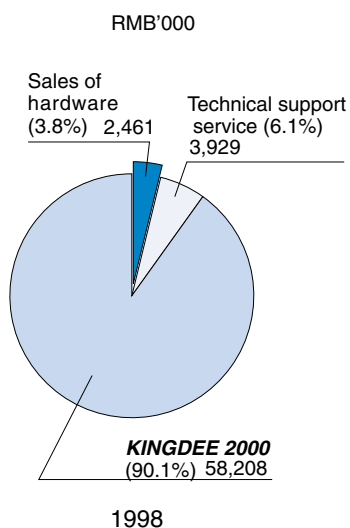
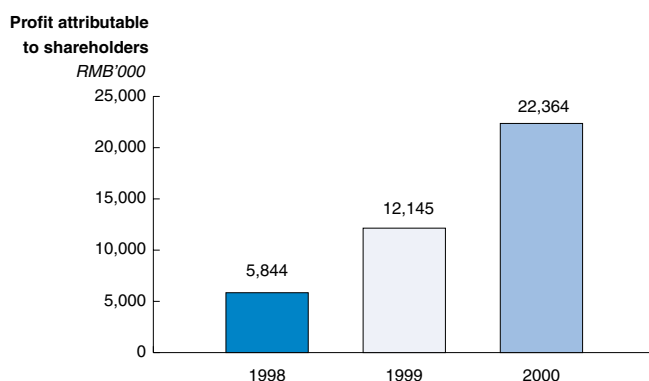
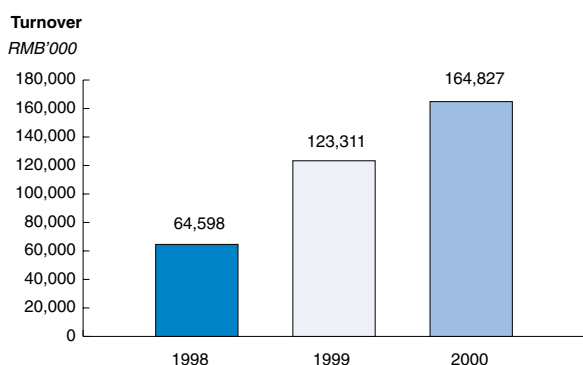
Kingdee International is one of the leading developers of software products in the PRC. The Group is principally engaged in the development and sale of enterprise application software including accounting software and ERP software, ASP platform products, system infrastructure software and the provision of technical support services.

Kingdee International is a leader in enterprise application software. With its expertise, sound financial position and experienced management, it has been well-recognized in various sectors. In addition, it has established close relationship with clients and partnership with multinational companies, the Group believes that the culture of Kingdee International together with its brand names will be able to cater for the demand of the market of enterprise application software in the new era.



For the year ended 31st December,

	1998	1999	2000
	RMB'000	RMB'000	RMB'000
Turnover	64,598	123,311	164,827
Profit before taxation	6,587	12,944	22,807
Profit after taxation	6,458	12,036	22,013
Profit attributable to shareholders	5,844	12,145	22,364
Earnings per share (basic)	RMB 0.017	RMB 0.035	RMB 0.064



The year 2000 was a very challenging year for Kingdee International. Thanks to the concerted efforts of all the staff of the Group and the strong support from various sectors, the Group succeeded in having its shares listed and traded on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited on 15th February, 2001.

Kingdee International is one of the leading developers of software products in the PRC. It is principally engaged in development and sale of enterprise application software (including accounting software and ERP software), ASP platform products and system infrastructure software, and also providing companies with support services for software application.



For the year ended 31st December, 2000, the Group's turnover and profit attributable to shareholders amounted to approximately RMB164,827,000 and RMB22,364,000 respectively, which represented 33.7% and 84.1% over the year ended 31st December, 1999 respectively. Basic earnings per share amounted to approximately RMB0.064. The Board of Directors (the "Board") resolved that no dividend for the year ended 31st December, 2000 would be paid. During the year, market share of the Group in the ERP software market was remarkable. According to the 中國軟件行業市場二零零零年度的調查分析報告 (Year 2000 PRC Software Industry Market Research Analysis Report) issued by Centre of Computer & Microelectronic Industry Development of the Ministry of Information Industry of the PRC ("CCID"), the Group was ranked as the largest domestic software provider in the ERP market of the PRC with 10% market share, which represented a growth of one fold over last year.

BUSINESS REVIEW

The year 2000 was a year of substantial development for the Company. The Group achieved the profit estimate for the year ended 31st December, 2000 as set out in the prospectus of the Company dated 9th February, 2001 ("Prospectus"). Furthermore, the Group developed into a major software provider in enterprise application solution and e-business solution, laying down four basic business models, namely enterprise application software, technical support and services, ASP platform products and system infrastructure software. Approximately 80.1% and 15.0% of the Group's turnover for the year ended 31st December, 2000 were derived from the first two business.

- **Enterprise application software — Accounting software**

In 2000, the Group successfully developed the upgraded version of the accounting software **KINGDEE 2000** (Standard Package) which has more application modules than the previous version, and has been markedly improved in respect of efficiency, system stability, security and user-friendliness.

As a result of price competition arising in the accounting software market during the year, the Group shifted its focus of development to **K/3** ERP software. However, the Group is still valuing the huge market potential of accounting software in the PRC. Therefore, we have adopted the following measures: assigning some of its major customers requiring accounting software to the ERP operation, so that their needs can be better met by the provision of more advanced software. In addition, much efforts were made on the sales of software to SMEs, whereby increased sales would offset the effect brought by the decrease in prices. The Group sold a total of 12,248 packages of **KINGDEE 2000** accounting software during the year 2000, represented sales of approximately RMB65,131,000 for the Group.



- **Enterprise application software — ERP software**

During the year, the Group concentrated on the development of ERP software — **K/3**, and successfully developed the Web-based version of certain application modules of the Group's ERP software. The Group's ERP software **K/3** at present comprises 22 application modules and 10 application modules with Web-based capabilities. The Group sold a total of 11,714 packages of ERP software during the year, representing sales of approximately RMB66,954,000 for the Group.

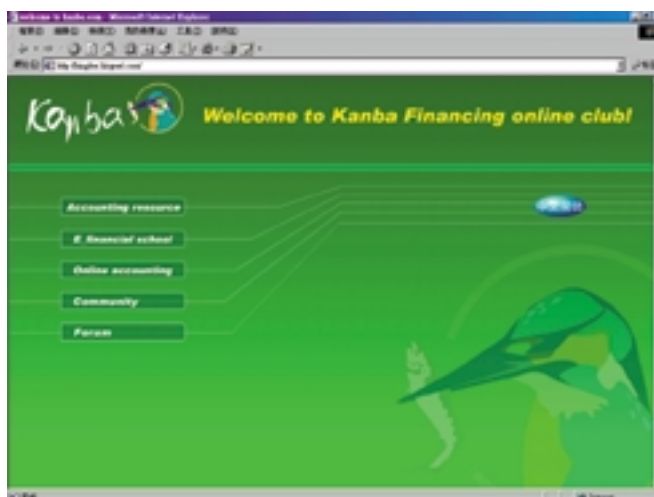


- **Technical support services**

The Group committed a substantial amount of resources during the year for the provision of quality technical support services for customers. As at 31st December, 2000, the Group had over 3,500 customers to whom it provided technical support services for accounting and ERP software. These services included operational training, installation and testing of the software, software repair and upgrade, software maintenance and other general assistance to enquiries and of usage support services.

- **ASP platform products**

In 2000, the Group began to proceed with the development of ASP platform, namely the online EAS platform, so as to enable enterprises and their branch offices which are in different locations to share enterprise application software managed from a central location through the Internet. The Group launched the portal *kanba.com* during the year. Currently, the portal provides (1) accounting and management information contents and (2) free trial of the Web-based version of certain application modules of the Group's ERP software, and



in order to make the contents richer, the Group had entered into cooperation agreements with several accounting firms and professional financial magazines in the PRC.

On 13th June, 2000, the Group entered into a memorandum of understanding with Shenzhen Motion Internet Technology Co., Ltd. to jointly develop their ASP platform product business. In July 2000, the Group successfully sold an online EAS platform to an ASP business provider in the PRC.

- **System infrastructure software**

The Group commenced the development of system infrastructure software during the year, and established the Shenzhen Apusic Software Co., Ltd. ("Apusic") for the development of middleware products in August 2000. During the year, Apusic completed the R & D of Apusic Application Server and the final stage of testing. The programming of Apusic Application Server is written in Java with the versatility to adapt to a multi-platform environment (including Linux, Unix and Windows), which became the first middleware application server with the capability to support J2EEV1.2 technology among similar servers in the PRC. The Group officially launched the Apusic Application Server in December 2000.

- **Sales performance and sales channels**

The Group proactively strengthened its efforts on sales and marketing by heightening the market awareness of its sales team. For the year ended 31st December, 2000, the sales and distribution network of the Group's application software continued to expand and covered 229 cities across 22 provinces, five autonomous regions and four centrally administered municipalities in the PRC as at 31st December, 2000. During the year, the number of branch offices for the sales of the Group's enterprise application software increased to 23, whereas number of representative offices increased to 5, with number of subsidiaries maintained at 13 and number of authorised sales agents increased to 330.

MARKET ANALYSIS

- **Industry analysis**

As a result of the growing popularity of computers in the PRC in recent years and the increasing application of information technology, the software industry in the PRC enjoys strong growth in recent years. According to the statistical analysis made by International Data Corporation ("IDC") on the PRC's software market, the size of the software market in the PRC grows by a compound annual growth rate ("CAGR") of approximately 31.0%. The growth is particularly substantial in 2000. It was because more and more emphasis would be placed to computerised management by companies in the PRC, leading to a sharp increase in the demand. According to the latest report released by CCID, total sales of the management software market in 2000 amounted to approximately RMB5.87 billion, representing an increase of 22.3% over 1999, of which sales of accounting software and ERP software amounted to approximately RMB1.45 billion and RMB4.7 billion respectively, representing an increase of 20.8% and 30.6% respectively. At present, there are approximately 1.4 million SMEs in the PRC, whereas the rate of computerisation of enterprises in the PRC is less than 10%. It is obvious that the development prospect for the software industry, in particular the management software sector is very broad. Aiming at this hugely potential market with continuous efforts in improving the quality of its products as well as the quality of its customer services, Kingdee International further enhanced its ERP products and the capability of application and with its 10% market share, successfully became the largest domestic ERP software provider and developer in the PRC for the year 2000.

- **Preferential Policies**

On 11th July, 2000, the State Council of the PRC issued 鼓勵軟件產業和集成電路產業發展的若干政策 (Certain Policies in Encouraging the Development of Software and Integrated Circuit Industries) to stimulate the development of the PRC software and integrated circuit industries and strengthen the international competitiveness of the PRC information technology industry. Pursuant to the policies, the PRC software enterprises are entitled to a number of preferential treatments including value added tax, income tax, export incentives and others.

In respect of value added tax, the Group's subsidiary Kingdee Software Technology (Shenzhen) Co., Ltd. ("Shenzhen Kingdee") was granted an approval by the State Tax Bureau of Shenzhen in early 2001 that with effect from July 2000, Shenzhen Kingdee was entitled to the preferential taxation treatment provided by the policy, any actual value added tax paid exceeding 3% of the revenue would be refunded. Prior to this, pursuant to Cai Shui Zi [1999] No. 273 jointly issued by the Ministry of Finance of the PRC and State Administration of Taxation, Shenzhen Kingdee was subject to an effective value added tax rate of 6% whereby any actual value added tax paid exceeding 6% would be refunded. In respect of income tax, since Shenzhen Kingdee is classified as a high-new technology enterprise, it is entitled to a preferential treatment at a tax rate of 7.5%, which is half of the normal rate and will last for 5 years from 1st January, 1999 to 31st December, 2003.

On 27th October, 2000, the Ministry of Information Industry of the PRC issued 軟件產品管理辦法 (Regulations for the Protection of Computer Software) aiming at improving the management of software products and promoting the development of the software industry. Therefore, with the introduction of preferential policies and with the adjustment to the regulations for the software industry, the Group is also attaining an advantageous position of development in the software industry.

- **Opportunities arising from the PRC's entry into the World Trade Organisation ("WTO")**

With the PRC's imminent entry into the WTO, Kingdee International will be entering into an era with both challenges and opportunities. Further opening of the market in the PRC will lead to the mass influx of enterprises as well as products from all over the world, whereas at the same time international capital will also be injected into the PRC market as and when opportunities arise. Currently, enterprises in the PRC are aware of the importance in improving the standard of management and reducing their costs so as to be more cost-effective. This is undoubtedly a great challenge to Kingdee International on its way from its foothold in the PRC to the international market. The Group believes that with its listing on the GEM as a new starting point, it will find itself better-positioned in attracting more international capital and opportunities to cooperate with international partners, thereby promoting the modernisation of the Group's management and globalisation of its products.

- **Competitive strengths**

The Group is better-positioned in terms of competitive strengths over other software developers:

- (1) The enterprise application software of the Group enjoys good reputation and high recognition in the PRC, and the quality of its technical support services is excellent;
- (2) The network of sale, distribution and technical support services of the Group's enterprise application software is extensive, covering 22 provinces, 4 centrally administered municipalities and 5 autonomous regions;
- (3) The Group has a R&D team of 266 members who are experienced and with professional expertise;
- (4) The Group has a team of 48 members of experienced and professional enterprise management consultants and enterprise application software experts;
- (5) The Group has formed strategic alliances with internationally renowned information technology companies; and
- (6) The Group has strong shareholding background.

STRATEGIES FOR BUSINESS EXPANSION

The Board has drawn up the following key strategies for the expansion of its business for the year 2001:

- **Continue to develop new enterprise application software (including the Web-based version), ASP platform products and Apusic Middleware**

After the successful launch of the Group's ERP software *K/3*, the Group will continue to focus on the R&D of new application modules so as to upgrade the Group's enterprise application software.

The Group will also focus on developing its ERP software suitable for performing multi-platform functions. Moreover, the Group continues to develop the Web-based version of its enterprise application software so as to facilitate the development and implementation of its ASP platform product business and other e-business initiatives.

The Group had commercially launched the Apusic Application Server in December 2000. The Group plans to continue R&D for other improved versions of Apusic Middleware.

- **Enhance support services and expand distribution network in order to maintain dominant market position of the Group**

In order to further enhance its position as one of the dominant software developers in the PRC, the Group intends to expand its technical support services through its extensive sales and service network and to strengthen its focus on marketing in an effort for increasing its market penetration. The Group plans to expand its sales and service network by appointing more authorised sales agents in different locations throughout the PRC.

- **Continue to develop strategic alliances**

The Group will continue to form and maintain strategic and cooperation relationship with reputable and leading information technology companies and their associates (such as Microsoft Corporation and Oracle Corporation).

- **Improve the reputation of the products and services of the Group**

A good reputation can strengthen the Group's capability, maintain its competitiveness and enable the Group to explore potential markets. The Group will capitalise on the opportunity provided by its listing on GEM to further establish the Group's brand names and reputation for its products and services.

PROSPECTS

In the wake of the increasing popularity of computers and level of IT application in the PRC, the software industry in the PRC is gathering momentum. On the other hand, a higher standard of requirement is imposed on the software industry by the market.

As a professional software developer and provider, the Group has been aggressive and endeavoring to develop enterprise application software with the continued innovation of new system infrastructure and ASP platform products and strive to become the leader in the industry. After the pioneering work of nine years, the Group has developed into one of the largest developers of enterprise application software in the PRC with a broad customer base and well-recognised brand names in the PRC market. The Company was listed on the GEM on 15th February, 2001 and became a public company. In an era where opportunities and challenges equally abound, the Group's mission is to continue to enhance the quality of products and standard of customer services in the light of our business philosophy and the conviction of our operation, namely, "to help our customers to succeed". The Group will prudently use its capital raised in the listing in order to become the market leader in the development, production, sales and distribution of enterprise application solutions and e-business solutions. It will also capitalise on the capital market by attracting international capital with the brand name of Kingdee and identifying opportunities to cooperate with international partners, whereby the international market will be actively explored for the promotion of the Group's management modernisation and the globalisation of its products. It will also endeavor to become the largest software provider in the PRC and to find itself among global players of application software through overseas investment and reasonable capital initiatives such as acquisition and merger to expand and to increase the Group's strengths and core operations.

Finally, I wish to express my sincere gratitude on behalf of the Board to the unreserved support of the shareholders, and to all the staff of the Group who have been working with concerted effort to achieve the Group's objectives of development!

Chairman

Xu Shao Chun

19th March, 2001

CONSOLIDATED OPERATING RESULTS

The consolidated turnover of the Group for the year ended 31st December, 2000 was approximately RMB164,827,000, representing an increase of approximately 33.7% over last year (1999: RMB123,311,000). This increment was derived from the sales of **KINGDEE 2000** accounting software and **K/3** ERP software, the turnover of which accounted for approximately RMB65,131,000 and RMB66,954,000 respectively, representing 39.5% and 40.6% of the total turnover of the year 2000. During the year, the Group provided enterprise application software technical support services to over 3,500 customers. Such services represented an increase of approximately 210.6% over 1999 (1999: RMB7,977,000).

Profits attributable to the shareholders of the Group for the year ended 31st December, 2000 was approximately RMB22,364,000, representing an increase of approximately 84.1% over 1999 (1999: RMB12,145,000). Earnings per share was RMB0.064 (1999: RMB0.035).

Due to the intense price competition currently prevailing on the accounting software market in the PRC, the Group accordingly made adjustments to the pricing of the accounting software. During the year, a total of 12,248 packages of **KINGDEE 2000** accounting software were sold, an increase of 3.0% over the same period last year, among which turnover of standard package, industrial package, commercial package and other packages accounted to 54.5%, 16.9%, 2.5% and 26.1% of the total turnover of accounting software respectively.

According to the Year 2000 PRC Software Industry Market Research Analysis Report (中國軟件行業市場二零零零年度的調查分析報告) issued by CCID, during the year, with 10% market share, the Group was able to become the largest ERP domestic supplier in the PRC, representing an increase of more than a double over the rate of market share last year. During the year, a total of 11,714 packages of ERP software were sold, and realized a sales revenue amounting RMB66,954,000, representing an increase of 216.0% and 180.2% over last year respectively. The reason for the significant growth in the sales of the ERP software product of the Group was that the enterprises in the PRC gradually place more emphasis on computerised management. As a result, the level of popularity on the ERP software was enhanced, thereby causing the significant growth in the demand for ERP software. In 2000, the Group took the **K/3** as the key development product, and allocated more resources to advance its sales volume and popularity. Currently, the product has become the mainstream product of the Group in the market.

During the year, the Group invested substantial resources in the provision of high quality technical support services to customers. The services were able to secure a steady cash flow, facilitate a steady growth in the sales of **KINGDEE 2000** and **K/3** software, and provide a remarkable source of income to the Group.

GROSS PROFIT

Gross profit of the Group increased by approximately 21.3% from approximately RMB108,851,000 in 1999 to approximately RMB131,991,000 in 2000. Gross profit margin during the year was approximately 80.1%, representing a drop of approximately 8.2% over the last year.

SELLING EXPENSES

Selling expenses in 2000 was approximately RMB75,719,000, representing an increase of approximately 18.8% over last year. During the year, percentage of the selling expenses to the total turnover reduced from approximately 51.7% in 1999 to about 45.9%. The slight reduction in the percentage of the selling expenses to the total turnover during the year was mainly due to the increase in sales and reduction in advertising and sale promotion expenses. Advertising expenses during the year was approximately RMB10,122,000, representing a reduction of 33.6% over last year. Since the successful launch of **K/3** in May 1999, **K/3** has been able to maintain its awareness in the market of the PRC, which resulted in the promotion expenses required for the **K/3** and **KINGDEE 2000** during the year to be less than those in the same period in 1999. Salaries and bonuses as at the year ended 31st December, 2000 were approximately RMB17,700,000, representing about 151.4% of those in 1999. Due to the increase in market demands for IT professionals, in order to maintain the stability of technology developers and technicians, the Group adopted strategies such as increasing the salaries and bonuses of employees and giving extra rewards to sales staff, thus resulted in the increase in the salaries and bonuses.

GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses in 2000 was approximately RMB32,997,000, representing an increase of approximately 4.8% over the previous year. At the same time, the percentage of the general and administration expenses to the total turnover dropped from approximately 25.5% in 1999 to approximately 20.0%. Out of this, the research and development costs, salary and staff welfare, provision for doubtful debts, depreciation of fixed assets and connecting fees accounted to 41.2%, 16.5%, 19.8% and 4.2% of the general and administration expenses in 2000 respectively. Provision for doubtful debts during the year was approximately RMB6,527,000, representing an increase of 104.0% over the previous year. The increase in the provision for doubtful debts was due to the general provision for doubtful debts of accounts receivable. The increase in the accounts receivable was due to the expansion in the ERP software business of the Group during the year.

DIRECTORS

Executive Directors

Xu Shao Chun, aged 37, chairman and chief executive officer of the Company, president of Shenzhen Kingdee and founder of the Group. He is a committee member of the Ninth General Committee of Youth Association of the PRC and the Third General Committee of People's Representative of Shenzhen. Mr. Xu received a bachelor degree in computer science from South Eastern University in the PRC in 1983 and graduated from the Science & Research Institute of the Ministry of Finance of the PRC in 1988 with a master degree majoring in computerised accounting research under the supervision of Professor Yan Jie Yuan who is a famous and accounting theory academician in the PRC. Mr. Xu is a senior economist. He established Shenzhen APT Computer Technology Company Limited in 1991 and was the general manager from 1991 to 1993. In 1993, he was the general manager of Shenzhen Panavision Technology Development Company Limited, the predecessor of Shenzhen Kingdee, and was responsible for overseeing the operation. Mr. Xu is a key figure in the design and development of accounting and management software in the PRC. He has participated in and supervised the design and development of a series of leading enterprise application software in the PRC and received a number of awards for his outstanding achievements.

Xu Wen Hui, aged 31, executive director, vice president and compliance officer of the Company and vice president of Shenzhen Kingdee. He received a bachelor degree from Shenzhen University and is a non-executive member of Shenzhen Certified Accountant Association (深圳註冊會計師協會). He has approximately seven years' experience in auditing, accounting and financial management and has been involved in the accounting and audit services for many listed companies and some foreign investment enterprises in the PRC. He joined the Group in July 1996 and is responsible for the audit and financial management of the Group.

Non-executive Directors

Zhao Yong, aged 56. He graduated from the Beijing Aviation and Airspace University in the PRC with a master degree. He is an engineer and a senior economist. Before joining Shenzhen Kingdee in 1998, he worked for Shekou Industrial Zone as an assistant to general manager and Guangdong Float Glass Company as general manager. He was appointed as a Director on 22nd September, 1999.

Wang Shu, aged 45, general manager of Guangdong Pacific Technology Venture Company Limited ("GPTV"). He graduated from Beijing University in the PRC majoring in Economics. He was a senior economist and an assistant professor in Economics and International Finance. He has in-depth experience of corporate restructuring and equity listing for PRC enterprises. He was engaged in securities and fund management between 1992 and 1996 and was the deputy general manager of the securities department and the general manager of asset management department of Guangdong International Trust and Investment Company. He joined GPTV in 1996 as the general manager. He was appointed as a Director on 22nd September, 1999.

Zhang Wen Xing, aged 63, Mr. Xu Shao Chun's father-in-law. He received a bachelor degree in Mechanical Engineering from Jinan Amateur Technical Institute. He has been serving Jinan First Machinery Production Plant since graduation and has been involved in the design and implementation and product quality control of many construction projects. From 1989 to 1992 he participated in the establishment of Shenzhen Yuntong Machinery Company Limited and was the company's deputy general manager and vice president. He was appointed as a Director on 20th December, 2000.

Independent non-executive Directors

Yang Zhou Nan, aged 62, professor of Graduate School of the Institute of Fiscal Science of the Ministry of Finance of the PRC and a people's representative to the National People's Congress of the PRC. She graduated from Nan Kai University with a master degree. After graduation, she worked in Beijing Computing Centre as an engineer and a director. She is currently a Ph. D. supervisor of Graduate School of the Institute of Fiscal Science. She has approximately 20 years of research experience in the areas of finance, accounting and taxation. She was appointed as a Director on 20th December, 2000.

Zhu Qi Heng, aged 58, chief partner and the chairman of the executive committee of Shenzhen Tianjin Schinda Certified Public Accountants and was involved in the audit of the PRC statutory accounts of Shenzhen Kingdee for the two years ended 31st December, 1999. He graduated from Shanghai Finance and Economics University in the PRC. He has more than 30 years of experience in accounting and auditing and possesses expertise in finance, securities, taxation and asset valuation. He was appointed as a Director on 20th December, 2000.

COMPANY SECRETARY

Chung Oi Yin, Irene, aged 30, company secretary of the Company. Ms. Chung is a professional company secretary appointed by the Company. She is also an employee of Kwok & Yih (in association with Blake Dawson Waldron), the legal advisers to the Company. Ms. Chung is an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Company Secretaries.

QUALIFIED ACCOUNTANT

Peng Shao Mei, Nancy, aged 26, qualified accountant of the Company. Ms. Peng received a bachelor degree in International Accounting from Zhongnan University of Finance & Economics in the PRC in 1997 and is a member of the Association of Chartered Certified Accountants. Prior to joining the Group in September 2000, Ms. Peng worked in the accounting section of the International Business Department of Guangdong Development Bank (Head Office) from August 1997 to September 1998 and in the Guangzhou Representative Office of Deloitte Touche Tohmatsu as an accountant from October 1998 to August 2000.

SENIOR MANAGEMENT

Huang Xiao Jian, aged 32, vice president of Shenzhen Kingdee. He received a bachelor degree in Shanghai Normal University (上海師範大學). Mr. Huang joined the Group in April 2000 and is responsible for sales operations and service management of Shenzhen Kingdee as well as overseeing the Group's branch operations. Mr. Huang possesses extensive implementation experience in system application as well as training experience in MRP-II/ERP, CRM and e-commerce. He is also experienced in sales and marketing for IT products in the PRC market. Prior to joining Shenzhen Kingdee, Mr. Huang worked in Ji Li (Shanghai) Company (吉利(上海)公司) responsible for implementation of MRP-II system, US Sibran Software Company Asia (美國四班軟件亞洲公司) for three years as an advisory manager for the Greater China region and SAP (China) Company for four years as an executive assistant to the president (Greater China region) and e-commerce controller to oversee the e-commerce operations and business strategies of SAP products in the PRC market.

Tian Rong Ju, aged 29, vice president and general manager of the research and development centre of Shenzhen Kingdee. He received a bachelor degree from Chongqing Yizhou University of the PRC in 1991. He joined the Group in March 1999 and is responsible for R&D, product planning and testing. He worked for Chongqing Zhong Liang Mountain Mining Bureau after his graduation and later worked for Chongqing Gold Abacus Company for two years as the chief engineer of the accounting software department of Beijing UFsoft Corp., Ltd.

Yuan Hao, aged 30, vice president of Shenzhen Kingdee. He graduated from Xian University of the PRC in 1992. He is the vice president of Shenzhen Software Industry Association and a general committee member of Shenzhen Computer Users' Association. He is responsible for the marketing activities and branch operations of the Group in the Eastern area of the PRC. Mr. Yuan joined the Group in October 1994 and was a system maintenance engineer, marketing manager, general manager of the Shanghai branch of the Group and a general manager of the Futian branch of the Group. Before joining the Group, he worked for U.S. Concord Department Store (Beijing) Software Company, Chonglu Petroleum Company as a software programmer and the financial controller of Shenzhen Jinfeng Company.

Li Guang Xue, aged 31, vice president of Shenzhen Kingdee and general manager of the Guangzhou branch of the Group. He graduated from Tsingtao Ocean University in July 1991. Mr. Li is responsible for overseeing the marketing and the operation of technical support services of the Group's enterprise application software products for Guangzhou and the neighbouring areas. Mr. Li joined the Group in June 1995 and was the manager of the R&D department and customer service department of Shenzhen Kingdee. He was involved in the product development of the Group's enterprise application software products from June 1995 to November 1998 and engaged in customer service operation for clients of the Group from December 1998 to June 1999.

Luo Ming Xing, aged 30, vice president of Shenzhen Kingdee. He received a bachelor degree from Jiangxi Finance College of the PRC and is a member of Shenzhen Certified Accountant Association. He joined the Group in May 1997 as an investment manager and an assistant to president. Since July 1999, he has been responsible for overseeing the sales and customer service operations of the Group in the Shenzhen area. Before joining the Group, he was an audit manager of Fujian Yao Qi Lin Company and was involved in the audit for many companies.

Lu Hong Zheng, aged 25, assistant to president of Shenzhen Kingdee. He received a bachelor degree in economics from Central University of Finance and Economics in 1997. Mr. Lu joined the Group in July 1998 and was an audit manager and operation manager. He was then promoted as the assistant to president in January 2000 and is responsible for assisting the president of Shenzhen Kingdee to manage the administration, human resources, internal information system implementation of Shenzhen Kingdee. In November 2000, he began to take charge of the finance department and audit department of Shenzhen Kingdee.

Jin Zhuo Jun, aged 39, general manager of the customer support centre of Shenzhen Kingdee. She graduated from Chongqing University and received a bachelor degree in July 1982. She is a senior engineer in computer application. Ms. Jin joined the Group in August 1999 and is mainly responsible for the Group's customer service operations and technical support. From mid-1980 to present, she has been focusing on the research and development, implementation and training in relation to MRPII/ERP and CIMS; she is vastly experienced in the applications of MRP-II/ERP and CIMS, and has been successful in operating the management consulting and ERP system implementation of many SMEs in the PRC. Prior to joining the Group, she worked as the general manager of Chongqing Haishan Computer Engineering Company (重慶海山計算機工程公司) for 9 years and had also held the position of deputy director of the Sichuan area of the State 863/CIMS Information Network.

The Directors are pleased to present to the shareholders their report together with the audited financial statements of Kingdee International Software Group Company Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 31st December, 2000.

GROUP REORGANISATION AND LISTING ON THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (“STOCK EXCHANGE”)

The Company was incorporated under the name KINGDEE SOFTWARE COMPANY LIMITED as an exempted company with limited liability on 22nd September, 1999 in the Cayman Islands. On 8th October, 1999, the Company was renamed as KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED.

In preparation for the listing of the Group on the GEM, the companies comprising the Group underwent a reorganisation for the streamlining of the Group structure and, as a result of which, the Company became the ultimate holding company of the Group. Details of the Group reorganisation and corporate structure were set out in the section headed “Reorganisation” in Appendix V and in paragraph headed “Corporate Structure” in the section headed “Business of the Group” of the prospectus of the Company issued on 9th February, 2001 (“Prospectus”).

The shares of the Company commenced listing on the GEM on 15th February, 2001.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The Group is a leading developer of software products in the PRC. The Group is principally engaged in the development and sales of enterprise application software (including accounting software and ERP software), ASP platform products, system infrastructure software and the provision of software related after-sales service.

The turnover and profit attributable to shareholders of the Group for the year ended 31st December, 2000 were RMB164,827,000 and RMB22,364,000 respectively. Among which, approximately 39.5% was derived from the sales of accounting software and approximately 40.6% was derived from the sales of ERP software, and approximately 15.0%, 3.2% and 1.7% were derived from technical support services, sales of computer hardware and other software respectively. For details, please refer to the consolidated income statement set out on page 32.

As at 31st December, 2000, sales of the enterprise application software and the distribution network of the Group continued to expand, covering 229 cities in 22 provinces, 5 autonomous regions and 4 centrally administered municipalities in the PRC. The table below sets out the number of branches, representative offices, subsidiaries and authorised sales agents of the Group for the sales of its enterprise application software as at 31st December, 2000.

	As at 31st December, 2000
Branches	23
Representative offices	5
Subsidiaries	13
Authorised sales agents	330
	<hr/>
Total	371
	<hr/> <hr/>

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 32.

The Board of Directors do not recommend any payment of dividends for the year ended 31st December, 2000.

STRATEGIC ALLIANCES

During the year, the Group has entered into cooperation agreements with Compaq Computer (Shenzhen) Co., Ltd., Microsoft (China) Co., Ltd. and Beijing Oracle Software Systems Co., Ltd. under which they agreed to provide the Group with technical support and services, and to assist the sales of the software products of the Group and participate in the marketing activities of the Group.

BANK BORROWINGS

Details of the bank borrowings of the Group as of 31st December, 2000 are set out in notes 14 and 32 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity on page 33.

FIXED ASSETS

Details of the movements in the fixed assets of the Group are set out in note 3 to the financial statements.

INTERESTS OF THE DIRECTORS IN CONTRACTS

No contracts of significance to which the Group was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE CAPITAL AND OPTION

• Share Capital

Details of the movement in share capital of the Company are set out in note 20 to the financial statements.

• Purchase, Sale or Redemption of Shares

The Company had not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

• Share Option Scheme and Pre-IPO Share Option Scheme

Details of the Share Option Scheme and the Pre-IPO Share Option Scheme are set out in note 20 to the financial statements.

During the year, none of the Directors had been granted option under the Share Option Scheme.

DIRECTORS AND SERVICE CONTRACTS OF DIRECTORS

Since the date of incorporation and up to the date of this annual report, the Directors of the Company are:

Executive Directors

Mr. Xu Shao Chun	(appointed on 22nd September, 1999)
Mr. Xu Wen Hui	(appointed on 22nd September, 1999)

Non-executive Directors

Mr. Wang Shu	(appointed on 22nd September, 1999)
Mr. Zhao Yong	(appointed on 22nd September, 1999)
Mr. Zhang Wen Xing	(appointed on 20th December, 2000)

Independent Non-executive Directors

Mr. Zhu Qi Heng	(appointed on 20th December, 2000)
Ms. Yang Zhou Nan	(appointed on 20th December, 2000)

In accordance with article 116 of the Company's articles of association, Mr. Wang Shu will retire by rotation at the forthcoming annual general meeting ("AGM"). However, Mr. Wang Shu had informed the Company that due to his personal reason, he decided not to offer himself for re-election as a Non-executive Director at the forthcoming AGM. In accordance with articles 117 and 120, the Board recommended Mr. Hugo Shong to be elected to the office of Non-executive Director at the AGM.

Each of Mr. Xu Shao Chun and Mr. Xu Wen Hui had entered into a service contract with the Company in relation to their appointment as executive Directors of the Company. Each service contract is for an initial term of three years commencing on 1st January, 2000 and will continue thereafter, unless and until terminated by either party by not less than three months' prior written notice.

Save as aforesaid, no Director had entered into any service contract with any member of the Group.

INTERESTS OF DIRECTORS IN EQUITY SECURITIES

Immediately following the Placing and the Capitalisation Issue, the beneficial interests of the Directors in the Shares or securities of the Company or any associated corporation (within the meaning of the SDI Ordinance) required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have been taken under section 31 of, or Part 1 of the Schedule to the SDI Ordinance), or required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or required pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange when the Shares were listed on 15th February, 2001 were as follows:

The Company

Name of Directors	Number of Shares	Nature of Interests	Approximate percentage of interest
Xu Shao Chun	83,606,250	Corporate (note 1)	19.11%
	39,550,000	Other (notes 2 and 3)	9.04%
Xu Wen Hui	2,754,500	Personal (note 4)	0.63%
	1,599,500	Other (note 3)	0.37%
Zhang Wen Xing	58,310,000	Corporate (note 5)	13.33%
	39,550,000	Other (notes 2 and 3)	9.04%

Guangdong Kingdee Software Technology Co. Ltd.

Name of Directors	Amount of registered capital	Nature of Interests	Percentage of interest
Xu Shao Chun	RMB250,000	Corporate (note 6)	50%

Notes:

1. The 83,606,250 Shares were held by Oriental Gold Limited.
2. Of the 39,550,000 Shares, 37,950,500 Shares were held by Project China Limited, a company wholly-owned by Mr. Zhang Wen Xing, as nominee for 154 employees of the Group (including Mr. Xu Wen Hui, an executive Director), one former employee of the Group and a consultant of the Group who have granted rights of first refusal to Oriental Gold Limited, a company wholly-owned by Mr. Xu Shao Chun, in the future sale of the Shares. Each of the 154 employees of the Group had undertaken to Project China Limited that if he/she is, within one year after he/she leaves the employment of the Group, involved in any business which may compete with the Group, Project China Limited will have an option to buy back his/her Shares.
3. Of the 39,550,000 Shares, 1,599,500 Shares were held by Project China Limited, a company wholly-owned by Mr. Zhang Wen Xing, as trustee of a discretionary trust established for the benefit of all the former and existing employees and consultants of the Group including Mr. Xu Shao Chun and Mr. Xu Wen Hui, executive Directors.
4. The 2,754,500 Shares were held by Project China Limited as nominee for Mr. Xu Wen Hui.
5. The 58,310,000 Shares were held by Billion Ocean Limited.
6. Such registered capital was held by Shenzhen APT Computer Technology Co., Ltd. which was owned as to 90% by Mr. Xu Shao Chun and 10% by Mr. Zhang Wen Xing.

CONNECTED TRANSACTIONS

Details of related party transactions are disclosed in note 30 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

- the largest customer	1.3%
- five largest customers combined	4.3%

Purchases

- the largest supplier	36.5%
- five largest suppliers combined	86.4%

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

SUBSTANTIAL SHAREHOLDERS

Immediately after the completion of the Placing and the Capitalisation Issue, the following persons were entitled to exercise, or control the exercise of 10% or more of the voting power at any general meeting of the Company:

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

Notes:

(1) The Shares were held by IDG Technology Venture Investment, Inc., a company wholly-owned by International Data Group, Inc.

- (2) The Shares were held by Oriental Gold Limited, a company wholly-owned by Mr. Xu Shao Chun. Each of the 156 employees, former employee and consultant of the Group had given Oriental Gold Limited a right of first refusal in respect of future sale of an aggregate of 37,950,500 Shares held through Project China Limited. In addition to the 83,606,250 Shares to be held by Oriental Gold Limited, Mr. Xu Shao Chun was also interested in 1,599,500 Shares as one of the discretionary objects of the discretionary trust set up for the benefit of the existing and former employees and consultant of the Group which such Shares were held by Project China Limited.
- (3) The Shares were held by Billion Ocean Limited, a company wholly-owned by Mr. Zhang Wen Xing.
- (4) The Shares were held by Project China Limited, a company wholly-owned by Mr. Zhang Wen Xing, as trustee of a discretionary trust set up for the benefit of the existing and former employees and consultants of the Group, including Mr. Xu Shao Chun and Mr. Xu Wen Hui, executive Directors. In addition, Project China Limited held an aggregate of 37,950,500 Shares as nominee for 154 employees of the Group (including Mr. Xu Wen Hui, an executive Director), one former employee of the Group and a consultant of the Group, who is an employee of IDG. 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.

COMPETING INTEREST

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

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

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

SPONSOR'S INTEREST

As at 31st December, 2000, none of the directors, employees or associates of BNP Paribas Peregrine Capital Limited hold any interest in the securities of the Company or any member of the Group, or the right to subscribe for or to nominate persons to subscribe for securities in the Company or any member of the Group.

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 since its shares were listed on the GEM on 15th February, 2001.

AUDIT COMMITTEE AND ITS DUTIES

The audit committee of the Company was established on 1st February, 2001, which comprises of Mr. Xu Wen Hui, executive Director, Ms. Yang Zhou Nan and Mr. Zhu Qi Heng, both being independent non-executive Directors. Mr. Zhu Qi Heng is the chairman of the audit committee. The audit committee convened its meeting for the first time on 16th March, 2001 to review the accounts of the Group, and providing advices and recommendations to the Board of Directors.

YEAR 2000 COMPLIANCE

The Board advised that the third party tools used by the Group, and its enterprise application software products available for sale are fully Year 2000 compliant. Up to the date of this report, the Year 2000 issue has not created any material adverse impact on the business operations in any functional areas.

AUDITORS

Arthur Andersen & Co was appointed as the auditors of the Company during the year. Arthur Andersen & Co will retire and, being eligible, offers themselves for re-appointment and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Xu Shao Chun

Chairman

19th March, 2001



ARTHUR ANDERSEN

Arthur Andersen & Co

21st Floor Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

**TO THE SHAREHOLDERS OF KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)**

We have audited the accompanying balance sheet of Kingdee International Software Group Company Limited (the "Company") and consolidated balance sheet of the Company and its subsidiaries (the "Group") as of 31st December, 2000, and the related consolidated statements of income, changes in equity and cash flows of the Group for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company and the Group as of 31st December, 2000, and the results of operations and the cash flows of the Group for the year then ended in accordance with International Accounting Standards issued by the International Accounting Standards Committee and the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO

Certified Public Accountants

Hong Kong,
19th March, 2001

AS OF 31ST DECEMBER, 2000

(Expressed in thousands of Renminbi)

	Notes	Consolidated		Company	
		2000	1999	2000	1999
ASSETS					
Non-current assets					
Fixed assets, net	3	26,259	27,132	—	—
Investment in subsidiaries	4	—	—	42,135	—
Investment in an associate	5	686	—	—	—
Long-term investments	6	80	80	—	—
Deferred tax assets, net	7	2,020	1,594	—	—
Deferred development costs	8	999	1,665	—	—
Total non-current assets		30,044	30,471	42,135	—
Current assets					
Prepayments and other current assets	9	16,596	8,869	5,606	—
Amounts due from related parties	10	847	1,392	—	—
Inventories	11	1,729	1,336	—	—
Accounts receivable, net	12	26,006	16,958	—	—
Pledged bank deposit	32	9,960	9,960	—	—
Cash and cash equivalents	13	33,938	23,351	11	11
Total current assets		89,076	61,866	5,617	11
Total assets		119,120	92,337	47,752	11

The accompanying notes are an integral part of these financial statements.

AS OF 31ST DECEMBER, 2000

(Expressed in thousands of Renminbi)

	Notes	Consolidated		Company	
		2000	1999	2000	1999
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	20	107	6,677	107	11
Reserves	21	60,633	31,699	42,039	—
Total capital and reserves		60,740	38,376	42,146	11
Minority interests		2,647	2,893	—	—
Non-current liabilities					
Long-term bank loans	14	2,099	3,636	—	—
Current liabilities					
Current portion of long-term					
bank loans	14	1,498	1,614	—	—
Short-term bank loans	32	14,600	12,100	—	—
Other short-term loans	15	4,000	—	—	—
Dividends payable		2,790	4,000	—	—
Deferred income	16	12,039	9,423	—	—
Salary and staff welfare payable		2,198	1,352	—	—
Taxes payable	17	4,996	4,949	—	—
Customers' deposits	18	1,529	2,461	—	—
Amount due to a subsidiary		—	—	5,606	—
Accruals and other payables	19	9,984	11,533	—	—
Total current liabilities		53,634	47,432	5,606	—
Total equity and liabilities		119,120	92,337	47,752	11

Approved by and signed on 19th March, 2001 on behalf of the Board of Directors.

Xu Shao Chun
Chairman

Xu Wen Hui
Director

The accompanying notes are an integral part of these financial statements.

FOR THE YEAR ENDED 31ST DECEMBER, 2000

(Expressed in thousands of Renminbi except for earnings per share)

	Notes	2000	1999
Turnover	22	164,827	123,311
Cost of sales		(32,836)	(14,460)
Gross profit		131,991	108,851
Selling expenses		(75,719)	(63,738)
General and administrative expenses		(32,997)	(31,473)
Other income (expenses), net		1	(154)
Operating profit		23,276	13,486
Finance costs, net	23	(472)	(542)
Share of results of an associate	5	3	—
Profit before taxation	24	22,807	12,944
Taxation	25	(794)	(908)
Profit after taxation		22,013	12,036
Minority interests		351	109
Profit attributable to shareholders		22,364	12,145
Dividends	26	—	(6,000)
Earnings per share — basic	27	RMB0.064	RMB0.035
— diluted	27	N/A	N/A

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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FOR THE YEAR ENDED 31ST DECEMBER, 2000

(Expressed in thousands of Renminbi)

	<i>Notes</i>	Share Capital	Merger reserve	Capital reserve	Reserve fund	Retained earnings	Total
Balances as of							
1st January, 1999		6,666	—	9,306	1,953	4,346	22,271
Issue of shares for cash	20	11	—	—	—	—	11
Capital contributed by							
shareholders to a subsidiary		—	—	9,949	—	—	9,949
Profit attributable to shareholders		—	—	—	—	12,145	12,145
Appropriation to reserve fund		—	—	—	1,030	(1,030)	—
Dividends declared		—	—	—	—	(6,000)	(6,000)
Balances as of							
1st January, 2000		6,677	—	19,255	2,983	9,461	38,376
Issue of shares for							
the Reorganisation	20	96	—	—	—	—	96
Reserves arising on the							
Reorganisation		(6,666)	6,570	—	—	—	(96)
Profit attributable to shareholders		—	—	—	—	22,364	22,364
Appropriation to reserve fund		—	—	—	351	(351)	—
Balances as of							
31st December, 2000		<u>107</u>	<u>6,570</u>	<u>19,255</u>	<u>3,334</u>	<u>31,474</u>	<u>60,740</u>

The accompanying notes are an integral part of these financial statements.

FOR THE YEAR ENDED 31ST DECEMBER, 2000

(Expressed in thousands of Renminbi)

	Notes	2000	1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from operations	31 (a)	14,400	12,500
Interest paid		(1,112)	(579)
Net cash from operating activities		12,613	10,521
TAXATION:			
PRC income tax paid		(675)	(1,400)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of fixed assets		(5,920)	(9,181)
Investment in an associate		(700)	—
Investment in pledged bank deposit		—	(9,960)
Investment in deferred development costs		—	(1,998)
Acquisition of subsidiaries	31 (b)	—	(22)
Proceeds from disposal of fixed assets		207	554
Interest received		645	160
Net cash used in investing activities		(5,768)	(20,447)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from new bank loans	31 (c)	2,500	12,080
Proceeds from other short-term loans		4,000	—
Capital contributed by the then shareholders to a subsidiary		—	10,902
Capital contributed by minority shareholders of subsidiaries		105	440
Proceeds from issue of shares		—	11
Repayments of bank loans		(1,653)	(1,511)
Dividends paid		(1,210)	(2,000)
Net cash from financing activities		3,742	19,922
Net increase in cash and cash equivalents		10,587	9,996
Cash and cash equivalents at beginning of year		23,351	13,355
Cash and cash equivalents at end of year	13	33,938	23,351

The accompanying notes are an integral part of this financial statement.

31ST DECEMBER, 2000

(Amounts expressed in Renminbi unless otherwise stated)

1. OPERATIONS, GROUP REORGANISATION AND BASIS OF ACCOUNTING FOR BUSINESS COMBINATION

The Company was incorporated in the Cayman Islands on 22nd September, 1999 as an exempted company with limited liability under the Companies Law (1998 revision) of the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 15th February, 2001.

Pursuant to a group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Company became the holding company of the Group on 15th June, 2000. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation were regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the financial statements have been prepared as if the Group had been in existence since the beginning of the years ended 31st December, 1999 and 31st December, 2000.

The Company is an investment holding company. The principal activities of its subsidiaries are developing, manufacturing and selling of software products and provision of software-related technical services.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial statements of the Company and the Group are as follows:

(a) Basis of presentation

The accompanying consolidation financial statements are prepared in accordance with International Accounting Standards ("IAS") issued by the International Accounting Standards Committee, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM.

Owing to the fact that the Group principally operates in the Mainland China and its business activities are principally transacted in Renminbi ("RMB"), the financial statements are prepared in RMB.

The measurement basis used in the preparation of the financial statements is historical cost.

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(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(b) Basis of consolidation

The financial statements include those of the Company and its subsidiaries and also incorporate the Group's interest in an associate on the basis as set out in Note 2(d) below.

Except for the Reorganisation, the acquisition method of accounting is used for acquired businesses. The results of subsidiaries and the associate acquired or disposed of during the year are included in the financial statements from the date of acquisition or to the date of disposal. The equity and profit after taxation attributable to minority shareholders are shown separately in the consolidated balance sheet and consolidated income statement, respectively.

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

(c) Subsidiaries

A subsidiary is a company in which the Company has control. Control exists when the Company has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

(d) Associates

An associate is a company, not being a subsidiary, in which the Group has significant influence. Significant influence exists when the Group has the power to participate in, but not control, the financial and operating decisions of the associate.

Investment in an associate is accounted for using equity method. An assessment of investments in an associate is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

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(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(e) Turnover and revenue recognition

Turnover represents revenue from sale of computer software and hardware, and technical support services income, after deducting the applicable business tax and value added tax ("VAT").

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, sales of software, sale of hardware and technical support service income are recognised on the following bases:

- (i) Persuasive evidence that an arrangement exists;
- (ii) Delivery has occurred or service has been performed;
- (iii) The vendor's fee is fixed or determinable; and
- (iv) Collectibility is probable.

Revenue from sale of hardware is recognised upon delivery of goods and when the title is passed to the customers.

Technical support service income includes maintenance revenue and training income. Maintenance revenue is recognised or deferred on a time proportion basis over the period of the contract, and training income is recognised as services are performed.

Interest income is recognised on a time proportion basis that takes into account the effective yield on assets.

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(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Development costs

Expenditures for development are charged against income in the period incurred except for project development costs which comply strictly with the following criteria:

- (i) the product or process is clearly defined and costs are separately identified and measured reliably;
- (ii) the technical feasibility of the product is demonstrated;
- (iii) the product or process will be sold or used in-house;
- (iv) a potential market exists for the product or its usefulness in case of internal use is demonstrated; and
- (v) adequate technical, financial and other resources required for completion of the project are available.

Capitalised development costs are amortised on a straight-line basis over their expected useful lives. The period of amortisation does not normally exceed five years.

The recoverable amount of development costs is estimated whenever there is an indication that the asset has been impaired or that the impairment losses recognised in previous years no longer exist.

(g) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition or construction of assets that necessarily takes a substantial period of time to get ready for its intended use in which case they are capitalised as part of the cost of that asset. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised at the weighted average cost of the related borrowings until the asset is ready for its intended use.

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(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment loss. The initial cost of an asset comprises its purchase price and any direct attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are recognised as expense in the period in which they are incurred. In situations where it is probable that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of the asset.

Depreciation is calculated using the straight-line method to write off the cost, after taking into account the estimated residual value which is 10% of cost, of each asset over its expected useful life. The expected useful lives are as follows:

Buildings	30 years
Leasehold improvements	5 years
Computer and related equipment	5 years
Other office equipment	5 years
Motor vehicles	5 years

The useful lives of assets and depreciation method are reviewed periodically.

When assets are sold or retired, their costs and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated income statement.

(i) Impairment of assets

Fixed assets, long-term investments and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised as an expense for items of fixed assets, long term investments and intangible assets carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

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(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Impairment of assets (Cont'd)

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or has decreased. Such reversal of impairment loss is recognised as income. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

(j) Long-term investments

Investments held for the long term are stated at cost less any impairment in value and are included in long-term investments. An assessment of long-term investments is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

Upon disposal of a long-term investment, the difference between net disposal proceeds and the carrying amount is charged or credited to the income statement.

(k) Goodwill

The excess of the cost of an acquisition over the Company's interest in the fair value of the net identifiable assets acquired as at the date of the exchange transaction is recorded as goodwill and recognised as an asset in the balance sheet. Goodwill is carried at cost less accumulated amortization and accumulated impairment losses. Goodwill is amortised on a straight line basis over its useful life of 5 years. The amortisation period and the amortization method are reviewed annually at each financial year-end.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(m) Receivables

Receivables are stated at face value, after provision for doubtful debts.

(n) Cash and cash equivalents

Cash and cash equivalents represent cash in hand and demand deposits which are short-term, highly liquid investments that are readily convertible to known amounts of cash subject to an insignificant risk of changes in value. Cash equivalents consist of time deposits with original maturity of three months or less and that are subject to an insignificant risk of change in value.

(o) Foreign currency transactions

The Group maintains its books and records in RMB. Transactions in other currencies are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC Rates") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are translated into RMB at the applicable PBOC Rates prevailing at the balance sheet dates. Non-monetary assets and liabilities in other currencies are translated at historical PBOC Rates.

Exchange differences arising on the settlement of monetary items at rates different from those at which they were initially recorded during the periods, other than those capitalised as a component of borrowing costs and those arising from changes in exchange rates before the commencement of business operations, are recognised in the consolidated income statement in the period in which they arise.

(p) Taxation

The Group provides for taxation on the basis of its income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred taxation is provided under the balance sheet liability method in respect of significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deferred tax assets can be utilised.

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(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) Operating leases

Leases are classified as operating leases whenever substantially all the risks and rewards incidental to ownership of the leased assets remain with the lessor.

Lease payments under operating leases are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term. Aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(r) Retirement scheme

The Group provides defined contribution plans based on local laws and regulations. The plans cover full-time employees and provide for contributions ranging from 11% to 19% of salary. The Group's contributions to defined contribution plans are charged to income in the year to which they relate.

(s) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, accounts receivable, amounts due from related parties long-term investments and payable, loans, and borrowings. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this section.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

(t) Contingencies

Contingent liabilities are not recognised in the accompanying financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

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(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(u) Provision

A provision is recognised when, and only when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount for the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. When the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(v) Subsequent events

Post-year-end events that provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, (adjusting events), are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

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(Amounts expressed in Renminbi unless otherwise stated)

3. FIXED ASSETS, NET

Movements of fixed assets of the Group were as follows:

	2000					1999	
	Buildings	Leasehold improvements	Computer and related equipment	Other office equipment	Motor vehicles	Total	Total
	'000	'000	'000	'000	'000	'000	'000
Cost							
Beginning of the year	11,257	6,249	11,616	1,381	3,043	33,546	24,495
Additions	—	905	4,615	195	205	5,920	9,181
Acquisition of subsidiaries	—	—	—	—	—	—	633
Disposals	—	—	(669)	(34)	—	(703)	(763)
End of the year	11,257	7,154	15,562	1,542	3,248	38,763	33,546
Accumulated depreciation							
Beginning of the year	(526)	(1,608)	(2,822)	(399)	(1,059)	(6,414)	(2,094)
Charge for the year	(574)	(2,439)	(2,605)	(149)	(425)	(6,192)	(4,462)
Disposals	—	—	93	9	—	102	142
End of the year	(1,100)	(4,047)	(5,334)	(539)	(1,484)	(12,504)	(6,414)
Net book value							
End of the year	10,157	3,107	10,228	1,003	1,764	26,259	27,132
Beginning of the year	10,731	4,641	8,794	982	1,984	27,132	22,401

As of 31st December, 2000, the Group had two buildings with aggregate net book values of approximately RMB10,157,000 (1999: RMB10,731,000) both located in Mainland China with land use rights with remaining terms of approximately 25 years. The Group is in the process of applying to the relevant authorities to complete the transfer procedures of the realty title certificate of one of the building with net book value of RMB6,163,000. Except for Project China Limited, the shareholders of the Company as of the date of the Reorganisation have undertaken to indemnify the Group against any financial losses resulting from the failure to complete the transfer procedures of the realty title certificate.

The buildings are pledged as collateral to support the Group's long-term bank loans of approximately RMB3,597,000 (1999: RMB5,250,000)(See note 32).

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(Amounts expressed in Renminbi unless otherwise stated)

4. INVESTMENT IN SUBSIDIARIES

	Company	
	2000	1999
	'000	'000
Investment in unlisted shares, at cost	42,135	—

As of the date of this report, the Company had direct or indirect interests in the following principal subsidiaries. All of these entities are limited companies set up and operating in Mainland China.

The Company's directors are of the opinion that the underlying value of the subsidiaries was not less than the Company's carrying value of the subsidiaries as of 31st December, 2000.

Name	Registered and fully paid-up capital	Percentage of equity interests attributable to the Group	Principal activities
Kingdee Software Technology (Shenzhen) Co., Ltd. ("Shenzhen Kingdee")	RMB6,666,700	100%	Investment holding, developing, manufacturing and selling of software products and providing software-related technical services
Shenyang Kingdee Accounting Software Co., Ltd. ("Shenyang Kingdee") (i)	RMB714,000	51%	Selling of software products and providing software-related technical services
Hangzhou Kingdee Computer Software Co., Ltd. ("Hangzhou Kingdee") (i)	RMB500,000	51%	Selling of software products and providing software-related technical services
Chongqing Kingdee Accounting Software Co., Ltd. ("Chongqing Kingdee") (i)	RMB300,000	60%	Selling of software products and providing software-related technical services
Chengdu Kingdee Software Technology Co., Ltd. ("Chengdu Kingdee") (i)	RMB800,000	55%	Selling of software products and providing software-related technical services

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(Amounts expressed in Renminbi unless otherwise stated)

4. INVESTMENT IN SUBSIDIARIES (Cont'd)

Name	Registered and fully paid-up capital	Percentage of equity interests attributable to the Group	Principal activities
Zhuhai Kingdee Accounting Software Co., Ltd. ("Zhuhai Kingdee") (i)	RMB500,000	51%	Selling of software products and providing software-related technical services
Zhengzhou Kingdee Accounting Software Co., Ltd. (i)	RMB300,000	60%	Selling of software products and providing software-related technical services
Guangdong Kingdee Software Technology Co., Ltd. ("Guangdong Kingdee") (i) and (ii)	RMB500,000	50%	Selling of software products and providing software-related technical services
Changchun Kingdee Accounting Software Co., Ltd. (i)	RMB300,000	95%	Selling of software products and providing software-related technical services
Jinan Kingdee Software Technology Co., Ltd. ("Jinan Kingdee") (i)	RMB500,000	73%	Selling of software products and providing software-related technical services
Shanghai Kingdee Software Technology Co., Ltd. ("Shanghai Kingdee") (i)	RMB500,000	70%	Selling of software products and providing software-related technical services
Qingdao Kingdee Software Technology Co., Ltd. (i)	RMB500,000	60%	Selling of software products and providing software-related technical services
Nanning Kingdee Software Technology Co., Ltd. (i)	RMB500,000	52%	Selling of software products and providing software-related technical services
Shenzhen Apusic Software Co., Ltd. (i)	RMB300,000	65%	Developing, manufacturing and selling middleware

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(Amounts expressed in Renminbi unless otherwise stated)

4. INVESTMENT IN SUBSIDIARIES (Cont'd)

Notes:

- (i) These subsidiaries were all indirectly held by the Company through Shenzhen Kingdee. They were limited liability companies incorporated in Mainland China and owned by Shenzhen Kingdee and other Mainland China companies or individuals.
- (ii) Guangdong Kingdee is a subsidiary as the Company has control over the board of directors of Guangdong Kingdee. The remaining 50% equity interest in Guangdong Kingdee not attributable to the Group is held by a company in which Mr. Xu Shao Chun, a director of the Company has equity interests of 90% in that company.

5. INVESTMENT IN AN ASSOCIATE

	Group	
	2000	1999
	'000	'000
Consolidated balance sheet:		
The Company's share of net identifiable assets of an associate	203	—
Goodwill on acquisition, net	483	—
	686	—
Consolidated income statement:		
The Company's share of results of an associate	3	—

The investment in an associate represents 25% of indirect equity interest in Beijing Ecom Management Technology Consulting Co., Ltd. ("Beijing Ecom") which was incorporated on 13th February, 2000 in Mainland China and engaged in the provision of management and consultancy services. The Company's directors are of the opinion that the underlying value of the associate was not less than the Company's carrying value of the associate as of 31st December, 2000.

Goodwill on acquisition of an associate is amortised on a straight line basis over its estimated useful life of 5 years. During the year ended 31st December, 2000, amortisation of approximately RMB17,000 was charged to the consolidated income statement.

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(Amounts expressed in Renminbi unless otherwise stated)

6. LONG-TERM INVESTMENTS

Details of long-term investments were as follows:

	Indirect equity interest held by the Group	Group	
		2000	1999
		'000	'000
Unlisted investments, at cost:			
- Tianjin Jinshen Kingdee Software Technology Co., Ltd. ("Tianjin Kingdee")	10%	50	50
- Xiamen Kingdee Accounting Software Development Co., Ltd. ("Xiamen Kingdee")	10%	30	30
		80	80

Tianjin Kingdee and Xiamen Kingdee are principally engaged in selling of software products and provision of software related technical services. The directors of the Company are of the opinion that the underlying value of the long-term investments was not less than carrying value of the long-term investments as of the year ended 31st December, 2000.

7. DEFERRED TAX ASSETS, NET

Components of deferred tax assets (liabilities) are as follows:

	Group	
	2000	1999
	'000	'000
Deferred tax assets:		
- Provision for doubtful debts	879	390
- Deferred income	903	707
- Cut-off difference of expenses	313	866
	2,095	1,963
Deferred tax liabilities:		
- Advances from customers	—	(220)
- Deferred development costs	(75)	(149)
	(75)	(369)
Deferred tax assets, net	2,020	1,594

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(Amounts expressed in Renminbi unless otherwise stated)

7. DEFERRED TAX ASSETS, NET (Cont'd)

Movements in temporary differences between calculations of certain items for accounting and for taxation purposes can be specified as follows:

	Balance as of 1st January, 1999		Balance as of 1st January, 2000		Balance as of 31st December, 2000
	'000	Movement '000	'000	Movement '000	'000
Provision for doubtful debts	2,010	3,190	5,200	6,524	11,724
Deferred income	5,884	3,539	9,423	2,616	12,039
Cut-off differences on expenses	12,065	(518)	11,547	(7,378)	4,169
Advances from customers	(514)	(2,419)	(2,933)	2,933	—
Deferred development costs	—	(1,983)	(1,983)	984	(999)
Total temporary differences	19,445	1,809	21,254	5,679	26,933
Deferred tax assets, net	1,729	135	1,597	426	2,020

There is no material unprovided deferred tax assets and liabilities of the Company and the Group to be recognised for the year ended 31st December, 2000.

8. DEFERRED DEVELOPMENT COSTS

	Group	
	2000	1999
	'000	'000
At cost:		
Beginning of year	1,998	—
Additions during the year	—	1,998
End of year	1,998	1,998
Less: Accumulated amortisation:		
Beginning of year	(333)	—
Amortisation for the year	(666)	(333)
End of year	(999)	(333)
Net book value:		
End of year	999	1,665
Beginning of year	1,665	—

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(Amounts expressed in Renminbi unless otherwise stated)

9. PREPAYMENTS AND OTHER CURRENT ASSETS

	Group		Company	
	2000	1999	2000	1999
	'000	'000	'000	'000
Prepayments	6,535	4,699	5,606	—
Advances to employees	1,608	529	—	—
Deposits	1,948	878	—	—
VAT recoverable (Note 17)	4,634	—	—	—
Others	1,871	2,763	—	—
	16,596	8,869	5,606	—

The amounts advanced to employees are interest free, unsecured and repayable within twelve months.

10. AMOUNTS DUE FROM RELATED PARTIES

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

The amounts due from related parties are unsecured, non-interest bearing and repayable on demand and the amounts represent outstanding trading balances in relation to sales of software. The amounts due from related parties were as follows:

	Group	
	2000	1999
	'000	'000
Amount due from Tianjin Kingdee	98	554
Amount due from Xiamen Kingdee	749	838
	847	1,392

Amounts due from Tianjin Kingdee and Xiamen Kingdee represent outstanding trading balances in relation to sales of software and the balances were settled subsequent to 31st December, 2000.

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(Amounts expressed in Renminbi unless otherwise stated)

11. INVENTORIES

	Group	
	2000	1999
	'000	'000
At cost:		
Raw materials	635	1,015
Finished goods	1,094	321
	1,729	1,336

12. ACCOUNTS RECEIVABLE, NET

	Group	
	2000	1999
	'000	'000
Accounts receivable	37,792	22,217
Less: provision for doubtful debts	(11,786)	(5,259)
	26,006	16,958

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2000	1999	2000	1999
	'000	'000	'000	'000
Cash and cash equivalents denominated in RMB	33,325	23,249	—	—
Cash and cash equivalents denominated in other currencies	613	102	11	11
	33,938	23,351	11	11

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(Amounts expressed in Renminbi unless otherwise stated)

14. LONG-TERM BANK LOANS

	Group	
	2000	1999
	'000	'000
Long-term bank loans repayable:		
Within one year	1,498	1,614
Later than one year and not later than two years	256	864
Later than two year and not later than five years	867	1,739
Later than five years	976	1,033
	3,597	5,250
Less: portion due within one year included under current liabilities	(1,498)	(1,614)
Repayable after one year	2,099	3,636

The long-term bank loans are secured by the buildings held by the Group (See notes 3 and 32) and are repayable by monthly installments with maturity in November 2008.

15. OTHER SHORT-TERM LOANS

	Group	
	2000	1999
	'000	'000
Loan from Shenzhen Finance Bureau	2,000	—
Loan from an independent third party	2,000	—
	4,000	—

Pursuant to Shen Ke [2000] No.58 issued by Shenzhen Science Technology Bureau on 25th August, 2000, as a support to the development of high-technology companies in Shenzhen, the Group received an unsecured and interest free loan on 1st November, 2000 amounting to RMB2,000,000 from Shenzhen Finance Bureau with a maturity of twelve months.

The Group received an unsecured and interest free loan on 5th December, 2000 amounting to RMB2,000,000 from an independent third party with a maturity of twelve months.

16. DEFERRED INCOME

The amount represents revenues on technical support services income which were not yet recognised by the Group as the services period covering beyond the financial year-end.

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(Amounts expressed in Renminbi unless otherwise stated)

17.TAXES PAYABLE

	Group	
	2000	1999
	'000	'000
EIT payable	553	813
VAT payable	4,122	3,897
Business tax payable	321	239
	4,996	4,949

According to tax regulations in Mainland China, developing and distributing computer software activities are subject to VAT with applicable tax rate of 17%. However, any actual tax paid in excess of 6% of revenue will be refunded immediately according to Cai Shui Zi [1999] No. 273 issued by State Tax Bureau. Pursuant to Cai Shui [2000] No.25 issued by the State Tax Bureau on 22nd June, 2000, for the period from 24th June, 2000 to 31st December, 2010, software enterprises are entitled to a preferential taxation treatment and any actual VAT paid exceeding 3% of revenue will be refunded. Hence, the effective VAT tax rate payable by the Company is 3% of revenue effective from 24th June, 2000 and was 6% of revenue before that day. As the subsidiaries of the Group were mainly engaged in distribution of software, the applicable VAT rate is 4% according to tax regulations in Mainland China. The effective business tax rate of the Group is 5% and business tax charge is deducted against the revenue from which it has been derived.

As of 31 December, 2000, the Group recognised VAT recoverable amounting to approximately RMB4,634,000 (1999: Nil)with the approval documents from local tax bureau (Note 9).

18.CUSTOMERS' DEPOSITS

Customers' deposits were cash received by the Group before the software packages were delivered to customers.

19.ACCRUALS AND OTHER PAYABLES

	Group	
	2000	1999
	'000	'000
Accrued advertising expenses	3,339	2,578
Accrued employees' bonus	1,906	4,414
Others	4,739	4,541
	9,984	11,533

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(Amounts expressed in Renminbi unless otherwise stated)

20.SHARE CAPITAL AND SHARE OPTIONS
(i) Share Capital

		Number of shares	Nominal value	Nominal value
			HK\$	RMB
Authorized share capital (HK\$0.10 each):				
Upon incorporation				
on 22nd September, 1999	(a)	500,000	50,000	53,500
Subsequent increase				
on 15th June, 2000	(c)	500,000	50,000	53,500
		<u>1,000,000</u>	<u>100,000</u>	<u>107,000</u>
Issued and fully paid (HK\$0.10 each):				
Issue of shares upon incorporation				
on 22nd September, 1999	(a)	24,375	2,438	2,609
Issue of shares for cash				
on 8th October, 1999	(b)	75,625	7,562	8,091
Issue of shares for the Reorganisation				
on 15th June, 2000	(c)	900,000	90,000	96,300
		<u>1,000,000</u>	<u>100,000</u>	<u>107,000</u>

(a) At the date of incorporation of the Company, the authorised share capital was HK\$50,000 divided into 500,000 shares of HK\$0.10 each. On 22nd September, 1999, one share each was issued and allotted to two promoters as subscribers to the memorandum of association of the Company who then transferred such shares to one of the then owners prior to the Reorganisation on 8th October, 1999. On the same date, a further 24,373 shares were issued and allotted in cash at par to this owner prior to the Reorganisation.

(b) On 8th October, 1999, 75,625 shares were issued for cash at par to the then owners prior to the Reorganisation.

(c) On 15th June, 2000, the authorised share capital of the Company was increased to HK\$100,000 by the creation of 500,000 shares. As part of the Reorganisation, the Company issued and allotted 900,000 shares of HK\$0.10 each at par to the then owners prior to the Reorganisation.

(d) All shares issued during the year ended 31st December, 2000 are ranked pari passu to the existing shares in issue.

31ST DECEMBER, 2000

(Amounts expressed in Renminbi unless otherwise stated)

20. SHARE CAPITAL AND SHARE OPTIONS (Cont'd)

(ii) Share Option Scheme and Pre-IPO Share Option Scheme

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

Any option granted under the Share Option Scheme may be exercised at any time during a period which shall not be less than the three years or more than ten years after the date on which the option is accepted.

As at the date of this financial statements, no options have been granted or agreed to be granted under the Share Option Scheme.

Pursuant to the terms of the pre-IPO share option scheme adopted on 30th January, 2001 ("Pre-IPO Share Option Scheme"), certain employees of the Group may be granted options to subscribe for the Shares.

The total number of Shares subject to the Pre-IPO Share Option Scheme is 1,300,000. At a meeting of the board of directors of the Company held on 30th January, 2001, options to subscribe for 1,000,000 Shares and 300,000 Shares respectively were granted to Huang Xiao Jian, vice president of Kingdee Software Technology (Shenzhen) Co., Ltd, and Liu Fan, general manager of Kingdee Software Technology (Shenzhen) Co., Ltd's Beijing branch office, both being full-time employees of the Group, at a subscription price equal to HK\$1.03. i.e. the Offer Price.

On 1st February, 2001, the Company received acceptances of the offers for grant of share options to subscribe for and aggregate of 1,300,000 Shares from Huang Xiao Jian and Liu Fan.

All of these options have a duration of 10 years from the date on which dealings in the Shares commence on GEM ("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 (i.e. 15th February, 2001).

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(Amounts expressed in Renminbi unless otherwise stated)

21. RESERVES

In the accompanying consolidated statement of changes in equity of the Group, merger reserve represents the difference between the amount of the capital of the subsidiaries at the date on which they were acquired by the Company and the nominal amount of the Company's share issued as consideration for the acquisition.

The Company's Mainland China subsidiaries need to follow the laws and regulations of Mainland China and their articles of association. These subsidiaries are required to provide for certain statutory funds, namely, reserve fund, staff and workers' bonus and welfare fund which are appropriated from net profit after taxation but before dividend distribution. These Mainland China subsidiaries are required to allocate at least 10% of its net profit to the reserve fund until the balance of such fund has reached 50% of its registered capital. Appropriation to staff and workers' bonus and welfare fund is charged to expenses as incurred under IAS. Such appropriations are determined at the discretion of their directors. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. The staff and workers' bonus and welfare fund can only be used for special bonus or collective welfare of its employees, and assets acquired through this fund shall not be treated as assets. For the year ended 31st December, 2000, the directors resolved to appropriate RMB351,000 and Nil (1999: RMB1,030,000 and Nil) to the reserve fund and staff and workers' bonus and welfare fund respectively.

When the reserve fund is not sufficient to compensate for previous years' losses of the Company's Mainland China subsidiaries, current year net profit shall be used to make good for the losses before allocations are set aside for the reserve fund or the staff and worker's bonus and welfare fund.

The movements of reserves of the Company during the year ended 31st December, 2000 were as follows:

	Contributed surplus	Retained earnings	Total
	'000	'000	'000
Balances as of 1st January, 1999 and 1st January, 2000	—	—	—
Reserves arising upon the Reorganisation	42,039	—	42,039
Balances as of 31st December, 2000	<u>42,039</u>	<u>—</u>	<u>42,039</u>

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(Amounts expressed in Renminbi unless otherwise stated)

21. RESERVES *(Cont'd)*

The contributed surplus represents the difference between the net assets of the subsidiaries acquired by the Company and the nominal value of the Company's shares issued for the acquisition.

The Company has distributable reserves amounting to approximately RMB42,039,000 (1999: Nil), which represented the contributed surplus account of the Company.

22. TURNOVER

Turnover comprises the following:

	<u>2000</u>	<u>1999</u>
	'000	'000
Sales of software	134,883	114,466
Sales of hardware	5,167	868
Technical support service income	24,777	7,977
	<u>164,827</u>	<u>123,311</u>

Turnover as disclosed above is net of applicable business tax and VAT in Mainland China.

23. FINANCE COSTS, NET

	<u>2000</u>	<u>1999</u>
	'000	'000
Interest expenses on bank loans	1,112	579
Other	5	123
Less : Interest income	<u>(645)</u>	<u>(160)</u>
	<u>472</u>	<u>542</u>

31ST DECEMBER, 2000

(Amounts expressed in Renminbi unless otherwise stated)

24.PROFIT BEFORE TAXATION

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

	2000	1999
	'000	'000
Crediting:		
Net exchange gain	(13)	—
Interest income on bank deposits	(645)	(160)
	<hr/> <hr/>	<hr/> <hr/>
Charging:		
Development costs	12,913	12,707
Less: amount capitalised	—	(1,998)
Add: amortisation of capitalised costs	666	333
	<hr/> <hr/>	<hr/> <hr/>
	13,579	11,042
Interest expenses on bank loans repayable:		
- within five years	963	390
- over five years	149	189
	<hr/> <hr/>	<hr/> <hr/>
	1,112	579
Auditors' remuneration	580	139
Net exchange loss	—	60
Cost of raw materials consumed	4,700	2,019
Staff costs:		
- salaries, wages and other benefits	44,623	31,996
- contribution to retirement scheme (Note 29)	1,860	630
	<hr/> <hr/>	<hr/> <hr/>
	46,483	32,626
Depreciation of fixed assets	6,192	4,462
Amortisation of goodwill on acquisition of an associate	17	—
Provision for doubtful debts	6,527	3,200
Operating lease rentals on premises	8,307	7,061
Loss on disposal of fixed assets	394	67
	<hr/> <hr/>	<hr/> <hr/>

31ST DECEMBER, 2000

(Amounts expressed in Renminbi unless otherwise stated)

25. TAXATION

Taxation represents:

	<u>2000</u>	<u>1999</u>
	'000	'000
Mainland China income tax		
- Current income tax	1,220	1,043
- Deferred income tax relating to the origination and reversal of temporary differences	<u>(426)</u>	<u>(135)</u>
	<u><u>794</u></u>	<u><u>908</u></u>

No provision for profits tax in the Cayman Islands or Hong Kong has been made as the Group has no income assessable for profits tax for the year ended 31st December, 2000 in those jurisdictions.

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

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(Amounts expressed in Renminbi unless otherwise stated)

25. TAXATION (Cont'd)

The following tax rates are applicable to the other principal subsidiaries and an associate of the Group for the year ended 31st December, 2000:

	<u>2000</u>	<u>1999</u>
Principal subsidiaries:		
Guangdong Kingdee (i)	33%	33%
Chongqing Kingdee (ii)	33%	33%
Shanghai Kingdee (iii)	—	—
Hangzhou Kingdee (iv)	33%	33%
Zhuhai Kingdee (v)	15%	15%
Other subsidiaries	33%	33%
<i>An associate:</i>		
Beijing Ecom	33%	—

(i) Guangdong Kingdee was exempt from EIT for the period from its establishment to April 1999. The tax rate is 33% effective from 1st May, 1999.

(ii) Chongqing Kingdee is subject to 33% income tax rate since 1st January, 1999.

(iii) Shanghai Kingdee is exempt from EIT for three years ending 31st August, 2001, and is subjected to 50% reduction from 33% to 16.5% for another three years ending 31st August, 2004.

(iv) Hangzhou Kingdee is subject to 33% income tax rate since 1st January, 1999.

(v) Zhuhai Kingdee operated in Zhuhai - a Special Economic Zone of Mainland China which has a 15% effective tax rate.

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(Amounts expressed in Renminbi unless otherwise stated)

25. TAXATION (Cont'd)

The reconciliation of the effective tax rates to the statutory tax rates is as follows:

	2000		1999	
	'000	%	'000	%
Accounting profit before taxation and share of results of an associate	22,807	100%	12,944	100%
Tax at the statutory tax rate (15%)	3,421	15.0%	1,942	15.0%
- Tax benefit arising from high-technology enterprise tax exemption	(1,711)	(7.5%)	(971)	(7.5%)
- Deferred income tax relating to the origination and reversal of temporary differences	(426)	(1.9%)	(135)	(1.0%)
- Tax effect of (income) expenses that are not (assessable) deductible in determining taxable profit	(490)	(2.1%)	72	0.5%
Taxation per account	794	3.5%	908	7.0%

Since the companies now comprising the Group, except for Shenzhen Kingdee, had no material amount of taxable profit during the year ended 31st December, 2000, so the applicable tax rate for the Group is 15%, which is the applicable tax rate for Shenzhen Kingdee.

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(Amounts expressed in Renminbi unless otherwise stated)

26. DIVIDENDS

The Company has not declared nor paid dividends since the date of its incorporation. The dividends declared or paid by the Company's subsidiaries to their then owners during each of the year ended 31st December, 2000 were as follows:

	<u>2000</u>	<u>1999</u>
	'000	'000
Dividends declared to the joint venture partners of Shenzhen Kingdee	—	6,000
	<u> </u>	<u> </u>

The Company's Mainland China subsidiaries declare dividends based on net profit as reported in their statutory accounts. As the statutory accounts have been prepared on an accounting basis other than IAS, the net profit as reported in the statutory accounts differs from the amount reported under IAS.

Dividend per share is not shown as such information is not relevant for the purpose of this report.

27. EARNINGS PER SHARE

Earnings per share had been prepared on the assumption that the 100,000 shares (before taking into consideration of the capitalisation issue as described in Note 39(d) (the "Capitalisation Issue")) issued at par and fully paid in cash in 1999 by the then owners prior to the Reorganisation had taken place at the beginning of the period presented.

Earnings per share have been computed by dividing profit attributable to shareholders of approximately RMB22,364,000 (1999: RMB12,145,000), by 350,000,000 shares (1999: 350,000,000 shares) adjusted for the effect of the assumption as stated in the preceding paragraph and after taking into consideration the Capitalisation Issue.

No diluted earnings per share were presented as there were no dilutive potential ordinary shares for year ended 31st December, 1999 and 31st December, 2000.

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(Amounts expressed in Renminbi unless otherwise stated)

28. DIRECTORS AND SENIOR EXECUTIVES' REMUNERATION

(i) Details of the remuneration paid to the directors were as follows:

	<u>2000</u>	<u>1999</u>
	'000	'000
Fees	24	—
Salaries, allowances and benefits in kind	502	456
Bonus	459	632
Retirement benefits	6	7
Others	78	78
	<u>1,069</u>	<u>1,173</u>

Analysis of emoluments of the directors by number of individuals and emolument range were as follows:

	<u>2000</u>	<u>1999</u>
	Number	Number
Nil - RMB1,000,000	<u>7</u>	<u>5</u>

Save as disclosed herein, no remuneration has been paid or is payable in respect of the year ended 31 December by the Company or its subsidiaries to the directors of the Company.

No directors waived any emolument during the year ended 31st December, 2000.

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(Amounts expressed in Renminbi unless otherwise stated)

28. DIRECTORS AND SENIOR EXECUTIVES' REMUNERATION (Cont'd)

(ii) The emoluments of the five highest paid individuals whose emoluments were the highest in the Group (including directors and employees) were as follows:

	<u>2000</u>	<u>1999</u>
	'000	'000
Directors	1,045	1,173
Employees	809	547
	<u>1,854</u>	<u>1,720</u>
	<u>2000</u>	<u>1999</u>
	Number	Number
Number of directors	2	3
Number of employees	3	2
	<u>5</u>	<u>5</u>

Details of the emoluments of the five highest paid individuals (including directors and employees) as mentioned in (ii) above were as follows:

	<u>2000</u>	<u>1999</u>
	'000	'000
Fees	—	—
Salaries, allowances and benefits in kind	1,305	650
Bonus	459	955
Retirement benefits	12	10
Others	78	105
	<u>1,854</u>	<u>1,720</u>

The emoluments of the five highest paid individuals were within the following bands:

	<u>2000</u>	<u>1999</u>
	Number	Number
Nil - RMB1,000,000	<u>5</u>	<u>5</u>

During the year ended 31st December, 2000, the Group has not paid any amount to the five highest paid individuals (including directors and employees) nor any other directors as an inducement to join or upon joining the Group or as compensation for loss of office.

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(Amounts expressed in Renminbi unless otherwise stated)

29. RETIREMENT SCHEME

All the Group's subsidiaries participate in the defined contribution retirement schemes organised by the relevant local government authorities in Mainland China. Each employee covered by these schemes is entitled, after retirement from the Group, to a pension equal to the basic salary of the employees as at their retirement dates. The local government authorities are responsible for the pension liabilities to these retired employees. Forfeited contributions made by the Group's subsidiaries on behalf of employees who leave the scheme prior to full vesting of the contributions may not be used by the employer to reduce the existing level of contributions. The Group is required to make monthly contributions to the retirement scheme at rates ranging from 11% to 19% based on the eligible employees' basic salaries.

The details of the pension contributions made by the Group, which have been dealt with in the consolidated income statement of the Group for the year ended 31st December, 2000, are as follows:

	<u>2000</u>	<u>1999</u>
	'000	'000
Contributions to retirement scheme (Note 24)	<u>1,860</u>	<u>630</u>

As of 31 December, 2000, the Group has no outstanding obligations of the retirement scheme (1999: Nil).

30. RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions carried out in the ordinary course of business between the Group and its related companies during the year ended 31st December, 2000:

	<u>2000</u>	<u>1999</u>
	'000	'000
Continuing transactions:		
Sales of software products		
- Tianjin Kingdee (10% owned by the Group)	849	1,329
- Xiamen Kingdee (10% owned by the Group)	946	1,507
	<u>1,795</u>	<u>2,836</u>

The directors of the Company are of the opinion that the above transactions with related parties were conducted under normal commercial terms in the usual course of business. In general the price of such sales was determined on a cost plus basis. The directors have confirmed that all these transactions will continue in the future.

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(Amounts expressed in Renminbi unless otherwise stated)

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

a. Reconciliation from profit before tax to cash generated from operations:

	2000	1999
	'000	'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before tax	22,807	12,944
Adjustments for:		
Provision for doubtful debts	6,527	3,200
Depreciation of fixed assets	6,192	4,462
Loss on disposal of fixed assets	394	67
Interest income on bank deposits	(645)	(160)
Interest expense on bank loans	1,112	579
Share of results of an associate	(3)	—
Amortisation of goodwill on acquisition of an associate	17	—
Amortisation of deferred development costs	666	333
Operating profit before working capital changes	37,067	21,425
Increase in prepayments and other current assets	(7,727)	(3,546)
Decrease in amount due from related parties	545	1,135
Increase in inventories	(393)	(269)
Increase in accounts receivable, net	(15,575)	(8,878)
Increase in deferred income	2,616	3,539
Increase in salary and staff welfare payable	846	264
Decrease in customers' deposit	(932)	(870)
Decrease in accruals and other payables	(1,549)	(103)
Decrease in amount due to a related party	—	(1,000)
(Decrease) increase in VAT and business tax payable	(498)	803
Cash generated from operating activities	14,400	12,500

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(Amounts expressed in Renminbi unless otherwise stated)

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

b. Acquisition of subsidiaries

	2000	1999
	'000	'000
Cash and cash equivalents	—	148
Accounts receivable, net	—	1,414
Investments	—	530
Fixed assets	—	633
Prepayments and other assets	—	529
Accruals and other payables	—	(2,081)
Salary and staff welfare payable	—	(152)
Taxes payable	—	(70)
Minority interest	—	(571)
	<hr/>	<hr/>
Total purchase consideration	—	380
Less: Consideration satisfied by		
Interest in associate	—	(90)
Inventories	—	(120)
	<hr/>	<hr/>
Cash consideration paid	—	170
Less: Cash and cash equivalent acquired	—	(148)
	<hr/>	<hr/>
Net cash outflow	<hr/> <hr/>	<hr/> <hr/>

31ST DECEMBER, 2000

(Amounts expressed in Renminbi unless otherwise stated)

31. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

c. Analysis of changes in financing

	2000				1999	
	Short-term and long term loans	Other short-term loans	Minority interests	Dividend payable	Total	Total
	'000	'000	'000	'000	'000	'000
Beginning of year	17,350	—	2,893	4,000	24,243	8,772
Proceeds from new bank loans	2,500	—	—	—	2,500	12,080
Proceeds from other short-term loans	—	4,000	—	—	4,000	—
Repayments of bank loans	(1,653)	—	—	—	(1,653)	(1,511)
Dividends declared	—	—	—	—	—	6,000
Dividends paid	—	—	—	(1,210)	(1,210)	(2,000)
Share of result of minority interests	—	—	(351)	—	(351)	(109)
Acquisition of subsidiaries	—	—	—	—	—	571
Capital contributed by minority shareholders of subsidiaries	—	—	105	—	105	440
End of year	<u>18,197</u>	<u>4,000</u>	<u>2,647</u>	<u>2,790</u>	<u>27,634</u>	<u>24,243</u>

d. Major non-cash transactions

Upon the Reorganisation on 15th June, 2000, the Company issued 900,000 ordinary shares to the existing shareholders of Shenzhen Kingdee in exchange for the entire capital in Shenzhen Kingdee of RMB6,666,000. The consolidated net assets value of Shenzhen Kingdee was RMB42,135,000 as of 15th June, 2000 and an amount of RMB6,570,000 was credited to the merger reserve.

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(Amounts expressed in Renminbi unless otherwise stated)

32. BANKING FACILITIES AND PLEDGE OF ASSETS

As of 31st December, 2000, the Group had aggregate banking facilities of approximately RMB14,600,000 (1999: RMB12,100,000) for short-term bank loans and approximately RMB3,597,000 (1999: RMB5,250,000) for long-term bank loans. As of 31st December, 2000, there were no unused banking facilities.

As of 31st December, 2000, the short-term bank loan of RMB9,600,000 (1999: RMB9,600,000) was secured by a fixed deposit of approximately RMB9,960,000 (equivalent of US\$1,200,000) (1999: RMB9,960,000) of the Group with maturity extended to June 2001 and the short-term bank loan of RMB5,000,000 (1999: RMB5,000,000) was secured by a corporate guarantee executed by an independent third party. The short-term bank loans both bore interest at 6.4% per annum. The long-term bank loans were secured by the buildings of the Group with net book value of approximately RMB10,157,000 as of 31st December, 2000, and bore interest ranging from 6.0% to 6.5% per annum (1999: 7.7% to 8.0%).

33. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as of 31st December, 2000 (1999: Nil).

34. COMMITMENTS

(a) Capital commitment

As of 31st December, 2000, the Group had no significant contracted nor authorised capital commitment (1999: Nil).

(b) Operating lease commitments

As of 31st December, 2000, the Group had total minimum future lease payments under non-cancelable operating leases in respect of buildings as follows:

	Group	
	2000	1999
	'000	'000
Payable:		
- Not later than one year	4,413	4,117
- Later than one year and not later than five years	1,955	2,590
	6,368	6,707

The Company had no significant non-cancelable operating leases as of 31st December, 2000 (1999: Nil).

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(Amounts expressed in Renminbi unless otherwise stated)

35.FINANCIAL INSTRUMENTS

The carrying amounts of the Company's cash and cash equivalents, short-term bank deposits over three months and trade payable approximate their fair values because of the short maturity of these instruments. No disclosure of fair value of long-term investments is made as it is not practical to determine their fair values with sufficient reliability. The carrying amounts of long-term loans approximates fair value because they are subject to normal commercial interest rates for comparable instruments.

The Group did not enter into any foreign exchange forward contracts to hedge against foreign exchange fluctuations.

36.PROVISION

At 31st December, 2000, the Group had no material outflow of resources embodying economic benefits for expected warranty claims during the year ended 31st December, 2000 (1999: Nil).

37.CONCENTRATION OF RISKS

Credit risk

The carrying amount of cash and cash equivalents, accounts receivable, net, and other current assets, except for prepayments and deferred tax assets, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's accounts receivable, net relate to sales of software, sales of hardware and technical support service income to related party and third party customers. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on accounts receivable. The Group maintains a provision for doubtful debts and actual losses have been within management's expectation. No single customer accounted for greater than 10% of total revenues during the year ended 31st December, 2000.

No other financial assets carry a significant exposure to credit risk.

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(Amounts expressed in Renminbi unless otherwise stated)

37. CONCENTRATION OF RISKS (Cont'd)

Currency risk

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not freely convertible into foreign currencies. On 1st January, 1994, the Mainland China government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China. However, the unification of the exchange rate does not imply convertibility of Renminbi into Hong Kong dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

Interest rate risk

The interest rates and terms of repayment of long-term and short-term bank loans of the Group are disclosed in Notes 14 and 23 respectively.

38. SEGMENT INFORMATION

No segment information is presented as the Group operates in one single industry and one single segment.

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(Amounts expressed in Renminbi unless otherwise stated)

39.SUBSEQUENT EVENTS

The following significant events took place subsequent to 31st December, 2000:

- (a) Pursuant to a written resolution of shareholders dated 30th January, 2001, the following matters were resolved:
- The authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of 999,000,000 shares, with nominal value of HK\$0.10 each;
 - The Company approved a Pre-IPO Share Option Scheme under which the Directors may, at their discretion, invite full-time employees of group companies (including any executive directors of any group companies) to take up options to subscribe for shares at a subscription price of HK\$1.03 per share.
- (b) As of 9th February, 2001, the Company granted options to subscribe for an aggregate of 1,300,000 shares at an exercise price of HK\$1.03 per share under the Pre-IPO Share Option Scheme.
- (c) As of 14th February, 2001, the Company issued and allotted 87,500,000 shares credited as fully paid for cash at HK\$1.03 per share (the “Placing Shares”) to list of placees. The Placing Shares rank pari passu in all respect with the existing ordinary shares of the Company.
- (d) As of 14th February, 2001, the Company issued and allotted 349,000,000 shares credited as fully paid at par to the shareholders of the Company whose names appear on the Cayman Islands principal register of members of the Company at the close of business on 30 January, 2001 (the “Capitalisation Issue”). The Capitalisation Issue was fully credited to share capital account from the share premium account of the Company at the same date. The Capitalisation Issue rank pari passu in all respect with the existing ordinary shares of the Company.
- (e) As of 15th February, 2001, the Placing Shares of the Company were listed on the GEM of the Stock Exchange.

40.APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 19th March, 2001.

Important:

A notice of annual general meeting (“Notice”) dated 19th March, 2001 was published on the GEM Website at www.hkgem.com and the website of the Company at www.kingdee.com. It was mentioned in the Notice that one of the motions to be proposed at the annual general meeting is to re-elect a retiring Director. However, after the Notice had been posted on the GEM Website and the website of the Company, Mr. Wang Shu, the retiring Director, informed the Company that due to his personal reason, he decided not to offer himself for re-election as a Non-executive Director at the forthcoming annual general meeting. Accordingly, the board of Directors recommended Mr. Hugo Shong to be elected to the office of Non-executive Director, in place of Mr. Wang Shu, at the forthcoming annual general meeting. This revised notice serves to clarify motion number 2 included in the Notice and it shall supersede the Notice.

NOTICE IS HEREBY GIVEN that the first Annual General Meeting of Kingdee International Software Group Company Limited (the “Company”) will be held at the Company’s principal place of business, 4th Level, Zone B, Block W1, High-New Technology Industrial Estate, Shennan Highway, Nanshan District, Shenzhen, Guangdong Province, The PRC at 2:00 p.m. on Thursday, 26th April, 2001 for the following purposes:

1. To receive and consider the audited consolidated accounts and the reports of the directors and auditors for the year ended 31st December, 2000;
2. To elect Mr. Hugo Shong in place of Mr. Wang Shu, the retiring director, as a Non-executive Director, and to authorise the board of directors to fix the remuneration of the directors;
3. To re-appoint auditors and to authorise the board of directors to fix their remuneration;
4. To consider and, if thought fit, to pass the following resolutions with or without amendments as ordinary resolutions of the Company:

(A) **“THAT**

- (i) subject to sub-paragraph (iii) of this resolution, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue or otherwise deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and debentures convertible into shares) which might require the exercise of such powers either during or after the Relevant Period, be and is hereby generally and unconditionally approved.
- (ii) the approval in paragraph (i) of this Resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

(iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in sub-paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as defined below), (b) the exercise of warrants to subscribe for shares of the Company or the exercise of options granted under any share option scheme adopted by the Company, or (c) an issue of shares of the Company in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and this approval shall be limited accordingly; and

(iv) for the purpose of this resolution:

“Relevant Period” means the period from the date of the passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and

(c) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution in general meeting of the Company.

“Rights Issue” means offer of shares of the Company open for a period fixed by the directors of the Company to holders of shares in the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to overseas shareholders or fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).”

(B) “THAT

(i) subject to paragraph (ii) below, the exercise by the directors of the Company during the Relevant Period (as defined below) of all powers of the Company to repurchase issued shares in the capital of the Company on the Stock Exchange or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, subject to and in connection with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(ii) the aggregate nominal amount of shares of the Company which the Company is authorised to repurchase pursuant to the approval in sub-paragraph (i) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and this approval shall be limited accordingly; and

(iii) for the purpose of this resolution:

“Relevant Period” means the period from the date of passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and

(c) the date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution in general meeting of the Company.”

(C) **“THAT** conditional upon ordinary resolutions nos. 4(A) and 4(B) above being passed, the aggregate nominal amount of shares of the Company which are repurchased by the Company under the authority granted to the directors of the Company as mentioned in ordinary resolution no. 4(B) above shall be added to the aggregate nominal amount of share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to ordinary resolution no. 4(A) above.”

By Order of the Board
Kingdee International Software Group Company Limited
Chung Oi Yin, Irene
Company Secretary

Hong Kong, 27th March, 2001

Registered Office:

Ugland House
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

Principal place of business

in the People's Republic of China:
4th Level, Zone B, Block W1
High-New Technology Industrial Estate
Shennan Highway, Nanshan District
Shenzhen, Guangdong Province
The PRC

Notes:

- (i) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote on his/her behalf. A proxy need not be a member of the Company.
- (ii) In order to be valid, the proxy form together with the power of attorney or other authority (if any) under which it is signed (or a notorially certified copy of such power or authority), must be delivered to the Company's branch share registrar and transfer office in Hong Kong, Central Registration Hong Kong Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.
- (iii) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (iv) The register of members of the Company will be closed from 24th April, 2001 to 26th April, 2001, both days inclusive, during which period no transfer of Shares will be effected. All transfer document accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Central Registration Hong Kong Limited, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 23rd April, 2001.
- (v) An Explanatory Statement containing further details regarding ordinary resolution no. 4(B) as required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange will be despatched to the members of the Company together with the annual report 2000.