

KINGDEE

Kingdee International Software Group Company Limited

*enterprise application
software*

*system infrastructure
software*



*solution consulting and
support services*

**Annual
Report
2001**

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. 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

Leader in PRC
Software
Development

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“ Kingdee International Software Group Company Limited

(“Kingdee International” or the “Company”) and its Subsidiaries

(the “Group”) is targeted to become the **Leader**

in IT software industry of China,

to provide **Enterprise Informatization**

total solution to help customers to **Succeed**.

With Kingdee International’s superior **R&D Capability**,

its diversified and high-efficient range of products,

its **Professional** services and familiarity of and

devotion to the PRC market,

Kingdee International is

the best **Strategic Partner** in

the Chinese enterprise informatization. ”

Corporate Information

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTORS

Zhao Yong
Hugo Shong
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 Andersen Legal)
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

China Merchant Bank
Bank of China, Shenzhen Branch
Bank of Communications
Shenzhen Development 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

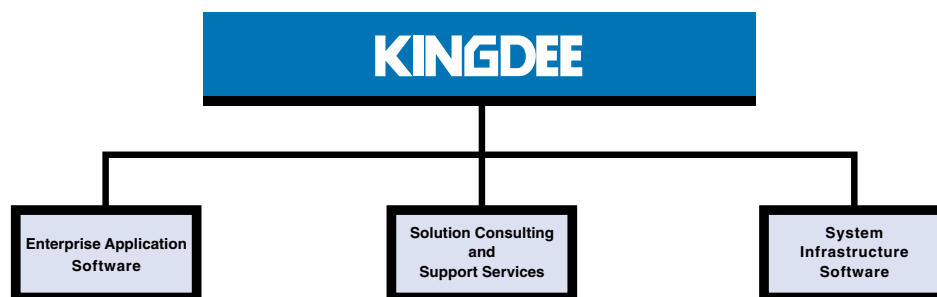
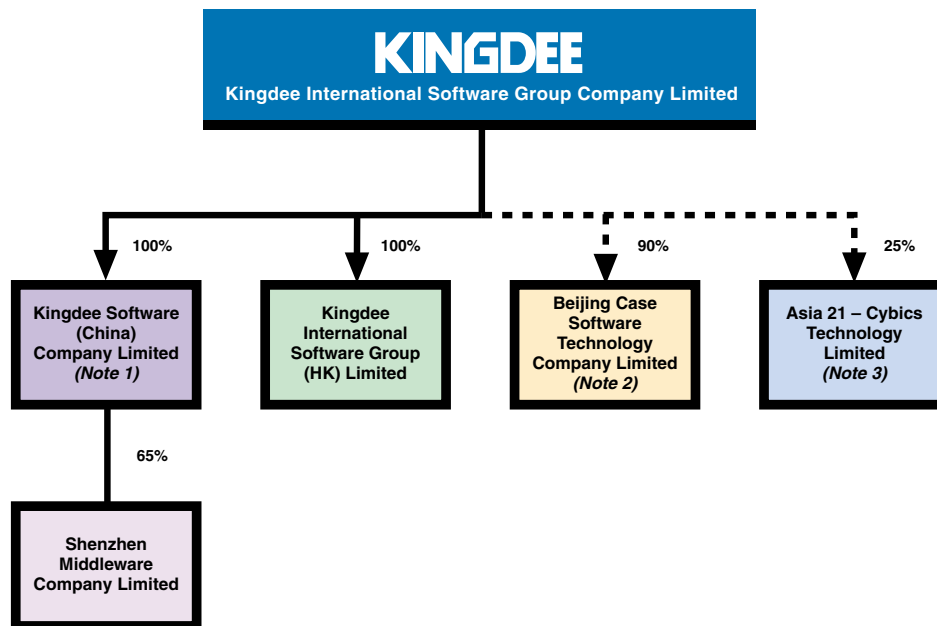
GEM STOCK CODE

8133

Company Profile

Kingdee International is a leading provider of enterprise informatization total solutions in the PRC. It develops and markets software products including enterprise management via the Internet and e-commerce application software, tailored to the needs of the Chinese enterprise management and middleware that construct e-commerce platform for enterprises. In addition, it also provides solution consultation and support services to its customers.

Kingdee International strides forward with technology innovation as its momentum, and develops the Group's business with "To help the customers to succeed" as its motto. The Group has established strategic and technological alliances with leading IT companies of the world. In addition, with its high-caliber personnel and outstanding experienced management, the Group has also established strong product technology and sales services superiority in the PRC.



- K/3
- TEEMS
- CASE ERP
- CASE DRP
- CASE/CRM Star
- CSE/KM Center
- OA Office Automation
- CASE email
- CASE/eForm

- Apusic

Note 1

Kingdee Software Technology (Shenzhen) Co., Ltd. was renamed as Kingdee Software (China) Company Limited on 31 December 2001.

Note 2

On 27 December 2001, the Group, through its wholly-owned subsidiary Carterton Group Limited ("CGL"), entered into a sale and purchase agreement with TCL Industries Holdings (H.K.) Limited ("TCL") to purchase 90% equity interest in Beijing Case Software Technology Company Limited ("Beijing Case") from TCL. The Group has made an initial payment as part of the consideration for the acquisition. The necessary formalities in relation to the change of shareholding in Beijing Case is now under process.

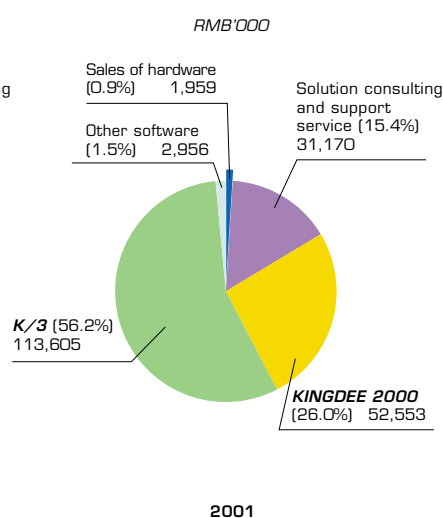
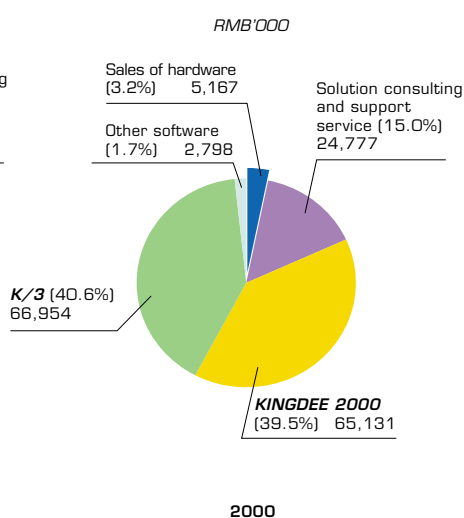
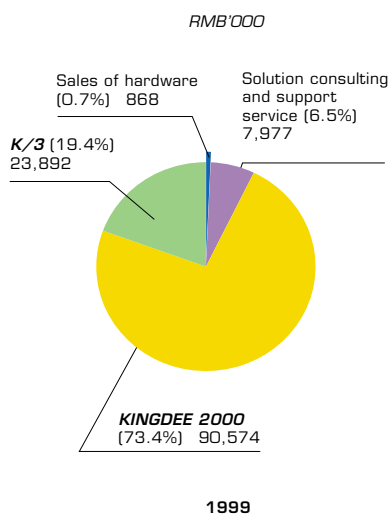
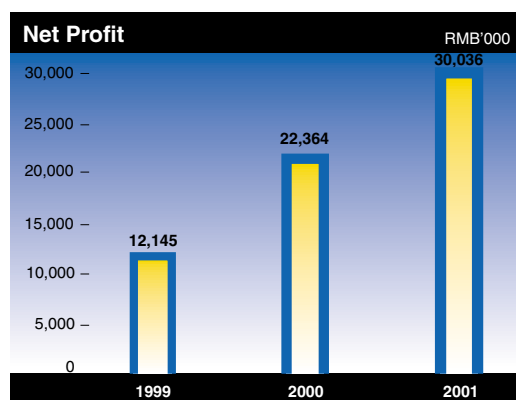
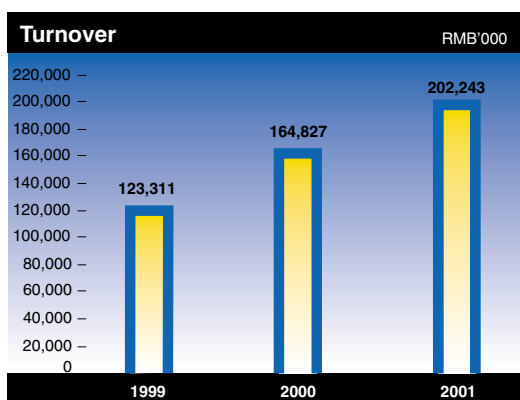
Note 3

On 24 December 2001, the Group, through its wholly-owned subsidiary Crotona Assets Limited ("CAL"), reached agreement with Asia 21-Cybics Technology Limited ("Asia 21-Cybics") to subscribe for the new shares representing 25% of the equity interest of Asia 21-Cybics.

Financial Summary

For the year ended 31 December

	1999 RMB'000	2000 RMB'000	2001 RMB'000
Turnover	123,311	164,827	202,243
Profit before tax	12,944	22,807	30,233
Profit after tax	12,036	22,013	28,339
Net Profit	12,145	22,364	30,036
Earnings per share – Basic	<u>RM0.035</u>	<u>RM0.064</u>	<u>RM0.070</u>



Chairman's Statement

To Be the
Leader in the
PRC Software
Market



I am pleased to present the Group's audited annual results for the year ended 31 December 2001.

The year 2001 was the first year following the listing of shares of Kingdee International on the GEM of the Stock Exchange. For the Group, it was a year full of challenges. The Group not only maintained steady and fast growth in its business, but also made plans for its products and made arrangements for future business development.

RESULTS OF OPERATION

As at 31 December 2001, the Group's turnover and net profit are approximately RMB202,243,000 and RMB30,036,000 respectively, representing increases of 22.7% and 34.3% over the corresponding period of the previous year respectively. The earnings per share are RMBO.07, representing an increase of 9.4% over the corresponding period last year. At the Annual General Meeting of the Company to be held on 26 April 2002, the Board of Directors will recommend a final dividend of HK\$0.01 per share to Shareholders for the year ended 31 December 2001.

Of the Group's turnover, approximately 83.6% was from the sales of enterprise application software and hardware and 15.4% was from the turnover of solution consulting and support services.

BUSINESS REVIEW

Presently, the main products of the Group are enterprise management software tailored to the demand of enterprise management. These include *K/3* ERP system product and *KINGDEE 2000* accounting software. Besides, the Group is engaged in the development of e-commerce application software and middleware software products. During the reporting year, the Group has set up regional research and development centers in Beijing and Shanghai respectively to concentrate on the software product development for different industries.

• Enterprise Application Software

During the period under review, the Group's core business continued to shift from accounting software to Enterprise Resource Planning ("ERP") software. Great achievements had been made in this regard. The Group had established an image of a reputable provider of enterprise management solution in the PRC software market among numerous customers.

The Group launched the upgraded version of its major ERP product – *K/3* in the first half of 2001. In the new version, improvements had been made in both product stability and system integration. With the newly added system modules, its functions were perfected. In December, the Group formally launched the new upgraded generation of *K/3*, version V9.0. In this new version, modules like management accounting, project management, human resources management were newly incorporated, and part of the MRPII system had also been re-engineered. In the meantime, the Group introduced its industry-based *K/3* electric power industry version and financial sector version. According to the annual development plan, the Group had already met its development targets, namely the *K/3* V10.0 fundamental technology platform and Kingdee AI Engineering model V1.0 and etc. The Group had launched the upgraded version of *KINGDEE 2000* in the second half of the year. Based on the original version and taking into account the needs of the users, the new version had been refined and had its functions strengthened.



The Group launched its newly-developed *K/3* CRM V1.0 (customer relations management software) in the third quarter of 2001 with its functions covering sales, marketing and services etc., which are areas closely related to customer services. At the end of the reporting year, the Group grandly launched the *K/3* HRM human resources management system which is the latest member of the *K/3* ERP series. This product is Internet-based and provides technology and operation platform for enterprise human resources management. It also offers various self-defined modes to realize the actual need of different enterprises. *K/3* HRM, *K/3* CRM and *K/3* ERP, etc. form the "flagship" of Kingdee's products for enterprise management and e-commerce solution and offer total integrated solutions for enterprises.

Besides, the Group expanded its ERP product range and extended its product lines to the emerging enterprise e-commerce platform by entering into agreements to acquire Beijing Case Software Technology Company Limited ("Beijing Case") and part of the equity interests in Asia 21-Cybics Technology Limited ("Asia 21-Cybics") respectively. The Group also formed a strategic alliance with Hyperion Solutions, the world's No. 1 business analysis software provider.

• System Infrastructure Software

Shenzhen Middleware Co., Ltd. ("Shenzhen Middleware"), the Group's subsidiary launched **APUSIC** Application Server V1.2, the latest version of its middleware system software in December 2001. The performance and function of the product had been further advanced. Apart from being the first software to support **J2EE**1.3, it also provides function enhancement in respect of XML services, security system, information services, and administrative management, etc. Improvements had also been made to enhance user-friendliness, stability and reliability according to the requests of the users in the PRC. During the reporting period, Shenzhen Middleware endeavored to explore and develop products and projects with renowned Chinese and International enterprises. Middleware and JAVA workshops were also held so as to promote the application of JAVA technology in China and to popularize the application of **J2EE** technology framework in China.

During the reporting year, the Group fully implemented the CMM (Capability Maturity Model) training and identification in the Product Research and Development Department. Besides, the headquarter of the Group and seven institutions in China had passed the ISO 9000: 2000 version renewal and certification respectively.

• Solution Consulting and Support Services

With the continuous growth of the product sales, the provision of solution consulting and support services to the customers had become more and more important for the Group's business. During the reporting year, the Group started promoting and using the Customer Relation Management System, continued to raise customers' satisfaction level, and began to set up the information base system for corporate IT implementation and consultation business. These included all kinds of grading analyze instruments and methods that should be concerned when implementing ERP



project and the technology solution for information system network operation platform under different conditions. Kingdee **K/3** ERP system implements methods and flow of standard business, and also implements case study database. In order to satisfy the needs of customers at various stages, the Group's customer support centre had formulated and prepared a series of service regulations and handbooks. It also conducted various regular training for customer service officers and sales agents in order to maintain the standard of the service of the Group.

• Sales and Marketing

In 2001, the demand of management software in the China software market seemed to be blooming. The strategy of informatization led to industrialization development and China's accession to the WTO led to more opportunities and challenges. These accelerated the process of the informatization of enterprise management in Chinese enterprises, which uses management software as an important means to effectively upgrade the standard of corporate management. As a result, the management software market in China has entered into a rapid development era.

Facing intense market competition, the Group carried out in 2001 an adjustment on the strategies and arrangements of marketing and sales. On top of expanding the building of the sales network, it also emphasised on the promotion of products specially designed for trade use and began to explore the international market. In order to capture the up-to-minute market information, the Group shifted its marketing centre to Beijing in early 2001. As at 31 December 2001, the Group had 21 branch offices, 17 subsidiaries, 5 representative offices and about 600 sales agents and distributors all over China to provide products and after-sales services to our customers. The sales network of the Group covered different provinces, cities in autonomies and municipalities. During the reporting period, the Group had made great achievements in the development of the industry market and large-scale customers including state-owned large-scale commercial banks, iron and steel, electricity, communication, electricity and tobacco and entered into agreements with numerous leading corporations in China.

In 2001, Kingdee International Software Group (H.K.) Limited, a wholly-owned subsidiary of the Group in Hong Kong, started operating and developing its business. After participating and organizing various marketing activities in Hong Kong, the brand awareness of "Kingdee" was gradually established among overseas customers. It had also met with various customers, and had secured orders.

In line with the Group's brand name and the product promotion plans, the Group had carried out a series of promotion activities throughout China during the reporting year. Through media, exhibitions, seminars and press conferences, the Group presented Kingdee's products and the complete solutions for corporate management to their customers. In order to strengthen the support and supervision of the Group's branch institutions, and to carry out resources consolidation effectively, and to increase the competitiveness of our front-line marketing services team directly, the Group had put great effort on establishing the large-district management centre since 2001 by dividing the marketing network in China into six districts, including Southern, Eastern, Northern and Southwestern districts. The District General Managers were responsible for the supervision of each centre.

• Staff and Training



As at 31 December 2001, the Group had a total of 1,497 staff members. The newly employed staff members were mainly to fill up the vacancies in technical development, service support and market expansion, with tens of which being middle and senior professional and management personnel who took up the positions of the Group's senior managers and specialists in implementation, sales, advice, consultation, and software engineering.

During the reporting year, the Company organized specific training courses for its staff, including administration management, project management, customer sales and corporate informatization system engineering etc. The Company had also organized professional manager training for its management personnel, which included sales, team building and management. The course also helped to raise the professional standard of the staff, completed career path planning and strengthened the coherence force toward the enterprise.

INVESTMENT AND ACQUISITION

On 27 December 2001, the Group, through its wholly-owned subsidiary Carterton Group Limited ("CGL"), entered into a sale and purchase agreement with TCL Industries Holdings (H.K.) Limited ("TCL") to purchase 90% equity interests in Beijing Case from TCL at a consideration of RMB13.5 million (approximately HK\$12.7 million).

Beijing Case is a famous China software manufacturer established in 1990, which engages in the development and sale of ERP and provides after-sales service. It also provides complete solutions covering ERP, OA, information management and electronic commerce areas for a number of large and medium size enterprises in China. The enterprise management complete solution of Beijing Case — **TEEMS**, which adopts multi-platform **J2EE** structure, targeted at high-end applications, has an apparent competition edge in automobile, tobacco, steel, electronic, service industries. The current **K/3** ERP system of the Group adopts the Microsoft.NET technology which is suitable for use in food, pharmacy, domestic electrical appliance, commerce, government, finance and electricity sectors. Combined businesses of the Group and Beijing Case will integrate the competitive edges of the products of both parties and to provide more flexible and more comprehensive solutions for individual business at high, middle and low ERP markets. Moreover, the extensive sale and operation network of the Group and its strong market operation ability can provide huge potential in sales growth for the solution as integrated from the products of both parties. With the amalgamation of power from both parties, the customers will enjoy better consultation service. The acquisition of Beijing Case will enable effective integration in areas

Chairman's Statement (continued)

like market channels, technology application, human resources, etc. Not only will it provide effective backup to the business exploration of Beijing Case in the future, Beijing Case also becomes a crucial element in our future business strategy. The acquisition will strengthen the Group's competitiveness and has profound implication on further construction of the Group's business structure.

At the end of 2001, the Group had reached agreement with Asia 21-Cybics Technology Limited to subscribe for shares in Asia 21-Cybics at RMB5 million representing 25% equity interests of Asia 21-Cybics. As a result, our business scope will be extended from ERP to the emerging enterprise electronic commerce platform.

Asia 21-Cybics was incorporated in April 2001. Its core product is Virtranets enterprise grade electronic commerce platform. The system adopts the most popular **J2EE** standard and **XML** technology. It includes the powerful functions of mobile electronic commerce and the latest WEB Service which are capable of providing tailor-made comprehensive enterprise informatization and electronic commerce solution based on Internet, Intranet and Extranet for the enterprises in China. The co-operation with Asia 21-Cybics will promote the future development of the enterprise application software system based on Internet and Wireless Internet. The Group also conducts comprehensive in-depth discussion and co-operation with Asia 21-Cybics on technological exchange, product development and sales and operation strategy.

PROSPECTS

In the wake of the new century, the government of China has formulated relevant policies, especially the implementation of the policy of informatization setting industrialization in motion, to promote the informatization of enterprises. These boosted the initiatives in the development of the software enterprises in China. China enterprises have made tremendous progress in their knowledge on enterprise application software. There is an increasing awareness of the importance of informatization management in corporate development. There is increasing demand and expectation on enterprises informatization. As a result, the application software market in China will become more mature and the market will be more challenging.

So far, by providing products which are widely endorsed by the market and customers, the Group earns a leading position in the market of enterprise management system in China. The Group also endeavors to provide more and much better products and services in order to satisfy the increasing demand of clients for management requirement in the new environment. Through the implementation of complete solution for enterprise informatization, the Group creates even stronger competitive edges for enterprise clients and enhances their international competitiveness.

Chairman's Statement (continued)

In the coming year, the Group targets to become the best strategic partner of enterprises informatization in China and to provide individual enterprises total informatization solution. The Group will provide tailor-made products and services for manufacturing industry, trading, government, financial industry, electric and the energy industry, telecom industry, real estate industry, etc. The products include **KINGDEE 2000 XP** standardized financial system, **K/3** enterprise management system, **TEEMS** enterprise electronic system, **CASE** information technology system, **APUSIC** middleware system and products from affiliated partners.



In order to accomplish the objectives of the enterprise informatization complete solutions, the Group will introduce a variety of products satisfying enterprises of different levels and at different stages. During 2002, the Group will continue to strengthen its ability in developing new products, accomplish the products design the new generation of **K/3**. NET and the development of its financial system and launch the upgraded version of **K/3** HRM. The **K/3** products are mainly targeted at meeting the customers' needs on enterprise informatization, fundamental management and the ERP stage and strive to assist the customers to complete the informatized infrastructure through

optimal system function and the implementation ability. **TEEMS** products will adopt **J2EE** technology, focusing on large scale application and electronic commercial management, especially for co-ordinated commercial pursuits. **TEEMS** will be comprised of a series of concrete product packages including enterprise electronic commercial door, customers relationship management, corporate logistic and supply chain, enterprise distribution network, corporate finance audit and control, enterprise production manufacturing, etc. In terms of its openness and its cross-platform and cross-database capability, the performance of **TEEMS** is outstanding. Moreover, **TEEMS** can perform well in multi-language operation environment so as to effectively support global business of the enterprises. In addition, the Group will also emphasize on the promotion of **CASE** information management products and related products. These products are targeted to meet the information management needs applied thoroughly in the enterprise informatization process. Shenzhen Middleware will also launch new version of **APUSIC** application server in the coming financial year. Accordingly, the Company will equip and integrate the technological ability of the research and development center of the Group, the middleware company and Beijing Case and to bring in high caliber analysis and design personnel.

In the coming year, the Group will strive to improve the ability to explore the market, to strengthen and to consolidate the relationship with government, business association and partners and to make further break-through in exploring the international market. The Group will also intensify the acquisition and merger activities which are related to the core

Chairman's Statement (continued)

business and core competitiveness. The Group will also cooperate with the software companies that have potential and which are supplemental to us, and keep expanding and building up the software supply chain of the Group. The objective of the Group is to become the aircraft-carrier in the China software industry. In the coming year, we will continue to deepen the transformation, striding ahead in the industry market, maintain and reinforce the leading position of the Group in China's process of corporate informatization.

After years of development, the Group has built up a broad customer base. The solution consulting and support services of the Group is being accepted by more and more customers. In this year, the Group will put more effort on expanding its services, especially the business of project implementation and consultancy. We expect the revenue generated from these businesses will have a significant increase in 2002. The Group will also focus on training consultants and project support specialists in order to build up a professional team. The Group will continue to strengthen the alliance and cooperation with its partners in China and overseas and to establish favourable relationship with major multinational companies within the industry and with major government authorities. Through such collaboration, the sharing and exchange of technological resources and the maximum utilization of customer resources, the brand name of Kingdee will be enhanced which will in turn strengthen our products and services competitiveness. At the same time, the Group will actively participate in industry activities and training, intensifying the depth and width of mutual cooperation.

In this year, Kingdee International would emphasis on reformation and perfection of various internal management tasks, optimization of human resources and information management, strengthen the establishment of various information databases, transform the knowledge of the staff and its customers into structural knowledge of the enterprise, and continue to nurture the competitive edge of the core management of the enterprise.

The Group aims for perfection. We shall serve our customers with our outstanding personnel, unobstructed communication and supporting channels for the customers, innovative R&D and product development of new products, rapid technology/product integration ability and mechanism. We will continue to perfect our total solution and focus on providing professional solution consulting and support services to our customers so as to make ourselves their best strategic partner in enterprise informatization and thereby assist them to succeed.

Last but not least, on behalf of the Board, I would like to express our sincere appreciation to the shareholders of Kingdee International for their continuous support, and to our staff for their dedicated service and contributions.

Xu Shao Chun

Chairman

25 March 2002

Business Objectives Review

Business objective for the period
from 1 July 2001 to
31 December 2001
as stated in the Prospectus dated
9 February 2001

Actual business progress

Product

KINGDEE 2000

- | | |
|--|--|
| <ul style="list-style-type: none"> • Improve the then packages and develop upgraded version with improved functions • Incorporate the upgraded version of <i>KINGDEE 2000</i> into <i>K/3</i> • Anticipated investment of HK\$1.5 million from proceeds | <ul style="list-style-type: none"> • To fulfill the customers' needs, the Group's R&D department had fine-tuned and perfected the functions of the product and has launched V7.3 upgrade version in the second half of the year • The integration of <i>KINGDEE 2000</i> product with <i>K/3</i> product was implemented • Actual investment of HK\$116,000 from proceeds |
|--|--|

K/3

- | | |
|---|---|
| <ul style="list-style-type: none"> • Release CRM module of <i>K/3</i> • Release SCM module of <i>K/3</i> • Develop new modules of <i>K/3</i> • Continue to analyse and develop the technicalities of <i>K/3</i> with multi-platform applicability • Continue to analyse and develop the technicalities of the then <i>K/3</i> application modules (including CRM and SCM) with Web-based capability • Anticipated investment of HK\$5 million from proceeds | <ul style="list-style-type: none"> • <i>K/3</i> CRM product was formally launched in August last year, with its name changed to <i>TEEMS</i> • <i>K/3</i> SCM product will be replaced by <i>TEEMS</i> e-commerce system • A new version <i>K/3</i> V9.0 was formally launched in late last year. New function modules were added • According to the yearly plan, the Group started the development of basic platform for the new generation of <i>K/3</i> product • The Group continued to upgrade and develop <i>K/3</i> WEB version • Actual total investment of HK\$6,669,000 from proceeds |
|---|---|

**Business objective for the period
from 1 July 2001 to
31 December 2001
as stated in the Prospectus dated
9 February 2001**

Actual business progress

ASP
platform products

- Continue to improve the online EAS platform to cater with the latest development of the Web-based versions of *K/3* application modules
- Based on the response from the free trial offer of Web-based versions of *K/3* application modules for free download at kanba.com, analyse the feasibility of developing online rental ASP platform products at kanba.com

- Basically discontinued the development of the kanba.com web site. Technical personnel of ASP platform was transferred to the R&D department of CRM products.

APUSIC
Middleware

- Anticipated investment of HK\$0.5 million from proceeds
- Analyse and develop the improved version of **APUSIC** Middleware
- Anticipated investment of HK\$1 million from proceeds

- Actual total investment of HK\$258,000 from proceeds
- Shenzhen Middleware launched **APUSIC** software version V1.2
- Actual total investment of HK\$1,685,000 from proceeds

Technical support services

- Continue utilising the Group's sales and distribution network as the backbone of the Group's technical support service network
- Continue to train members of the Group's marketing and technical support servicing staff regarding the Group's products
- Distribute and brief service working handbook to marketing and technical support servicing staff

- The Group provided timely and high-quality technical support services to customers via branch institutions and agents throughout the PRC
- In the second half of 2001, the Group continued to provide training sessions regarding products and services to the Group's marketing, sales and technical support servicing staff
- Corresponding to the release and application of new products, the Group printed various products and services leaflets and booklets for Company staff's reference

**Business objective for the period
from 1 July 2001 to
31 December 2001
as stated in the Prospectus dated
9 February 2001**

Actual business progress

Marketing

- | | |
|---|---|
| <ul style="list-style-type: none"> • Update service support database • Anticipated investment of HK\$3 million from proceeds | <ul style="list-style-type: none"> • The Group reorganized and aligned companies sales and customer information and builds up corresponding database • Actual total investment of HK\$3,705,000 from proceeds |
| <ul style="list-style-type: none"> • Continue to advertise and promote KINGDEE 2000 and K/3, in particular, the CRM, SCM and commerce modules, via media and by attending or organising conferences and seminars | <ul style="list-style-type: none"> • During the second half of the year, the Group continued to advertise and promote the products of the Group by conducting various kinds of seminars, press conferences, etc. |
| <ul style="list-style-type: none"> • Continue to advertise and promote Apusic Application server via media and by attending or organising conferences and seminars | <ul style="list-style-type: none"> • Kingdee Middleware promoted its APUSIC products via media and by way of attending and conducting conferences, etc. |
| <ul style="list-style-type: none"> • Continue to advertise and promote online EAS platform via media and by attending or organising conferences and seminars | |
| <ul style="list-style-type: none"> • Anticipated investment of HK\$3.5 million from proceeds | <ul style="list-style-type: none"> • Actual total investment of HK\$5,509,000 from proceeds |

Business Objectives Review [continued]

	Business objective for the period from 1 July 2001 to 31 December 2001 as stated in the Prospectus dated 9 February 2001	Actual business progress
Sales and distribution network	<ul style="list-style-type: none"> Evaluate opportunities to establish of co-operation with arrangement other software vendors Expand the number of authorised sales agents in order to expand the sales and distribution network of the Group Anticipated investment of HK\$1 million from proceeds 	<ul style="list-style-type: none"> The Group cooperated with IBM, Microsoft China, Hyperion Solutions, etc. in respect of products and marketing Organised meetings between new agents and distributors throughout the PRC to consolidate the operation and sales network of the Group Actual total investment of HK\$3,008,000 from proceeds
Personnel	<ul style="list-style-type: none"> Employ additional programmers and systems analysts to replace retired programmers and systems analysts Employ additional technical servicing staffs Anticipated investment of HK\$2 million from proceeds 	<ul style="list-style-type: none"> Employed additional professional technicians under the recruitment scheme during the reporting year Employed additional technical servicing staff throughout the PRC in response to the actual needs Actual total investment of HK\$1,817,000 from proceeds

Management Discussion and Analysis

CONSOLIDATED RESULTS OF OPERATIONS

The Group's consolidated turnover for the year ended 31 December 2001 was approximately RMB202,243,000 representing an increase of approximately 22.7% when compared to the previous year (2000: RMB164,827,000). The increase was mainly attributable to the sales of ERP software **K/3**, contributing a turnover of approximately RMB113,605,000, representing 56.2% of the total turnover in 2001. During the year, the Company provided solution consulting and support services for enterprise application software to over 5,500 customers of which income increased by approximately 25.8% when compared to 2000.

Profit attributable to shareholders of the Group for the year ended 31 December 2001 was approximately RMB30,036,000 (2000: RMB22,364,000), representing an increase of approximately 34.3% over the same period in 2000. The earnings per share was RMB0.070 (2000: RMB0.064).

During the year, the Group continued to shift its core business, transforming its core software products from accounting software to ERP software, and great achievements had been made. 12,261 sets of **KINGDEE 2000** accounting software were sold during the year, representing 0.1% increase over the same period in the previous year, of which the sales of Standard Package, Industrial Package, Commercial Package and other packages as a percentage of the total turnover of accounting software were 54.4%, 14.7%, 1.4% and 29.5% respectively.

The Group sold 28,666 ERP software packages during the year, thus realized sales income of RMB113,605,000, representing 144.7% and 69.7% of increase over the same period last year respectively. The reasons for the significant increase in sales of **K/3** systems, the ERP software product of the Group were attributable to the motivation of the strategic policy of informatization bringing along industrialization management by the Government of the PRC, which intensified the consciousness and needs of Chinese enterprises to implement enterprise informatization management, which in turn sped Chinese enterprises changing from the requirement of traditional accounting software to the wholly-integrated requirement of enhancing enterprise's competitiveness. Accordingly, the demand for management software was greatly increased. In 2001, the Group continued to focus on the R&D and sale of **K/3** ERP systems, its flagship product, in order to promote its popularity. Presently, the product continues to be the mainstream product of the Group on market.

During the year, the Group provided its customers timely and quality solution consulting and support service via sales networks such as its branch offices and agents. As enterprise informatization seething, the demand for technical support services comprising mainly of consultation and support raised continuously. The Group continued to input numerous resources during the year for refining and perfecting customer database, and for conducting various professional training so as to improve quality of the service team. This service, emerging as more and more important in the Group's business, proactively enhanced the Group's business transformation from accounting software to management software as well as the Group's steady growth in sales.

•Gross profit

The Group's gross profit increased by approximately 26.5% from RMB131,991,000 for the year 2000 to approximately RMB167,027,000 for the year 2001. During the year, a gross profit margin of approximately 82.6% was recorded for the year (2000: approximately 80.1%).

Management Discussion and Analysis (continued)

•Selling expenses

Selling expenses for the year 2001 amounted to approximately RMB99,901,000, representing an increase of approximately 31.9% over the previous year. Selling expenses as a percentage of total turnover for the period increased to approximately 49.4% as compared to approximately 45.9% for the year 2000. The reasons for the increase in selling expenses as a percentage of total turnover for the year, in addition to selling fees increased in line with the increase of turnover, were mainly contributed to the inter-year increase in salaries and fringe benefits for staff, and provision of more bonuses schemes for its sales personnel, which were for the purpose to attract and retain technical and business sales persons who are experienced in implementation and consultancy. Advertising expenses for the year was approximately RMB10,467,000, representing 3.4% increase when compared to the same period of the previous year. Such increase was due to the increase of the Group's advertising budget for eastern China with Shanghai as district centre for the year.

•General and administrative expenses

General and administrative expenses for the year 2001 amounted to approximately RMB38,557,000, representing an increase of approximately 16.9% over the previous year. General and administrative expenses as a percentage of total turnover for the year decreased to approximately 19.1% as compared to approximately 20.0% for the year 2000. Among them, research and development costs, salaries and staff welfare, provision for doubtful debts, depreciation of fixed connectivity expenses, staff training expenses and professional services fees accounted for approximately 25.4%, 36.5%, 13.9%, 6.4%, 4.2% and 12.2% of the total general and administrative expenses for the year 2001 respectively. The provision for doubtful debts for the year was approximately RMB5,375,000. Since the ERP software business of the Group was enlarged and the receivables were increased, which led to the additional provision for doubtful debts. Professional services fees mainly included Auditor's professional fees, Legal Advisor's professional fees, Sponsor's professional fees and other expenses incurred for maintaining the Company's listing of shares.

LIQUIDITY AND FINANCIAL RESOURCES

The Group had a sound cash flow position. As at 31 December 2001, the current ratio was 4.0 (2000: 1.5). Gearing ratio which is expressed as a ratio of total liability and minority interests to shareholders' equity was 3.7 (2000: 1.0). The inventory balance dropped 20.0% over the previous year, mainly because the Group tightened its inventory management and reduced capital for inventory. The Group maintained a strong financial position. As at 31 December 2001, cash and cash equivalents were at RMB125,431,000.

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

The Group did not make additional loans at the end of the year. As at 31 December 2001, the Group got zero short-term bank loan balance (2000: RMB14,600,000). As at 31 December 2001, the long-term loan balance was RMB2,099,000, which was secured by the Group's property of book value of approximately RMB3,869,000 as at 31 December 2001 (2000: RMB3,994,000), at 6.0% per annum.

The Group was not subject to material foreign exchange rate fluctuation exposure, and had not entered into any foreign currency futures contract to hedge against foreign currency fluctuation as at 31 December 2001.

The Group had no significant contingent liabilities as at 31 December 2001 (2000: nil).

CAPITAL EXPENSES

On 27 December 2001, the Group entered into a sale and purchase agreement with TCL Industries Holdings (H.K.) Limited ("TCL") through its wholly-owned subsidiary Carterton Group Limited ("CGL") to acquire 90% equity interests in Beijing Case Software Technology Company Limited ("Beijing Case") from TCL at a consideration of RMB13.5 million, out of which RMB6.75 million would be paid in cash, while the other half would be satisfied by newly issued consideration shares subject to the approval of the Stock Exchange. This acquisition and merger were strategic, which actualized the expansion of product lines of the Group, and enabled the Group to provide total solutions for enterprise informatization for all sizes of enterprises as well as government institutions. Upon completion of the acquisition, it will be a remarkable successful acquisition and merger case in the software industry in the PRC, with far-reaching and profound impact. As at the end of 2001, the Group had reached agreement with Asia 21-Cybics Technology Limited ("Asia 21-Cybics") to subscribe for shares in Asia 21-Cybics at RMB5 million representing 25% equity interests of Asia 21-Cybics.

PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

EMPLOYEES

As at 31 December 2001, staff members of the Group in total increased from 1,260 at the beginning of the year to 1,497. Employees are remunerated according to their performance and work experience. The Group has maintained a bonus incentive scheme right from the start so as to reward extinguished staff members. During the year the Group enforced its training of staff, so as to raise the competitiveness of the staff; helping staff to succeed, thus helping customers to succeed.

Directors and Management

EXECUTIVE DIRECTORS

Xu Shao Chun, aged 38, chairman and chief executive officer of the Company, president of Kingdee China 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 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 Kingdee China, 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 32, executive director, vice president and compliance officer of the Company and vice president of Kingdee China. 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 57. 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 the Group 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 22 September 1999.

Hugo Shong, aged 45. Senior vice president and Asian-regional president of International Data Group ("IDG") of USA. He was graduated from the Foreign Language Department of Hunan University in 1982. In 1984, he entered the Journalism Department of the Social Science Institute of China for postgraduate study. He obtained a master degree in Mass Communication from Boston University in USA in 1987. In November 1996, he was graduated from the Advanced Management Class of Harvard University. Mr. Shong joined IDG in 1996, leading IDG in the information technology publishing in the Asia pacific region, market research and business related to trading exhibitions. Mr. Shong is also the vice chairman and the partner of IDG Technology Venture Investment, Inc. He was appointed as a Director at the annual general meeting of the Company held on 26 April 2001.

Zhang Wen Xing, aged 65, 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 20 December 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Yang Zhou Nan, aged 63, 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 20 December 2000.

Zhu Qi Heng, aged 59, 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 Kingdee China for the two years ended 31 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 20 December 2000.

COMPANY SECRETARY

Chung Oi Yin, Irene, aged 31, 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 Andersen Legal), 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 27, 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

Tian Rong Ju, aged 30, vice president and general manager of the research and development centre of Kingdee China. 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.

Luo Ming Xing, aged 31, vice president of Kingdee China. 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.

Directors and Management (continued)

Jin Zhuo Jun, aged 40, vice president and general manager of the consulting and service centre of Kingdee China. 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.

Cai Jun, aged 32, vice president and general manager of e-Business enterprise department of the Company. Mr. Cai received a bachelor degree of Computer from Zhengzhou Institute of Industry in 1991. Mr. Cai joined the Company in 1998 as a project manager, and was later promoted to the vice leader of the Institute of Central Research who was mainly responsible for the management of the Institute. Having established the enterprise management software industry in the early 90's, Mr. Cai has been engaged in the development of hospital management, manufacturing management, human resource management, etc, and has extensive experience in IT industry and enterprise management.

Wu Qiang, aged 39, vice president of the Company who is mainly responsible for the research and management of the institute of central research. Mr. Wu received a bachelor degree and master degree of Mathematics from the University of Science and Technology of China. After graduation, Mr. Wu worked for the Beijing Kehai Hi-tech Group Company in the business management. In 1990, Mr. Wu contributed to the establishment of Beijing Case and was appointed as deputy general manager of Beijing Case and has been responsible for the enterprise strategy, product planning, marketing exploration and so on, and meanwhile is the major designer of Case/ERP, **TEEMS** and other products until the membership of the Company.

Yuan Hao, aged 31, vice president of Kingdee China. He graduated from Xián 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, Zhonglu Petroleum Company as a software programmer and the financial controller of Shenzhen Jinfeng Company.

Report of the Directors

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" or "Kingdee International") and its subsidiaries (collectively the "Group") for the year ended 31 December 2001.

LISTING ON THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED ("STOCK EXCHANGE")

The Company issued 87,500,000 shares in public at HK\$1.03 of HK\$0.10 par value on 14 February 2001 and the shares of the Company commenced listing on the GEM on 15 February 2001, whereby net proceeds of approximately HK\$72,000,000 has been raised.

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 31 December 2001 were RMB202,243,000 and RMB30,036,000 respectively. Among which, approximately 26.0% was derived from the sales of accounting software and approximately 56.2% was derived from the sales of ERP software, and approximately 15.4%, 0.9% and 1.5% were derived from solution consulting and support services, sales of computer hardware and other software respectively. For details, please refer to the consolidated income statement set out on page 37.

For the year ended 31 December 2001, sales of the enterprise application software and the distribution network of the Group continued to expand, covering most the provinces, autonomous regions and centrally administered municipalities in the PRC. There were 21 branches, 5 representative offices, 17 subsidiaries and about 600 authorized sales agents offering products and the after sales services for the customers of the Group as at 31 December 2001.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 37.

FINAL DIVIDENDS

At the Annual General Meeting of the Company to be held on 26 April 2002, the Board will recommend a final dividend of HK\$0.01 per share to shareholders for the year ended 31 December 2001 (2000: Nil). Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividend totally HK\$0.01 per share will be payable on 26 June 2002 to shareholders whose names appear on the Register of members of the Company on 26 April 2002.

CLOSURE OF REGISTER

The register of members of the Company will be closed from 24 April 2002 (Wednesday) to 26 April 2002 (Friday) (both days inclusive), and during which no transfer of shares will be effected.

In order to qualify the shareholders of the Company to attend, act and vote at the forthcoming Annual General Meeting and to qualify for the final dividend, all transfers 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 23 April 2002 (Tuesday).

STRATEGIC ALLIANCES

In 2001, the Group and the world's leading business analysis software provider Hyperion Solutions announced the formation of strategic alliances to joint efforts in the introduction of EVA[®] software solution into the PRC.

Hyperion Solutions will appoint Kingdee International as the sole independent software developer within the PRC to represent EVA[®] related business performance management products and solutions and to complete the localization of the existing solutions of Hyperion Solutions.

During the year, the Group has entered into cooperation agreements with IBM Microsoft (China) Co., Ltd., Intel 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 to participate in the marketing activities of the Group.

SUBSTANTIAL INVESTMENT AND ACQUISITION

On 27 December 2001, the Group entered into a sale and purchase agreement with TCL Industries Holdings (H.K.) Limited ("TCL") through its wholly-owned subsidiary Carterton Group Limited ("CGL") to acquire 90% equity interests in Beijing Case Software Technology Company Limited ("Beijing Case") from TCL at a consideration of RMB13.5 million (approximately HK\$12.7 million). Pursuant to the agreement, Kingdee International had paid the deposit of RMB2 million on 20 November 2001 as deposit which would be, followed by payment of RMB2.75 million in cash and RMB6.75 million by way of allotment and issue of the consideration shares of Kingdee International to TCL at the issue price of HK\$2.03 per share, which is equivalent to the average closing price of the shares of Kingdee International of the 30 consecutive trading days ended 27 December 2001. The remaining balance of RMB2 million will be settled by cash upon successful completion of the Shanghai Case Transfer. Upon completion of the transaction (and the Stock Exchange granting the listing and the permission to deal in the consideration shares), TCL will hold 3,136,908 shares, representing 0.71% of the enlarged issued share capital of Kingdee International.

The acquisition constituted a share transaction of the Company under chapter 19 of the GEM Listing Rules, which was disclosed in the announcement of the Company dated 27 December 2001.

Application will be made to the Stock Exchange for the listing of and permission to deal in the consideration shares upon completion.

BANK BORROWINGS

Details of the bank borrowings of the Group as of 31 December 2001 are set out in notes 14, 15 and 33 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 in note 21 to the financial statements.

FIXED ASSETS

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

INTERESTS OF THE DIRECTORS IN CONTRACTS

No directors had a beneficial interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries and the subsidiaries of the same group was a party 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

Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the period from 15 February 2001 (the date of listing of the Company's shares on GEM) to 31 December 2001.

• Pre-IPO Share Option Scheme

The purpose of the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") is to recognize the contribution of certain employees of the Group to the growth of the Group and/or the listing of Shares on the GEM. The principal terms of the Pre-IPO Share Option Scheme approved by a written resolution of all the shareholders of the Company dated 30 January 2001 are substantially the same as the terms of the Share Option Scheme (as defined in the section headed "Share Option Scheme" below) except that:

- (a) the Pre-IPO Share Option Scheme is administrated by the board of directors of the Company;
- (b) the subscription price for Shares will be HK\$1.03 per share, i.e. the price at which the shares were offered under the placing of 87,500,000 shares in February 2001;
- (c) the total number of Shares subject to the Pre-IPO Share Option Scheme is 1,300,000; and
- (d) save for the options which have been granted under the Pre-IPO Share Option Scheme, no further options will be offered or granted under the Pre-IPO Share Option Scheme, as the right to do so will be terminated upon the listing of the Shares on GEM on 15 February 2001.

Pursuant to the Pre-IPO Share Option Scheme, options to subscribe for 1,000,000 shares of HK\$0.10 each of the Company and 300,000 shares respectively were granted to Mr. Huang Xiao Jian, the then Vice President of Kingdee China, and Mr. Liu Fan, General Manager of Kingdee China's Beijing branch office, both being full-time employees of the Group at the time of such grant, at a subscription price equal to HK\$1.03 per share.

All of these options have a duration of 10 years from the date on which dealings in the Shares commenced on GEM (i.e. 15 February 2001), ("listing date"), provided that the options can only be exercised in respect of up to 25%, 50% and 75% of the underlying Shares within 12 months, 24 months and 36 months respectively from the listing date.

On 2 July 2001, Mr. Huang Xiao Jian had exercised his share option to subscribe for 250,000 shares at a subscription price of HK\$1.03 each, representing 25% of the 1,000,000 shares under the said option. Such 250,000 shares were issued and allotted to Huang Xiao Jian on 5 July 2001. On the trading date immediately before the date of exercise such option by Mr. Huang Xiao Jian, 29 June 2001, the weighted average closing price of the Shares was HK\$1.97.

Report of the Directors (continued)

As Mr. Huang Xiao Jian left the Group on 31 December 2001, his outstanding option to subscribe for the remaining 750,000 shares lapsed on the same date.

As at 31 December 2001, Mr. Liu Fan had not exercised any share option to subscribe for any Shares and 300,000 options remained outstanding under the Pre-IPO Share Option Scheme.

Save as disclosed above, the Company has not granted or agreed to grant any share option pursuant to the Pre-IPO Share Option Scheme.

• Share Option Scheme

Pursuant to the share option scheme of the Company adopted on 30 January 2001 (the "Share Option Scheme"), the full-time employees of any member of the Group (including any executive directors of any member of the Group) may be granted options to subscribe for shares of HK\$0.10 each of the Company. The option must be accepted within 28 days from the date of offer and upon acceptance of the option, the grantee shall pay HK\$10 to the Company by way of consideration for the grant.

The exercise price of the share option shall be a price notified by the directors of the Company being not less than the average of the closing prices of the Shares on GEM for five trading days immediately preceding the date of offer of the option or the closing price of the Shares on GEM on the date of offer of the option, whichever is the higher, provided that the subscription price per share is not lower than the par or nominal value of the Shares.

The share option are exercisable at any time during a period notified by the directors of the Company to the grantee, which shall not be less than three years or more than ten years after the date on which the option is accepted.

The maximum number of Shares in respect of which options may be granted (together with options exercised and options then outstanding) but excluding options which have lapsed or have been cancelled according to the terms of the Share Option Scheme under the Share Option Scheme and any other scheme (including the Pre-IPO Share Option Scheme) may not exceed such number of Shares as shall represent 30% of the nominal amount of the issued share capital of the Company from time to time, excluding for this purpose (i) Shares issued on exercise of options granted under the Share Option Scheme or any other schemes and (ii) any pro rata entitlements to further issues in respect of any shares mentioned in (i) during a period of 10 years from the date the Share Option Scheme is adopted. No option may be granted to any one person which if exercised in full would result in the total number of Shares already issued and issuable to him or her under the Share Option Scheme exceeding 25% of the aggregate number of Shares for the time being issued and issuable under the Share Option Scheme.

The Share Option Scheme will remain in force for a period of 10 years from 30 January 2001.

At the board meeting of the Company held on 27 September 2001, the Implementation Rules for the Share Option Scheme (the "Implementation Rules") were approved to serve as a practical guideline for the issue and grant of the share options, and options to subscribe for a total of 1,720,000 shares were granted to 33 full-time employees of the Group at subscription price equal to HK\$1.49 per share. The exercisable period for all such options is 10 years from 27 September 2001 ("Date of Grant") provided that, in respect of each option holder, the options may not be exercised in respect of more than (a) 25% of the respective option shares of such holder within 12 months from the Date of Grant; (b) 50% of the respective option shares within 24 months from the Date of Grant; or (c) 75% of the respective option shares within 36 months from the Date of Grant.

On the trading date immediately before the Date of Grant, 26 September 2001, the closing price of the Shares was HK\$1.48. As at 31 December 2001, no option has been exercised pursuant to the Share Option Scheme.

Save as disclosed in this report, as at 31 December 2001, no further option has been offered or granted under the Share Option Scheme.

As a result of the recent amendments to Chapter 23 of the GEM Listing Rules in relation to share option schemes, notwithstanding the above terms of the Share Option Scheme, if the Company wishes to continue to grant options under the Share Option Scheme, it must comply with the requirement of Chapter 23 of the GEM Listing Rules.

DIRECTORS AND SERVICE CONTRACTS OF DIRECTORS

During the reporting year, the Directors of the Company were:

• Executive Directors

Mr. Xu Shao Chun
Mr. Xu Wen Hui

• Non-executive Directors

Mr. Hugo Shong (appointed on 26 April 2001)
Mr. Zhao Yong
Mr. Zhang Wen Xing

• Independent Non-executive Directors

Mr. Zhu Qi Heng
Ms. Yang Zhou Nan

In accordance with article 116 of the Company's articles of association, Mr. Zhu Qi Heng will retire by rotation at the forthcoming Annual General Meeting of the Company. Mr. Zhu Qi Heng had informed the Company that he will not offer himself for re-election as Independent non-executive director at the forthcoming Annual General Meeting due to his personal reasons. In accordance with articles 117 and 120 of the Company's articles of association, the Board of Directors proposed to elect Mr. Wu Cheng as Independent non-executive director in place of Mr. Zhu Qi Heng at the forthcoming Annual General Meeting.

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 1 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

As at 31 December 2001, the beneficial interests of the Directors in the Shares or securities of the Company or any associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance, Chapter 396 of the laws of Hong Kong ("SDI Ordinance") required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have been taken under section 31 of, or Part 1 of the Schedule to the SDI Ordinance), or required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or required pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange were as follows:

- The Company**

Name of Directors	Number of shares	Nature of interests	Approximate percentage of interest
Xu Shao Chun <i>(note 1)</i>	83,606,250	Corporate <i>(note 2)</i>	19.10%
	1,599,500	Other <i>(note 3)</i>	0.37%
Xu Wen Hui	2,154,500	Personal	0.49%
	1,599,500	Other <i>(note 3)</i>	0.37%
Zhang Wen Xing <i>(note 1)</i>	58,310,000	Corporate <i>(note 4)</i>	13.32%
	1,599,500	Other <i>(note 3)</i>	0.37%
Hugo Shong	5,250,000	Personal	1.20%
	1,599,500	Other <i>(note 3)</i>	0.37%
Zhao Yong	33,346,250	Personal	7.62%

Notes:

- In February 2001, Oriental Gold Limited, a company wholly-owned by Mr. Xu Shao Chun, was granted rights of first refusal in the future sale of 37,950,500 shares held by 154 employees of the Group (including Mr. Xu Wen Hui, an executive director), one former employee of the Group and Mr. Hugo Shong, a non-executive director and a consultant of the Group. Each of the 154 employees of the Group had also undertaken to Project China Limited that if he/she is, within one year after he/she leaves the employment of the Group, involved in any business which may compete with the Group, Project China Limited will have an option to buy back his/her shares.
- The shares were held as to 83,606,250 Shares by Oriental Gold Limited which is wholly-owned by Mr. Xu Shao Chun.
- Project China Limited, a company wholly-owned by Mr. Zhang Wen Xing, held 1,599,500 shares as trustee of a discretionary trust established for the benefit of all the former and existing employees and consultants of the Group including Mr. Xu Shao Chun and Mr. Xu Wen Hui, executive directors.
- The 58,310,000 shares were held by Billion Ocean Limited, a company wholly owned by Mr. Zhang Wen Xing.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES

Save as disclosed in the sections headed "Interests of Directors in Equity Securities", "Share Option Scheme" and "Pre-IPO Share Option Scheme", at no time during the year ended 31 December 2001 was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in the Company.

SUBSTANTIAL SHAREHOLDERS

Name	Number of Shares	Approximate percentage of share capital
IDG Technology Venture Investment, Inc.	84,464,000	19.30%
International Data Group, Inc	84,464,000 (Note 2)	19.30%
Oriental Gold Limited (Note 1)	83,606,250	19.10%
Mr. Xu Shao Chun (Note 1)	83,606,250 (Note 3)	19.10%
Ms. Chao Shi Yan	47,687,500	10.89%
Billion Ocean Limited	58,310,000	13.32%
Mr. Zhang Wen Xing (i)	58,310,000 (Note 4)	13.32%
(ii)	1,599,500 (Note 5)	0.37%

Notes:

- In February 2001, Oriental Gold Limited was granted rights of first refusal in the future sale of 37,950,500 shares held by 154 employees of the Group (including Mr. Xu Wen Hui, an executive director), one former employee of the Group and Mr. Hugo Shong, a non-executive director and a consultant of the Group. Each of the 154 employees of the Group had also undertaken to Project China Limited that if he/she is, within one year after he/she leaves the employment of the Group, involved in any business which may compete with the Group, Project China Limited will have an option to buy back his/her shares.
- The shares were held by IDG Technology Venture Investment, Inc., a company wholly-owned by International Data Group, Inc.,
- The shares were held by Oriental Gold Limited, a company wholly-owned by Mr. Xu Shao Chun. In addition to the 83,606,250 shares held by Oriental Gold Limited, Xu Shao Chun was also interested in 1,599,500 Shares as one of the discretionary objects of the discretionary trust set up for the benefit of the existing and former employees and consultant of the Group which such Shares were held by Project China Limited.
- The shares were held by Billion Ocean Limited, a company wholly-owned by Mr. Zhang Wen Xing.
- The shares were held by Project China Limited, a company wholly-owned by Mr. Zhang Wen Xing, as trustee of a discretionary trust set up for the benefit of the existing and former employees and consultants of the Group, including Mr. Xu Shao Chun and Mr. Xu Wen Hui, executive directors.

PURCHASE, SALE OR REDEMPTION OF THE SHARES

During the period from 15 February 2001 (the date of listing of the Company's shares on GEM) to 31 December 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 software management	28.4%	2 non-executive directors (out of 7 non-executive directors 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.

CONNECTED TRANSACTIONS

Details of related party transactions are disclosed in note 31 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		1.4%
– five largest customers combined		5.0%
Purchases		
– the largest supplier		23.8%
– five largest suppliers combined		69.5%

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.

SPONSOR'S INTEREST

As at 31 December 2001, none of the Company's sponsor, BNP Paribas Peregrine Capital Limited, its directors, employees or associates held any interest in the securities of the Company or any member of the Group, or the right to subscribe for or to nominate persons to subscribe for securities in the Company or any member of the Group.

Pursuant to the sponsorship agreement dated 1 February 2001 entered into between the Company and BNP Paribas Peregrine Capital Limited, BNP Paribas Peregrine Capital Limited will receive usual sponsorship fees for acting as the Company's retained sponsor for the period from 15 February 2001 to 31 December 2003.

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 15 February 2001.

AUDIT COMMITTEE AND ITS DUTIES

The Company has established an audit committee on 1 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 primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. Four audit committee meetings were convened and held during the financial year ended 31 December 2001 to review the accounts of the Group, and to provide advices and recommendations to the Board of Directors.

AUDITORS

Arthur Andersen & Co will retire as the auditors of the Company at the forthcoming Annual General Meeting of the Company to be held on 26 April 2002, and would not offer themselves for re-appointment as auditors of the Company.

A resolution for the appointment of PricewaterhouseCoopers as the auditors of the Company will be proposed at the forthcoming Annual General Meeting.

On behalf of the Board
Xu Shao Chun
Chairman

25 March 2002



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 (hereinafter collectively referred to as the "Group") as of 31 December 2001, and the related consolidated statement of income, changes in equity and cash flows of the Group for the year then ended. These financial statements set out on pages 35 to 73 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. 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 give a true and fair view of the financial position of the Company and of the Group as of 31 December 2001, and of the results of operations and the cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards, as published by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

ARTHUR ANDERSEN & CO.
Certified Public Accountants

Hong Kong, 25 March 2002

Balance Sheets

As of 31 December 2001
(Amounts expressed in Renminbi)

	Notes	Consolidated		Company	
		2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
ASSETS					
Non-current assets					
Fixed assets, net	3	31,958	26,259	-	-
Investment in subsidiaries	4	-	-	43,196	42,135
Investment in an associate	5	-	686	-	-
Long-term investments	6	190	80	-	-
Deferred tax assets, net	7	3,197	2,020	-	-
Intangible assets	8	5,757	999	-	-
Total non-current assets		41,102	30,044	43,196	42,135
Current assets					
Prepayments and other current assets	9	16,740	16,596	487	5,606
Amounts due from related parties	10	752	847	-	-
Inventories	11	1,389	1,729	-	-
Accounts receivable, net	12	28,438	26,006	-	-
Pledged bank deposit	33	-	9,960	-	-
Cash and cash equivalents	13	125,431	33,938	73,941	11
Total current assets		172,750	89,076	74,428	5,617
Total assets		213,852	119,120	117,624	47,752
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	20	46,840	107	46,840	107
Reserves	21	120,678	60,633	68,874	42,039
Total capital and reserves		167,518	60,740	115,714	42,146
Minority interests		952	2,647	-	-
Non-current liabilities					
Long-term bank loans	14	1,843	2,099	-	-

Balance Sheets (continued)

As of 31 December 2001
(Amounts expressed in Renminbi)

	Notes	Consolidated		Company	
		2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Current liabilities					
Current portion of long-term bank loans	14	256	1,498	-	-
Short-term bank loans	33	-	14,600	-	-
Other short-term loans	15	1,000	4,000	-	-
Dividends payable	27	-	2,790	-	-
Deferred income	16	13,110	12,039	-	-
Salary and staff welfare payable		3,580	2,198	-	-
Taxes payable	17	7,756	4,996	-	-
Customers' deposits	18	5,587	1,529	-	-
Amount due to a subsidiary		-	-	384	5,606
Accruals and other payables	19	12,250	9,984	1,526	-
Total current liabilities		<u>43,539</u>	<u>53,634</u>	<u>1,910</u>	<u>5,606</u>
Total equity and liabilities		<u><u>213,852</u></u>	<u><u>119,120</u></u>	<u><u>117,624</u></u>	<u><u>47,752</u></u>

Approved by and signed on 25 March 2002 on behalf of the Board of Directors by:

XU SHAO CHUN
Chairman

XU WEN HUI
Director

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

Consolidated Income Statement

For the year ended 31 December 2001
(Amounts expressed in Renminbi)

	Notes	Consolidated	
		2001 RMB'000	2000 RMB'000
Turnover	22	202,243	164,827
Cost of sales		(35,216)	(32,836)
Gross profit		167,027	131,991
Selling expenses		(99,901)	(75,719)
General and administrative expenses		(38,557)	(32,997)
Other income, net	23	670	1
Profit from operations		29,239	23,276
Finance income (costs), net	24	1,680	(472)
Share of (loss) profit of an associate	5	(686)	3
Profit before tax	25	30,233	22,807
Taxation	26	(1,894)	(794)
Profit after tax		28,339	22,013
Minority interests		1,697	351
Net profit		<u>30,036</u>	<u>22,364</u>
Dividends	27	<u>-</u>	<u>-</u>
Earnings per share – basic and diluted	28	<u>RMBO.070</u>	<u>RMBO.064</u>

Statement of Changes in Equity

For the year ended 31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

	Notes	Share capital RMB'000	Share premium RMB'000	Contri- butable Surplus RMB'000	Merger reserve RMB'000	Capital reserve RMB'000	Reserve fund RMB'000	Exchange reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Group										
Balances as of 1 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 1 January 2001		107	-	-	6,570	19,255	3,334	-	31,474	60,740
Issue of shares	20	9,363	87,071	-	-	-	-	-	-	96,434
Share issuance expenses		-	(18,894)	-	-	-	-	-	-	(18,894)
Capitalisation of share premium	20	37,343	(37,343)	-	-	-	-	-	-	-
Execution of share option	20	27	249	-	-	-	-	-	-	276
Liquidation of subsidiary		-	-	-	-	(391)	-	-	-	(391)
Profit attributable to shareholders		-	-	-	-	-	-	-	30,036	30,036
Appropriation to reserve fund		-	-	-	-	-	4,850	-	(4,850)	-
Translation adjustments		-	-	-	-	-	-	(683)	-	(683)
Balances as of 31 December, 2001		<u>46,840</u>	<u>31,083</u>	<u>-</u>	<u>6,570</u>	<u>18,864</u>	<u>8,184</u>	<u>(683)</u>	<u>56,660</u>	<u>167,518</u>
Company										
Balances as of 1 January 2000		11	-	-	-	-	-	-	-	11
Issue of shares for the Reorganisation	20	96	-	-	-	-	-	-	-	96
Reserves arising on the Reorganisation		-	-	42,039	-	-	-	-	-	42,039
Balances as of 1 January 2001		<u>107</u>	<u>-</u>	<u>42,039</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,146</u>
Issue of shares	20	9,363	87,071	-	-	-	-	-	-	96,434
Share issuance expenses		-	(18,894)	-	-	-	-	-	-	(18,894)
Capitalisation of share premium	20	37,343	(37,343)	-	-	-	-	-	-	-
Execution of share option	20	27	249	-	-	-	-	-	-	276
Loss attributable to shareholders		-	-	-	-	-	-	-	(3,565)	(3,565)
Translation adjustments		-	-	-	-	-	-	(683)	-	(683)
Balances as of 31 December, 2001		<u>46,840</u>	<u>31,083</u>	<u>42,039</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(683)</u>	<u>(3,565)</u>	<u>115,714</u>

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

Consolidated Cash Flow Statement

For the year 31 December 2001
(Amounts expressed in Renminbi)

Notes	2001 RMB'000	2000 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit before tax	30,233	22,807
Adjustments for:		
Provision for doubtful debts	5,375	6,527
Depreciation of fixed assets	6,721	6,192
Loss on disposal of fixed assets	322	394
Written off goodwill of investment in an associate	433	-
Share of results of an associate	203	(3)
Amortisation of goodwill on acquisition of an associate	50	17
Interest income on bank deposits	(2,298)	(645)
Interest expense on bank loans	492	1,112
Subsidiaries liquidation loss	123	-
Amortisation of software	51	-
Amortisation of deferred development costs	738	666
Operating profit before working capital changes	42,443	37,067
Increase in prepayments and other current assets	(2,728)	(7,727)
Decrease in amount due from related parties	95	545
Decrease/(increase) in inventories	340	(393)
Decrease in accounts receivable, net	(7,746)	(15,575)
Increase in deferred income	1,071	2,616
Increase in salary and staff welfare payable	1,382	846
Increase/(Decrease) in customers' deposit	4,058	(932)
Increase/(Decrease) in accruals and other payables	2,029	(1,549)
Increase/(Decrease) in VAT and business taxes payable	1,194	(498)
Cash generated from operating activities	42,138	14,400
Interest paid	(492)	(1,112)
Mainland China income tax paid	(1,505)	(675)
Net cash from operating activities	40,141	12,613
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of fixed assets	(12,519)	(5,920)
Purchase of software	(451)	-
Investment in an associate	-	(700)
Purchase of shares of subsidiaries	(200)	-
Deposit for purchase of shares of subsidiaries	(3,154)	-
Investment in available-for-sales financial assets	(110)	-
Investment in deferred development costs	(5,211)	-
Proceeds from release of pledged deposit	9,960	-
Proceeds from disposal of fixed assets	14	207
Interest received	2,298	645
Net cash used in investing activities	(9,373)	(5,768)

Consolidated Cash Flow statement (continued)

For the year 31 December 2001
(Amounts expressed in Renminbi)

	Notes	2001 RMB'000	2000 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES:	32(a)		
Proceeds from issuance of shares		96,434	-
Proceeds from execution of share option		276	-
Proceeds from new bank loans		9,600	2,500
Proceeds from other short-term loans		1,000	4,000
Capital contributed by minority shareholders of subsidiaries		100	105
Payment for listing expenses		(13,514)	-
Repayment of other loans		(4,000)	-
Repayment of bank loans		(25,698)	(1,653)
Dividends paid		(2,790)	(1,210)
Net cash from financing activities		61,408	3,742
Net increase in cash and cash equivalents		92,176	10,587
Cash and cash equivalents at beginning of year		33,928	23,351
Effect of foreign exchange rate change		(683)	-
Cash and cash equivalents at end of year	13	125,431	33,938

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

Notes to the Financial Statements

31 December 2001
(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 22 September 1999 as an exempted company with limited liability under the Companies Law (1998 revision) of the Cayman Islands. Its shares have been listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 15 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 15 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 year ended 31 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 consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Committee Board, 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.

(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 as stated in Note 1, 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.

Notes to the Financial Statement (continued)

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(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 the 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.

When the group's share of losses exceeds the carrying amount of the investment, the investment is reported at nil value and recognition of losses is discontinued except to the extent of the Group's commitment.

All other investments are accounted for in accordance with IAS 39, Financial Instruments: Recognition and Measurement as further disclosed in note 2 (j).

(e) Turnover and revenue recognition

Turnover represents revenue from sale of computer software and hardware, and solution consulting and support service 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, sales 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 customer'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.

Solution Consulting and 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.

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(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.

(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.

Notes to the Financial Statement [continued]

31 December 2001
 (Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(h) Fixed assets and depreciation (continued)

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	2~5 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.

Construction-in-progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

(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.

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

The Company adopted IAS 39, Financial Instruments: Recognition and Measurement on 1 January 2001. Accordingly, investments are classified into the following categories: held-to-maturity, trading and available-for-sale. Investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity other than loans and receivables originated by the Company are classified as held-to-maturity investments. Investments acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading. All other investments, other than loans and receivables originated by the Company, are classified as available-for-sale

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2. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Long-term investments (continued)

Held-to-maturity investments are included in non-current assets unless they mature within 12 months of the balance sheet date. Investments held for trading are included in current assets. Available-for-sale investments are classified as current assets if management intends to realise them within 12 months of the balance sheet date.

All purchases and sales of investments are recognised on the trade date.

Investments are initially measured at cost, which is the fair value of the consideration given for them, including transaction costs.

Available for sale and trading investments are subsequently carried at fair value without any deduction for transaction cost. Available for sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured by other methods of reasonably estimating fair value are clearly inappropriate or unworkable are measured at cost. Carrying amounts of such investments are reviewed at each balance sheet date for impairment.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method.

(k) Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed annually at each financial year-end.

The cost of acquisition of new software is capitalised and treated as an intangible asset if these costs are not an integral part of the related hardware. Software is amortised on a straight-line basis over 3 years.

Costs incurred in order to restore or maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of existing software systems are recognised as an expense when the restoration or maintenance work is carried out.

(l) Goodwill

(i) 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.

Notes to the Financial Statement [continued]

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Goodwill (continued)

(ii) Negative goodwill

Negative goodwill is recognised in the income statement as follows:

- (a) to the extent that negative goodwill relates to expected future losses and expenses that are identified in the company's plan for the acquisition and can be measured reliably but which cannot be accrued for the date of acquisition, that portion of negative goodwill is recognised as income when the future losses and expenses are recognised.
- (b) the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets.
- (c) the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

Negative goodwill is presented in the same balance sheet classification as goodwill. With respect to associates, negative goodwill is included in the carrying value of the investment.

(m) 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.

(n) Receivables

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

(o) 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.

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2. PRINCIPAL ACCOUNTING POLICIES (continued)

(p) Foreign currency transactions

Transactions in currencies other than the book currencies during the year are translated into the book currencies at exchange rates at the time of the transactions. For the subsidiaries in the Mainland China, applicable rates of exchange represent those quoted by the People's Bank of China ("PBOC"). 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.

(q) 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.

(r) 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.

(s) 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.

Notes to the Financial Statement (continued)

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(t) Government grants

Government grants are not recognised until there is reasonable assurance that the company will comply with the conditions attached to them and that the grants will be received. They are deferred and amortised into income over the period necessary to match them with the related costs that they are intended to compensate on a systematic basis. Grants contributed towards the acquisition of property, plant and equipment and deducted from the cost of those assets. Grants received are treated as deferred income in the accompanying financial statements. Income relating to government grants is recognised as a deduction from the appropriate expense.

(u) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalent, accounts receivable, amounts due from related parties long-term investment 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.

(v) 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.

(w) 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.

(x) Subsequent events

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

Notes to the Financial Statement (continued)

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

3. FIXED ASSETS, NET

Movements of fixed assets of the Group were:

	2001						2000	
	Buildings RMB'000	Leasehold improvements RMB'000	Computer and related equipment RMB'000	Other office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000	Total RMB'000
Cost								
Beginning of the year	11,257	7,154	15,562	1,542	3,248	-	38,763	33,546
Additions	907	1,966	8,665	314	497	407	12,756	5,920
Disposals	-	-	(390)	(150)	-	-	(540)	(703)
End of the year	<u>12,164</u>	<u>9,120</u>	<u>23,837</u>	<u>1,706</u>	<u>3,745</u>	<u>407</u>	<u>50,979</u>	<u>38,763</u>
Accumulated depreciation								
Beginning of the year	(1,100)	(4,047)	(5,334)	(539)	(1,484)	-	(12,504)	(6,414)
Charges for the year	(410)	(1,983)	(3,658)	(213)	(457)	-	(6,721)	(6,192)
Disposals	-	-	144	60	-	-	204	102
End of the year	<u>(1,510)</u>	<u>(6,030)</u>	<u>(8,848)</u>	<u>(692)</u>	<u>(1,941)</u>	<u>-</u>	<u>(19,021)</u>	<u>(12,504)</u>
Net book value								
End of the year	<u>10,654</u>	<u>3,090</u>	<u>14,989</u>	<u>1,014</u>	<u>1,804</u>	<u>407</u>	<u>31,958</u>	<u>26,259</u>
Beginning of the year	<u>10,157</u>	<u>3,107</u>	<u>10,228</u>	<u>1,003</u>	<u>1,764</u>	<u>-</u>	<u>26,259</u>	<u>27,132</u>

As of 31 December 2001, the Group had two buildings with aggregate net book values of approximately RMB10,654,000 (2000: RMB10,157,000) both located in Mainland China with land use rights with remaining terms of approximately 24 years. As of 31 December 2000, the Group was 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. 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. As of 31 December 2001, the realty title certificate of this building has been obtained and the indemnity has expired.

As of 31 December 2001, one building with net book value of RMB3,869,000 is pledged as collateral to support the Group's long-term bank loan of approximately RMB2,099,000 (2000: RMB3,597,000) (See Note 33).

Notes to the Financial Statement (continued)

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

4. INVESTMENT IN SUBSIDIARIES

	Company	
	2001 RMB'000	2000 RMB'000
Investment in unlisted shares, at cost	43,196	42,135

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 31 December 2001.

As of the date of this report, the Company had direct or indirect interests in the following principal subsidiaries.

Name	Country of business	Registered and fully paid-up capital	Percentage of equity interests attributable to the Group	Principal activities
Kingdee Software Technology (China) Co., Ltd. ("China Kingdee") (iii)	Mainland China	RMB50,000,000	100%	Investment holding, developing, manufacturing and selling of software products and providing software-related technical services
Hangzhou Kingdee Computer Software Co., Ltd. ("Hangzhou Kingdee") (i)	Mainland China	RMB500,000	51%	Selling of software products and providing software-related technical services
Chongqing Kingdee Accounting Software Co., Ltd. ("Chongqing Kingdee") (i)	Mainland China	RMB300,000	60%	Selling of software products and providing software-related technical services
Chengdu Kingdee Software Technology Co., Ltd. ("Chengdu Kingdee") (i)	Mainland China	RMB800,000	55%	Selling of software products and providing software-related technical services
Zhuhai Kingdee Accounting Software Co., Ltd. ("Zhuhai Kingdee") (i)	Mainland China	RMB500,000	51%	Selling of software products and providing software-related technical services
Zhengzhou Kingdee Accounting Software Co., Ltd. (i)	Mainland China	RMB300,000	60%	Selling of software products and providing software-related technical services
Guangdong Kingdee Software Technology Co., Ltd. ("Guangdong Kingdee") (i) and (ii)	Mainland China	RMB500,000	90%	Selling of software products and providing software-related technical services

Notes to the Financial Statement (continued)

31 December 2001
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4. INVESTMENT IN SUBSIDIARIES (continued)

Name	Country of business	Registered and fully paid-up capital	Percentage of equity interests attributable to the Group	Principal activities
Changchun Kingdee Accounting Software Co., Ltd. (i)	Mainland China	RMB300,000	95%	Selling of software products and providing software-related technical services
Jinan Kingdee Software Technology Co., Ltd. ("Jinan Kingdee") (i)	Mainland China	RMB500,000	73%	Selling of software products and providing software-related technical services
Shanghai Kingdee Software Technology Co., Ltd. ("Shanghai Kingdee") (i)	Mainland China	RMB500,000	70%	Selling of software products and providing software-related technical services
Qingdao Kingdee Software Technology Co., Ltd.(i)	Mainland China	RMB500,000	60%	Selling of software products and providing software-related technical services
Nanning Kingdee Software Technology Co., Ltd. (i)	Mainland China	RMB500,000	52%	Selling of software products and providing software-related technical services
Shenzhen Kingdee Middleware Software Co., Ltd. (formerly known as Shenzhen Apusic Software Co., Ltd.)(i)	Mainland China	RMB300,000	65%	Developing, manufacturing and selling middleware
Beijing Kingdee Co., Ltd. (i)	Mainland China	RMB1,000,000	90%	Selling of software products and providing software-related technical services
Kingdee International Software Group (H.K.) Ltd.	Hong Kong	HKD1,000,000	100%	Selling of software products and providing software-related technical services
Carterton Group Limited	British Virgin Islands	USD1	100%	Dormant
Crotana Assets Limited	British Virgin Islands	USD1	100%	Dormant

Notes to the Financial Statement [continued]

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

4. INVESTMENT IN SUBSIDIARIES (continued)*Notes:*

- (i) These subsidiaries were all indirectly held by the Company through China Kingdee. They were limited liability companies incorporated in Mainland China and owned by China Kingdee and other Mainland China companies or individuals.
- (ii) Guangdong Kingdee is previously treated as a subsidiary as the Company has control over the board of directors of Guangdong Kingdee. 50% equity interest of Guangdong Kingdee was previously held by a company in which Mr. Xu Shao Chun, a director of the Company in which he has 90% equity interests. In December the Group acquired 40% share of interest from Mr. Xu for a consideration of RMB200,000.
- (iii) By a resolution passed on 19 September 2001, the name of this subsidiary was changed from Kingdee Software Technology (Shenzhen) Co., Ltd. to Kingdee Software Technology (China) Co., Ltd.
- (iv) During the year, the Group acquired all equity interests in two subsidiaries, which are Shenyang Kingdee Accounting Software Co., Ltd. and Wuhan Accounting Software Co., Ltd. These subsidiaries were liquidated after the acquisition. Liquidation loss amounted to approximately RMB123,000 (See Note 23) was recognised in the consolidated income statement.

5. INVESTMENT IN AN ASSOCIATE

	Group	
	2001 RMB'000	2000 RMB'000
<i>Consolidated balance sheet:</i>		
The Group's share of net identifiable assets of an associate	-	203
Goodwill on acquisition, net	433	483
Less: Provision for impairment	(433)	-
	<u>-</u>	<u>686</u>
<i>Consolidated income statement:</i>		
The Group's share of profit (loss) of an associate	<u>(686)</u>	<u>3</u>

The investment in an associate represents 25% of indirectly held equity interest in Beijing Ecom Management Technology Consulting Co., Ltd. ("Beijing Ecom") which was incorporated on 13 February 2000 in Mainland China and engaged in the provision of management and consultancy services. Since the operating loss for the year attributable to the Group exceeded the investment cost, the Company's directors are of the opinion that the carrying value of the associate was no longer recoverable. Full provision is provided for remaining goodwill.

Notes to the Financial Statement [continued]

31 December 2001
 (Amounts expressed in Renminbi unless otherwise stated)

6. LONG-TERM INVESTMENTS

	Group	
	2001 RMB'000	2000 RMB'000
Available-for-sale investment – non-current	<u>190</u>	<u>80</u>

Non-current available-for-sale investment comprises the following:

	Indirect equity interest held by the Group	Group	
		2001 RMB'000	2000 RMB'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
– Shantou Kingdee Software Technology Co., Ltd. (“Shantou Kingdee”)	10%	60	–
– Lanzhou Kingdee Accounting Software Development Co., Ltd. (“Lanzhou Kingdee”)	10%	50	–
		<u>190</u>	<u>80</u>

All of the abovementioned companies 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 31 December 2001.

Notes to the Financial Statement (continued)

31 December 2001
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7. DEFERRED TAX ASSETS, NET

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

	Group	
	2001 RMB'000	2000 RMB'000
Deferred tax assets:		
– Provision for doubtful debts	1,282	879
– Deferred income	983	903
– Tax loss	497	–
– Time difference in sales and expenses recognition	1,117	313
	<u>3,879</u>	<u>2,095</u>
Deferred tax liabilities:		
– Advances from customers	(272)	–
– Deferred development costs	(410)	(75)
	<u>(682)</u>	<u>(75)</u>
Deferred tax assets, net	<u><u>3,197</u></u>	<u><u>2,020</u></u>

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

	Balance as of 1 January 2000 RMB'000	Movement RMB'000	Balance as of 31 December 2000 RMB'000	Movement RMB'000	Balance as of 31 December 2001 RMB'000
Provision for doubtful debts	5,200	6,524	11,724	5,375	17,099
Deferred income	9,423	2,616	12,039	1,071	13,110
Time difference in recognition of revenue and expenses	11,547	(7,378)	4,169	9,409	13,578
Tax loss	–	–	–	3,010	3,010
Advances from customers	(2,933)	2,933	–	(3,621)	(3,621)
Deferred development costs	(1,983)	984	(999)	(4,472)	(5,471)
	<u>21,254</u>	<u>5,679</u>	<u>26,933</u>	<u>10,772</u>	<u>37,705</u>
Deferred tax assets, net	<u><u>1,594</u></u>	<u><u>426</u></u>	<u><u>2,020</u></u>	<u><u>1,177</u></u>	<u><u>3,197</u></u>

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

8. INTANGIBLE ASSETS

Movements of intangible assets of the Group were as follows:

	2001			2000
	Development Cost	Goodwill	Software	Total
Cost				
Beginning of year	1,998	-	-	1,998
Additions	5,211	(115)	451	-
End of year	7,209	(115)	451	1,998
Accumulated amortisation				
Beginning of year	(999)	-	-	(333)
Amortisation for the year	(738)	-	(51)	(666)
End of year	(1,737)	-	(51)	(999)
Net book value				
End of year	5,472	(115)	400	999
Beginning of year	999	-	-	1,665

- (a) Development costs capitalised include expenses incurred by the Group in the development of certain new software version. During 2001, expenditures incurred were approximately RMB5,211,000, which was incurred between 1 March of 2001 and 31 December of 2001. The Group was able to demonstrate that, as at 31 December 2001, the new version of software met the criteria for recognition as an intangible asset.
- (b) Negative goodwill was generated from the acquisition of 40% share of interest from Guangdong Kingdee, a subsidiary of the Group on 31 December 2001. The negative goodwill will be amortized on the straight line basis over 5 years.

Notes to the Financial Statement (continued)

31 December 2001
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9. PREPAYMENTS AND OTHER CURRENT ASSETS

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Prepayments	1,426	6,535	487	5,606
Advances to employees	1,502	1,608	-	-
Deposits	2,776	1,948	-	-
VAT recoverable (Note 17)	4,457	4,634	-	-
Deposit for acquisition of shares	3,154	-	-	-
Others	3,425	1,871	-	-
	<u>16,740</u>	<u>16,596</u>	<u>487</u>	<u>5,606</u>

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	
	2001 RMB'000	2000 RMB'000
Amount due from Tianjin Kingdee, investment of the Group	70	98
Amount due from Xiamen Kingdee, investment of the Group	504	749
Amount due from Shantou Kingdee, investment of the Group	21	-
Amount due from Hainan Kingdee, investment of the Group	141	-
Amount due from Lanzhou Kingdee, investment of the Group	16	-
	<u>752</u>	<u>847</u>

Amounts due from all related parties represent outstanding trading balances in relation to sales of software and the balances were settled subsequent to 31 December 2001.

Notes to the Financial Statement (continued)

31 December 2001
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11. INVENTORIES

	Group	
	2001 RMB'000	2000 RMB'000
At cost:		
Raw materials	703	635
Finished goods	686	1,094
	<u>1,389</u>	<u>1,729</u>

12. ACCOUNTS RECEIVABLE, NET

	Group	
	2001 RMB'000	2000 RMB'000
0-180 days	24,528	22,143
181-360 days	5,900	6,490
Over 360 days	15,109	9,159
Less: provision for doubtful debts	(17,099)	(11,786)
	<u>28,438</u>	<u>26,006</u>

The Company's directors are of the opinion that although certain long outstanding accounts receivable had been fully provided, management will continue their effort to collect these outstanding accounts receivable.

13. CASH AND CASH EQUIVALENTS

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Cash at bank and in hand	50,091	33,938	2,881	11
Short-term bank deposit	75,340	-	71,060	-
	<u>125,431</u>	<u>33,938</u>	<u>73,941</u>	<u>11</u>

Notes to the Financial Statement (continued)

31 December 2001
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14. LONG-TERM BANK LOANS

	Group	
	2001 RMB'000	2000 RMB'000
Long-term bank loans repayable:		
Within one year	256	1,498
Later than one year and not later than two years	272	256
Later than two years and not later than five years	921	867
Later than five years	650	976
	<u>2,099</u>	<u>3,597</u>
Less: portion due within one year included under current liabilities	<u>(256)</u>	<u>(1,498)</u>
Repayable after one year	<u><u>1,843</u></u>	<u><u>2,099</u></u>

The long-term bank loans are secured by the buildings held by the Group (See Notes 3 and 33) and are repayable by monthly instalments with maturity in November 2008.

15. OTHER SHORT-TERM LOANS

	Group	
	2001 RMB'000	2000 RMB'000
Loan from Shenzhen Finance Bureau	1,000	2,000
Loan from an independent third party	-	2,000
	<u>1,000</u>	<u>4,000</u>

Pursuant to Shen Ke [2001] No.15 issued by Shenzhen Science Technology Bureau in 2001, as a support to the development of high-technology companies in Shenzhen, the Group received an unsecured and interest free loan on 25 December 2001 amounting to RMB1,000,000 from Shenzhen Finance Bureau with a maturity of twelve months.

16. DEFERRED INCOME

The amount represents revenues on solution consulting and 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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17. TAXES PAYABLE

	Group	
	2001 RMB'000	2000 RMB'000
EIT payable	2,119	553
VAT payable	5,278	4,122
Business tax payable	359	321
	<u>7,756</u>	<u>4,996</u>

According to tax regulations in Mainland China, developing and distributing computer software activities are subject to Value Added Tax ("VAT") with applicable tax rate of 17%. However, pursuant to Cai Shui [2000] No.25 issued by the State Tax Bureau on 22 June 2000, for the period from 24 June 2000 to 31 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 China Kingdee is 3% of revenue for this year. Pursuant to Shenfu [1999] No. 171 issued by Shenzhen Municipal Government, software enterprises with annual revenue over RMB10,000,000 is entitled to refund of VAT paid to the local tax authority. In the year VAT refund totals to approximately RMB11,993,000 (2000: approximately RMB6,742,000).

As of 31 December 2001, the Group recognised VAT recoverable amounting to approximately RMB4,457,000 (2000: approximately RMB4,634,000) with the approval documents from local tax bureau (Note 9).

As the subsidiaries of the Group were mainly engaged in distribution of software, the applicable VAT rate is 4% to 17% 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.

18. CUSTOMERS' DEPOSITS

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

Notes to the Financial Statement (continued)

31 December 2001
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19. ACCRUALS AND OTHER PAYABLES

	Group	
	2001 RMB'000	2000 RMB'000
Accrued advertising expenses	2,387	3,339
Accrued employees' bonus	800	1,906
Professional expense	1,675	-
Deferred subsidy income*	1,800	-
Payable to retirement scheme	200	-
Others	5,388	4,739
	<u>12,250</u>	<u>9,984</u>

* Pursuant to document Shan Fu [1999] No. 171. The Shenzhen Municipal Government granted a subsidy to the Company for establishing a research and development centre in Shenzhen. The balance represents the unamortized portion of the total subsidy income of RMB3,000,000 less the amount of RMB1,200,000 amortized to the income statement which matched the related costs of the research and development centre.

20. SHARE CAPITAL

	Number of shares '000	Nominal value HK\$'000	Nominal value RMB'000
Authorised share capital (HK\$0.10 each):			
Upon incorporation on 22 September 1999	(a) 500	50	53
Subsequent increase on 15 June 2000	(c) 500	50	54
Increase on 30 January 2001	(e) 999,000	99,900	106,893
	<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 22 September 1999	(a) 24	2	3
Issue of shares for cash on 8 October 1999	(b) 76	8	8
Issue of shares for the Reorganisation on 15 June 2000	(c) 900	90	96
Issue of shares through a public offering and placing	(f) 87,500	8,750	9,363
Capitalisation of share premium	(f) 349,000	34,900	37,343
Execution of share option	(g) 250	25	27
	<u>437,750</u>	<u>43,775</u>	<u>46,840</u>

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20. SHARE CAPITAL (continued)

- (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 22 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 8 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 8 October 1999, 75,625 shares were issued for cash at par to the then owners prior to the Reorganisation.
- (c) On 15 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 31 December 2000 are ranked pari passu to the existing shares in issue.
- (e) Pursuant to a written resolution of shareholders dated 30 January 2001, 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.
- (f) As of 14 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. On the same date, 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.
- (g) As of 2 July 2001, the Company issue and allotted 250,000 shares to Mr. Huang Xiao Jian upon his execution of share options. The Shares were credited as fully paid for cash at HK\$1.03 per share according to the Pre-IPO Share Option Scheme adopted on 30 January 2001.

21. RESERVES

In the accompanying consolidated statements 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 are required 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 31 December 2001, the directors resolved to appropriate RMB4,850,000 and RMB Nil (2000: RMB351,000 and RMB Nil) to the reserve fund and staff and workers' bonus and welfare fund respectively.

Notes to the Financial Statement (continued)

31 December 2001
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21. RESERVES (continued)

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 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 (2000: RMB42,039,000), which represented the contributed surplus account of the Company.

22. TURNOVER

Turnover comprises the following:

	2001 RMB'000	2000 RMB'000
Sales of software	169,114	134,883
Sales of hardware	1,959	5,167
Solution consulting and support services income	31,170	24,777
	<u>202,243</u>	<u>164,827</u>

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

23. OTHER INCOME, NET

	Group	
	2001 RMB'000	2000 RMB'000
Subsidy income	1,450	-
Liquidation loss	(123)	-
Others	(657)	1
	<u>670</u>	<u>1</u>

Subsidy income mainly represents the portion of deferred subsidy income amortized as income in the current year. (See Note 19)

Notes to the Financial Statement [continued]

31 December 2001
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24. FINANCE INCOME (COSTS), NET

	2001 RMB'000	2000 RMB'000
Interest income	2,298	645
Less: Interest expenses on bank loans	(492)	(1,112)
Others	(126)	(5)
	<u>1,680</u>	<u>(472)</u>

25. CONSOLIDATED PROFIT (LOSS) BEFORE TAXATION

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

	Consolidated	
	2001 RMB'000	2000 RMB'000
Crediting:		
Net exchange gain	-	(13)
Interest income on bank deposits	<u>2,298</u>	<u>(645)</u>
Charging:		
Development costs	15,018	12,913
Less: amount capitalised	(5,211)	-
Add: amortisation of capitalised costs	<u>738</u>	<u>666</u>
	<u>10,545</u>	<u>13,579</u>
Interest expenses on bank loans repayable:		
- within five years	358	963
- over five years	<u>134</u>	<u>149</u>
	<u>492</u>	<u>1,112</u>
Auditors' remuneration	1,150	580
Net exchange loss	6	-
Cost of raw materials consumed	3,218	4,700
Staff costs:		
- salaries, wages and other benefits	56,781	44,623
- contribution to retirement scheme (Note 30)	<u>2,522</u>	<u>1,860</u>
	<u>59,303</u>	<u>46,483</u>
Depreciation of fixed assets	6,721	6,192
Amortisation of goodwill on acquisition of an associate	50	17
Goodwill written-off	433	-
Provision for doubtful debts	5,375	6,527
Loss on disposal of subsidiaries (Note 4)	123	-
Operating lease rentals on premises	8,766	8,307
Loss on disposal of fixed assets	<u>322</u>	<u>394</u>

Notes to the Financial Statement (continued)

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

26. TAXATION

Taxation represents:

	Consolidated	
	2001 RMB'000	2000 RMB'000
Mainland China income tax		
– Current income tax	3,071	1,220
– Deferred income tax relating to the origination and reversal of temporary differences	(1,177)	(426)
	<u>1,894</u>	<u>794</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 31 December 2001 in those jurisdictions.

The Group's subsidiary, China 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 5 March 1999, Kingdee China 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.

The following tax rates are applicable to the other principal subsidiaries and an associate of the Group for the year ended 31 December 2000 and 2001:

	2001	2000
<i>Principal subsidiaries:</i>		
Guangdong Kingdee	33%	33%
Chongqing Kingdee	33%	33%
Shanghai Kingdee (i)	16.5%	–
Hangzhou Kingdee	33%	33%
Zhuhai Kingdee (ii)	15%	15%
Other subsidiaries	33%	33%
<i>An associate:</i>		
Beijing Ecom	33%	33%

Notes to the Financial Statement (continued)

31 December 2001
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26. TAXATION (continued)

- (i) Shanghai Kingdee is exempt from EIT for three years ending 31 August 2001, and is subjected to 50% reduction from 33% to 16.5% for another three years ending 31 August 2004.
- (ii) Zhuhai Kingdee operated in Zhuhai – a Special Economic Zone of Mainland China which has a 15% effective tax rate.

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

	2001		2000	
	RMB'000	%	RMB'000	%
Accounting profit before taxation	<u>30,233</u>	<u>100%</u>	<u>22,807</u>	<u>100%</u>
Tax at the statutory tax rate (15%)	4,535	15.0%	3,421	15.0%
- Tax benefit arising from high-technology enterprise tax exemption	(2,268)	(7.5%)	(1,711)	(7.5%)
- Tax effect of expenses that are not deductible in determining taxable profit	526	1.7%	-	-
- Income not subject to income tax	<u>(899)</u>	<u>(3.0%)</u>	<u>(916)</u>	<u>(4.0%)</u>
Taxation per account	<u>1,894</u>	<u>6.2%</u>	<u>794</u>	<u>3.5%</u>

Since the companies now comprising the Group, except for China Kingdee, had no material amount of taxable profit during the year ended 31 December 2001, so the applicable tax rate for the Group is 15%, which is the applicable tax rate for China Kingdee.

27. DIVIDENDS

The Company has not declared nor paid dividends for the year ended 31 December 2001 (2000: nil).

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.

Notes to the Financial Statement [continued]

31 December 2001
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28. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders of approximately RMB30,036,000 in 2001 (2000: RMB22,364,000) by the weighted average number of ordinary shares outstanding during the year 2001, which is approximately 426,688,000 shares (2000: 350,000,000 shares).

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

	2001 RMB'000	2000 RMB'000
Net profit attributable to ordinary shareholders	<u>30,036</u>	<u>22,364</u>
	2001 '000	2000 '000
Weighted average number of ordinary shares (Note 20)		
Issued ordinary shares at 1st January (i)	350,000	100
Effect of shares issued	76,563	900
Effect of execution of shares option	125	-
Effect of capitalization issue and reorganization	-	349,000
Weighted average number of ordinary shares at 31st December	<u>426,688</u>	<u>350,000</u>
	2001 RMB'000	2000 RMB'000
Net profit attributable to ordinary shareholders (diluted)		
Net profit attributable to ordinary shareholders	30,036	22,364
After-tax effect of interest on proceeds from share option	6	82
Net profit attributable to ordinary shareholders (diluted)	<u>30,042</u>	<u>22,446</u>

Notes to the Financial Statement [continued]

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

28. EARNINGS PER SHARE (continued)

	2001 '000	2000 '000
Weighted average number of ordinary shares (diluted) (Note 20)		
Weighted average number of ordinary shares at 31st December	426,688	350,000
Effect of share options outstanding	706	2,020
Weighted average number of ordinary shares (diluted) at 31st December	<u>427,394</u>	<u>352,020</u>

- (i) Earnings per share of year 2000 had been prepared after taking into consideration the Capitalisation Issue.

29. DIRECTORS AND SENIOR EXECUTIVES' REMUNERATION

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

	2001 RMB'000	2000 RMB'000
Fees	175	24
Salaries, allowances and benefits in kind	830	502
Bonus	380	459
Retirement benefits	6	6
Others	78	78
	<u>1,469</u>	<u>1,069</u>

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

	2001 Number	2000 Number
Nil – RMB1,000,000	<u>7</u>	<u>7</u>

Save as disclosed herein, no remuneration has been paid or is payable in respect of the year ended 31 December 2001 by the Company or its subsidiaries to the directors of the Company.

The seven directors received individual emoluments of approximately RMB906,000 (2000: approximately RMB740,000), RMB438,000 (2000: approximately RMB305,000), RMB25,000 (2000: approximately RMB12,000), RMB25,000 (2000: approximately RMB12,000), RMB25,000 (2000: nil) and RMB25,000 (2000: nil), RMB25,000 (2000: nil) respectively.

No directors waived any emolument during the year ended 31 December 2001.

Notes to the Financial Statement (continued)

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

29. DIRECTORS AND SENIOR EXECUTIVES' REMUNERATION (continued)

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

	2001 RMB'000	2000 RMB'000
Directors	1,344	1,045
Senior executives	1,420	809
	<u>2,764</u>	<u>1,854</u>

	2001 Number	2000 Number
Number of directors	2	2
Number of senior executives	3	3
	<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:

	2001 RMB'000	2000 RMB'000
Fees	50	-
Salaries, allowances and benefits in kind	1,592	1,305
Bonus	1,030	459
Retirement benefits	14	12
Others	78	78
	<u>2,764</u>	<u>1,854</u>

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

	2001 Number	2000 Number
Nil – RMB1,000,000	<u>5</u>	<u>5</u>

During the year ended 31 December 2001, 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.

Notes to the Financial Statement (continued)

31 December 2001
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30. 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 10% to 23% based on the eligible employees' basic salaries.

The details of the pension contributions made by the Group are as follows:

	2001 RMB'000	2000 RMB'000
Contributions to retirement scheme (Note 25)	<u>2,522</u>	<u>1,860</u>

As of 31 December 2001, the Group has outstanding obligations of the retirement scheme amounting to approximately RMB200,000 (2000: Nil). (Note 19)

31. RELATED PARTY TRANSACTIONS

- (a) 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 31 December 2001:

	2001 RMB'000	2000 RMB'000
Continuing transactions:		
Sales of software products		
– Tianjin Kingdee (10% owned by the Group)	1,076	849
– Xiamen Kingdee (10% owned by the Group)	1,204	946
– Hainan Kingdee (10% owned by the Group)	95	–
– Lanzhou Kingdee (10% owned by the Group)	132	–
– Shantou Kingdee (10% owned by the Group)	370	–
	<u>2,877</u>	<u>1,795</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.

- (b) In December 2001, the Group acquired 40% interest of Guangdong Kingdee at consideration of RMB200,000 (see Note 5).

Notes to the Financial Statement (continued)

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32. NOTES TO CONSOLIDATED CASH FLOW STATEMENT**a. Analysis of changes in financing**

	2001					2000
	Short-term and long term loans RMB'000	Other short-term loans RMB'000	Minority interests RMB'000	Dividend Payable RMB'000	Total RMB'000	Total RMB'000
Beginning of year	18,197	4,000	2,647	2,790	27,634	24,243
Proceeds from new bank loans	9,600	-	-	-	9,600	2,500
Proceeds from other short-term loans	-	1,000	-	-	1,000	4,000
Repayments of bank loans	(25,698)	-	-	-	(25,698)	(1,653)
Repayments of other loans	-	(4,000)	-	-	(4,000)	-
Dividends paid	-	-	-	(2,790)	(2,790)	(1,210)
Minority interests acquired through purchase of shares of subsidiaries	-	-	(98)	-	(98)	-
Share of result of minority interests	-	-	(1,697)	-	(1,697)	(351)
Capital contributed by minority shareholders of subsidiaries	-	-	100	-	100	105
End of year	<u>2,099</u>	<u>1,000</u>	<u>952</u>	<u>-</u>	<u>4,051</u>	<u>27,634</u>

b. Major non-cash transactions

As of 14 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.

Notes to the Financial Statement (continued)

31 December 2001
(Amounts expressed in Renminbi unless otherwise stated)

33. BANKING FACILITIES AND PLEDGE OF ASSETS

As of 31 December 2001, the Group had no banking facilities (2000: RMB14,600,000) for short-term bank loans.

As of 31 December 2001, long-term bank loans of RMB2,099,000 were secured by the buildings of the Group with net book value of approximately RMB3,869,000 (2000: approximately RMB3,994,000) as of 31 December 2001, and bore interest 6% per annum (2000: 6.0%).

34. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as of 31 December 2001 (2000: Nil).

35. COMMITMENTS**(a) Capital commitment**

As of 31 December 2001, the Group had the following capital commitments (2000: Nil):

- (i) As of 27 December 2001, the Group has authorized and contracted capital commitments of approximately RMB13,500,000 for acquisition of 90% interest in Beijing Case Software Technology Co., Ltd., an independent company, in the form of cash or new shares of the Company. During the year, the Group has paid RMB2,000,000 to the shareholders of the company as the deposit for the transaction.
- (ii) During the year, the Group has authorized and contracted capital commitments of approximately RMB1,533,000 for acquisition of additional equity interest in several subsidiaries. During the year, the Group has paid approximately RMB1,154,000 to respective non-connected minority shareholders of these subsidiaries.

(b) Operating lease commitments

As of 31 December 2001, the Group and Company had total minimum future lease payments under non-cancellable operating leases in respect of buildings as follows:

	Group		Company	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
Payable:				
- Not later than one year	6,868	4,413	10	-
- Later than one year and not later than five years	6,126	1,955	-	-
	<u>12,994</u>	<u>6,368</u>	<u>10</u>	<u>-</u>

Notes to the Financial Statement (continued)

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36. 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.

37. PROVISION

At 31 December 2001, the Group had no material outflow of resources embodying economic benefits for expected warranty claims during the year ended 31 December 2001 (2000: Nil).

38. 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 31 December 2001.

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

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 1 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 15 respectively.

39. SEGMENT INFORMATION

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

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40. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 December 2001:

- (a) The Group acquired 25% of equity interest in Asia 21-Cybics Technology Limited, a Hong Kong limited liability company by paying cash amounted to approximately RMB5,000,000.
- (b) Mr. Xu Shaochun and Mr. Zhang Wenxin, both directors of the Company, entered into an agreement on 22 February 2002 for transferring all shares, held by Mr. Zhang through Billion Ocean Limited to Mr. Xu. Subsequent to this transaction, Mr. Xu will become the largest shareholder of the Company.

41. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 25 March 2002.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2001 Annual General Meeting of Kingdee International Software Group Company Limited (the "Company") will be held at the Company's principal place of business in the People's Republic of China ("PRC"), 4th Level, Zone B, Block W1, High-New Technology Industrial Estate, Shennan Highway, Nanshan District, Shenzhen, Guangdong Province, The PRC on Friday, 26 April 2002 at 2:00 p.m. for the following purposes:

1. To receive and adopt the audited consolidated accounts and the reports of the directors and auditors of the Company for the year ended 31 December 2001;
2. To declare a final dividend for the year ended 31 December 2001;
3. (A) To elect Mr. Wu Cheng in place of Mr. Zhu Qi Heng, the retiring director, as an Independent Non-executive director of the Company;
- (B) To authorize the board of directors ("the Board") to fix the remuneration of the directors;
4. To consider and approve the appointment of PricewaterhouseCoopers as the auditors of the Company in place of the retired auditors and to authorise the Board to fix their remuneration;
5. 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.”

Notice of Annual General Meeting (continued)

- (C) "THAT conditional upon ordinary resolutions nos. 5(A) and 5(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. 5(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. 5(A) above."

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

Hong Kong, 27 March 2002

Registered Office:

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

*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

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 notarially 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 24 April 2002 (Wednesday) to 26 April 2002 (Friday), (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 23 April 2002 (Tuesday).
- (v) An Explanatory Statement containing further details regarding ordinary resolution no. 5(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 2001.