

# Product Leadership Partner Oriented

Enter

Annual Report 2002 二零零二年年報

**KINGDEE**

Kingdee International Software Group Company Limited  
金蝶國際軟件集團有限公司

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

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

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

### 香港聯合交易所有限公司（「聯交所」）創業板市場（「創業板」）的特色

創業板乃為帶有高投資風險之公司提供一個上市之市場。尤其在創業板上市之公司毋須有過往溢利記錄，亦毋須預測未來溢利。此外，在創業板上市之公司可因其新興性質及該等公司經營業務之行業或國家而帶有風險。有意投資之人士應了解投資該等公司之潛在風險，並應經過審慎周詳之考慮後方作出投資決定。創業板之較高風險及其他特色表示創業板較適合專業及其他資深的投資者。

由於創業板上市之公司屬新興性質，在創業板買賣之證券可能會較在聯交所主板買賣之證券承受較大之市場波動風險，同時無法保證在創業板買賣之證券會有高流量之市場。

創業板發佈資料之主要方法為在聯交所為創業板而設之互聯網網頁上刊登。上市公司毋須在憲報指定報章刊登付款公佈披露資料。因此，有意投資之人士應注意，彼等須閱覽創業板網頁，方可取得創業板上市發行人之最新資料。



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To develop advance and reliable application software products by continuous innovation, knowledge accumulation and optimization of process and become a highly reputable company by creating customers' value and leading customers towards success



Kingdee International Software Group Company Limited ('Kingdee International' or the 'Company') and its subsidiaries (the 'Group') is a leading enterprise of total solutions provider in the People's Republic of China ("PRC"). It develops and provides software products which include enterprise management and e-commerce application software tailoring to the needs of the Chinese enterprise management through the Internet and middleware that construct e-commerce platform for enterprises. It also provides solution consultation and technical support services to its customers.

Kingdee International strides forward with technology innovation as a driving force and 'leading customers towards success' as its corporate development motto. The Group has established strategic and technological alliances with leading global IT companies. In addition, with its high-caliber personnel and well-experienced management, the Group has also established strong advantages in product technology and sales services in the PRC.



## Milestones in 2002

- |  |   |
|--|---|
| <p><b>January</b></p> <ul style="list-style-type: none"> <li>Signed letter of intent for the strategic cooperation with State Personnel Information Centre and jointly research and promote K/3 HR system</li> </ul>   | <p><b>August</b></p> <ul style="list-style-type: none"> <li>Accredited as the "Best Users' Choice" and the "Highest Users' Loyalty" in ERP software and the "Best Application in Various Industries" in Accounting software according to the "Research of China IT Users' Satisfaction Level 2002"</li> <li>Ranked the first among all the domestic ERP software providers in competitiveness at high score of 24.71 according to the "Research Report of China Management Software Providers in Competitiveness 2002"</li> </ul>   |
| <p><b>February</b></p> <ul style="list-style-type: none"> <li>K/3 System elected as the best IT product in the category of ERP (CIO's choice) in 2001 by Internet Weekly</li> </ul>  | <p><b>September</b></p> <ul style="list-style-type: none"> <li>Honored the "Excellent ERP Provider", the "Innovative ERP Technology" and the "Excellent Software for Financial Industry" at the "CCID Release of Research Results on Competitiveness of the PRC Management Software Enterprises and Award Presentation Ceremony 2002"</li> <li>Launch of the new generation of intelligent office management system CASE/OA R7</li> <li>Established a joint venture company, Beijing KINGCB International Information System Co., Ltd. with China Engineering Construction Internet Technology Development (Beijing) Company Limited and tapped into the construction industry</li> </ul> |
| <p><b>March</b></p> <ul style="list-style-type: none"> <li>Launched Enterprise Total Solutions v1.0 and published "Blue Paper of Enterprise Informatization Total Solutions"</li> <li>Recognised as "Major Enterprise of Software Industry under China Torch Program Projects" by High New Technology Office of Shenzhen</li> <li>Entered into a strategic agreement with the Engineering Research Center of Computer Integrated Manufacturing Systems, Tsinghua University (CIMS-ERC)</li> <li>Passed CMM Level 2 assessment</li> </ul> | <p><b>October</b></p> <ul style="list-style-type: none"> <li>TEEMS CRM Solutions was awarded the "Best Solutions in CRM and Call Centre Categories" at the "首屆中國信息化知識大賽暨中國信息化優秀解決方案評選"</li> <li>K/3 ERP passed the assessment of major government departments according to the "製造業信息化工程 2002 年度三維 CAD and "The Accessment Results of ERP Software Products"</li> <li>Successfully bid three State "863" projects</li> </ul>  |
| <p><b>April</b></p> <ul style="list-style-type: none"> <li>According to "the Annual Report on the Research of the PRC's Management Software Market 2001- 2002", K/3 ERP ranked first amongst all the domestic and foreign brands of ERP software products, with brand coverage of 15.4% in China. With 24.7% market share, K/3 ERP was ranked the first according to a research about the application of management software for financial industry.</li> </ul>  | <p><b>November</b></p> <ul style="list-style-type: none"> <li>Held the award presentation ceremony of "Eastern Pearl Project" to 100 outstanding customers in Beijing</li> </ul>  |
| <p><b>May</b></p> <ul style="list-style-type: none"> <li>Cooperated with Brio Software Incorporation to explore the market of business intelligence software</li> </ul>  | <p><b>December</b></p> <ul style="list-style-type: none"> <li>Passed CMM Level 3 assessment</li> <li>Became China Top 100 China e-Government Solutions Providers</li> <li>Appointed as E5 Systems Company Limited's software outsourcing partner in China</li> </ul>  |
| <p><b>June</b></p> <ul style="list-style-type: none"> <li>Launched of "Eastern Pearl Project" sharing the successful experience among its customers and paving the way for customers' successful application of Kingdee International products in the future</li> </ul>  |   |

## Executive Director and Managing Director

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

## Non-executive Director

Zhao Yong  
Hugo Shong  
Zhang Wen Xing

## Independent Non-executive Director

Yang Zhou Nan  
Wu Cheng

## Company Secretary

Chung Oi Yin, Irene, ACS, ACIS

## Compliance Officer

Xu Wen Hui

## Qualified Accountant

Yang Jian Wen, ACCA

## Audit Committee

Xu Wen Hui  
Yang Zhou Nan  
Wu Cheng

## 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

## Auditors

PricewaterhouseCoopers  
22nd Floor, Prince's Building  
Central, Hong Kong

## Legal Advisors

*Hong Kong:*  
**Kwok & Yih**  
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 Hong Kong 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

**Computershare Hong Kong Investor Services Limited**  
Shops 1901-1905  
19th 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](http://www.kingdee.com)

## GEM Stock Code

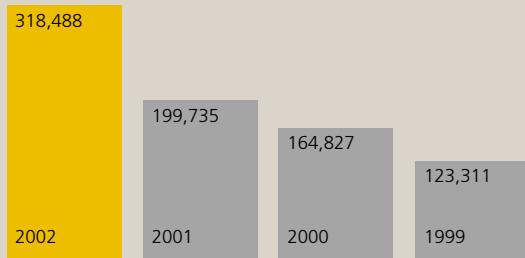
8133

## Financial Highlights

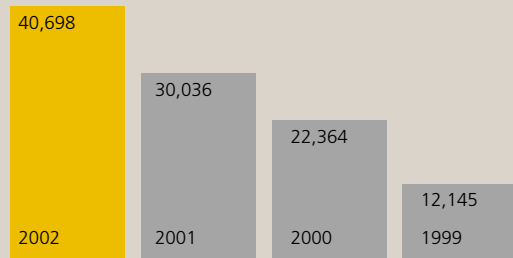
For the year ended 31 December	<b>2002</b> RMB'000	2001 RMB'000	2000 RMB'000	1999 RMB'000
Total revenue	<b>318,488</b>	199,735	164,827	123,311
Profit before tax	<b>42,776</b>	30,233	22,807	12,944
Profit after tax	<b>39,967</b>	28,339	22,013	12,036
Net profit attributable to shareholders	<b>40,698</b>	30,036	22,364	12,145
Earnings per share - basic	<b>RMB0.09</b>	RMB0.07	RMB0.064	RMB0.035



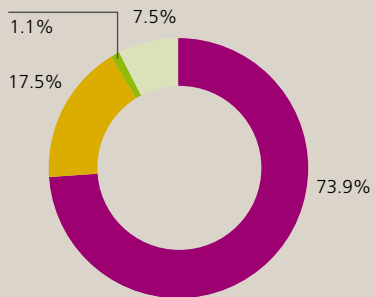
Total revenue  
RMB'000



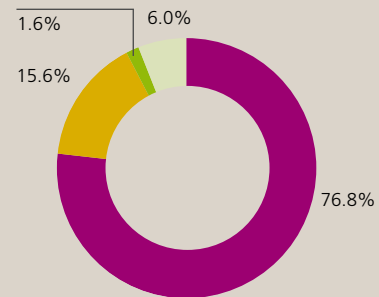
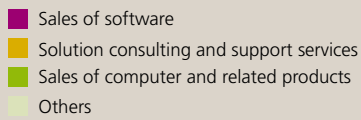
Net profit attributable to shareholders  
RMB'000



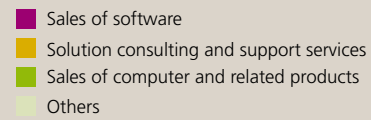
Total Revenue Breakdown by Business



2002



2001





Xu Shao Chun  
Chairman

On behalf of Kingdee International Software Group Company Limited ("Kingdee International" or the "Company") and its subsidiary (the "Group"), I am pleased to present the Group's audited annual results for the year ended 31 December 2002 for our shareholders' review and consideration.

During the year 2002 under review, Kingdee International has recorded promising results. The Group's total revenue and net profit attributable to shareholders were RMB318,488,000 and RMB40,698,000 respectively, representing an increase of 59.5% and 35.5% over 2001 respectively. Earnings per share were RMB0.09, an increase of 28.6% over 2001. The proposed dividend amounts to HK\$0.02 per share.

Under the trend of "industrialization contributed by informatization" encouraged by the PRC government, Kingdee International has been seeking for growth opportunities at a full gear. Kingdee International tightly grasps the market pulse, fully understands customers' needs and focuses on research and development. By advanced technology and quality products as the foundation of the Group, Kingdee International provided a tailor made enterprise management solutions to its customers and expanded into a more diverse range of product lines and service capability through development, consolidation, acquisitions and cooperation. By launching enterprise total informatization solutions, Kingdee International has changed from a solely software provider to the best strategic partner of enterprise informatization among its competitors in China. The Group successfully consolidated the acquisition of Beijing Case Software Technology Company Limited which is a professional ERP provider and launched a total enterprise electronic management solutions. The solutions were widely applied in various industries such as vehicle, financial, tobacco and etc. Synergy of acquisition was optimal and the acquisition signified the major step of the Group to tap into the market of different industries. In addition, the Group actively opened up overseas markets and explored a number of famous domestic and overseas enterprises as customers such as China Travel Service (Holdings) Hong Kong Limited and China Merchants Group. This signified that Kingdee International was capable of providing enterprise total solutions for enterprises with cross-industrial, cross-border and multi-national businesses in international

market. In last year, the Group has also made great efforts in a series of large scale marketing programs such as the "Eastern Pearl Project", thus building closer connection between the Group and its customer and stronger communication with customers, to assist its customers on informatization and to grow with its customers.

As a leading player in the management software industry, Kingdee International has always kept itself ahead of the changing market trends in the highly competitive domestic market. In 2002, Kingdee International has made several remarkable achievements. To take a major example, according to "the Annual Report on the Research of the PRC's IT Market 2002-2003" produced by the Market Research Centre of Computer World, Kingdee International was ranked the first in innovation of management software and its ERP software was also ranked the first in the small and medium-sized enterprise market. All these proven records signified that Kingdee International is capable of leading the trend of enterprise management software industry and maintaining its competitive edges. At the same time, Kingdee International's products were tailored to different needs for leading its customers towards success.

Kingdee International's pride is not built on our promising achievements, but rather on our priority in creating shareholders' value. By continuously heading towards new milestones, we will never disappoint our shareholders. Looking ahead, advanced technology and quality products will be the foundation of the Group. Kingdee

International will work closely with distinguished partners and jointly develop extensive partnership chain and enhance the operation environment for the IT industry. As such, it has successfully established a strong, vivid and indispensable IT chain to provide a higher level of tailor made enterprise management informatization platform. Kingdee International pursuits the best satisfaction from customers and grows with its customers.

The Group will continue its connection with investors. By timely, completely and accurately disclosing information, the Group aims to enhance its transparency and protect the interests of the investors, so as to provide an objective, fair and free investment channel.

Last but not least, I would like to take this opportunity to express our sincere appreciation to the Board members, senior management and all staffs for their dedicated services and contributions throughout the year 2002, and to all clients and business partners of Kingdee International for their continuous support.

Xu Shao Chun  
Chairman

21 March 2003

## Product and Technology

We have always adhered to the market pulse in response to our clients' demand and focused on research and development. Innovative technology and advanced products will be the foundation of the Group.



## Industry Review

In 2002, with remarkable growth of China's macro-economy and strong support from the State policies, the software industry in the PRC enjoyed sustainable rapid growth. According to International Data Corporation ("IDC") Consulting Company Limited, it is estimated that the software market in China will achieve a compound annual growth rate ('CAGR') of 36.9% in the next four years. Facing this rapidly growing market, most well established domestic software providers continued to strengthen their own edges in products and sales and marketing. Meanwhile, they also accelerated the pace of expansion through mergers and acquisitions. A number of well have established foreign software providers have taken great leaps in transferring or expanding their business into the PRC. During 2002, the software market in China was characterized by "the cross penetration between domestic and foreign brands in the high-end and low-end markets". The competition amongst the local and foreign manufacturers was thus intensified.

With accumulation of management philosophy and management experience over the years, domestic software

providers were becoming more mature and endeavored to build certain competitive advantages regarding product development, technology innovation, service quality and establishment of reputable customer base. Moreover, the PRC's enterprise software manufacturers were well poised to enjoy greater growth by capitalizing on their advantages in the horizons of localization, technological advancement and market channels.

To encourage the development of domestic software companies, the PRC government continuously reinforced its supportive policies to the software industry. As such, speeding up development of the software industry was regarded as one of the key development efforts for the China information industry. In this connection, the government introduced series of software industry related policies. In particular, "The Summary of Measures for Vitalizing the Software Industry" 《振興軟件產業行動綱要》 was promulgated by the Office of the State Council throughout the nation. Further to "Certain Policies for Promoting the Development of Software and Integrated Circuit Industries" 《鼓勵軟件和集成電路產業發展的若干政策》, the above-mentioned summary was





another summary document aimed at blooming the development of China's software industry. With substantial breakthroughs in the policies regarding the nurturing of domestic market, expansion of software exports, incubation of software enterprises, development of core technologies and training of software professionals, an amiable operating environment was created for domestic software companies.

With China government's supportive measures to software industry, domestic software providers were in a good position to capture better development opportunities. By surging demand in the applications of enterprise informatisation and e-government, the market share of domestic brands in China's software industry grew substantially. The competitive advantages of domestic software providers are gradually strengthened.

## Business Review

Leverage on the advantages in products, technology and expertise, Kingdee International strives to provide quality products and tailor made enterprise solutions, aiming to bring enormous economic efficiency to customers and successfully becoming the best strategic partner of enterprise informatisation in China in 2002.

### Successful introduction of the tailor-made "Total Solutions"

During the reporting period, the Group continued to enrich its product lines by successfully launching the upgraded versions of K/3 ERP, Distribution Resource Planning (DRP), Customer

Relationship Management (CRM) and Office Automation and Knowledge Management (KM). We provided our customers with the industry-specific total solutions for enterprise informatization V1.0. Our cooperation with Brio Software Incorporation ("Brio"), a business intelligence software provider, further enhanced the capability of Kingdee International in providing total solutions. To establish a foothold in different industries, software solutions for the financial, manufacturing, energy, tobacco, pharmacy sectors were designed specifically to each industry so as to tailor their individual requirement for informatization management at different stages. Enterprise users became more rational when the market matured. They demanded for optimal management software products suiting their specific requirements. Kingdee International provided its clients with advanced products. At the same time, with extensive customer experience, Kingdee International evaluated and analyzed the evolving management needs of the growing PRC enterprises. To cater for enterprises' need at



different stages, Kingdee International provided enterprises with customized enterprise informatization solutions, thereby enabling enterprise customers to bridge their gaps in development.





# Market

We have also restructured the nationwide market into seven major regions, backed by 42 branches over the country, our sales network reached a geographical coverage of 221 cities.

A photograph of three men in business attire, including shirts and ties, standing in front of a window with blinds. The lighting is warm and golden, creating a professional and focused atmosphere. The men are looking towards the camera with slight smiles.

## Professional Expertise

Kingdee International is always in pursuit of high-quality personnel. Leverage on the listing status of Kingdee International in Hong Kong, the Group grants share options to major management staff, research expertise and etc as a courtesy of encouragement.



With the promotion of the "total solutions", a group of renowned domestic and foreign enterprises have selected to use the enterprise informatization management solutions developed by Kingdee International. Those enterprises included China Everbright Bank, China FAW Trading General Corporation, Hangzhou Cigarette Factory, Shenyang Jinbei Car Manufacturing Co., Ltd., Jiangxi Coal Group, Heilongjiang Beidahuang Rice Group, XJ Group Corporation and China Worldbest Group Co. Ltd. etc. In addition, the Group actively opened up overseas markets. We entered into agreements with China Travel Service (Holdings) Hong Kong Limited and China Merchants Group. This signified that Kingdee International was capable of providing enterprise total solutions for enterprises with cross-industrial, cross-border and multi-national businesses in international market.

#### Improving management through internal consolidation and adjustment

In order to improve the internal management system of Kingdee



International, the Group underwent resources consolidation and enhanced operational efficiency. Through the management model of "3 horizons and 5 verticals", the Group integrated the 3 management levels (including

institutional, regional and headquarter levels) into the 5 vertical lines (including headquarter, marketing, direct sales, distribution and services). Consequently, synergies among each management level and each business line were enhanced. With further consolidation of CASE into the Group, perfect synergies between Kingdee International and CASE in terms of products and channels were created through launching of latest upgraded versions of DRP and KM. Our research and development ("R&D") teams in Beijing, Shanghai and Shenzhen were comprised of over 500 staff in total. Our product lines covered four major areas including ERM (Enterprise Resources Management), SCM (Supply Chain Management), CRM (Customer Relations Management) and KM (Knowledge Management). We have also restructured the nationwide market into seven major regions. Backed by 42 branches over the country, our sales network reached a geographical coverage of 221 cities. We actively explored the domestic market for gaining a larger market share.

#### Strengthening marketing efforts through various promotional activities

Close client-to-client connection and client-and-manufacturer relationship were cultivated for facilitating mutual exchange of successful application experiences of ERP among the enterprises in China. Kingdee International was able to perceive advanced overseas management philosophy and work out practical management models and application solutions for different industries in order to enhance customers' application level. In June, led by the National Office of the Working Group for Enterprise Informatization Management, Kingdee



International launched the "Eastern Pearl Project" under a joint collaboration with several authoritative institutions like e-Commerce Association of China, the State Informatization Evaluation Centre 《國家資訊化測評中心》, Tsinghua University (CMIS-ERC) as well as a number of renowned domestic media. In this "Eastern Pearl Project", 100 enterprises were selected as the most representative models for specific sectors and regions. The project's objective was to explore application through cases and foster development through application. From an impressive track record of successful application, valuable experience for application can be aggregated, thereby providing the growing domestic enterprises with tailor-made tools and approaches according to their needs of informatization management. And eventually, it enables Kingdee International to attract more customers.

During the reporting period, KM products became increasingly popular in the nationwide channels as a result of the Group's successful launch of several product promotion events such as the "Knowledge Storm Program". That program proved to be encouraging and powerful for product promotion and sales. In the "Kingdee Accounting Software Campaign", the mini version of "Kingdee 2000XP", an accounting software targeted at low-end markets, was introduced. Apart from matching market demands, this product was also perfectly compatible for more advanced software products like ERP. Accordingly, Kingdee International can upgrade the informatization management applications for users of small and medium-sized enterprises when necessary.

### Enhancing the Group's strength for stronger market competitiveness

During the reporting period, after series of strict examinations and appraisal, Kingdee International won three 863 projects which were accredited as national major technological research projects, due to its advanced technologies, product quality, an extensive base of successful customers and in-depth industry applications. Winning the bids of 863 projects evidenced that Kingdee International's products are recognized and approved by both the government and the experts. Kingdee International will not only receive funding support from national and local governments for the informatization projects, but also the attention and technical advice from the State 863 experts as and when the projects are underway. The above-mentioned event will undoubtedly help Kingdee International in developing more competitive industry solutions, exploring new industry applications and enhancing the technological level of Kingdee International's ERP products.

During the reporting period, Kingdee International was assessed at CMM Level 3. By the successful practice of CMM Level 3, the definition of Kingdee International's research and implementation have been further regulated, thus enabling the Group to meet the international standards in software development process management and to be fully capable of exporting software. Kingdee International will roll to CMM Level 4 and Level 5 by improving software design, project process transparency, and information sharing, and further improving our essential core competitive advantages.





Microsoft®



IBM



IDG

## Strategic Alliance

Kingdee International will work closely with partners and jointly develop partnership chain and a better operation environment for IT industry.

It eventually forms a strong vivid and indispensable IT chain to provide a higher level of integrated total solution and services.



### Exploring into local and overseas markets through joint alliance with established companies

During the reporting period, the Group made an equity investment in Asia 21-Cybics Technology Limited ("Asia 21-Cybics") so as to reallocate the operating capital from ERP area to newly emerging e-commerce business. This equipped Kingdee International with a stronger capability in providing total solutions. Moreover, the cooperation with Asia 21-Cybics will also promote future R&D of Internet-based and Wireless Internet-based enterprise application software systems. In December, Kingdee International established a joint venture company, Beijing KINGCB International Information System Co., Ltd 《金建互聯信息系統有限公司》, which business has already been profitable since it was founded. The prospects of call center for construction companies and urban public utility are promising. Through the cooperation with China Engineering Construction Internet Technology Development (Beijing) Co. Ltd., the Group rapidly tapped into the software application for construction and building material industries by sharing the existing customer base.

In March 2002, the Group entered into a strategic agreement with the State Engineering Research Center for Computer Integrated Manufacturing Systems, Tsinghua University (CIMS-ERC) to establish an "Enterprise

Informationization Technology Research Center" with CIMS-ERC. Both parties can, through such cooperation, complement each strength and weakness in education research, solution design, management consulting, market expansion and project implementation. In May 2002, the Group established a strategic partnership with a business intelligence software provider - Brio to jointly explore into the business intelligence analysis market. In November 2002, the Group established a strategic alliance with a US company - E5 Systems Company Limited ("E5 System"), and was appointed as E5 Systems' software outsourcing partner in China. The cooperation will enable Kingdee International to explore the Northern American market.

### Training outstanding personnel for enlarging backbone teams

Kingdee International is always in pursuit of high-quality personnel. Its human resources strategy is to provide internal training and attract external outstanding personnel. In addition to those self-trained managers, key mid-level staff, implementation consultants, sales consultants and sales experts, a number of competent personnel had joined Kingdee International. During the period under review, the Group employed a group of senior technology development and consulting expertise. All these professionals have become the core members of Kingdee International.

The Group has provided a good working environment for staff, formulated an individual growth plan for each member, established "Kingdee University" to provide various trainings to staff, assessed the performance of each member so as to enhance individual capability, set up expertise reserve pool and shifted resources to outstanding staff. The Group aims at sustaining competitive power by cultivating the corporate culture of passion and upgrading human resource system. As at 31 December 2002 staff members of the Group in total increased from 1,497 at the beginning of the years to 1,930.

Leverage on the listing status of Kingdee International in Hong Kong, the Group grants share options to major management staff, research expertise, etc as a courtesy of encouragement. In May 2002, Kingdee International granted share options to its subsidiary, Kingdee Software (China) Company Limited, and the R&D Centres in Beijing and Shanghai. Those share options involved an aggregate of 5,620,000 shares with a market capitalization of nearly HK\$10 million. Since the listing of the Company in February 2001, this was the third time that the Group had granted share options. Staff remuneration was closely linked to Company's profit through share options. Rewarding management and technical expertise contributed to Kingdee International, on the other hand, the Group was able to attract talents in software industry to pursuit their career in Kingdee International.



## Financial Review

### Consolidated results of operations

The Group's total revenue for the year ended 31 December 2002 was approximately RMB318,488,000, representing an increase of approximately 59.5% over year 2001 (2001: RMB199,735,000). The growth was mainly contributed by the substantial increase in revenue of selling software and providing solution consultation and support services. During the year, the Group's revenue from sales of software amounted RMB235,289,000, representing a 53.4% growth to year 2001 (2001: RMB153,413,000). Revenue from providing solution consultation and support services amounted RMB55,873,000, representing a 79.3% increase as compared to year 2001 (2001: RMB31,170,000).

Net profit attributable to shareholders of the Group for the year ended 31 December 2002 was RMB40,698,000, representing an increase of approximately 35.5% over year 2001 (2001: RMB30,036,000). The earnings per share amounted to RMB0.09 (2001: RMB0.07).

### Gross profit

The Group's gross profit increased by approximately 65.0% from RMB164,519,000 for the year 2001 to approximately RMB271,366,000 for the year 2002. During the year, a gross profit margin was approximately 85.2% (2001: approximately 82.4%).

### Selling expenses

Selling expenses for the year 2002 amounted to approximately RMB163,004,000 (2001: RMB99,901,000), representing an increase of approximately 63.2% over the previous year. Selling expenses as a percentage of total revenue for the period increased from 50.0% for the year 2001 to 51.2% for the year 2002. The reasons for the slightly increase in selling expenses as a percentage of total revenue for the year were mainly contributed to the enormous increase in sales. The sales and marketing expenses increased accordingly. In addition, the Group recruited a number of experienced sales and senior consultants in the year under review, which leads to the increase in selling expenses.

### General and administrative expenses

General and administrative expenses for the year 2002 amounted to approximately RMB71,275,000 (2001: RMB38,557,000), representing an increase of approximately 84.9% over the previous year. Meanwhile, the general and administrative expenses as a percentage of total revenue increased to approximately 22.4% as compared to approximately 19.3% for the year 2001. Among them, research and development costs, salaries and staff welfare, provision for doubtful debt, depreciation of fixed connectivity expenses accounted for approximately 20.9%, 52.1%, 10.4% and 8.1% of the total general and administrative expenses for the year 2002 respectively.

Provision for the doubtful debt during the year amounted to RMB7,429,000 (2001: RMB5,375,000), representing an increase of 38.2% over the previous year. Since the ERP software business of the Group was enlarged and the receivables were increased, additional provision for doubtful debt was provided.

### Capital expenditures

On 19 July 2002, the Group made a capital contribution of HK\$5,000,000 to jointly establish Beijing KINGCB International Information System Co., Ltd, a 50% owned company of the Group, with China Engineering Construction Internet Technology Development (Beijing) Co. LTD (a company under the State Ministry of Construction of the PRC). The Group's contribution was financed by cash and was fully settled during the year.

### Financial resources and liquidity

The Group maintained a sound cash flow position. As at 31 December 2002, cash and cash equivalents were at RMB131,426,000, (2001: RMB125,431,000) representing a current ratio of 2.0 (2001: 4.0). Gearing ratio, expressed as a ratio of shareholders' equity to total liability and minority interests, was 2.0 (2001: 3.6). During the year, the Group recorded a lower current ratio and gearing ratio over 2001. The main reason for this was that the Group raised an additional short-term bank loan of RMB25,000,000 through appropriate financing during the reporting period.



The management considered that the current financial position of the Company remained strong and stable.

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

During the year, the Group had additional short-term bank loans of RMB25,000,000. Of which, a bank loan of RMB20,000,000, bearing an interest rate of 4.53% per annum, had a term of one month from 25 December 2002 and was fully settled on 24 January 2003. The remaining bank loan of RMB5,000,000, bearing an interest rate of 5.04% per annum, had a term of six months from 25 September 2002. As at 31 December 2002, the Group's short-term bank loan balance amounted to RMB25,000,000 (2001:nil). As at 31 December 2002, the long-term bank loan balance, with an interest rate of 6.0% per annum, amounted to RMB1,834,000, which was secured by the Group's property of book value of approximately RMB3,702,000 (2001: RMB3,869,000).

As at 31 December 2002, the Group was not subject to material foreign exchange rate fluctuation exposure, and had not entered into any foreign currency futures contract to hedge against foreign currency fluctuations.

The Group had no significant contingent liabilities as at 31 December 2002 (2001: nil).

## Future Prospects

The PRC is now actively boosting the development of the national economy and informatization. Under the PRC government's preferential policies towards domestic software industry, growth momentum will be further added to the industry. In light of this, the domestic software industry is set to enjoy tremendous development potentials. Looking ahead, Kingdee International will leverage on the business opportunities emerging from the nationwide development of informatization to flourish its own business development. To keep pace with keen competition, we will endeavour to capture each single business opportunity and build up our market edges. Innovative technology and advanced products will be the supporting foundation of the Group. Partners will be responsible for consultation, implementation and services, training and etc. Kingdee International and partners will form an eco-chain of management software industry to respond instantly and effectively to changes in market needs, provide tailor made management information platform, create customers' greatest value and lead customers towards success. Kingdee International will explore overseas market proactively and provide quality products to meet the needs of overseas customers. The Group aims to become the number one player in the PRC enterprise application software market by 2005, emerge as the worldwide top ten application software providers by 2010 and become a highly reputable company.

Product	Business objective for the period from 1 July 2002 to 31 December 2002	Actual business progress
<b>KINGDEE 2000</b>	<ul style="list-style-type: none"> <li>Improve the then packages</li> <li>Anticipated investment of HK\$500,000 from proceeds</li> </ul>	<ul style="list-style-type: none"> <li>The Group launched upgraded version KINGDEE 2000XP</li> <li>As the maturity of technology and product of KINGDEE 2000, further technology investment was required. Actual investment of HK\$84,000 from proceeds</li> </ul>
<b>K/3</b>	<ul style="list-style-type: none"> <li>Release upgraded versions of <b>K/3</b></li> <li>Continue to analyse and develop the technicalities of the then <b>K/3</b> application modules with Web-based capability</li> <li>Anticipated investment of HK\$7,000,000 from proceeds</li> </ul>	<ul style="list-style-type: none"> <li>The Group released upgraded version of <b>K/3</b> V9.3 in December 2002</li> <li>The Group undertook the development of the fundamental platform of <b>K/3</b>. net, a new generation of the product, and has completed the design stage</li> <li>The Group continued to analyse and develop the technologies for upgrading of <b>K/3</b> WEB's latest version. The Group continued to upgrade and develop <b>K/3</b> WEB version</li> <li>Since <b>K/3</b> was the major product of the Group, the actual investment in the development of <b>K/3</b> products was more than the anticipation. The actual investment was HK\$8,900,000 from proceeds</li> </ul>
ASP platform products	<ul style="list-style-type: none"> <li>Continue to improve the online EAS platform to cater with latest development of the Web-based versions of <b>K/3</b> application modules</li> <li>Anticipated investment of HK\$500,000 from proceeds</li> </ul>	<ul style="list-style-type: none"> <li>The Group basically discontinued the development of KANBA.com web site and it did not make any substantial effect to the Group's business. Technical personnel of ASP platform were transferred to the R&amp;D department of CRM products</li> <li>The proposed investment in the ASP platform products was transferred to the research and development of CRM products. The actual investment was less than the anticipation. The actual investment was HK\$267,000 from proceeds</li> </ul>
Apusic Middleware	<ul style="list-style-type: none"> <li>Commercially launch the improved version of Apusic Middleware</li> <li>Anticipated investment of HK\$1,000,000 from proceeds</li> </ul>	<ul style="list-style-type: none"> <li>The Group continued to develop APUSIC application server and launched V2.1 Version</li> <li>The Group placed more resources on the research and development of middleware products, the actual investment was more than the anticipation. The actual investment was HK\$1,650,000 from proceeds</li> </ul>

Product	Business objective for the period from 1 July 2002 to 31 December 2002	Actual business progress
Technical support services	<ul style="list-style-type: none"> <li>• Continue utilising the Group's sales and distribution network as the backbone of the Group's technical support service network</li> <li>• Continue to train members of the Group's marketing and technical support servicing staff regarding the Group's products</li> <li>• Update service working handbook</li> <li>• Continue briefing the service working handbook to marketing and technical support servicing staff</li> <li>• Update service support database</li> <li>• Anticipated investment of HK\$2,000,000 from proceeds</li> </ul>	<ul style="list-style-type: none"> <li>• The Group continued to provide timely and quality technical support services to customers via the branch institutions and agents throughout the PRC</li> <li>• According to the plan, the Group provided training in the respects of products, services and etc to marketing, sales and technical-support staff</li> <li>• According to the latest functions of products, the Group updated the service working handbook</li> <li>• The Group printed product and service working materials to staff in line with the launch and application of new products</li> <li>• The Group updated and consolidated the customer information and set up service relevant database</li> <li>• With the increase in sales amount of the Group's software products during the period under review, the expenses on technical support services was more than the anticipation. The actual investment was HK\$2,650,000 from proceeds</li> </ul>
Marketing	<ul style="list-style-type: none"> <li>• Continue to advertise and promote the Group's products including <i>K/3</i>, online EAS platform and the improved version of Apusic Middleware via media and by attending or organising conferences and seminars</li> <li>• Anticipated investment of HK\$3,500,000 from proceeds</li> </ul>	<ul style="list-style-type: none"> <li>• Continued to advertise and promote the Group's products throughout the PRC during the reporting period by conducting various kinds of seminars, press conferences, exhibitions and etc.</li> <li>• With the increase in sales of the Group, the expenses on sales and marketing activities was more than expectation. The actual investment was HK\$4,120,000 from proceeds</li> </ul>

Product	Business objective for the period from 1 July 2002 to 31 December 2002	Actual business progress
Sales and distribution network	<ul style="list-style-type: none"> <li>• Evaluate opportunities to establish co-operation arrangement with other software vendors</li> <li>• Expand the number of authorised sales agents in order to expand the sales and distribution network of the Group</li> <li>• Anticipated investment of HK\$1,000,000 from proceeds</li> </ul>	<ul style="list-style-type: none"> <li>• The Group established strategic partnership with a US company – Brio Systems, and was appointed as E5 Systems’ software outsourcing partner in PRC in December</li> <li>• The Group continued to expand its sales agent team. During the reporting period, the number of sales agents increase about 200.</li> <li>• With the increase in sales of the Group, the expenses on sales and distribution was more than expectation. The actual investment was HK\$1,420,000 from proceeds</li> </ul>
Personnel	<ul style="list-style-type: none"> <li>• Employ additional programmers and system analysts or replace retired programmers and system analysts</li> <li>• Anticipated investment of HK\$1,500,000 from proceeds</li> </ul>	<ul style="list-style-type: none"> <li>• The Group employed professional technicians throughout the PRC according to the actual needs</li> <li>• As a software provider, the Group placed great emphasis on recruiting experienced technical expertise. During the reporting period, the Group recruited about 50 new expertise and the related expenses was greater than expectation. The actual investment was HK\$2,200,000 from proceeds</li> </ul>

## Executive Directors

**Xu Shao Chun**, aged 39, chairman and chief executive officer of the Company, president of Kingdee China, the founder of the Group. He is a committee member of the Ninth Committee of National Youth Federation of the PRC, and the Third General Committee of People's Representative of People's Congress of Shenzhen. Mr. Xu received a Bachelor degree in Computer Science from Computer Science and Engineering Department of Southeast University in the PRC in 1983, and graduated from the Science & Research Institute of Ministry of Finance with a Master degree majored in Accounting Computerization under the supervision of Professor Yan Jie Yuan, a nation-wide renowned accounting theory academician in the PRC. Mr. Xu is a senior economist, and he established Shenzhen APT Computer Technology Co Ltd in 1991. In 1993, Mr. Xu established Shenzhen Panavision Technology Development Co Ltd, the predecessor of the Company. Mr. Xu has participated in and supervised the design and development of a series of leading enterprise application software and received a number of awards for his outstanding achievements and significant contribution to the evolvement of China's accounting and management software in the past years.

**Xu Wen Hui**, aged 33, executive director, vice president and compliance officer of the Company. Mr. Xu joined the Company in July 1996, and has been responsible for auditing and financial management. He is now currently responsible for the operation and management of investment department. He received a Bachelor degree from Shenzhen University, and is the non-executive member of Shenzhen Certificated Accountants Association (深圳註冊會計師協會). Mr. Xu has approximately nine-year experience in auditing, accounting and financial management, and has been involved in the accounting and audit for many listed companies and some foreign investment enterprises in the PRC.

## Non-executive Directors

**Zhao Yong**, aged 58. Mr. Zhao was appointed as a non-executive director on 22 September 1999. Mr. Zhao graduated from the Beijing University of Aeronautics & Astronautics with a Master degree. He is a professional engineer and a senior economist. Prior to joining China Kingdee in 1998. Mr. Zhao worked for Shekou Industrial Zone as an assistant to the general manager, and the Gugangdong Float Glass Company as general manager.

**Hugo Shong**, aged 46. Senior vice-President and Asian President of International Data Group ("IDG"). Mr. Shong was appointed as a non-executive director of the Company at the first annual general meeting held on 26 April 2001. Mr. Shong graduated from Hunan University majored in Foreign Language in 1982, and enrolled in the Press Department of Graduate School of Chinese Academy of Social Science in 1984, then in 1987, achieved a Master degree of Mass-communication of Boston University of America. In November 1996, Mr. Shong graduated from the Advanced Management Class of Harvard Business School and joined IDG leading the business regarding info technology issue, marketing research and trading exhibitions. Mr. Shong is also the vice chairman and the partner of IDG Technology Venture Investment, Inc.

**Zhang Wen Xing**, aged 66, Mr. Xu Shao Chun's father-in-law. Mr. Zhang was appointed as a non-executive director of the Company on 20 December 2000. Mr. Zhang received a bachelor degree in Mechanical Science from Jinan Amateur Institute. He has been serving Jinan First Machine Production Plant since graduation and has been involved in the design and implementation and quality control of many construction projects. From 1989 to 1992, he contributed to the establishment of Shenzhen Yuntong Machinery Company Limited and was appointed as the deputy general manager and vice president.



## Independent Non-executive Directors

**Yang Zhou Nan**, aged 64. Ms. Yang was appointed as an independent non-executive director on 20 December 2000. She is a 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 Nankai University with a Master degree. Ms. Yang was appointed by Beijing Computing Center as the engineer and director, and currently is the Ph.D. supervisor of Graduate School of the Institute of Fiscal Science. She has approximately twenty-year experience in the areas of finance, accounting, and taxation.

**Wu Cheng**, aged 63. Mr. Wu was appointed as independent non-executive director of the Company on 26 April 2002. He is a professor and Ph.D. supervisor of Department of Automation, Tsinghua University, and an academician of Chinese Academy of Engineering. Professor Wu is also the director of State CIMS Engineering Technical Research Center. He graduated from the Department of Electrical Engineering, Tsinghua University with a master degree, and was ever engaged in engineering research in Case Western Reserve University, USA as a post-doctor. Since 1986, Professor Wu has been participating in and leading the development strategy planning and implementation of automation and CIMS projects of 863 Programme, and ever appointed as the director of CIMS expert group and the chief scientist in automation field. He ever received plenty of national awards for his outstanding research. Under his leadership, the first CIMS experiment project was finished in step with the internationally advanced level and the core technology of information integration in diverse sophisticated environments were also settled. Up to date, the CIMS projects he has ever contributed to be implemented in over 200 enterprises.

## Company Secretary

**Chung Oi Yin, Irene**, aged 32, Ms. Chung was appointed as the company secretary of the Company on 30 January 2001. Ms. Chung is a professional company secretary appointed by the Company. She is also an employee of Kwok & Yih, 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

**Yang Jian Wen**, aged 29, qualified accountant of the Company. Mr. Yang received a bachelor degree in International Finance from University of International Business and Economics in the PRC in 1994 and was admitted a member of the Association of Chartered Certified Accountants. Prior to joining the Group in March 2001, Mr. Yang worked in China Foreign Trade and Development Companies and Shekou Container Terminals Limited respectively and has more than 8 years of experiences in accounting.

## Senior Management

**Jin Zhuo Jun**, aged 41, senior vice-president of the Company, responsible for the Company's marketing, sales, and services. Ms. Jin achieved a bachelor degree from Chongqing University in July 1982, and is a senior engineer in computer application. She has more than eighteen-year technical and management experience in the research and development, implementation and training in relation to enterprise informatization system MRPII/ERP and CIMS; She has taken charge of and participated in series of application software design, research and implementation for large enterprises and national 863CIMS projects. Ms. Jin joined the Company in the early 1999, and has been successively appointed as the general manager of the customer support center and vice-president of the Company. Before the membership of the Company, Ms. Jin worked as the general manager of Chongqing Haishan Computer Engineering Company for 9 years.

**Luo Ming Xing**, aged 32, senior vice-president and chief financial officer of the Company. Mr. Luo received a bachelor degree from Jiangxi Finance College of the PRC, and is a member of Shenzhen Certificated Accountant Association. Mr. Luo joined the Company in May 1997 as an investment manager and an assistant to President, and has been appointed as important posts in finance, marketing, and sales of the Company. Prior to the membership of the Company, Mr. Luo had several years of experience in financial planning and audit work.

**Cai Jun**, aged 33, vice president of the Company, responsible for the product research and development. 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 later was promoted to the vice leader of the Institute of Central Research mainly responsible for the management of the Institute. Setting foot in the enterprise management software industry in the early 90's, Mr. Cai has been engaged in the development of hospital management, manufacturer management, human resource management, etc, and richly experienced in IT industry and enterprise management.

**Wu Qiang**, aged 40, vice president of the Company. His responsibilities include the Company's international business development and planning. Mr. Wu received a Bachelor degree and Master degree of Mathematics successively from the University of Science and Technology of China in 1988. 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 Case Software Company and was appointed as vice general manager 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.

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 2002.

## 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 management software, e-commerce application software and middleware software which are tailored for meeting the management needs of the PRC enterprises, providing Internet-based services and setting up e-commerce platforms for enterprises respectively. The Group is also engaged in the provision of solution consulting and technical support services for its clients.

The total revenue and profit attributable to shareholders of the Group for the year ended 31 December 2002 were RMB318,488,000 and RMB40,698,000 respectively. Among which, approximately 73.9% was derived from the sales of software and approximately 17.5% was derived from the income of provision of solution consulting and technical support services, and 7.5% and 1.1% from value-added tax refund and the sales of computer hardware and related products respectively. For details, please refer to the consolidated income statement set out on page 36.

During the reporting period, the sales and distribution network of the Group continued to expand, covering most of the provinces, autonomous regions and centrally administered municipalities in the PRC. As at 31 December 2002, there were 42 branches and nationwide sales agents and distributors offering product and after-sale services for the customers of the Company.

## Results and Appropriations

The results for the year are set out in the consolidated income statement on page 36 and the appropriation is set out in Note 33 to the financial statements.

## Final Dividends

At the Annual General Meeting of the Company to be held on 25 April 2003, the Board will recommend a final dividend of HK\$0.02 per share to the shareholders of the Company for the year ended 31 December 2002 (2001: HK\$0.01 per share). Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividend totalling HK\$8,818,000 of HK\$0.02 per share will be payable on 25 June 2003 to shareholders whose names appear on the register of members of the Company on 25 April 2003.

## Closure of Register

The register of members of the Company will be closed from 23 April 2003 (Wednesday) to 25 April 2003 (Friday) (both days inclusive), and during which no transfer of shares will be effected. In order to qualify the shareholders of the Company to attend, act and vote at the forthcoming Annual General Meeting and to qualify the entitlement of the final dividends, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 22 April 2003 (Tuesday).

## Strategic Alliances and Collaborations

During the reporting period, the Group continued its close cooperation with Microsoft and IBM for exchange of their technical support and services, their assistance in the sales of the Group's software products and their participation in the Group's marketing activities.

In May, the Group formed a strategic partnership with a business intelligence software provider - Brio to jointly explore into the business intelligence analysis market.

In November, the Group entered into a strategic alliance agreement with an US company - E5 Systems, under which Kingdee International was appointed as E5 Systems' software outsourcing partner in China. The cooperation will enable Kingdee International to expand into the Northern American market.

## Material Investment and Acquisition

On 19 July 2002, the Group made a capital contribution of HK\$5,000,000 to jointly establish Beijing KINGCB International Information System Co., Ltd. (北京中建互聯科技發展有限公司), a 50% owned company of the Group, with China Engineering Construction Internet Technology Development (Beijing) Co., Ltd. (a company under the State Ministry of Construction of the PRC). The Group's contribution was financed by cash and was fully settled during the year.

## Bank Borrowings

Details of the bank borrowings of the Group as at 31 March 2002 are set out in notes 25 to the financial statements.

## Reserves

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 40.

## Fixed Assets

Details of the movements in the fixed assets of the Group during the year are set out in note 17 to the financial statements.

## Interests of the Directors in Contracts

No directors had any direct or indirect material interests in any contracts of significance to the business of the Group to which the Company or any of its subsidiaries or fellow subsidiaries was a party at the end of the year or at any time during the year.

## Share Capital and Options

- **Share Capital**

Details of the movements in share capital of the Company are set out in note 31 to the financial statements.

- **Purchase, Sale or Redemption of Shares**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year.

- **Pre-IPO Share Option Scheme**

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 30 January 2001, options to subscribe for 1,000,000 and 300,000 shares of HK\$0.10 each of the Company at a subscription price of HK\$1.03 per share were granted to Mr. Huang Xiao Jian and Mr. Liu Fan respectively.

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 exercised his share option to subscribe for 250,000 shares. As Mr. Huang 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 2002, Mr. Liu had not exercised any share option to subscribe for any shares and the option to subscribe for 300,000 shares remained outstanding under the Pre-IPO Share Option Scheme.

- **Share Option Scheme**

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

At the board meeting of the Company held on 27 September 2001, pursuant to the implementation rules for share option scheme approved under the Old Scheme, options to subscribe for a total of 1,720,000 shares at a subscription price equal to HK\$1.49 per share were granted to 33 full-time employees of the Group and its subsidiaries.

The Old Scheme was terminated and replaced by a new share option scheme (the "New Scheme") by an ordinary resolution passed at the extraordinary general meeting of the Company held on 26 April 2002. The existing options under the Old Scheme will continue to be valid and exercisable in accordance with its provisions.

At the board meeting of the Company held on 15 May 2002, options to subscribe for a total of 5,620,000 shares at a subscription price of HK\$1.78 per share were granted to 22 full-time employees (including executive directors, Mr. Xu Shao Chun and Mr. Xu Wen Hui) of the Group pursuant to the New Scheme.



As at 31 December 2002, details of the share options which had been granted under the Old Scheme and the New Scheme were as follows:

	Options held at 1 January 2002	Options granted during the reporting period(1)	Options exercised during the reporting period	Options held at 31 December 2002	Exercise price HK\$	Grant date
Xu Shao Chun	–	1,500,000	–	1,500,000	1.78	15/05/2002 (3)
Xu Wen Hui	–	500,000	–	500,000	1.78	15/05/2002 (3)
Continuous contract employees	1,720,000 (2)	–	–	1,720,000	1.49	27/09/2001 (4)
	–	3,620,000	–	3,620,000	1.78	15/05/2002 (3)

Note:

- (1) At the date immediate before the options were granted (i.e. 14 May 2002), the closing price of the share was HK\$1.73.
- (2) The share options were granted in pursuant to the Old Scheme.
- (3) All of these options have a duration of 10 years from the grant date, provided that the options can only be exercised in respect of up to 25%, 50% and 75% of the underlying shares within 12 months, 24 months and 36 months respectively from the date of 15 May 2003.
- (4) These options have a duration of 10 years from the grant date, provided that the options can only be exercised in respect of up to 25%, 50% and 75% of the underlying shares within 12 months, 24 months and 36 months respectively from the grant date.

## Directors and Service Contracts of Directors

The directors of the Company since the date of incorporation and up to the date of this Report were:

### Executive Directors and Managing Directors

Mr. Xu Shao Chun  
Mr. Su Wen Hui

### Non-executive Directors

Mr. Zhao Yong  
Mr. Hugo Shong  
Mr. Zhang Wen Xing

### Independent Non-executive Directors

Ms. Yang Zhou Nan  
Mr. Wu Cheng (appointed on 26 April 2002)

In accordance with article 116 of the Company's articles of association, Mr. Zhao Yong will retire by rotation at the forthcoming annual general meeting of the Company, and will offer himself for re-election as a Non-executive director of the Company at the same 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 was for an initial term of three years commencing on 1 January 2000 and had been renewed for another three years on 1 January 2003, unless and until being terminated by either party with no less than three months' prior written notice.

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

## Election of New Director in Place of the Resigning Director

Mr. Zhang Wen Xing would resign from his office as an Independent Non-executive director of the Company at the forthcoming annual general meeting.

In view of the above, the Board had recommended to elect Mr. Luo Ming Xing as Executive director of the Company subject to the approval of the GEM of the Stock Exchange.

## Interest of Directors in Equity Securities

As at 31 December 2002, 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 Rules Governing the Listing of Securities on the GEM ("GEM Listing Rules") to be notified to the Company and the Stock Exchange, were as follows:

- The Company

Name of Directors	Number of Shares/ Shares available under the share option (where appropriate)	Nature of Interests	Approximate percentage of interest
Xu Shao Chun (Note 1)	141,916,250	Corporate (Note 2)	32.19%
	1,599,500	Other (Note 3)	0.36%
	1,500,000	Share option (Note 4)	N/A
Xu Wen Hui	2,154,500	Corporate	0.49%
	1,599,500	Other (Note 3)	0.36%
	500,000	Share Option (Note 4)	N/A
Zhang Wen Xing (Note 1)	1,599,500	Other (Note 3)	0.36%
Hugo Shong	5,250,000	Personal	1.19%
	1,599,500	Other (Note 3)	0.36%
Zhao Yong	66,601,750	Personal	15.11%

Notes:

1. In February 2001, Oriental Gold Limited, a company wholly-owned by Mr. Xu Shao Chun, was granted rights of first refusal in the future sale of 37,950,500 shares held by 154 employees of the Group (including 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.

2. *The 83,606,250 shares were held by Oriental Gold Limited, and the 58,310,000 shares were held by Billion Ocean Limited.*
3. *Project China Limited, a company wholly-owned by Mr. Zhang Wen Xing, held 1,599,500 shares as trustee of a discretionary trust established for the benefit of all the former and existing employees and consultants of the Group including Mr. Xu Shao Chun and Mr. Xu Wen Hui, executive directors.*
4. *The share options were granted upon approval of the new share option scheme by the shareholders of the Company at the extraordinary general meeting held on 26 April 2002.*

## Directors' 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 2002 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

As at 31 December 2002, the register maintained under Section 16(1) of the SDI Ordinance for substantial shareholders showed that shareholders interested in 10% or more of the issued share capital of the Company were as follows:

Name	Number of Shares	Approximate percentage of share capital
Oriental Gold Limited (Note 1)	83,606,250	18.96%
Mr. Xu Shao Chun (Note 1)	141,916,250 (Note 2)	32.19%
Billion Ocean Limited	58,310,000	13.23%
Mr. Zhao Yong	66,601,750	15.11%

Notes:

1. *In February 2001, Oriental Gold Limited, a company wholly-owned by Mr. Xu Shao Chun, was granted rights of first refusal in the future sale of 37,950,500 shares held by 154 employees of the Group (including 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.*
2. *The 83,606,250 shares were held by Oriental Gold Limited, and the 58,310,000 shares were held by Billion Ocean 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.*

## Purchase, Sale or Redemption of Shares

At the annual general meeting of the Company held on 26 April 2002 ("AGM"), an ordinary resolution was passed to grant a general mandate to the directors of the Company to exercise the powers of the Company to purchase Shares up to a maximum of 10% of the issued share capital of the Company.

None of the Company or the any of its subsidiaries had purchased, sold or redeemed any of its listed securities during the year.

## Competing Interest

None of the directors had an interest in a business which competes or may compete with the business of the Group.

## Connected Transactions

During the year, there was no transaction which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

## Major Customers and Suppliers

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

### Sales

– the largest customer	0.8%
– five largest customers combined	2.8%

### Purchases

– the largest supplier	18.4%
– five largest suppliers combined	51.5%

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 2002, none of the Company's sponsor, BNP Paribas Peregrine Capital Limited, its directors, employees or associates held any interest in the securities of the Company or any member of the Group.

Pursuant to the sponsorship agreement dated 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

As at 31 December 2002, the audit committee of the Company comprises of Mr. Xu Wen Hui, an executive director, Ms. Yang Zhou Nan and Mr. Wu Cheng, both being the independent non-executive directors. Ms. Yang Zhou Nan is the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee had convened four meetings during the year ended 31 December 2002 to review the accounts and reports of the Group and to provide advices and recommendations to the Board.

## Auditors

PricewaterhouseCoopers was appointed as the auditors of the Company for the year. PricewaterhouseCoopers will retire upon expiry of their appointment, but being eligible, will offer themselves for re-appointment. A resolution for re-appointment of PricewaterhouseCoopers as the auditors of the Company will be proposed at the forthcoming AGM.

Arthur Andersen resigned from the auditors of the Company during the Annual General Meeting on 26 April 2002.

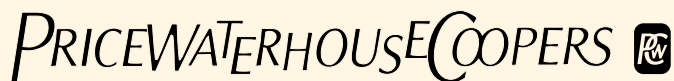
On behalf of the Board

**Xu Shao Chun**

*Chairman*

21 March 2003





羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor Prince's Building  
Central Hong Kong  
Telephone (852) 2289 8888  
Facsimile (852) 2810 9888

TO THE SHAREHOLDERS OF KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

*(incorporated in the Cayman Islands with limited liability)*

We have audited the accompanying consolidated balance sheet of Kingdee International Software Group Company Limited (the "Company") and its subsidiaries (the "Group") and balance sheet of the Company as of 31 December 2002, and the related consolidated income and cash flows statements of the Group for the year then ended. These financial statements set out on pages 36 to 77 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 Group and the Company as of 31 December 2002 and of the results of operations and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers  
*Certified Public Accountants*  
Hong Kong, 21 March 2003

# Consolidated Income Statement

For the year ended 31 December 2002

	Notes	2002 RMB'000	2001 RMB'000
Sales	4(a)	294,532	187,742
Value-added tax refund	4(b)	23,956	11,993
		<b>318,488</b>	199,735
Cost of sales		<b>(47,122)</b>	(35,216)
Gross profit		<b>271,366</b>	164,519
Other operating income	5	9,267	4,203
Selling expenses		<b>(163,004)</b>	(99,901)
General and administrative expenses		<b>(71,275)</b>	(38,557)
Other operating expenses		<b>(4,362)</b>	(1,025)
Profit from operations	6	<b>41,992</b>	29,239
Finance income, net	7	403	1,680
Share of results of associates	15	381	(686)
Profit before tax		<b>42,776</b>	30,233
Taxation	9	<b>(2,809)</b>	(1,894)
Profit after tax		<b>39,967</b>	28,339
Minority interests		731	1,697
Net profit attributable to shareholders		<b>40,698</b>	30,036
Dividends	10	<b>9,357</b>	4,643
Earnings per share – basic	11	<b>RMB0.09</b>	RMB0.07
– diluted	11	<b>RMB0.09</b>	RMB0.07

# Consolidated Balance Sheet

As at 31 December 2002

	Notes	2002 RMB'000	2001 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in associates	15	5,382	–
Available-for-sale investments	16	335	190
Property, plant and equipment	17	42,736	31,958
Intangible asset	18	53,178	5,757
Deferred tax assets	19	6,771	3,197
Total non-current assets		<b>108,402</b>	41,102
<b>Current assets</b>			
Inventories	20	2,861	1,389
Trade receivables	21	55,238	28,438
Bills receivable		639	300
Other receivables and prepayments	22	14,580	16,440
Amounts due from related parties	23	594	752
Cash and bank balances	24	131,426	125,431
Total current assets		<b>205,338</b>	172,750
<b>Total assets</b>		<b>313,740</b>	213,852

# Consolidated Balance Sheet (Continued)

As at 31 December 2002

	Notes	2002 RMB'000	2001 RMB'000
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	31	47,172	46,840
Share premium	31	37,504	31,083
Reserves	33	125,619	89,595
Total shareholders' equity		210,295	167,518
<b>Minority interests</b>			
		1,156	952
<b>Non-current liabilities</b>			
Borrowings	25	1,587	1,843
<b>Current liabilities</b>			
Trade payables	26	4,926	1,560
Borrowings	25	26,256	1,256
Deferred income	27	19,100	14,910
Salary and staff welfare payable		4,909	3,580
Taxes payable	28	15,233	7,756
Provisions	29	3,005	–
Customers' deposits		11,507	5,587
Accruals and other payables		15,766	8,890
Total current liabilities		100,702	43,539
Total liabilities		102,289	45,382
<b>Total equity and liabilities</b>		<b>313,740</b>	<b>213,852</b>

On behalf of the Board of Directors

Xu Shao Chun  
Chairman

Xu Wen Hui  
Director

# Balance Sheet

As at 31 December 2002

	Notes	2002 RMB'000	2001 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in subsidiaries	13	58,196	43,196
Investment in a joint venture	14	5,300	–
		<b>63,496</b>	43,196
<b>Current assets</b>			
Other receivables and prepayments	22	–	487
Amounts due from subsidiaries	30	24,825	–
Cash and bank balances	24	31,143	73,941
Total current assets		<b>55,968</b>	74,428
Total assets		<b>119,464</b>	117,624
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital	31	47,172	46,840
Share premium	31	37,504	31,083
Reserves	33	29,418	37,791
Total shareholders' equity		<b>114,094</b>	115,714
<b>Current liabilities</b>			
Accruals and other payables		801	1,526
Amount due to a subsidiary	30	4,569	384
Total current liabilities		<b>5,370</b>	1,910
<b>Total equity and liabilities</b>		<b>119,464</b>	117,624

On behalf of the Board of Directors

Xu Shao Chun  
Chairman

Xu Wen Hui  
Director

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

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

	<i>Notes</i>	<b>Share capital RMB'000 (Note 31)</b>	<b>Share premium RMB'000 (Note 31)</b>	<b>Reserves RMB'000 (Note 33)</b>	<b>Total RMB'000</b>
<b>Balance at 1 January 2001</b>		107	–	60,633	60,740
Issue of shares		9,363	68,177	–	77,540
Capitalisation of share premium		37,343	(37,343)	–	–
Exercise of share options		27	249	–	276
Liquidation of subsidiaries		–	–	(391)	(391)
Net profit		–	–	30,036	30,036
Translation adjustments		–	–	(683)	(683)
<b>Balance at 31 December 2001</b>		46,840	31,083	89,595	167,518
<b>Balance at 1 January 2002</b>		46,840	31,083	89,595	167,518
Issue of shares	31	332	6,421	–	6,753
Liquidation of subsidiaries		–	–	(45)	(45)
Dividend relating to 2001	10	–	–	(4,643)	(4,643)
Net profit		–	–	40,698	40,698
Translation adjustments		–	–	14	14
<b>Balance at 31 December 2002</b>		47,172	37,504	125,619	210,295



# Consolidated Cash Flow Statement

For the year ended 31 December 2002

	Notes	2002 RMB'000	2001 RMB'000
<b>Cash flows from operating activities:</b>			
Cash generated from operating activities	36	41,915	42,138
Interest paid		(180)	(492)
PRC income tax paid		(2,577)	(1,505)
<b>Net cash from operating activities</b>		<b>39,158</b>	<b>40,141</b>
<b>Cash flows from investing activities:</b>			
Purchase of fixed assets		(21,402)	(12,519)
Acquisition of subsidiaries, net of cash acquired	37(a)	(5,212)	–
Investment in a joint venture, net of cash acquired	37(b)	(2,650)	–
Investment in an associate		(5,001)	–
Purchase of shares in subsidiaries from minority interests		(1,335)	(200)
Deposits for purchase of a subsidiary		–	(2,000)
Deposits for purchase of shares in subsidiaries from minority interests		–	(1,154)
Purchase of available-for-sale investments		(145)	(110)
Purchase of intangible assets other than goodwill		(19,649)	(5,662)
Proceeds from release of pledged deposits		–	9,960
Proceeds from disposal of fixed assets		273	14
Interest received		808	2,298
<b>Net cash used in investing activities</b>		<b>(54,313)</b>	<b>(9,373)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of shares		–	96,434
Proceeds from exercise of share options		–	276
Proceeds from new bank loans		25,000	9,600
Proceeds from new other loans		–	1,000
Capital contributed by minority shareholders of subsidiaries		1,035	100
Payment for listing expenses		–	(13,514)
Repayment of other loans		–	(4,000)
Repayment of bank loans		(256)	(25,698)
Dividends paid		(4,643)	(2,790)
<b>Net cash from financing activities</b>		<b>21,136</b>	<b>61,408</b>
<b>Effect of foreign exchange rate change</b>		<b>14</b>	<b>(683)</b>
<b>Net increase in cash and cash equivalents</b>		<b>5,995</b>	<b>91,493</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>125,431</b>	<b>33,938</b>
<b>Cash and cash equivalents at end of year</b>		<b>131,426</b>	<b>125,431</b>

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

## 1. Business

Kingdee International Software Group Company Limited Company (the "Company") was incorporated in the Cayman Islands in 1999 as an exempted company with limited liability. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 15 February 2001.

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 in the People's Republic of China (the "PRC").

## 2. Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements of the Company and its subsidiaries (the "Group") are set out below:

### (a) Basis of presentation

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

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

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

### (b) Group accounting

#### (i) *Basis of consolidation*

The consolidated financial statements include financial statements of the Company and its subsidiaries and joint ventures and also incorporate the Group's interests in associates on the basis as set below.

#### (ii) *Subsidiaries*

Subsidiaries, which are those entities (including Special Purpose Entities) in which the Group has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity.

## 2. Principal accounting policies (Continued)

### (b) Group accounting (Continued)

#### (ii) *Subsidiaries* (Continued)

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. See note below for the accounting policy on goodwill. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

The equity and profit after taxation attributable to minority shareholders are shown separately in the consolidated balance sheet and consolidated income statement, respectively.

#### (iii) *Associates*

Investments in associates are accounted for by the equity method of accounting. Under this method the Company's share of the post-acquisition profits or losses of associates is recognised in the consolidated income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group will not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

#### (iv) *Joint ventures*

The Group's interest in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's consolidated financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the purchase of assets by the Group from the joint venture until it resells the assets to an independent party. However, if a loss on the transaction provides evidence of a reduction in the net realisable value of current assets or an impairment loss, the loss is recognised immediately.

## 2. Principal accounting policies (Continued)

### (c) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation and impairment, if any.

Depreciation is calculated on 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
Computer and related equipment	5 years
Other office equipment	5 years
Leasehold improvements	2 to 5 years
Motor vehicles	5 years

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gain or loss on disposal of property, plant and equipment is the difference between the net proceeds and the carrying amount of the relevant assets, and is recognised in the consolidated income statement.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

### (d) Construction in progress

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.

### (e) Intangible assets

#### (i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investment in associates.

Goodwill is amortised using the straight-line method over its estimated useful life. Management determines the estimated useful life of goodwill based on its evaluation of the respective companies at the time of the acquisition, considering factors such as existing market share, potential growth and other factors inherent in the acquired companies. Goodwill arising on major strategic acquisitions of the Group to expand its product or geographical market coverage is amortised over a maximum period of 15 years. For all other acquisitions goodwill is generally amortised over a period of 5 years.

## 2. Principal accounting policies (Continued)

### (e) Intangible assets (Continued)

#### (ii) *Negative goodwill*

Negative goodwill represents the excess of the fair value of the Group's share of the net assets of the acquired subsidiary/associate at the date of acquisition over the cost of an acquisition. Negative goodwill is presented in the same balance sheet classification as 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 Group's plan for the acquisition and can be measured reliably but which cannot be accrued for at 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.

The gain or loss on disposal of an entity includes the carrying amount of goodwill/negative goodwill relating to the entity sold.

#### (iii) *Research and development*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and only if the cost can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the commencement of the commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding a period of 30 months.

#### (iv) *Software*

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 its useful life, not exceeding a period of 2 years.

### (f) Impairment of long lived assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

## 2. Principal accounting policies (Continued)

### (g) Investments

The Group classified its investments in debt and equity securities into the following categories: trading, held-to-maturity and available-for-sale. The classification is dependent on the purpose for which the investments were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

#### *Trading investments*

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets; for the purpose of these financial statements short term is defined as 3 months. During the year, the Group did not hold any investments in this category.

#### *Held-to-maturity investments*

Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for those with maturities within 12 months from the balance sheet date which are classified as current assets. During the year, the Group did not hold any investments in this category.

#### *Available-for-sale investments*

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; and are included in non-current assets unless management has the expressed intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognised when the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading and available-for-sale investments are included in the income statement in the year in which they arise.

The fair value of investments are based on quoted bid prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

### (h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs and selling expenses.



## 2. Principal accounting policies (Continued)

### (i) Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

### (j) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

### (k) Foreign currency transactions

#### (i) *Measurement currency*

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). As mentioned in Note 2(a) above, these consolidated financial statements are presented in RMB.

#### (ii) *Transactions and balances*

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

#### (iii) *Group companies*

Income statements and cash flows of foreign entities are translated into the Group's reporting currency at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December. Exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 2. Principal accounting policies (Continued)

### (l) Revenue recognition

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax, rebates and discounts, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer. Revenue from rendering of services is based on the stage of completion determined by reference to services performed to date as a percentage of total services to be performed.

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 when services are performed.

Interest income is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group.

Government grants/subsidies are recognised in accordance with Note 2(s) below.

### (m) Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

### (n) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

### (o) 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.

### (p) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### (q) Operating leases

Lease where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

## 2. Principal accounting policies (Continued)

### (r) Employee benefits

#### (i) *Retirement benefits*

The Group provides defined contribution retirement plans based on local laws and regulations. The plans cover full-time employees and provide for contributions at certain percentage of salary as determined by the respective local government. The Group's contributions to defined contribution plans are charged to the income statement in the year to which they relate.

#### (ii) *Equity compensation benefits*

Share options are granted to management and key employees who meet the conditions of entitlement. Options are granted at the market price of the shares on the date of the grant and are exercisable at that price. Options are exercisable beginning one year from the date of grant and have a contractual option term. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium. The Group does not make a charge to staff costs in connection with share options.

### (s) Government grants/subsidies

Grants/subsidies from the government are recognised at their fair value where there is a reasonable assurance that the grants/subsidies will be received and the Group will comply with all attached conditions.

Government grants/subsidies relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants/subsidies relating to the purchase of property, plant and equipment are included in non-current liabilities as other liabilities and are credited to the income statement on a straight line basis over the expected lives of the related assets.

### (t) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

### (u) 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.

### (v) Financial assets and liabilities

Financial assets and financial liabilities carried on the balance sheet include cash and bank balances, investments, trade receivables, bills receivable, amounts due from/to related parties, other receivables and prepayments, trade payables, accruals and other payables, customers' deposits and borrowings. Investments, trade receivables and borrowings are stated at carrying amounts determined in accordance with Notes 2(g), 2(i) and 2(n) respectively. Other financial assets and financial liabilities are stated at cost.

## 2. Principal accounting policies (Continued)

### (w) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

## 3. Financial risk management

### (1) Financial risk factors

#### *Credit risk*

The carrying amount of cash and cash equivalents and trade receivables represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade receivables relate to sales of software products to third party customers. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade receivables. The Group maintains a provision for doubtful debts and actual losses have been within management's expectation. No single customer accounted for greater than 5% of total revenues during the year ended 31 December 2002.

The Group has policies that limit the amount of credit exposure to any one financial institution in the PRC.

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 RMB, which is not freely convertible into foreign currencies.

The Group is not significantly exposed to currency risk.

#### *Interest rate risk*

The Group has no significant interest bearing assets but borrowed loans from banks for short-term finance. The interest rates and terms of repayment of loans of the Group are disclosed in Note 25.

### (2) Fair value estimation

In assessing the fair value of non-traded derivatives and other financial instruments, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for the specific or similar instruments are used for long-term debt. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair value for the remaining financial instruments.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

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

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

	2002	2001
	RMB'000	RMB'000
Sales of software	235,289	153,413
Sales of computer and related products	3,370	3,159
Software solution consulting and support services	55,873	31,170
	<b>294,532</b>	187,742

- (b) Pursuant to the document Cai Shui Zi [2000] No.25 (“Document 25”) issued jointly by Ministry of Finance, State Administration of Taxation and General Administration of Customs, for subsidiaries engaging in the development and distribution of software, sales of software are subject to VAT at the rate of 17% and any VAT paid exceeding 3% of the sales will be refunded. In the opinion of directors, the effective rate of VAT of these subsidiaries on sales of software is 3% taking into account of the refund.
- (c) No segment information is presented as the Group operates in one single industry and one single segment. The Group operates within one geographic segment as its revenues are primarily generated in the PRC and its major assets are located in the PRC.

## 5. Other operating income

	2002	2001
	RMB'000	RMB'000
Subsidy income		
VAT exemption for local-production and local-sales	3,520	2,508
Subsidy on development of new products ( <i>Note (a)</i> )	4,363	1,450
	<b>7,883</b>	3,958
Others	1,384	245
	<b>9,267</b>	4,203

- (a) This subsidy income included the portion of deferred subsidy income of RMB1,862,000 (2001: RMB1,200,000) recognised as income in the current year (*Note 27(b)*).

# Notes to the Financial Statements

For the year ended 31 December 2002

## 6. Profit from operations

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

	2002 RMB'000	2001 RMB'000
Research and development costs *		
Amount incurred	27,311	15,018
Less: amount capitalised	(17,685)	(5,211)
Add: amortisation of capitalised costs	5,296	738
	<b>14,922</b>	10,545
Staff costs (Note 8)	123,759	59,303
Cost of raw materials consumed (included in cost of sales)	4,927	3,218
Depreciation on property, plant and machinery	12,271	6,721
Amortisation of goodwill arising on acquisition of:		
– subsidiaries and a joint venture *	1,899	–
– associates	527	50
Amortisation of negative goodwill *	(23)	–
Goodwill in an associate written-off	–	433
Trade receivables – impairment charge for bad and doubtful debts	7,429	5,375
(Gain)/loss on liquidation of subsidiaries	(45)	123
Operating lease rentals on premises	16,297	8,766
Loss on disposals of property, plant and equipment	2,435	322
Auditors' remuneration	1,060	1,150

\* included in general and administrative expenses

## 7. Finance income, net

	2002 RMB'000	2001 RMB'000
Interest income	808	2,298
Net exchange losses	(127)	(6)
Interest expense on bank loans:		
– wholly repayable within five years	(51)	(358)
– wholly repayable over five years	(129)	(134)
Others	(98)	(120)
	<b>403</b>	1,680



## 8. Staff costs

	2002 RMB'000	2001 RMB'000
Salaries, allowances, commissions and bonus	109,888	51,291
Staff welfare	5,946	5,490
Pension scheme contributions ( <i>Note (b)</i> )	7,925	2,522
	<b>123,759</b>	59,303

- (a) Staff costs included directors' and senior management's emoluments further analysed in Note 12.
- (b) The Group participates in the defined contribution retirement schemes organised by the relevant local government authorities in the PRC. The Group is required to make monthly contributions to the retirement scheme at rates ranging from 8% to 22.5%, depending on the locations of the subsidiaries, based on the eligible employees' basic salaries. The local government authorities are responsible for the pension liabilities to retired employees. Forfeited contributions made by the Group 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.
- (c) The average number of employees of the Group for the year was 1,745 (2001: 1,379).

## 9. Taxation

Taxation represents PRC income tax charged to:

	2002 RMB'000	2001 RMB'000
The Group		
– Current income tax	6,383	3,071
– Deferred income tax	(3,574)	(1,177)
	<b>2,809</b>	1,894
The associates	–	–
	<b>2,809</b>	1,894

- (a) No provision for profits tax in the Cayman Islands and Hong Kong has been made as the Group has no income assessable for profits tax for the year in those jurisdictions (2001: Nil).
- (b) Majority of the subsidiaries and associates of the Group are established in the PRC and subject to Enterprise Income Tax ("EIT") at a rate of 33%, unless preferential rates are applicable in the cities where the subsidiaries are located.

## 9. Taxation (Continued)

- (c) Certain subsidiaries and associates of the Group are foreign owned enterprises and are entitled to full exemption from EIT for two years and a 50% reduction in the next three years thereafter starting from the first profit making year after offsetting prior year losses.
- (d) According to Shen Fu [1998] No. 29 "Provisions on further support to the high-technology enterprises" issued by the Shenzhen Municipal Government, those subsidiaries located in Shenzhen and recognised as a high-technology enterprise are entitled to a further tax exemption on EIT in 2001.

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

	2002	2001
	RMB'000	RMB'000
Accounting profit before taxation	42,776	30,233
Tax at the statutory tax rate of 33% (2001: 33%)	14,116	9,977
– Effect of preferential tax rates	(7,700)	(5,442)
– Effect of high-technology enterprise tax exemption	–	(2,268)
– Expenses not deductible for tax purposes	2,034	1,652
– Income not subject to tax	(3,593)	(899)
– Additional deductible allowance for research and development expenses	(2,048)	(1,126)
Taxation per accounts	2,809	1,894

## 10. Dividends

	2002	2001
	RMB'000	RMB'000
Final of HK\$0.02 (2001: HK\$0.01) per share	9,357	4,643

At the meeting held on 21 March 2003, the Board of Directors recommended a final dividend of RMB0.02 (HK\$0.02) (2001: RMB0.01 (HK\$0.01)) per share totalling RMB9,357,000 (HK\$8,818,000) (2001: RMB4,643,000 (HK\$4,378,000)) to shareholders for the year ended 31 December 2002. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings, after transferring adequate amount from contributed surplus account, in the year ending 31 December 2003.

## 11. Earnings per share

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

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

Information on net profit and number of shares outstanding during the year is as follows:

	2002 RMB'000	2001 RMB'000
Net profit	40,698	30,036
After-tax effect of interest on proceeds from exercise of share options	36	6
Net profit (diluted)	40,734	30,042

	2002 Number'000	2001 Number'000 (Note (a))
Issued ordinary shares at 1 January	437,750	350,000
Effect of shares issued	1,856	76,563
Effect of exercise of shares options	–	125
Weighted average number of ordinary shares for the year	439,606	426,688
Weighted average number of ordinary shares for the year	439,606	426,688
Effect of share options outstanding	5,533	706
Weighted average number of ordinary shares (diluted) for the year	445,139	427,394

Note (a)

The issued shares in 2001 were presented after taking into consideration the capitalisation issue which took place in 2001.

## 12. Directors and senior executives' remuneration

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

	2002 RMB'000	2001 RMB'000
Fees	225	175
Salaries, allowances and benefits in kind	1,287	830
Bonus	–	380
Retirement scheme contributions	5	6
Inducement fee	–	–
Others	–	78
	<b>1,517</b>	<b>1,469</b>

Save as disclosed herein, no remuneration has been paid or is payable in respect of the year ended 31 December 2002 by the Company or its subsidiaries to the directors of the Company (2001: Nil).

The emoluments received by individual directors are as follows:

	2002 RMB'000	2001 RMB'000
Director A	832	906
Director B	510	438
Director C	50	25
Director D	50	25
Director E	25	25
Director F	25	25
Director G	25	25
	<b>1,517</b>	<b>1,469</b>

During the year a total of 2,000,000 (2001: Nil) options were granted to two directors. The market value per share at the date of grant is close to the exercise price of these options.

Directors' fee above include RMB50,000 (2001: RMB50,000) paid to independent non-executive directors. No directors waived any emolument during the year ended 31 December 2002 (2001: Nil).

## 12. Directors and senior executives' remuneration (Continued)

- (ii) The emoluments of the five individuals whose emoluments were the highest in the Group include 1 director (2001: 2 directors) whose emoluments are reflected in the analysis presented above.

Details of the emoluments of the remaining 4 (2001: 3) individuals are as follows:

	2002 RMB'000	2001 RMB'000
Salaries, allowances and benefits in kind	2,654	762
Bonus	–	650
Retirement scheme contributions	12	8
	<b>2,666</b>	<b>1,420</b>

The emoluments of each of the five highest paid individuals and the directors were below RMB1,060,000 (HK\$1,000,000) for each of the two years ended 31 December 2002.

## 13. Investment in subsidiaries – the Company

	2002 RMB'000	2001 RMB'000
Investment in unlisted shares, at cost	43,196	43,196
Loans to subsidiaries	15,000	–
	<b>58,196</b>	<b>43,196</b>

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 2002.

The loans to subsidiaries are unsecured, interest free and not payable within twelve months from the balance sheet date.

## 13. Investment in subsidiaries – the Company (Continued)

As at 31 December 2002, the Company had interests in the following principal subsidiaries all of which are companies with limited liability.

Company	Place/country of incorporation/ establishment	Paid-up capital	Percentage of equity interests attributable to the Group		Principal activities
			2002	2001	
<i>Directly held:</i>					
Kingdee Software (China) Co., Ltd. ("Kingdee China ")	PRC	RMB50,000,000	100%	100%	Investment holding, developing, manufacturing and selling of software products and provision of software-related technical services
Kingdee International Software Group (H.K.) Ltd. ("Kingdee HK")	Hong Kong	HKD1,000,000	100%	100%	Selling of software products and provision of software-related technical services
Carterton Group Ltd ("Carterton") (Note 14)	British Virgin Islands	USD100	–	100%	Investment holding
<i>Indirectly held:</i>					
Chongqing Kingdee Accounting Software Co., Ltd.	PRC	RMB300,000	100%	60%	Selling of software products and provision of software-related technical services
Chengdu Kingdee Software Technology Co., Ltd.	PRC	RMB800,000	90%	55%	Selling of software products and provision of software-related technical services
Zhengzhou Kingdee Accounting Software Co., Ltd.*	PRC	RMB300,000	60%	60%	Selling of software products and provision of software-related technical services
Guangdong Kingdee Software Technology Co., Ltd.	PRC	RMB500,000	90%	90%	Selling of software products and provision of software-related technical services
Changchun Kingdee Accounting Software Co., Ltd.	PRC	RMB300,000	100%	95%	Selling of software products and provision of software-related technical services
Jinan Kingdee Software Technology Co., Ltd.*	PRC	RMB500,000	100%	73%	Selling of software products and provision of software-related technical services
Shanghai Kingdee Software Technology Co., Ltd.	PRC	RMB500,000	90%	70%	Selling of software products and provision of software-related technical services



### 13. Investment in subsidiaries – the Company (Continued)

Company	Place/country of incorporation/ establishment	Paid-up capital	Percentage of equity interests attributable to the Group		Principal activities
			2002	2001	
<i>Indirectly held: (Continued)</i>					
Qingdao Kingdee Software Technology Co., Ltd.*	PRC	RMB500,000	100%	60%	Selling of software products and provision of software-related technical services
Nanning Kingdee Software Technology Co., Ltd.	PRC	RMB500,000	52%	52%	Selling of software products and provision of software-related technical services
Shenzhen Middleware Software Co., Ltd.	PRC	RMB300,000	65%	65%	Developing, manufacturing and selling middleware
Beijing Case Software Technology Co., Ltd. ("Beijing Case")	PRC	USD540,000	100%	–	Developing manufacturing and selling software
Shanghai Case Software Technology Co., Ltd. ("Shanghai Case")	PRC	RMB1,000,000	90%	–	Developing manufacturing and selling software.
Hangzhou Kingdee Computer Software Co., Ltd.*	PRC	RMB500,000	–	51%	Selling of software products and provision of software-related technical services
Zhuhai Kingdee Accounting Software Co., Ltd.*	PRC	RMB500,000	–	51%	Selling of software products and provision of software-related technical services
Beijing Kingdee Software Technology Engineering Co., Ltd.*	PRC	RMB1,000,000	–	90%	Selling of software products and provision of software-related technical services

\* These subsidiaries were liquidated or under liquidation during the year.

### 14. Investment in a joint venture – the Company

During the year, the Company disposed of its 50% equity interest in Carterton (a wholly-owned subsidiary), to an unrelated party at cost. Carterton then became a joint venture of the Company.

Carterton is an investment holding company incorporated in the British Virgin Islands. As at 31 December 2002, the Company has 100% equity interest in Beijing KINGCB International Information System Co., Ltd. which is incorporated in the PRC and engaged in selling of software and provision of software-related technical services.

The Company and the joint venture partner have joint control on Carterton and the Group's interest therein is accounted for by proportionate consolidation in these consolidated financial statements.

**14. Investment in a joint venture – the Company** (Continued)

The following amounts represent the Group's 50% share of the assets and liabilities and sales and results of the joint venture and its subsidiary and are included in these consolidated financial statements:

	2002 RMB'000	2001 RMB'000
Property, plant and equipment	525	–
Current assets	3,209	–
Total assets	3,734	–
Current liabilities	(636)	–
Net assets	3,098	–
Sales	2,119	–
Profit before and after tax	448	–

The average number of employees in the joint venture and its subsidiary in 2002 was 17.

There were no commitments and contingent liabilities relating to the Group's interest in the joint venture as at 31 December 2002.

**15. Investment in associates – the Group**

Unlisted investments held indirectly:

	2002 RMB'000	2001 RMB'000
At the beginning of year	–	686
Additions	5,001	–
Share of results		
Share of operating results before and after tax	908	(203)
Amortisation of goodwill	(527)	(50)
Write off of goodwill	–	(433)
	381	(686)
At the end of year	5,382	–
Represented by:		
Share of net assets	1,956	–
Goodwill		
At cost	3,953	–
Accumulated amortisation	(527)	–
	3,426	–
	5,382	–

## 15. Investment in associates – the Group (Continued)

All associates are companies with limited liability. Details of the principal associates at 31 December 2002 are as follows:

Company	Place/country of incorporation/ establishment	Paid-up capital	Percentage of equity interests attributable to the Group		Principal activities
			2002	2001	
Beijing Ecom Management Technology Consulting Co., Ltd.	PRC	RMB133,333	25%	25%	Provision of management and consultancy services
Asia 21 – Cybics Technology Limited	Hong Kong	HKD1,333,333	25%	–	Investment holding (holding company of Cybics Software (Ningbo) Co., Ltd.)
Cybics Software (Ningbo) Co., Ltd.	PRC	RMB7,000,000	25%	–	Selling of software and computer products

## 16. Available-for-sale investments – the Group

	2002 RMB'000	2001 RMB'000
Unlisted investments, at cost:		
At beginning of year	190	80
Additions	145	110
At end of year	335	190

These investments are companies incorporated in the PRC and principally engaged in selling of software products and provision of software-related technical services. At 31 December 2002 and 2001, the Group has 3% to 10% equity interest in these companies. The directors of the Company are of the opinion that the underlying value of these investments was not less than the carrying value of the investments.

# Notes to the Financial Statements

For the year ended 31 December 2002

## 17. Property, plant and equipment – the Group

	Buildings	Computer and related equipment	Other office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Opening net book amount	10,654	14,989	1,014	1,804	3,090	407	31,958
Acquisition of subsidiaries	1,634	2,123	103	214	281	–	4,355
Additions	–	12,062	353	1,741	7,246	–	21,402
Disposals	–	(1,637)	(1,048)	(23)	–	–	(2,708)
Depreciation charge	(744)	(5,796)	(194)	(551)	(4,986)	–	(12,271)
Closing net book amount	11,544	21,741	228	3,185	5,631	407	42,736
<b>At 31 December 2002</b>							
Cost	13,798	32,842	910	5,651	11,406	407	65,014
Accumulated depreciation	(2,254)	(11,101)	(682)	(2,466)	(5,775)	–	(22,278)
Net book amount	11,544	21,741	228	3,185	5,631	407	42,736
<b>At 31 December 2001</b>							
Cost	12,164	23,837	1,706	3,745	9,120	407	50,979
Accumulated depreciation	(1,510)	(8,848)	(692)	(1,941)	(6,030)	–	(19,021)
Net book amount	10,654	14,989	1,014	1,804	3,090	407	31,958

As of 31 December 2002, a building with a net book amount of RMB3,702,000 (2001: RMB3,869,000) was pledged as collateral for a bank loan of the Group amounted to RMB1,843,000 (2001: RMB2,099,000).

## 18. Intangible assets – the Group

	Goodwill	Negative goodwill	Development costs	Software	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Opening net book amount	–	(115)	5,472	400	5,757
Acquisition of subsidiaries	29,872	–	–	1,378	31,250
Acquisition of interest in subsidiaries					
from minority shareholders	2,491	–	–	–	2,491
Investment in a joint venture	2,650	–	–	–	2,650
Internally generated development costs capitalised	–	–	14,685	–	14,685
Development costs paid	–	–	3,000	–	3,000
Purchase of software	–	–	–	1,964	1,964
Amortisation charge	(1,899)	23	(5,296)	(1,447)	(8,619)
Closing net book amount	33,114	(92)	17,861	2,295	53,178
<b>At 31 December 2002</b>					
<b>Cost</b>	<b>35,013</b>	<b>(115)</b>	<b>23,895</b>	<b>3,793</b>	<b>62,586</b>
<b>Accumulated amortisation</b>	<b>(1,899)</b>	<b>23</b>	<b>(6,034)</b>	<b>(1,498)</b>	<b>(9,408)</b>
<b>Net book amount</b>	<b>33,114</b>	<b>(92)</b>	<b>17,861</b>	<b>2,295</b>	<b>53,178</b>
<b>At 31 December 2001</b>					
Cost	–	(115)	6,210	451	6,546
Accumulated amortisation	–	–	(738)	(51)	(789)
Net book amount	–	(115)	5,472	400	5,757

## 19. Deferred tax assets – the Group

	2002	2001
	RMB'000	RMB'000
At beginning of year	3,197	2,020
Recognised in income statement	3,574	1,177
At end of year	6,771	3,197

## 19. Deferred tax assets – the Group

Movements in deferred tax assets and (liabilities) are as follows:

	1 January 2002 RMB'000	Credited/(charged) to income statement RMB'000	31 December 2002 RMB'000
Provision for doubtful debts	1,282	2,397	<b>3,679</b>
Deferred income	1,118	1,747	<b>2,865</b>
Provisions	–	451	<b>451</b>
Timing difference in recognition of revenue and expenses	982	1,271	<b>2,253</b>
Tax losses	497	247	<b>744</b>
Customers' deposit	(272)	(270)	<b>(542)</b>
Deferred development costs	(410)	(2,269)	<b>(2,679)</b>
Deferred tax assets, net	3,197	3,574	<b>6,771</b>

Deferred income tax assets are recognised for tax losses carry forward to the extent that realisation of the related tax benefits through the future taxable profits is probable. As at 31 December 2002, the Group has not recognised tax losses of totalling RMB15,000,000 (2001 : RMB4,600,000) of which the realisation is uncertain.

## 20. Inventories – the Group

	2002 RMB'000	2001 RMB'000
Raw materials	438	703
Finished goods	2,423	686
	<b>2,861</b>	1,389

Inventories are stated at cost.

## 21. Trade receivables – the Group

Sales of the Group are generally on 90 days' credit terms. The aging analysis of trade receivables is as follows:

	2002 RMB'000	2001 RMB'000
Within 180 days	52,529	24,528
Over 180 days but within 360 days	14,551	5,900
Over 360 days	12,686	15,109
	<b>79,766</b>	45,537
Less: provision for doubtful debts	<b>(24,528)</b>	(17,099)
	<b>55,238</b>	28,438

## 22. Other receivables and prepayments

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Prepayments	745	1,426	-	487
Advances to employees (Note (a))	2,952	1,502	-	-
Deposits	4,876	5,930	-	-
VAT recoverable	2,510	4,457	-	-
Others	3,497	3,125	-	-
	<b>14,580</b>	<b>16,440</b>	<b>-</b>	<b>487</b>

(a) The amounts advanced to employees are interest free, unsecured and repayable within 12 months.

## 23. Amounts due from related parties – the Group

The amounts due from related parties represent outstanding trade balances in relation to sales of software to the companies in which the Group has less than 20% equity interest. The amounts are unsecured, non-interest bearing and repayable in accordance with the terms of the sales contracts. All amounts aged with 180 days.

## 24. Cash and cash equivalents

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Cash at banks and in hand	131,426	50,091	31,143	2,881
Short-term bank deposits	-	75,340	-	71,060
	<b>131,426</b>	<b>125,431</b>	<b>31,143</b>	<b>73,941</b>

## 25. Borrowings – the Group

	2002 RMB'000	2001 RMB'000
Bank borrowings:		
Unsecured bank loans wholly due within 1 year (Note (a))	25,000	-
Mortgage bank loan (Note (b))		
Portion due within 1 year	256	256
Portion due between 2 to 5 years	1,279	1,193
Portion due over 5 years	308	650
	<b>1,843</b>	<b>2,099</b>
Other loan wholly due within 1 year (Note (c))	1,000	1,000
Total borrowings	<b>27,843</b>	<b>3,099</b>
Included in:		
Current liabilities	26,256	1,256
Non-current liabilities	1,587	1,843
	<b>27,843</b>	<b>3,099</b>

**25. Borrowings – the Group** (Continued)

- (a) The unsecured bank loans of RMB20,000,000 (2001: Nil) and RMB5,000,000 (2001: Nil) bear interest at a rate of 4.53% p.a. and 5.04% p.a. respectively.
- (b) The long-term mortgage bank loan of RMB1,843,000 (2001: RMB2,099,000) was pledged by a building of the Group with a net book value of RMB3,702,000 (2001: RMB3,869,000). This loan bears interest at floating rates as determined by the bank.
- (c) Pursuant to Shen Ke [2001] No. 15 issued by Shenzhen Science and 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 amounted to RMB1,000,000 from Shenzhen Finance Bureau. The loan has no fixed terms of repayment.

The interest rate exposure of the borrowings of the Group is as follows:

	2002 RMB'000	2001 RMB'000
Total borrowings		
– at fixed rates	25,000	–
– at floating rates	1,843	2,099
– interest free	1,000	1,000
	<b>27,843</b>	3,099

Weighted average effective annual interest rate is as follows:

	2002	2001
– bank borrowings	4.71%	6.03%
– other borrowings	0%	0%

**26. Trade payables**

The aging analysis of trade payables is as follows:

	2002 RMB'000	2001 RMB'000
Within 180 days	3,684	1,423
Over 180 days but within 360 days	1,242	137
	<b>4,926</b>	1,560



## 27. Deferred income – the Group

	2002 RMB'000	2001 RMB'000
Deferred sales (Note (a))	17,712	13,110
Deferred subsidy income (Note (b))	1,388	1,800
	<b>19,100</b>	14,910

- (a) The amount represents revenues billed to or received from customers in relation to software technical services which were not yet recognised by the Group as the service period covered beyond the financial year-end.
- (b) Deferred subsidy income

	2002 RMB'000	2001 RMB'000
At beginning of year	1,800	–
Additions	1,450	3,000
Recognised in income statement	(1,862)	(1,200)
At end of year	<b>1,388</b>	1,800

At 31 December 2002, the deferred subsidy income represented the remaining portion of the following subsidies:

- (i) A subsidy amounted to RMB3,000,000 was granted by and received from Shenzhen Municipal Government in 2001 for a research and development project. The subsidy is amortised and recognised as income on a straight-line basis over the period of the assignment of 24 months.
- (ii) A subsidy of RMB1,600,000 was granted by Ministry of Science and Technology of the PRC in 2002 for a research and development project. As at 31 December 2002, RMB1,450,000 has been received. The subsidy is amortised and recognised as income on a straight-line basis over the period of the assignment of 32 months.

## 28. Taxes payable – the Group

	2002 RMB'000	2001 RMB'000
EIT payable	5,925	2,119
VAT payable	7,626	5,278
Business tax payable	1,682	359
	<b>15,233</b>	7,756

## 29. Provisions – the Group

	Warranty RMB'000
<b>Provision for the year and at 31 December 2002</b>	<b>3,005</b>

The Group provides a one-year warranty on maintenance service and undertake to repair or replace items that fail to perform satisfactorily during the warranty period. A provision of RMB3,005,000 (2001: Nil) has been recognised at the year-end for expected warranty claims based on past experience of the level of repairs and maintenance service provided. It is expected that the amount will be used during 2003.

## 30. Amounts due from/to subsidiaries - the Company

The amounts due from/to subsidiaries are unsecured, interest free and repayable on demand.

## 31. Share capital and share premium

	Share Capital			Share premium RMB'000
	Number of shares '000	Nominal value HK\$'000	Book value RMB'000	
<b>Authorised share capital (HK\$0.10 each):</b>				
As at 31 December 2001 and 31 December 2002	1,000,000	100,000	107,000	
<b>Issued and fully paid (HK\$0.10 each):</b>				
As at 1 January 2001	1,000	100	107	–
Issue of shares through a public offering and placing	87,500	8,750	9,363	68,177
Capitalisation of share premium	349,000	34,900	37,343	(37,343)
Exercise of share options	250	25	27	249
As at 31 December 2001	437,750	43,775	46,840	31,083
As at 1 January 2002	437,750	43,775	46,840	31,083
Issue of shares (Note (a))	3,137	314	332	6,421
<b>As at 31 December 2002</b>	<b>440,887</b>	<b>44,089</b>	<b>47,172</b>	<b>37,504</b>

- (a) Pursuant to an agreement entered into by the Group and TCL Industries Holdings (H.K.) Limited ("TCL") on 27 December 2001, the Group acquired 100% equity interest of Beijing Case at a consideration of RMB15,000,000. 90% of such interest was acquired by Kingdee HK for a consideration of RMB13,500,000 and the remaining 10% was acquired by Kingdee China for a consideration of RMB1,500,000. Of the consideration payable by Kingdee HK, half of the amount (RMB6,750,000) was satisfied by cash and the remaining half (RMB6,750,000) was satisfied by the issuance of 3,136,908 shares by the Company to TCL on 27 May 2002 at RMB 2.15 (HKD2.03) per share.

## 32. Share options

Share options are granted to directors and employees. Details of share options granted and movements in the number of share options outstanding are as follows:

Date of grant	30 January 2001	27 September 2001	15 May 2002	
Exercise price	HK\$1.03	HK\$1.49	HK\$1.78	
Granted to	2 employees	33 employees	2 directors and 20 employees	
Exercisable period	10 years	10 years	10 years	Total
Granted	1,300,000	1,720,000	–	3,020,000
Exercised	(250,000)	–	–	(250,000)
Lapsed due to resignation	(750,000)	–	–	(750,000)
At 31 December 2001	300,000	1,720,000	–	2,020,000
At 1 January 2002	300,000	1,720,000	–	2,020,000
Granted	–	–	5,620,000	5,620,000
<b>At 31 December 2002</b>	<b>300,000</b>	<b>1,720,000</b>	<b>5,620,000</b>	<b>7,640,000</b>

These options can only be exercised in respect of up to 25%, 50% and 75% of the underlying shares within 12 months, 24 months and 36 months respectively from the date of grant.

## 33. Reserves

The Group	Merger reserve (Note (a)) RMB'000	Capital reserve (Note (b)) RMB'000	Reserve funds (Note (c)) RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2001	6,570	19,255	3,334	–	31,474	60,633
Liquidation of subsidiaries	–	(391)	–	–	–	(391)
Net profit	–	–	–	–	30,036	30,036
Appropriation to reserve funds	–	–	4,850	–	(4,850)	–
Translation adjustments	–	–	–	(683)	–	(683)
Capitalisation of retained earnings of a subsidiary	–	38,378	–	–	(38,378)	–
Balance at 31 December 2001	6,570	57,242	8,184	(683)	18,282	89,595
Balance at 1 January 2002	6,570	57,242	8,184	(683)	18,282	89,595
Liquidation of subsidiaries	–	(45)	(703)	–	703	(45)
Dividend relating to 2001	–	–	–	–	(4,643)	(4,643)
Net profit	–	–	–	–	40,698	40,698
Appropriation to reserve funds	–	–	6,824	–	(6,824)	–
Translation adjustments	–	–	–	14	–	14
<b>Balance at 31 December 2002</b>	<b>6,570</b>	<b>57,197</b>	<b>14,305</b>	<b>(669)</b>	<b>48,216</b>	<b>125,619</b>

## 33. Reserves (Continued)

The Company	Contributed surplus (Note (d)) RMB'000	Exchange fluctuation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 31 January 2001	42,039	–	–	42,039
Net loss	–	–	(3,565)	(3,565)
Translation adjustments	–	(683)	–	(683)
Balance at 31 December 2001	42,039	(683)	(3,565)	37,791
Balance at 1 January 2002	42,039	(683)	(3,565)	37,791
Transfer of reserves	(8,208)	–	8,208	–
Dividend relating to 2001	–	–	(4,643)	(4,643)
Net loss	–	–	(3,744)	(3,744)
Translation adjustments	–	14	–	14
<b>Balance at 31 December 2002</b>	<b>33,831</b>	<b>(669)</b>	<b>(3,744)</b>	<b>29,418</b>

- (a) The 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 amounts of the Company's shares issued as consideration for the acquisition.
- (b) The capital reserve represents mainly the amounts of retained earnings capitalised on re-investment in subsidiaries.
- (c) The Company's subsidiaries in the PRC are required to follow the laws and regulations of the PRC 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 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 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. For the year ended 31 December 2002, the directors resolved to appropriate a total of RMB6,824,000 (2001: RMB4,850,000) to the reserve fund only.
- (d) The contributed surplus represents the difference between the net assets of the subsidiaries acquired by the Company and the nominal value of the Company's shares issued for the acquisition.

## 34. Distributable reserves

As at 31 December 2002, the Company has distributable reserves amounted to RMB30,087,000 (2001: RMB38,474,000) which represented the contributed surplus of RMB33,831,000 (2001: RMB42,039,000) net of accumulated losses of RMB3,744,000 (2001: RMB3,565,000).

## 35. Related party transactions

The following is a summary of significant transactions carried out during the year in the ordinary course of business between the Group and related parties in which the Group has equity interest:

	<b>2002</b>	2001
	<b>RMB'000</b>	RMB'000
Sales of software products to companies in which the Group has less than 20% equity interest:		
Tianjin Jinshen Kingdee Software Technology Co., Ltd.	<b>1,578</b>	1,076
Xiamen Kingdee Accounting Software Development Co., Ltd.	<b>1,393</b>	1,204
Shantou Kingdee Software Technology Co., Ltd.	<b>840</b>	370
Lanzhou Kingdee Accounting Software Development Co., Ltd.	<b>424</b>	132
Haikou Kingdee Accounting Software Development Co., Ltd.	<b>308</b>	95
	<b>4,543</b>	2,877

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 these sales was determined at a cost plus basis.

## 36. Cash flows from operating activities

	2002 RMB'000	2001 RMB'000
Reconciliation of net profit to cash generated from operating activities		
<b>Net profit</b>	<b>40,698</b>	30,036
Adjustments for:		
Provision for doubtful debts	7,429	5,375
Provision for warranty	3,005	–
Depreciation of property, plant and equipment	12,271	6,721
Loss on disposals of property, plant and equipment	2,435	322
Share of results of associates	(381)	686
Amortisation of intangible assets	8,619	789
Interest income	(808)	(2,298)
Interest expense	180	492
(Gain)/loss on liquidation of subsidiaries	(45)	123
Minority interests	(731)	(1,697)
Provision for income tax	2,809	1,894
	<b>75,481</b>	42,443
<b>Changes in working capital (excluding the effect of acquisition of subsidiaries and investment in a joint venture)</b>		
Inventories	(1,319)	340
Trade receivables	(31,496)	(7,746)
Bills receivable, other receivables and prepayments	318	(2,728)
Amounts due from related parties	158	95
Deferred income	4,190	1,071
Salary and staff welfare payable	(4)	1,382
Customers' deposits	(1,335)	4,058
Trade payables, accruals and other payables	(7,249)	2,029
Taxes payable (other than income tax)	3,171	1,194
<b>Cash generated from operating activities</b>	<b>41,915</b>	42,138

## 37. Notes to consolidated cash flow statement

### (a) Acquisition of subsidiaries

On 1 May 2002, the Group acquired 100% equity interest of Beijing Case. The acquired business contributed revenues of RMB10,138,000 and operating loss of RMB505,000 to the Group for the period from 1 May 2002 to 31 December 2002, and its assets and liabilities at 31 December 2002 were RMB11,088,000 and RMB25,027,000 respectively.

In connection with the acquisition of Beijing Case, the Group acquired 90% equity interest in Shanghai Case at nil consideration. The acquired business contributed revenues of RMB4,542,000 and operating loss of RMB650,000 to the Group for period from 1 May 2002 to 31 December 2002, and its assets and liabilities at 31 December 2002 were RMB1,906,000 and RMB3,630,000 respectively.

Details of net liabilities acquired and goodwill are as follows:

	<b>Beijing Case</b>	<b>Shanghai Case</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
Purchase consideration:			
– Cash paid	8,250	–	8,250
– Fair value of shares issued	6,750	–	6,750
	15,000	–	15,000
Fair value of net liabilities acquired	(13,405)	(1,467)	(14,872)
Goodwill	28,405	1,467	29,872

The fair value of the net liabilities approximated to the book value of the net liabilities acquired. No plant closure provisions or other restructuring provisions were established.

## 37. Notes to consolidated cash flow statement (Continued)

## (a) Acquisition of subsidiaries (Continued)

The assets and liabilities arising from the acquisitions are as follows:

	<b>Beijing</b>	<b>Shanghai</b>	
	<b>Case</b>	<b>Case</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	597	441	1,038
Property, plant and equipment	4,114	241	4,355
Intangible assets	1,378	–	1,378
Inventories	–	153	153
Receivables	3,303	1,380	4,683
Payables	(22,797)	(3,682)	(26,479)
Fair value of net liabilities acquired	(13,405)	(1,467)	(14,872)
Goodwill	28,405	1,467	29,872
Purchase consideration	15,000	–	15,000
Less:			
Satisfied by cash	6,750	–	6,750
Satisfied by deposits paid in 2001	2,000	–	2,000
Cash and cash equivalents in subsidiaries acquired	597	441	1,038
Cash outflow/(inflow) on acquisitions	5,653	(441)	5,212



## 37. Notes to consolidated cash flow statement (Continued)

### (b) Investment in a joint venture

Pursuant to a shareholder agreement dated 8 September 2002, the Company disposed of its 50% equity interest in Carterton, a wholly-owned subsidiary, to an unrelated party at cost, and contributed a further RMB5,300,000 (HK\$5,000,000) to Carterton but maintained the same 50% equity interest. Upon the completion of the disposal of 50% equity interest, Carterton then became a joint venture of the Company.

Details of net assets acquired and goodwill are as follows:

	RMB'000
50% of net assets of Carterton disposed (RMB415)	–
Proceeds from the disposal (RMB415)	–
Additional funds contributed to Carterton	5,300
Total consideration	5,300
Fair value of net assets acquired*	(2,650)
Goodwill	2,650

The assets and liabilities arising from the transaction are as follows:

	RMB'000
Fair value of assets acquired*	
Cash and cash equivalents	2,650
Goodwill	2,650
Cash injected	5,300
Less: Share of cash and cash equivalents in a joint venture	2,650
Cash outflow on acquisition	2,650

\* *Net assets acquired represented 50% share of the cash injected by the Company and held by Carterton which is proportionately consolidated in the consolidated financial statements of the Group.*

### (c) Major non-cash transactions

A portion of the consideration for the purchase of a subsidiary during the year of RMB6,750,000 was satisfied by the issuance of 3,136,908 ordinary shares in the Company to TCL (Note 31).

## 38. Contingent liabilities

The Group had no significant contingent liabilities as of 31 December 2002 (2001: Nil).

### 39. Commitments

Operating lease commitments

As of 31 December 2002, total minimum future lease payments under non-cancellable operating leases in respect of buildings are as follows:

	Group		Company	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Payable:				
– Not later than one year	<b>3,871</b>	6,868	<b>261</b>	10
– Later than one year and not later than five years	<b>3,103</b>	6,126	<b>174</b>	–
	<b>6,974</b>	12,994	<b>435</b>	10

### 40. Financial instruments

The carrying amounts of the Group's cash and cash equivalents, short-term bank loans and receivables and payables approximate their fair values because of the short maturity of these instruments. No disclosure of fair value of available-for-sale investments is made as it is not practical to determine their fair values with sufficient reliability. The carrying amounts of long-term loans approximate their 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.

### 41. Comparative figures

The following comparative figures have been reclassified to conform to the current year's presentation:

- (a) VAT refund arising from sales of software products of RMB11,993,000 was reclassified from turnover to VAT refund.
- (b) VAT refund arising from local-production and local-sales of RMB2,508,000 was reclassified from turnover to other operating income.
- (c) Deferred subsidy income of RMB1,800,000 was reclassified from accruals and other payables to deferred income.
- (d) In 2001, a subsidiary increased registered capital by way of capitalisation of retained earnings amounted to RMB38,378,000. As that portion of the retained earnings is no longer available for distribution by the Group, the amount capitalised was reclassified from retained earnings to capital reserve of the Group.

## 42. Ultimate holding company

The directors regard the Company has no ultimate holding company.

## 43. Approval of financial statements

The financial statements were approved by the Board of Directors on 21 March 2003.

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that an Annual General Meeting (“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, 25th April, 2003 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 for the year ended 31st December, 2002;
2. To declare the final dividend for the year 2002;
3. A To re-elect retiring director;  
B To authorize the board of directors (“the Board”) to fix the remuneration of the directors;
4. To re-appoint the auditors of the Company and to authorize the Board to fix their remuneration;
5. To consider and, if thought fit, 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 authorize 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 recognized 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 recognized 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 authorized to repurchase pursuant to the approval in sub-paragraph (i) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and this approval shall be limited accordingly; and
- (iii) for the purpose of this resolution:

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

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and
- (c) the date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution in general meeting of the Company.”

(C) **“THAT** conditional upon ordinary resolutions nos. 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.”

6. As special business, to consider and if thought fit, pass the following resolution with or without amendments as ordinary resolution of the Company:

**“THAT** Mr. LUO Ming Xing be elected as an Executive Director of the Company in place of Mr. Zhang Wen Xing, the resigning Non-executive Director of the Company, with immediate effect from the closure of the Meeting as recommended by the Board Meeting held on 21 March 2003.”

By order the Board

**KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED**

**Xu Shao Chun**

*Chairman*

Shenzhen, the PRC, 27 March 2003

*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 23rd April, 2003 (Wednesday) to 25th April, 2003 (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 22nd April, 2003 (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 2002.*



