



幫助顧客成功 Enable your success

Annual Report 2003 二零零三年年報

Kingdee

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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金蝶KIS®

金蝶K3®

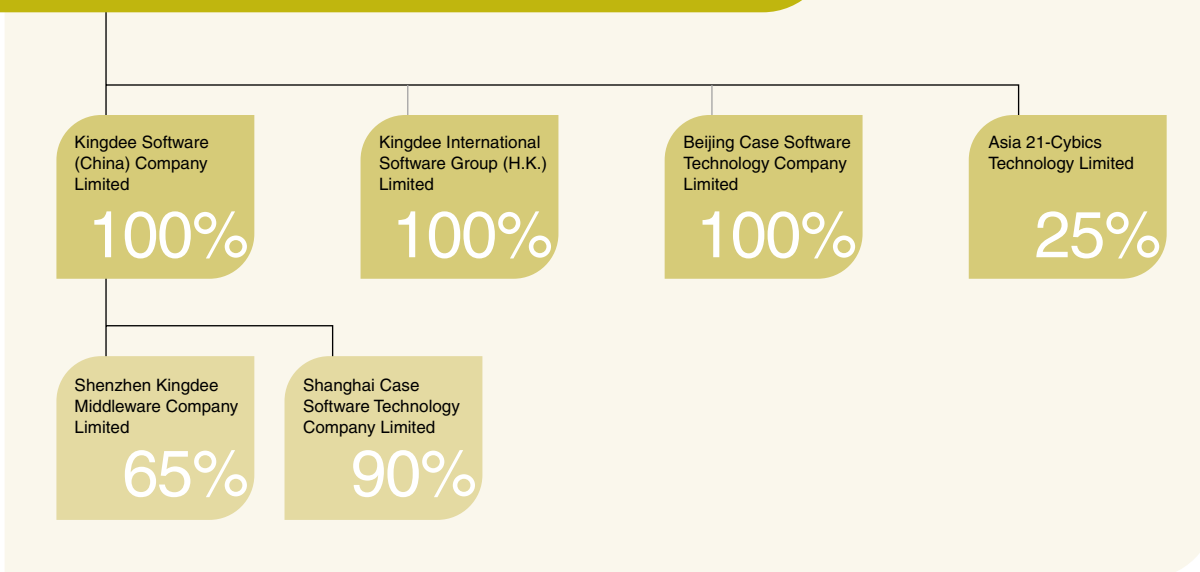
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Kingdee

Kingdee International Software Group Company Limited



Corporate Mission

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 enabling customers' success

Corporate Information

Executive Director and Managing Director

Xu Shao Chun, Chairman and CEO
James Ming King, CSO
Luo Ming Xing, Senior Vice-president and CFO

Non-executive Director

Zhao Yong
Hugo Shong

Independent Non-executive Director

Yang Zhou Nan
Wu Cheng
Yeung Kwok On

Company Secretary

Chung Oi Yin, Irene (ACS, ACIS)

Compliance Officer

James Ming King

Qualified Accountant

Yang Jian Wen (ACCA)

Audit Committee

Zhao Yong
Yang Zhou Nan
Wu Cheng

Authorised Representatives

Xu Shao Chun
Luo Ming Xing

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 Hongkong and Shanghai Banking Corporation Limited

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

GEM Stock Code

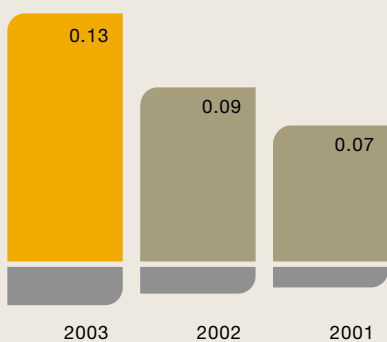
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Financial Highlights

	2003 RMB'000	2002 RMB'000	2001 RMB'000	2000 RMB'000
Turnover	365,573	294,532	187,742	158,652
Profit before tax	68,225	42,776	30,233	22,807
Profit after tax	58,041	39,967	28,339	22,013
Profit attributable to shareholders	59,130	40,698	30,036	22,364

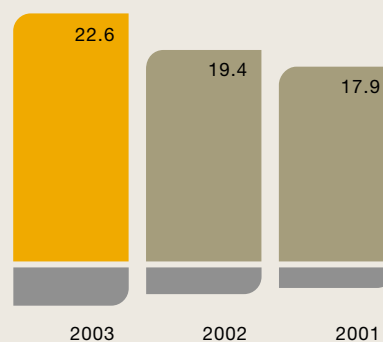
Earnings Per Share – Basic

RMB

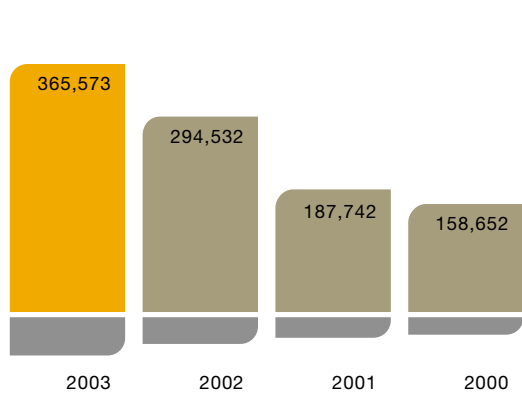


Returns on Equity

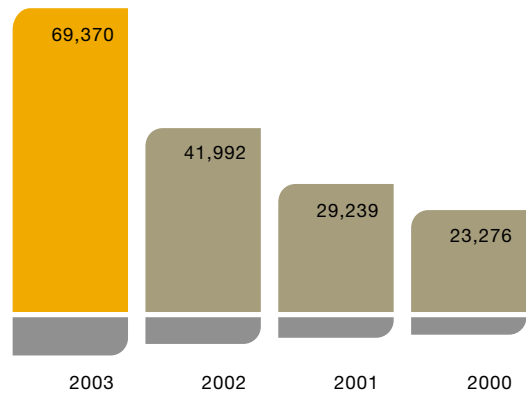
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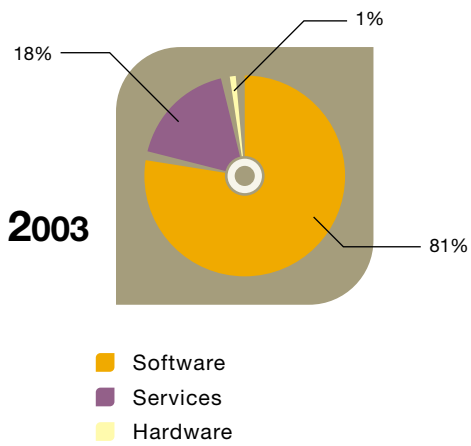
Turnover
RMB'000



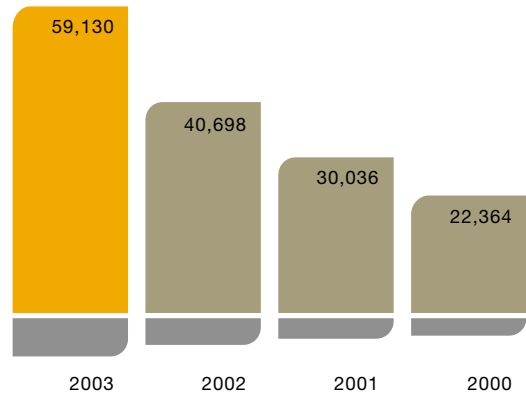
Operating Income
RMB'000



Turnover Breakdown by Business



Profit Attributable to Shareholders
RMB'000



Kingdee International fully embraced its strategy of “Product leadership, Partner oriented, Prompt response and Capability oriented”. The Group successfully enhanced product technology, strengthened the alliance with partners and fortified its leading position in the PRC's enterprise application software market.

On behalf of Kingdee International Software Group Company Limited (“Kingdee International” or the “Company”) and its subsidiaries (the “Group”), I am pleased to present the Group's audited annual results for the year ended 31 December 2003.

During 2003, Kingdee International achieved remarkable success. For the year ended 31 December 2003, the Group's turnover and profit attributable to shareholders amounted to RMB365,573,000 and RMB59,130,000, representing an increase of 24.1% and 45.3% respectively. Earnings per share were approximately RMB0.13, with an increase of 44.4% when compared with previous year while the proposed dividend amounts to HK\$0.01 per share.

In 2003, the outbreak of SARS in the PRC did not hinder the rapid economic growth. Leverage on the quality products and strong customer base, Kingdee International was able to achieve remarkable results with the implementation of product leadership strategy. Coherent to the Group's strategy of “Product leadership, Partner oriented, Prompt response and Capability oriented”, the Group enhanced its product



technology level, promoted partnership and consolidated its leading position in the enterprise application software industry in the PRC.

Kingdee International believes that the enterprise application software market will experience exponential growth in future, along with the growing demand of Chinese enterprise's informatisation. Kingdee International has an extensive customer base and provides stable and high-end products to its customers, so as to enable their success and enhance their strategic execution capability and management control capability. With the speedy installation, implementation, application and effectiveness, the Group is able to enable Chinese enterprises to have rapid, sustainable and healthy growth.

For the period under review, Kingdee International launched a series of innovative products, which satisfied the needs of our clients and the demand for management informatization, and we enabled customers' success. Following Kingdee KIS (Kingdee 2000) and Kingdee K/3, Kingdee EAS, a high-ended enterprise management software, was launched. Leveraged on its features designated for high-end industry applications and tailor-made needs, the product provides a comprehensive informatization solution to our customers, secured orders from some leading enterprises and was applied in a number of large-scale enterprises. Meanwhile, the latest version of Kingdee K/3 V10.0 was introduced. The emphasis on strategic enterprise management and business process management completely complies with the need of strategic execution and business process management. The product was well received and successfully applied in numerous large-scale enterprises. In addition, version V3.0 of Kingdee Apusic middleware was launched and widely used by clients of large-scale state-owned enterprises such as The People's Bank of China. Apparently, the strategy of "Product leadership" has obtained impressive results, maintained and reinforced the Group's leading position in the industry, expanded Kingdee International's market share and created value for our supportive shareholders.

Kingdee International closely cooperated with our allies and offered speedy and reliable services. Through the development of seamless cooperation with our allies and the establishment of software industry eco-chain, Kingdee International consolidated its capabilities in technology, consultation, implementation, maintenance, training and etc. The enhancement in corporate strengths contributed to exceptional business growth. The Group recorded significant increase in the number of orders and clients from large-scale enterprises in 2003 and achieved unparalleled accomplishment in different industries, such as property, tobacco, pharmaceuticals, automobiles and etc, establishing a stable client base. Kingdee International has gradually extended its reach to overseas market with a view in strengthening the Group's competitiveness in international market. We have successfully expanded the Asian-Pacific market and our outsourcing business has also achieved a breakthrough.

The Group will continue to establish intimate relationship with investors and endeavor to enhance corporate transparency and protect the interest of our valuable investors. The outstanding performance of Kingdee International's share price in 2003 was a testimony of the extensive recognition and expectation of the investors in our corporate values. Looking ahead, we will further strengthen our customer-oriented product development strategy, provide quality products and services, maximize customers' satisfaction and create shareholders' value.

I would like to take this opportunity to express my heartfelt gratitude to the members of the Board of Directors, senior management and our staff for their dedication and contribution in 2003, as well as to all the clients and business partners of Kingdee International for their continuous support.

Xu Shao Chun
Chairman

Hong Kong, 10 March 2004

From left to right:

First row: Jin Zhuo Jun (Senior Vice President), Luo Ming Xing (Executive Director & Senior Vice President), Xu Shao Chun (Chairman & CEO), James King Ming (Executive Director & Chief Strategy Officer), Cai Jun (Vice President)

Second row: Yi Wei (Board Secretary), Wu Qiang (Vice President), Chen Deng Kun (Assistant President), Zeng Liang (General Manager of Marketing Department), Li Guang Xue (Vice President)

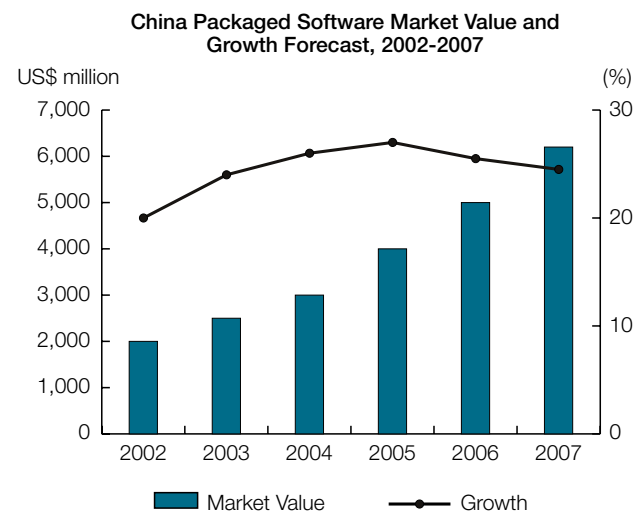
Company Strategy

Kingdee International has devised a detailed plan on development strategy in future. The Group has also clearly defined its business objectives, vision, mission and targets, conduct a thorough analysis on market trend, customer demand and competition environment. Kingdee International proposed a new strategy, “Product leadership, Partner oriented, Prompt response, Capability oriented,” abridged as the “Product leadership” strategy. The strategy based on the competition strategy within an ecosystem, with its core ideology of enabling customers to experience the absolute advantages of complete product. “Product leadership” hinges on the collective performance of product research and implementation consultation staff and a better logistics, management and technological standards. This is concerned with exhibiting the best quality in the complete product. “Partner oriented” means joining hands with partners to strengthen the basic services and explore value-added services with its leading complete products and consultation implementation management, so as to establish an ecological industry chain and value chain, and outline the development direction of the software industry in the PRC.

The prospect of Chinese enterprise application software is prosperous. The urgent needs of informatization and government’s supportive policies are the two major driving forces. Leverage on excellent products and extensive customer base, Kingdee International has secured a leading position in the enterprise application software market in the PRC.

Exponential Market Growth

The software industry in PRC will sustain a rapid growth for the next few years. According to the forecasts of International Data Corporation (IDC), the compound growth rate of enterprise packaged software market of the PRC for the next four years will be approximately 25.8%, among which, the annual compound growth rate of application software will reach 28.4%.



Source: IDC, 2003

In 2001, the PRC government devised the state development plan for the following five years, the theme being “informatization-led industrialization.” According to the plan, the PRC government will place more investments in informatization engineering, promote informatization in traditional industries and implement supportive policies on IT industry. The PRC government has set up specific funds for the development of IT technology and the establishment of key projects, which enhance the growth of the entire software market in the PRC.

Government support is not the only factor promoting the growth of the PRC enterprise application software market. Informatization has received increasing attention from the PRC enterprises, which further accelerate the market growth. After more than 10 years of development, the PRC management software market is on its way to maturity. From 2002 to 2007, the compound growth rate of informatization hardware investment by the PRC enterprises will reach 11.5%. Many enterprises begin to be aware of the value and returns of software investment after making hardware investment. Their favour to application software fuel the overall market demand and affect other enterprises which are investing in hardware informatization. It has aroused collective awareness and concern from the PRC enterprises on application software.

The growth of Chinese enterprise application software market stems from the immediate needs arising from the own development of enterprises. The intense competition brought forth by China's entry into the WTO, together with the management problems encountered in the growth of enterprises lead to an increase in the demand for modernized management software by Chinese enterprises. The management of enterprises becomes more aware of the fact that informatization is not a technical reengineering but a management reengineering. Informatization becomes an indispensable part in promoting management reforms in enterprises and enhancing the core competitiveness of enterprises. In the PRC, there are 15,000 medium to large enterprises and 10 million small enterprises in different industries and markets, facing competition of different levels. In future, the demands of these enterprises in enhancing their own management capabilities will become the major driving force in the growth of the application software market.

China's rapid economic growth has enabled a group of Chinese enterprises with healthy growth. Their businesses are undergoing high speed growth and their corporate strategies, group structures and operation flows are changing and reforming, like racing car keeps on changing wheels. High speed growing Chinese enterprises needs speedy and effective management reform, so as to overcome management difficulties and create persistent competitive advantages. The products of Kingdee International are based on unique and comprehensive positioning management philosophy and integrated enterprises' successful informatization application to realize speedy installation, implementation, application and effectiveness, and eventually to enable Chinese enterprises to have high speed, sustainable and healthy growth.

Being the leading enterprise application software provider in the PRC, Kingdee International provides informatization solutions like ERP, CRM, SCM and KM to enterprises. According to the research conduct by CCW Research (China Computer World), Kingdee International was the No. 1 ERP software provider in the small and medium enterprises market with market share of 19.3%. Accordingly to the 2003 report of IDC (International Data Company), Kingdee International is ranked sixth in the package software market. By the end of 2003, Kingdee International was accredited a numerous awards like "Best Design in ERP Software Solutions", "Most Loyal Brand of ERP Software" in an IT customer research conduct by CCW Research (China Computer World).

Kingdee International will consolidate its leading position, also, it will actively develop and explore potential markets and compete with competitors in different levels. Leverage on the quality and unique products, rooms for future growth and innovative management means and system, Kingdee International is able to create its competitive edges in the enterprise application software market in the PRC.

Customer Oriented **products**

Kingdee International never ceases to provide “Customer-oriented” products and services. We provide our customers with a complete product system, solutions targeting at various industries and quality services. We enable customers to strengthen their core competitiveness, upgrade management standards and enhance their management structures.

Tailor-made Solutions

After years of planning, research and development, a complete product line of Kingdee International consisting Kingdee EAS, Kingdee K/3 and Kingdee KIS Kingdee 2000 is established, targeting at different market segments. Kingdee KIS aims to offer financial solutions for customers undergoing the initial stage of enterprise informatization. When customers upgrade their management standards and demand more in-depth management applications, Kingdee K/3 offers cross-industry solutions functioning in the areas of financial management, HR, KM, and CRM. When customers enter a mature stage of informatization management, they need high-end application software products catering for the distinctive needs of different industries. Kingdee EAS is able to deliver tailor-made products and services, accommodating various industry features to meet the above needs.

Kingdee International's coherent product system provides customers with diversified choices, enabling customers to choose different levels of management application methods according to their pragmatic needs. On the other hand, when customers need to upgrade their management capabilities, they can freely opt to upgrade their products to higher-end one. The high compatibility of Kingdee International's software guarantees the safety of customers' data and the user-friendly module upgrading solutions ensures a fast and effective upgrading process of the management software.



Kingdee

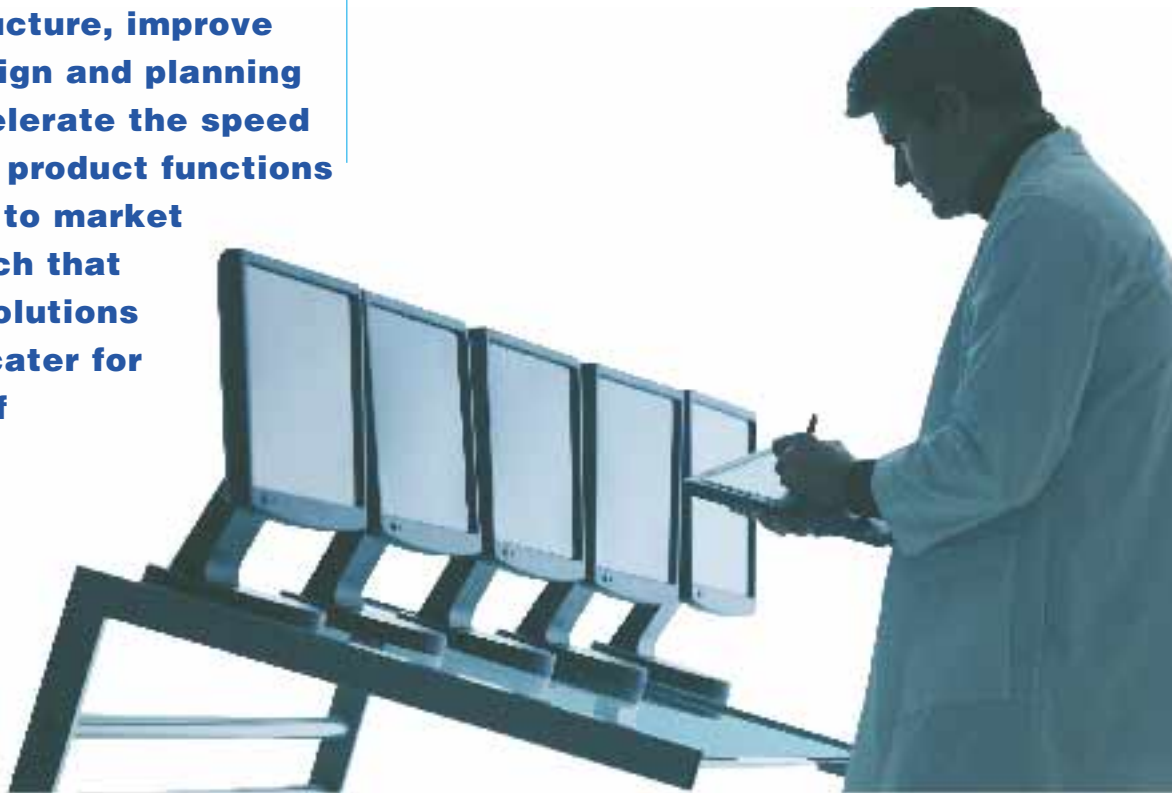
金蝶 KIS[®]

金蝶 K3[®]

金蝶 EAS[®]

APUSIC[®]

Kingdee International will endeavour to upgrade the design capabilities of its product structure, improve product design and planning ability, accelerate the speed in adjusting product functions in response to market demand, such that Kingdee's solutions can better cater for the needs of customers.



In early 2003, Kingdee International announced its corporate development strategy - "Product leadership, Partner oriented." Kingdee International will reinforce its product research and development, place extra resources in innovation and expand our advantages on technology so as to capture and consolidate the application software market. "Product leadership" means that Kingdee International will endeavour to

upgrade the design capabilities of its product structure, improve product design and planning ability, accelerate the speed in adjusting product functions in response to market demand, such that Kingdee's solutions can better cater for the needs of customers. Employing such strategy, Kingdee International offers its customers with customized software products delivering leading technology and comprehensive functions.

Company Strategy (cont'd)

Industry-specific Products

Enterprise informatization does not only refer to the use of computers or sending emails in offices. What is more crucial is the formation of a complete informatization platform covering each segment, including procurement, production and sales. In a modern society, different types of enterprises give rise to different operating methods and production processes, divergent business philosophies and management focuses, therefore, customers' needs on informatization also vary. Customers from different industries demand for management software with specific industry features so as to cope with their business operations.

Kingdee International conducts characteristics summary and demand analysis targeting at the industries in which its customers operate and provide diversified solutions addressing the needs of different industries.

Taking manufacturing industry as an example, manufacturing enterprises are characterized by their diversified production types and irregular production cycles, a complicated product structure and processing technology were common as well. Therefore, the product lifespan is shorter than usual. Kingdee International's solution for manufacturing industry focuses on production supply chain, emphasizes the informatization of business logistics, and combines with sales management, cost and quality control system. It succeeds in exercising full control over production plan, logistics flow, sales and services.

Kingdee International has developed industry-specific informatization solutions for manufacturing, automobile, property, tobacco, government, pharmaceuticals, textile, insurance, banking, securities, trust, textile and electronic industries. Kingdee International will also put efforts in conducting demand analysis and product development to develop tailor-made informatization products targeting various specific industries.

Quality Services

Kingdee International believes that provision of effective services is the foundation for building good customer relationship. The value-added services derived from resolving customer difficulties leads Kingdee International to grow. Consultation services help customers to understand the way to improve management. Implementation services ensure the successful application of management softwares. Training services allow customers to familiarize with the use of the management tools provided by Kingdee International. Technological support services ensure customers in the smooth usage of Kingdee International's informatization products.

The key to ensure service quality and service standard is to have adequate preparation and comprehensive planning. Staff competency, experience and team cooperation skills determine the success or failure of every project. Based on years of experience in providing services on management application

software, Kingdee International is able to devise a unique philosophy on services - emphasize the initial training and preparation, supplement with comprehensive technological support services in order to minimize the risks of customers, enhance the efficiency of services and ensure the success of the project. In particular, Kingdee International stresses on staff training and capability enhancement, so as to cultivate a competent and experienced service team by professional theory. Kingdee International continues to provide new training courses to enhance product knowledge and professional skills of staff.

In order to provide customers with prompt and efficient services, Kingdee International has established 41 branches, and created a service network comprising more than 600 agents, covering 211 medium to large cities in the PRC. The Group also gradually expands its overseas market. Kingdee International is able to quickly resolve customers' difficulties through this network, as well as reflecting, organizing and sharing the various servicing experiences within the Group, which enhances the overall capability of the maintenance service system.

With the implementation of "Partner oriented" strategy, Kingdee International strives to seek for alliance partners in areas of consultation, implementation and training, jointly explore the market of services. As Kingdee International expands its service team, the Group also pays extra attention to the team's technological standards and service competency than before. Kingdee International has designed a large number of staff training programs and certification systems for its alliance partners, to ensure that they are able to provide high standard, quality and efficient services. Kingdee International collaborated with Tsinghua University State CIMS Engineering Research Center in organizing a series of courses on Kingdee International's product knowledge and application of management software for its alliance partners, thereby training a large number of qualified implementation staff, thus consolidating the Group's capability in delivering quality maintenance and services to its customers.

Strong Customer Base

Kingdee International believes that provision of effective services is the foundation for building good customer relationship. The value-added services derived from resolving customer difficulties leads Kingdee International to grow.

Leveraging on market growth and capability enhancement, Kingdee International will achieve rapid growth in future. Kingdee International's future success hinges on the establishment of long-term relationship with its customers, the incubation of quality staff, the expansion of partnership alliance and the exploration of international business opportunities.

Long-term Cooperation with Customers

Kingdee International cherishes every opportunity to cooperate with every customer and wishes to establish long-term partnership with its customers. Armed with the objective of "Enable customers' success", Kingdee International honours to help customers to raise the standard of enterprise management and hopes to share the experiences of enterprise management with its customers, so as to grow and progress with its customers.

In order to establish and maintain good relationships with its customers, Kingdee International establishes Eastern Pearl Club and launches the "Eastern Pearl Project" in 2002, aiming at the promotion of application results and experiences of the existing customers. The project strengthens the communications between Kingdee International and customers and among customers themselves. "Eastern Pearl Project" intends to illustrate applications through case studies and to promote the development of applications, to share the successful application experience of





informatization and to explore the development direction of the Chinese enterprise application software. Through the project, Kingdee International establishes a closer relationship with its customers. In realizing the strategy of “Partner oriented”, Kingdee International will continue to implement the “Eastern Pearl Project” and put great efforts in consolidating the relationship with its customers, so as to transform customers into partners, and to cooperate with them in all aspects of enterprise application management. On the one hand, customers enhance their management with Kingdee International’s products, simplify the management structure and increase the speed of information transmission so as to improve the standard and efficiency of the management of a company. On the other hand, customers’ experiences and lessons in application management may also help Kingdee International to consummate the performance of its products and to make its informatization solutions more practical. Cooperation greatly enhances the performance of Kingdee International’s products and the understanding of enterprise management.

From another point of view, the long-term relationship with customers will guarantee a stable future income for software enterprises. The growth of enterprises gives rise to new management demands. If a software manufacturer can rapidly provide its customers with an upgraded system or

second development of the system, the customers may save a large amount of cost incurred in replacing the system. New orders will also be awarded to the software manufacturer. Kingdee International is committed to maintaining the relationship with its customers. We also commence a long-term communication and examination with the customers and enter into strategic cooperation agreements for future upgrade and maintenance services. In ensuring that customers may receive value-added services promptly, the Group may generate more income, which leads to a positive win-win situation.



Excellent Team of Expertise

Competent personnel are of particular importance to software enterprises and the support behind the rapid growth of the Company. Over the years, Kingdee International provides challenging job opportunities, sound working environment and competitive remunerations for its employees. Kingdee International has established an image of an excellent employer and thus attracted many local and overseas talents. 3% of the Kingdee International’s employees are overseas

Company Strategy (cont'd)



Your Long-term business partner

graduates, 3% of them have worked as senior management in foreign enterprises and 21% of them have masters' degrees or higher qualifications. Nearly half of them have working experience of over 5 years. The senior management and skilful technicians gradually become the pillars of Kingdee International.

While recruiting talents extensively, Kingdee International emphasizes open competition within the Group. The Group has developed a unique system in selecting and training staff. Employees are encouraged to self-recommend themselves and recommend others. Personnel with capabilities and qualifications will be given employment opportunities. Also, a series of specific training courses is designed for the Group's employees, which help crafting their way of thinking and value and helping them to enhance their operation and management capabilities.

With its staff selection, employment and training system, Kingdee International endeavours to seek and attract more talents and give them opportunities to realize their potential and value, thereby gradually consolidate the Group's edge in human resources in the industry.

Joint Development with the Alliance Partners

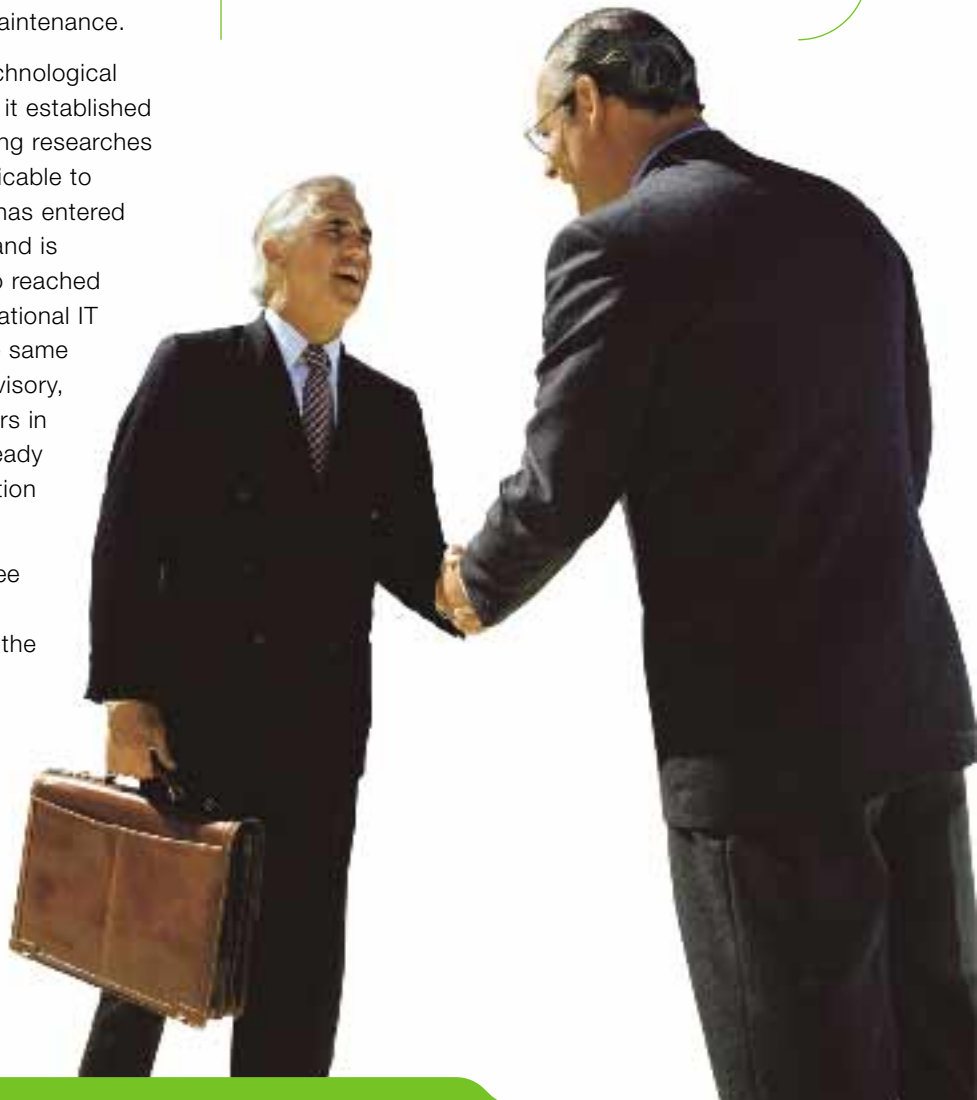
With the progress in enterprise management concept and the continuous upgrade of management system and software, the demand of modern enterprises for management services is on the increase. The management services range not only

from management advisory to IT planning, but also from system integration to fixed development. While all-round and multilevel services market are gradually expanding, it also entices competition. In order to strengthen its predominance in the service market, Kingdee International will cooperate with alliances and collaborate with partners in exploring the vast service market and provide customers with "numerous, speedy, quality and value for money" services. Kingdee International's "Product leadership, Partner oriented" strategy focuses on cooperation among partners in accomplishing the entire system - from the stage of technological development to product consultation and from project implementation to system maintenance.

Kingdee International currently has 36 technological cooperating partners. Together with IBM, it established the high-end joint laboratory for conducting researches on enterprise management software applicable to 64-bit technology. Kingdee International has entered into strategic partnership with Microsoft and is accredited as the best ISV partner. It also reached cooperation agreements with large international IT corporations such as Intel and HP. At the same time, Kingdee International is seeking advisory, implementation, sales and training partners in the Greater China Region. The Group already has 52 advisory partners, 57 implementation and service partners.

Working with a variety of partners, Kingdee International starts out this win-win relationship for alliance development. On the one hand, it establishes a complete industry supply chain, increasing the further growth of the management software industry in the PRC. On the other hand, it attracts more customers and opportunities for Kingdee International, which lay down a solid foundation for the rapid growth of the Group.

Kingdee International's "Product leadership, Partner oriented" strategy focuses on cooperation among partners in accomplishing the entire system from the stage of technological development to product consultation and from project implementation to system maintenance.



Heading to international market

Moving towards international market is Kingdee International's long-term development direction. While consolidating its predominance in the domestic market, Kingdee International is progressively exploring the overseas market



Exploring International Business Opportunities

Moving towards international market is Kingdee International's long-term development direction. While consolidating its predominance in the domestic market, Kingdee International is progressively exploring the overseas market. By participating in the international market, Kingdee International is able to accumulate the experience of international management and operation, so as to enhance its competitiveness.

Since the Group's listing in Hong Kong, it has actively developed its business in Hong Kong. The Group has established a strong team including international and local expertise in Hong Kong to enter into the software in Hong Kong. Our customers in Hong Kong are multinational corporations, Chinese enterprises and local companies. At the same time, our business is gradually expanding across the Asia-Pacific region. Kingdee International delivers its international customers with cross-platform, multi-language management software, assisting overseas customers in the implementation of worldwide informatization management.

Another advantage with regard to Kingdee International's ambition towards international market is its standardized management code for software development. The group has attained the fourth grade of CMM pre-evaluation and will formally obtain the



certificate in the first half of 2004. It clearly shows that the quality management standard of Kingdee International's software products has reached international standard. Kingdee International is thus capable to become the partner for many overseas companies in the area of software business, to offer its customers with outsourcing services regarding software development, maintenance and testing, to lower the operating cost for overseas

customers and to improve the quality of services. Due to the standardization of software development system, Kingdee International can provide better and faster services than its domestic and foreign competitors in the outsourcing market. Kingdee International explores the international market with its outsourcing business and endeavours to enhance the recognition of the brand of Kingdee International in the overseas market.



Company Strategy (cont'd)

Innovation is the key for the growth of Kingdee International. From the area of product development to management methods, Kingdee International continually strives to upgrade itself and implement reforms, thereby promoting the growth of the enterprise.

Innovative Research and Development

In 1996, Kingdee International successfully released the first accounting software KIS based on Windows platform in the PRC; in 1999, Kingdee International captured the business opportunities in the management software market, and was transformed from an accounting software provider to a management software manufacturer. K/3 ERP was successfully released. In 2000, Kingdee International released the first domestic middleware Apusic J2EE application server in the PRC, hence becoming the first software manufacturer in the PRC with the system software technology. In 2003, Kingdee International launched the EAS system, which targeted at the high-end management application software market and worked towards the continual improvement in the related modular functions. Kingdee International's development history is a history of technological innovation. In the future, Kingdee International will follow through its innovative spirit and leverage on its competitive edges in technology to expand its business.

The 21st century is an era focusing on management. New management theories never cease to emerge, as evidenced from the MRP management system of the last century to ERP concept, then to ERP II, all of which aspiring to improve the operating efficiency and consolidate the enterprise management. In order to increase their own competitiveness, enterprises will draw conclusions from their own management experience in the implementation process and explore

advanced management method and innovation. Kingdee International continues to pay attention to the advanced management theories and hunt for the inspiration of innovation. By upholding its innovative spirit in its research and development, Kingdee International attempts to develop software module which incorporates the brand new management concepts and satisfies customers' needs. Kingdee International aimed at integrating advanced management methods and quality management concepts into its products, allowing customers to establish a flexible management system by utilizing Kingdee International's informatization solutions, thereby holding on to the economic benefits brought about by the management innovation.

In order to stay innovative in its research and development, the Group has been proactively recruiting senior staff from the IT industry. It also established research centers in Shenzhen, Beijing and Shanghai, forming a strong research and development team. Kingdee International strengthens the management of its product development department, and upgrades the research centers in the three regions in their capabilities of product research and development, quality control and management communication, thus further expanding the Group's capability in development and innovation. While actively recruiting professional expertise, Kingdee International also concerns with the standardized management of the research and development team. It introduces internationalized software development management code CMM, upgrade the requirement with respect to the quality of research and development and regulate the product development process. As Kingdee International is about to obtain CMM level 4 certificate, it illustrates that Kingdee International's research and development capability stands at the forefront of international standard and has received wide recognition within the industry.

Innovative Management

Kingdee International strongly believes that in the process of enterprise development, core competitiveness can only be achieved by continuously upgrading one's management skills and standard. This will also promote the continuous growth of enterprises amidst reforms. Under the circumstances where the scales of the enterprises are expanding, the key to maintain growth is by fully implementing the enterprise strategy and promptly responding to both external and internal demands.

In order to effectively implement the Company's strategy, Kingdee International adopted modern management tools including Balanced Score Card and Hoshin Plan. These tools coordinates the enterprise objectives, strategy and implementation as well as translating the corporate development plan into the specific duty of each member of staff, such that the whole corporate strategy is carried out from the very top to the very bottom level. Kingdee International uses FURPS (Functionality, Usability, Reliability, Performance, Supportability) to define and quantify the business flow, and supervise the actual performance and operation of each segment and strengthen the management supervision on the entire business flow. At the same time, Kingdee International will implement matrix management within the group, implement

centralized allocation of resources and carry out vertical supervision on the duties of its subordinating branch organizations, thus ensuring the full execution of the Company's strategy on every level.

In order to accelerate the pace of its response, Kingdee International utilizes its own edge, implements and applies its own products, constructed Kingdee International mathematical nervous system, which can at any time reflect and supervise its business operations, thereby increasing the transparency of business, so that quicker and more precise decisions can be made. Kingdee International also sets up specific business analysis department so as to construct the Kingdee International BPM (Business Performance Management) system, which further enhances the execution of corporate strategy and shortens the response time. Kingdee International has laid a solid ground for rapid growth in future by applying these advanced management tools and innovative management methods.

After ten years' development, Kingdee International became a leading application software provider in the PRC. Looking Ahead, Kingdee International will strive its best to become one of the top ten application software providers in the world by its leading technology and excellent management.

Management Discussion and Analysis

Industry Review

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

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

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

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

Business Review

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

Development of Product Technology

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

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

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

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

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

Partnership Alliance

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

Management Discussion and Analysis (cont'd)

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

Customers and Sales

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

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

Financial Review

Operating Results

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

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

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

Gross profit

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

Selling expenses

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

General and administrative expenses

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

Management Discussion and Analysis (cont'd)

Capital expenditures

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

Financial resources and liquidity

The Group maintained a sound cash flow position. As at 31 December 2003, cash and cash equivalents were at approximately RMB164,458,000 (2002: RMB131,426,000) representing a current ratio of 2.2 (2002: 2.0). Gearing ratio, expressed as a ratio of total liability and minority interests to shareholders' equity, was 41.7% (2002: 50.0%). During the reporting period, the Group recorded a better current ratio and gearing ratio over 2002, mainly because of the Group's strong management of working capital and debt. The management considers the Group maintains a strong financial position.

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

As at 31 December 2003, the Group had outstanding short-term bank loan of RMB20,000,000 (2002: RMB25,000,000) and there was no outstanding long-term bank loan (2002: RMB1,834,000).

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

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

Future Prospects

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

Statement of Business Objectives

Business objective stated in the prospectus of the Company dated 9 February 2001

Improve the then packages of KINGDEE 2000; analyse and develop the technicalities of the then K/3 application modules with Web-based capability; and analyse and develop improved version of Apusic Middleware

Utilise the group's sales and distribution network as the backbone of the Group's technical support service network

Advertise and promote the Group's products via media and by attending or organizing conferences and seminars

Evaluate opportunities to establish co-operation arrangement with other software vendors and expand the number of authorized sales agents in order to expand the sales and distribution network of the Group

Employ additional programmers and system analysts or replace retired programmers and system analysts

Actual business progress for the period end 31 December 2003

Kingdee International kept improving KINDEE 2000, K/3 and related products during this period. The Group released high-end management software Kingdee EAS (Enterprise Application Suite) in May 2003. The new K/3 V10.0 which focuses on strategic enterprise performance management was launched in December 2003. The Apusic was upgraded to 3.0 by the end of 2003.

The Group expanded its service alliance and expanded its service coverage, in order to provide its customer with more professional and personal services.

Kingdee International attended conferences and organized the EAS national roadshow, "2003 Project of Oriental Pearl", "Modern Business Process Performance Forum" and other promotion activities that enhanced Kingdee's International brand name and the reputation of Group's product.

The Group strived to develop alliance, expand its market share and will continue to identify partners that will complement and enhance the Group's business. By the end of 2003, the Kingdee has allied with 52 consultation partners and 57 implementation partners.

The Group organized recruitment seminars and recruited quality IT professionals successfully.

Directors and Management

Executive Directors

Xu Shao Chun, Robert, aged 40, Chairman and chief executive officer of The Company, president of China Kingdee, the founder of the Group. He is a committee member of the ninth committee of National Youth Federation of the PRC, and a member of the Third Standing Committee of People's Congress of Shenzhen. Mr. Xu received a Bachelor degree of Computer Science from Computer Science and Engineering Dept. 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 guidance of Professor YanJieyuan, 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 (Shenzhen APT) in 1991. In 1993, Mr. Xu established Shenzhen Panavision Technology Development Co Ltd (SZPT), the predecessor of The Company. Mr. Xu has insightful knowledge in strategic management and business operation, ever participated in and supervised the design and development of a series of leading enterprise application software and has been awarded in plenty for his outstanding achievements and significant contribution to the evolvement of China's accounting and management software in the past years.

James Ming King, aged 56, executive director and chief strategy officer of the Group, responsible for undertaking major reforms of the Company, including the planning and formulation of corporate sales and product strategy as well as the reorganization of corporate structure. Mr. King joined the Company in November, 2003. Mr. King obtained a master's degree in engineering management from Mississippi State University of the United States. Mr. King has about 30 years of sales and marketing experience within and outside the PRC. He had been the vice president of sales and marketing for Dell, a computer company listed on Nasdaq in the United States, the first president of a Nasdaq-listed company Novell within the PRC region. Previously, he had many years of working experience with HP, a company listed on the New York Stock Exchange of the United States. As a sales and project implementation training expert in the area of Enterprise Resource Planning (ERP), Mr. King is dedicated in training high-quality management talents and professional managers for multinational corporations.

Luo Ming Xing, Mison, aged 33, Executive Director, 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 Chinese 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.

Non-executive Directors

Zhao Yong, aged 59, Director of the Company. 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.

Xiong Xiao Ge, Hugo, aged 47, Senior vice-President and Asian President of IDG. Mr. Xiong was appointed to be a non-executive Director of The Company at the first annual general meeting held on 26 April 2001. Mr. Xiong graduated from Hunnan 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. Xiong completed the study in Harvard Business School and joined IDG leading the business regarding info technology issue, marketing research and trade Expo. Mr. Xiong is also the vice board chairman and partner of IDG Technology Venture Investment, Inc.

Independent Non-executive Directors

Yang Zhou Nan, aged 65, Independent non-executive Director of the Company. 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 Nan Kai University with a Master degree. Ms. Yang was ever 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 64, Independent non-executive Director of the Company. 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 academican 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 have been implemented in over 200 enterprises.

Yeung Kwok On, aged 43, Arthur, Independent Non-executive Director of the Company. Mr. Yeung was appointed as an independent non-executive director on 26 June 2003. Mr. Yeung is a Professor of Business Administration of University of Michigan Business School, and also a part-time Professor of China European International Business School. He received a Ph. D of Business Administration from University of Michigan in 1990, and is experienced in Human Resources and Organizational Development. Professor Yeung worked in Acer Inc. as Corporate Vice President and Chief Human Resources Officer from late 2000 to June 2002. He is an Associate General Editor of Human Resource Management Journal of America and a member of Editorial Advisory Board of Harvard Business Review (China). Professor Yeung had been appointed by over forty international corporations as business administration consultant. He is experienced in theories of enterprise organizational construction, human resources strategy, and human resources training and possesses nearly twenty years of experience in relevant fields. He was awarded the "2002 China HR Annual Person" by SmartFortune Magazine of China.

Company Secretary

Chung Oi Yin, Irene, aged 33, Company Secretary of the Company. Ms. Chung was appointed as the company secretary of the Company on 30 January 2001. She is also an employee of Kwok & Yih, the legal advisor to the Company. Ms. Chung is an associate member of the Institute of Chartered Secretaries and Administrator in the United Kingdom and the Hong Kong Institute of the Company Secretaries.

Directors and Management (cont'd)

Qualified Accountant

Yang Jian Wen, aged 30, 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. He became a member of the Association of chartered Certified Accountants in 2000. Prior to joining the Group in March 2001, Mr. Yang worked for China Foreign Trade and Development Company and Shekou Container Terminals Limited. He has more than 8 years of experience in accounting.

Senior Management

Jin Zhuo Jun, aged 42, 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 responsible for the company's customer service and marketing, and has been successively appointed as the vice general manager of K/3 department, 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.

Cai Jun, aged 34, 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 and has been successively appointed as the project manager, general manager of K/3 department, vice leader of the Institute of Central Research and general manager of e-business department. Setting foot in the enterprise management software industry in the early 90's, Mr. Cai has been engaged in the development of ERP, CRM, human resource management, etc, and richly experienced in software research and development management.

Li Guang Xue, aged 35, vice president of the Company, responsible for human resources and information management. He obtained a Bachelor degree from Ocean University of China. After joining the Group in 1995, he has been engaged in the areas of research and development, service, sales, human resources and information management and has extensive experience in software development and team management.

Wu Qiang, aged 41, 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 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 until the membership of the Company.

Report of Directors

The Directors are pleased to present to the shareholders their report together with the audited financial statements of Kingdee International Software Group Company Limited (the “Company” or “Kingdee International”) and its subsidiaries (collectively the “Group”) for the year ended 31 December 2003.

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 2003 were RMB365,573,000 and RMB59,130,000 respectively. Among which, approximately 81.2% was derived from the sales of software, approximately 10.8% was derived from the income of provision of solution consulting and technical support services, approximately 6.6% was derived from the income of software implementation and 1.4% from sales of computer hardware and related products respectively. For details, please refer to the consolidated income statement set out on page 42.

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 2003, there were 41 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 42 and the appropriation is set out in Note 34 to the financial statements.

Distributable reserves

As at 31 December 2003, the Company has distributable reserves amounted to RMB17,678,000 (2002: 30,087,000) which represented the contributed surplus of RMB20,740,000 (2002: RMB33,831,000) net of accumulated losses of RMB3,062,000 (2002: RMB3,744,000).

Final Dividends

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

Report of Directors (cont'd)

Closure of Register

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

Strategic Alliances and Collaborations

During the reporting period, the Group strengthened the alliance partnership to jointly develop software market with partners. Kingdee has allied with 52 consultation partners and 57 software implementation partners.

During 2003, Kingdee International signed cooperation agreements with renowned informatization management advisory service enterprises such as Atos Origin and AMT. Both parties would make use of their respective comparative advantages, jointly provide professional training and services to Chinese enterprises which are undergoing the process of informatization.

In August 2003, Kingdee International was accredited by Microsoft as the best ISV business partner, demonstrating the overall success and recognition in the cooperation with Microsoft in marketing, sales and research.

In November 2003, Kingdee International and IBM held a grand opening ceremony of "Kingdee-IBM Joint Laboratory" to jointly establish the high-end joint laboratory, with main focus on handling problems related to software and hardware resources. It aims to promote scientific research and training, and strengthen the technological cooperation between Kingdee International and IBM.

Material Investment and Acquisition

During the period, the Group has no significant investment and acquisition activities.

Bank Borrowings

Details of the bank borrowings of the Group as at 31 December 2003 are set out in notes 26 to the financial statements.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 46.

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 32 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 total 1,300,000 shares of HK\$0.10 each of the Company at a subscription price of HK\$1.03 per share were granted to the former and current employee of Company.

All of these options have a duration of 10 years from the date on which dealings in the shares commenced on GEM (i.e. 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.

As at 31 December 2003, 475,000 shares option were exercised, 825,000 shares option were canceled and no more option remained outstanding under the Pre-IPO Share Option Scheme.

Share Option Scheme

Pursuant to the share option scheme of the Company adopted on 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.

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, Mr. Xu Wen Hui and Mr. Luo Ming Xing) of the Group pursuant to the New Scheme.

Report of Directors (cont'd)

At the board meeting of the Company held on 20 February 2003, options to subscribe for a total of 7,530,000 shares at a subscription price of HK\$1.39 per share were granted to 76 full-time employees (including executive directors, Mr. Xu Wen Hui and Mr. Luo Ming Xing) of the Group pursuant to the New Scheme.

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

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

Details of the share options as at 31 December 2003 which had been granted under the Old Scheme and the New Scheme were as follows:

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

Note:

- (1) At the date immediate before the options were granted (i.e. 19 February 2003), the closing price of the share was HK\$1.36.
- (2) At the date immediate before the options were granted (i.e. 7 August 2003), the closing price of the share was HK\$2.00.
- (3) At the date immediate before the options were granted (i.e. 29 December 2003), the closing price of the share was HK\$2.675.
- (4) The share options were granted in pursuant to the Old Scheme.
- (5) All of these options have a duration of 10 years from the grant date, provided that the options can only be exercised in respect of up to 25%, 50% and 75% of the underlying shares within 12 months, 24 months and 36 months respectively from the date of 15 May 2003.
- (6) These options have a duration of 10 years from the grant date, provided that the options can only be exercised in respect of up to 25%, 50% and 75% of the underlying shares within 12 months, 24 months and 36 months respectively from the grant date.
- (7) All of these options have a duration of 10 years from the grant date, provided that the options can only be exercised in respect of up to 25%, 50% and 75% of the underlying shares within 12 months, 24 months and 36 months respectively from the date of 20 February 2004.

- (8) All of these options have a duration of 10 years from the grant date, provided that the options can only be exercised from the date of 8 August 2004.
- (9) All of these options have a duration of 10 years from the grant date, provided that the options can only be exercised in respect of up to 25%, 50% and 75% of the underlying shares within 12 months, 24 months and 36 months respectively from the date of 30 December 2004.

Rule 23.08 of the GEM Listing Rules stipulate that listed issuers are encouraged to disclose in their interim reports the value of options granted to participants set out in (1) to (5) of Rule 23.07 during the period. The Directors consider it inappropriate to value the options under all the schemes of the Company on the assumption that a number of factors crucial for the valuation cannot be determined. Such factors include the exercise period, the date of exercise and the conditions, such as performance targets, if any, that an option is subject to. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful but would be misleading to the shareholders.

Directors and Directors' Service Contracts

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. Xu Wen Hui	(resigned on 10 March 2004)
Mr. Luo Ming Xing	(appointed on 25 April 2003)
Mr. James Ming King	(appointed on 17 December 2003)

Non-executive Directors

Mr. Zhang Wen Xing	(resigned on 25 April 2003)
Mr. Zhao Yong	
Mr. Hugo Shong	

Independent Non-executive Directors

Ms. Yang Zhou Nan	
Mr. Wu Cheng	
Mr. Yeung Kwok on	(appointed on 26 June 2003)

In accordance with article 116 of the Company's articles of association, Ms. Yang Zhou Nan, Independent Non-executive Director, will retire by rotation at the forthcoming annual general meeting of the Company ("AGM"), and will offer herself for re-election as a director of the Company at the forthcoming AGM.

Mr. Yeung Kwok On, Independent Non-executive Director, and Mr. James Ming King, Executive Director, would retire in accordance with Article 99 of the Articles of Association of the Company, and would offer themselves for re-election as Directors at the forthcoming AGM.

Mr. Xu Shao Chun has entered into a service contract with the Company in relation to his appointment as an executive director 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 2004, 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.

Report of Directors (cont'd)

Directors' and chief executives' interests or short positions in the shares, underlying shares or debentures

As at 31 December 2003, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules, were as follows:

Long positions in shares/underlying shares of the Company

Name of Directors	Number of Shares/ Underlying Shares (where appropriate)	Capacity	Percentage of Issued Share Capital
Xu Shao Chun (chief executive)	141,916,250	Interests of controlled corporation (<i>Note 1</i>)	
	17,373,120	Interests of controlled corporation (<i>Note 2</i>)	
	7,600,000	Beneficial owner	
	608,380	Beneficiary of a trust (<i>Note 3</i>)	
	1,500,000	Other/Share option (<i>Note 4</i>)	
Aggregate:	165,103,750		37.38%
Xu Wen Hui	608,380	Beneficiary of a trust (<i>Note 3</i>)	
	776,000	Other/Share option (<i>Note 4</i>)	
Aggregate:	1,384,380		0.31%
Luo Ming Xing (chief executive)	1,800,000	Beneficial owner	
	608,380	Beneficiary of a trust (<i>Note 3</i>)	
	700,000	Other/Share Option (<i>Note 4</i>)	
Aggregate:	3,108,380		0.70%
James Ming King (chief executive)	608,380	Beneficiary of a trust (<i>Note 3</i>)	
	1,000,000	Other/Share Option (<i>Note 4</i>)	
Aggregate:	1,608,380		0.36%
Hugo Shong	5,250,000	Beneficial owner	
	608,380	Beneficiary of a trust (<i>Note 3</i>)	
Aggregate:	5,858,380		1.33%
Zhao Yong	60,989,750	Beneficial owner	
Aggregate:	60,989,750		13.81%

Notes:

1. Of the 141,916,250 shares, 83,606,250 shares were held through Oriental Gold Limited and 58,310,000 shares were held through Billion Ocean Limited.
2. In February 2001, Oriental Gold Limited, a company wholly-owned by Mr. Xu Shao Chun, was granted rights of first refusal in the future sale of 37,950,500 shares held by 154 employees of the Group (including executive directors, Mr. Xu Wen Hui and Mr. Luo Ming Xing), one former employee of the Group and Mr. Hugo Shong, a non-executive director and a consultant of the Group. Each of the 154 employees of the Group had also undertaken to Project China Limited that if he/she is, within one year after he/she leaves the employment of the Group, involved in any business which may compete with the Group, Project China Limited will have an option to buy back his/her shares. As at 31 December 2003, 17,373,120 shares are subject to this arrangement.
3. Project China Limited, a company wholly-owned by Mr. Zhang Wen Xing, held 608,380 shares as trustee of a discretionary trust established for the benefit of all the former and existing employees and consultants of the Group.
4. Details of the share options are set out in the paragraph headed "Share Option Schemes".

Save as disclosed in this paragraph, as at 31 December 2003, none of the Directors and chief executive had any of the interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations) within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

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 2003 was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in the Company.

Report of Directors (cont'd)

Substantial shareholders' and other persons' interests and short positions in the shares, underlying shares and debentures

As at 31 December 2003, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares/underlying shares of the Company

Name	Number of Shares/ Underlying Shares (where appropriate)	Capacity	Percentage of Issued Share Capital
Oriental Gold Limited	83,606,250	Beneficial owner	
	17,373,120	Other (Note 1)	
Aggregate:	100,979,370		22.87%
Billion Ocean Limited	58,310,000	Beneficial owner	
Aggregate:	58,310,000		13.22%

Notes:

1. In February 2001, Oriental Gold Limited, a company wholly-owned by Mr. Xu Shao Chun, was granted rights of first refusal in the future sale of 37,950,500 shares held by 154 employees of the Group (including executive directors, Mr. Xu Wen Hui and Mr. Luo Ming Xing), one former employee of the Group and Mr. Hugo Shong, a non-executive director and a consultant of the Group. Each of the 154 employees of the Group had also undertaken to Project China Limited, a company wholly-owned by Mr. Zhang Wen Xing, that if he/she is, within one year after he/she leaves the employment of the Group, involved in any business which may compete with the Group, Project China Limited will have an option to buy back his/her shares. As at 31 December 2003, 17,364,000 shares are subject to this arrangement.

Save as disclosed in this paragraph, as at 31 December 2003, the directors were not aware of any other person (other than the directors and chief executive of the Company) who had an interest and short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Purchase, Sale or Redemption of Shares

At the annual general meeting of the Company held on 25 April 2003 ("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	0.97%
- five largest customers combined	3.73%

Purchases

- the largest supplier	15.29%
- five largest suppliers combined	54.23%

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.

Change of Directors

Mr. Zhang Wen Xing had tendered his resignation as a Non-executive Director of the Company at the 2002 AGM due to retirement.

The Board recommended to elect Mr. Luo Ming Xing as an Executive Director of the Company in accordance with Article 119 of the Articles of Association of the Company at the 2002 AGM. Mr. Luo Ming Xing has been elected as an Executive Director of the Company with effect from 25 April 2003 at the closure of the 2002 AGM.

Mr. Yeung Kwok On has been appointed as an Independent Non-executive Director of the Company with effect from 26 June 2003 by the Board.

Mr. James Ming King has been appointed as an Executive Director of the Company with effect from 17 December 2003 by the Board.

Mr. Xu Wen Hui resigned from his office as an executive director, compliance officer, authorized representative and member of the Audit Committee of the Company of the Company at the Board meeting held on 10 March 2004.

In view of the above, the Board has appointed Mr. James Ming King as compliance officer, Mr. Luo Ming Xing as authorized representative, Mr. Zhao Yong as member of the Audit Committee of the Company on the Board meeting on 10 March 2004.

Ms. Yang Zhou Nan, Independent Non-executive Director, would retire by rotation in accordance with Article 116 of the articles of association of the Company, and would offer herself for re-election at AGM.

Report of Directors (cont'd)

Mr. Yeung Kwok an, Independent Non-executive Director, and Mr. James Ming King, Executive Director, would retire in accordance with Article 99 of the Articles of Association of the Company, and would offer themselves for reelection as Directors at AGM.

Sponsor's Interest

As at 31 December 2003, none of the Company's sponsor, BNP Paribas Peregrine Capital Limited, its directors, employees or associates held any interest in the securities of the Company or any member of the Group.

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

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

Board Practices and Procedures

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

Audit Committee and Its Duties

As at 31 December 2003, the audit committee of the Company comprises of Mr. Xu Wen Hui, an executive director, Ms. Yang Zhou Nan and Mr. Wu Cheng, both being the independent non-executive directors. Ms. Yang Zhou Nan is the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee had convened four meetings during the year ended 31 December 2003 to review the accounts and reports of the Group and to provide advices and recommendations to the Board.

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

Auditors

PricewaterhouseCoopers was appointed as the auditors of the Company since 26 April 2002. PricewaterhouseCoopers will retire as auditors of the Company at the forthcoming AGM, but being eligible, would 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.

The auditors of the Company in 2001 financial year was Arthur Andersen. Arthur Andersen resigned from the auditors of the Company during the Annual General Meeting on 26 April 2002. The auditors of the Company in 2002 financial year and 2003 financial year was PricewaterhouseCoopers.

On behalf of the Board

Xu Shao Chun

Chairman

10 March 2004

Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong
Telephone (852) 2289 8888
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**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 2003, and the related consolidated income and cash flow statements of the Group for the year then ended. These financial statements set out on pages 42 to 82 are the responsibility of the Company's management. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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 2003 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, 10 March 2004

Consolidated Income Statement

For the year ended 31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
Turnover	4	365,573	294,532
Cost of sales		(58,097)	(47,122)
Gross profit		307,476	247,410
Other operating income	5	50,012	33,223
Selling expenses		(192,624)	(163,004)
General and administrative expenses		(93,816)	(71,275)
Other operating expenses		(1,678)	(4,362)
Profit from operations	6	69,370	41,992
Finance (expenses)/income, net	8	(24)	403
Share of results of associates		(1,121)	381
Profit before tax		68,225	42,776
Taxation	9	(10,184)	(2,809)
Profit after tax		58,041	39,967
Minority interests		1,089	731
Net profit attributable to shareholders		59,130	40,698
Dividends	10	4,691	9,357
Earnings per share			
– basic	11	RMB0.13	RMB0.09
– diluted	11	RMB0.13	RMB0.09

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

Consolidated Balance Sheet

As at 31 December 2003

	<i>Notes</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
ASSETS			
Non-current assets			
Investment in associates	15	4,261	5,382
Available-for-sale investments	16	335	335
Property, plant and equipment	17	44,044	42,736
Intangible assets	18	74,263	53,178
Deferred tax assets	19	2,928	6,771
Total non-current assets		125,831	108,402
Current assets			
Inventories	20	2,743	2,861
Trade receivables	21	47,220	55,238
Bills receivable		824	639
Other receivables and prepayments	23	30,308	14,580
Amounts due from related parties	24	694	594
Cash and bank balances	25	164,458	131,426
Total current assets		246,247	205,338
Total assets		372,078	313,740

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

Consolidated Balance Sheet (cont'd)

As at 31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	32	47,237	47,172
Share premium	32	38,376	37,504
Reserves	34	175,541	125,619
Total shareholders' equity		261,154	210,295
Minority interests		67	1,156
Non-current liabilities			
Borrowings	26	-	1,587
Current liabilities			
Trade payables	27	3,095	4,926
Borrowings	26	20,000	26,256
Deferred income	28	26,414	19,100
Taxes payable	29	17,268	15,233
Provisions	30	5,897	3,005
Customers' deposits	22	10,610	11,507
Due to customers on implementation contracts	22	10,980	-
Salary and staff welfare payable		5,988	4,909
Accruals and other payables		10,605	15,766
Total current liabilities		110,857	100,702
Total liabilities		110,857	102,289
Total equity and liabilities		372,078	313,740

On behalf of the Board of Directors

Xu Shao Chun
Chairman

Luo Ming Xing
Director

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

Balance Sheet

As at 31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries	13	58,196	58,196
Investment in a joint venture	14	–	5,300
Total non-current assets		58,196	63,496
Current assets			
Amounts due from subsidiaries	31	31,929	24,825
Cash and bank balances	25	15,305	31,143
Total current assets		47,234	55,968
Total assets		105,430	119,464
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	32	47,237	47,172
Share premium	32	38,376	37,504
Reserves	34	17,151	29,418
Total shareholders' equity		102,764	114,094
Current liabilities			
Accruals and other payables		–	801
Amount due to a subsidiary	31	2,666	4,569
Total current liabilities		2,666	5,370
Total equity and liabilities		105,430	119,464

On behalf of the Board of Directors

Xu Shao Chun
Chairman

Luo Ming Xing
Director

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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

	<i>Notes</i>	Share capital RMB'000 <i>(Note 32)</i>	Share premium RMB'000 <i>(Note 32)</i>	Reserves RMB'000 <i>(Note 34)</i>	Total RMB'000
Balance at 1 January 2002		46,840	31,083	89,595	167,518
Issue of shares	32	332	6,421	–	6,753
Liquidation of subsidiaries		–	–	(45)	(45)
Dividend relating to 2001		–	–	(4,643)	(4,643)
Net profit		–	–	40,698	40,698
Translation adjustments	34	–	–	14	14
Balance at 31 December 2002		47,172	37,504	125,619	210,295
Balance at 1 January 2003		47,172	37,504	125,619	210,295
Issue of shares	32	65	872	–	937
Dividend relating to 2002	10	–	–	(9,357)	(9,357)
Net profit		–	–	59,130	59,130
Translation adjustments	34	–	–	149	149
Balance at 31 December 2003		47,237	38,376	175,541	261,154

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

Consolidated Cash Flow Statement

For the year ended 31 December 2003

	Notes	2003 RMB'000	2002 RMB'000
Cash flows from operating activities:			
Cash generated from operating activities	36	112,469	41,915
Interest paid		(538)	(180)
PRC income tax paid		(6,064)	(2,577)
Net cash from operating activities		105,867	39,158
Cash flows from investing activities:			
Purchase of property, plant and equipment		(15,014)	(21,402)
Acquisition of subsidiaries, net of cash acquired		-	(5,212)
Investment in a joint venture, net of cash acquired		-	(2,650)
Investment in an associate		-	(5,001)
Purchase of shares in subsidiaries from minority interests		-	(1,335)
Purchase of available-for-sale investments		-	(145)
Payments for intangible assets other than goodwill		(42,195)	(19,649)
Proceeds from disposal of property, plant and equipment		-	273
Interest received		488	808
Net cash used in investing activities		(56,721)	(54,313)
Cash flows from financing activities:			
Proceeds from issue of shares		937	-
Proceeds from new bank loans		40,093	25,000
Capital contributed by minority shareholders		-	1,035
Repayment of other loans		(1,000)	-
Repayment of bank loans		(46,936)	(256)
Dividends paid		(9,357)	(4,643)
Net cash (used in)/from financing activities		(16,263)	21,136
Effect of foreign exchange rate change		149	14
Net increase in cash and cash equivalents		33,032	5,995
Cash and cash equivalents at beginning of year		131,426	125,431
Cash and cash equivalents at end of year	25	164,458	131,426

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

Notes to the Financial Statements

For the year ended 31 December 2003

1. Business

Kingdee International Software Group Company Limited (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

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

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

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

(b) Group accounting

(1) *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.

(2) *Subsidiaries*

Subsidiaries, which are those 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)*

(2) *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.

(3) *Associates*

Investments in associates are accounted for by the equity method of accounting. Under this method the Group'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 does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

(4) *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.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

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
Motor vehicles	5 years
Leasehold improvements	2 to 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 sales proceeds and the carrying amount of the relevant assets, and is recognised in the income statement.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

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.

2. Principal accounting policies *(continued)*

(e) Intangible assets

(1) *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, joint venture or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries or joint venture 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) *Negative goodwill*

Negative goodwill represents the excess of the fair value of the Group's share of the net assets of the acquired subsidiary, joint venture or associate at the date of acquisition over the cost of an acquisition. Negative goodwill is presented in the same consolidated balance sheet classification as goodwill.

Negative goodwill is recognised in the consolidated 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.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

2. Principal accounting policies *(continued)*

(e) Intangible assets *(continued)*

(3) *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.

(4) *Software*

The cost of acquisition of new computer 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 other 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.

(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.

2. Principal accounting policies *(continued)*

(g) Investments *(continued)*

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.

(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.

(i) Implementation contracts

An implementation contract is a contract specifically negotiated for the implementation of a software or a combination of software that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use.

When the outcome of an implementation contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised when incurred.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

2. Principal accounting policies *(continued)*

(i) Implementation contracts *(continued)*

When the outcome of an implementation contract can be estimated reliably, contract revenue and contract costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract and the proportion that contract costs incurred for work performed to date bear to the estimated total costs for the contract. When it is probable total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year-end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on implementation contracts. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on implementation contracts.

(j) Trade receivables

Trade receivables are carried at original invoiced 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.

(k) 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.

(l) Foreign currency transactions

(1) *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.

(2) *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.

2. Principal accounting policies *(continued)*

(l) Foreign currency transactions *(continued)*

(3) *Group companies*

Income statements and cash flow statements of foreign entities are translated into the Group's measurement 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.

(m) Revenue recognition

Revenue comprises the invoiced value for the sale of goods and services net of value-added tax, business 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.

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.

(n) Dividends

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

(o) 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.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

2. Principal accounting policies *(continued)*

(p) 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.

(q) 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.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(r) Operating leases

Lease where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating lease (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.

(s) 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 authorities. 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 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.

2. Principal accounting policies *(continued)*

(t) 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.

(u) 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.

(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(j) and 2(o) respectively. Other financial assets and financial liabilities are stated at cost.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

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 and render of services 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 2003.

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 26.

(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

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

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Sales of software	296,898	235,289
Sales of computer and related products	5,165	3,370
Software solution consulting and support services	39,506	40,421
Software implementation services	24,004	15,452
	365,573	294,532

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

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Subsidy income		
VAT refund (<i>Note (a)</i>)	42,689	23,956
VAT exemption for local-production and local-sales	–	3,520
Subsidy on development of new products	4,317	4,363
	47,006	31,839
Subsidy for re-investment (<i>Note (b)</i>)	1,935	–
Others	1,071	1,384
	50,012	33,223

- (a) Pursuant to the document Cai Shui Zi [2000] No.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 of software will be refunded.
- (b) Amount represented income tax refund for re-investment in a subsidiary by way of capitalisation of dividend.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

6. Profit from operations

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

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

* included in general and administrative expenses

Included in the development costs capitalised are also staff costs of RMB40,976,000 (2001: RMB14,685,000) which have also been included in staff costs presented above.

7. Staff costs

	2003 RMB'000	2002 RMB'000
Salaries, allowances, commissions and bonus	149,665	109,888
Staff welfare	6,930	5,946
Pension scheme contributions (<i>Note (b)</i>)	10,150	7,925
	166,745	123,759

- (a) Staff costs included directors' and senior management's emoluments which are further analysed in Note 12.
- (b) The Group participates in 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 location 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 was 2,557 (2002: 1,745).

8. Finance (expenses)/income, net

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

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

9. Taxation

Taxation represents PRC income tax charged to:

	2003 RMB'000	2002 RMB'000
The Group		
– Current income tax	6,341	6,383
– Deferred income tax (Note 19)	3,843	(3,574)
	10,184	2,809

- (a) No provision for profits tax in the Cayman Islands and Hong Kong has been made as the Group has no income assessable for profits tax for the year in those jurisdictions (2002: Nil).
- (b) Majority of the subsidiaries and associates of the Group is established in the PRC and subject to Enterprise Income Tax ("EIT") at a rate of 33%, unless preferential rates are applicable in the cities where the subsidiaries are located.
- (c) Certain subsidiaries and associates of the Group are foreign investment enterprises and are entitled to full exemption from EIT for two years and a 50% reduction in the next three years thereafter starting from the first profit making year after offsetting prior year losses.
- (d) According to the document Guo Fa [2000] No.18 issued by the State Council, those subsidiaries recognised as important software enterprises but are not in their tax holiday period are entitled to a preferential tax rate of 10% in the relevant year.

The reconciliation of the effective tax amounts to amounts calculated based on the statutory tax rate is as follows:

	2003 RMB'000	2002 RMB'000
Accounting profit before taxation	68,225	42,776
Tax at the statutory tax rate of 33% (2002: 33%)	22,514	14,116
– Effects of preferential tax rates	(15,692)	(7,700)
– Tax losses not recognised	4,419	3,458
– Expenses not deductible for tax purposes	2,554	1,773
– Effects on change of tax rate	2,257	(3,197)
– Income not subject to tax	(4,308)	(3,593)
– Additional deductible allowance for research and development expenses	(1,560)	(2,048)
Taxation per accounts	10,184	2,809

10. Dividends

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Final, proposed	4,691	9,357

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

11. Earnings per share

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of Rmb59,130,000 (2002: Rmb40,698,000).

The basic earnings per share is based on the weighted average of 440,994,000 (2002: 439,606,000) ordinary shares in issue during the year. The diluted earnings per share is based on 441,362,000 (2002: 439,641,000) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 368,000 (2002: 35,000) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

12. Directors' and senior executives' remuneration

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

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Fees	300	225
Salaries, allowances and benefits in kind	2,026	1,287
Retirement scheme contributions	15	5
Inducement fee	-	-
Bonus	-	-
	2,341	1,517

Save as disclosed herein, no remuneration has been paid or is payable in respect of the year ended 31 December 2003 by the Company or its subsidiaries to the directors of the Company (2002: Nil).

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

12. Directors' and senior executives' remuneration (continued)

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

The emoluments received by individual directors are as follows:

	2003 RMB'000	2002 RMB'000
Director A	975	832
Director B	552	510
Director C	50	50
Director D	–	50
Director E (Independent non-executive director)	50	25
Director F (Independent non-executive director)	50	25
Director G	25	25
Director H	589	–
Director I (Independent non-executive director)	50	–
Director J	–	–
	2,341	1,517

During the year a total of 1,800,000 (2002: 2,000,000) options were granted to three directors (2002: 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 RMB150,000 (2002: RMB50,000) paid to independent non-executive directors. No directors waived any emolument during the year ended 31 December 2003 (2002: Nil).

- (ii) The emoluments of the five individuals whose emoluments were the highest in the Group include 3 directors (2002: 1 director) whose emoluments are reflected in the analysis presented above.

Details of the emoluments of the remaining 2 (2002: 4) individuals are as follows:

	2003 RMB'000	2002 RMB'000
Salaries, allowances and benefits in kind	1,402	2,654
Retirement scheme contributions	4	12
	1,406	2,666

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 2003.

13. Investment in subsidiaries – the Company

	2003 RMB'000	2002 RMB'000
Investment in unlisted shares, at cost	43,196	43,196
Loans to subsidiaries	15,000	15,000
	58,196	58,196

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 2003.

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

As at 31 December 2003, the Company had interests in the following principal subsidiaries all of which are companies with limited liability:

Company	Place/country of incorporation/operation	Registered and paid-up capital	Percentage of equity interests attributable to the Company		Principal activities
			2003	2002	
<i>Directly held:</i>					
Kingdee Software (China) Co., Ltd.	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.	Hong Kong	HKD1,000,000	100%	100%	Selling of software products and provision of software-related technical services

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

13. Investment in subsidiaries – the Company (continued)

Company	Place/country of incorporation/ operation	Registered and paid-up capital	Percentage of equity interests attributable to the Company		Principal activities
			2003	2002	
<i>Indirectly held:</i>					
Shanghai Kingdee Software Technology Co., Ltd.	PRC	RMB500,000	90%	90%	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
Guangdong Kingdee Software Technology Co., Ltd.	PRC	RMB500,000	90%	90%	Selling of software products and provision of software-related technical services
Shenzhen Kingdee Middleware Co., Ltd.	PRC	RMB300,000	65%	65%	Developing, manufacturing and selling of software
Beijing Case Software Technology Co., Ltd.	PRC	USD540,000	100%	100%	Developing manufacturing and selling of software
Shanghai Case Software Technology Co., Ltd.	PRC	RMB1,000,000	90%	90%	Developing, manufacturing and selling of software
Changchun Kingdee Software Technology Co., Ltd.	PRC	RMB300,000	100%	100%	Selling of software products and provision of software-related technical services
Jinan Kingdee Software Technology Co., Ltd.	PRC	RMB500,000	100%	100%	Selling of software products and provision of software-related technical services
Chongqing Kingdee Technology Software Co., Ltd.	PRC	RMB300,000	100%	100%	Selling of software products and provision of software-related technical services

14. Investment in a joint venture – the Company

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Unlisted share, at cost	5,300	5,300
Provision for impairment	(5,300)	–
	–	5,300

As at 31 December 2003, the Company has 50% equity interest in Carterton Group Ltd. (“Carterton”), an investment holding company incorporated in the British Virgin Islands. Carterton in turn 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.

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:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Property, plant and equipment	194	525
Current assets	456	3,209
Total assets	650	3,734
Current liabilities	(174)	(636)
Net assets	476	3,098
Sales	1,183	2,119
(Loss)/Profit before and after tax	(2,622)	448

The average number of employees in the joint venture and its subsidiary in 2003 was 28 (2002: 17).

There were no commitments and contingent liabilities relating to the Group's interest in the joint venture as at 31 December 2003 (2002: Nil).

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

15. Investment in associates – the Group

	2003 RMB'000	2002 RMB'000
Unlisted investments held indirectly:		
At beginning of year	5,382	–
Additions	–	5,001
Share of results		
Share of results before and after tax	(331)	908
Amortisation of goodwill	(790)	(527)
	(1,121)	381
At end of year	4,261	5,382
Represented by:		
Share of net assets	1,625	1,956
Goodwill		
At cost	3,953	3,953
Accumulated amortisation	(1,317)	(527)
	2,636	3,426
	4,261	5,382

All associates of the Group are companies with limited liability. Details of the principal associates at 31 December 2003 are as follows:

Company	Place/country of incorporation/ operation	Registered and paid-up capital	Percentage of equity interests attributable to the Group		Principal activities
			2003	2002	
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%	25%	Investment holding (holding company of Cybics Software (Ningbo) Co., Ltd.)
Cybics Software (Ningbo) Co., Ltd.	PRC	RMB7,000,000	25%	25%	Selling of software and computer products

16. Available-for-sale investments – the Group

	2003 RMB'000	2002 RMB'000
Unlisted investments, at cost:		
At the beginning of year	335	190
Additions	–	145
At the end of year	335	335

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 2003 and 2002, the Group has 3% to 10% (2002: 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.

17. Property, plant and equipment – the Group

	Buildings RMB'000	Computer and related equipment RMB'000	Other office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
Opening net book amount	11,544	21,741	228	3,185	5,631	407	42,736
Additions	–	11,502	408	1,641	1,463	–	15,014
Disposals	–	(711)	(162)	(267)	–	–	(1,140)
Depreciation charge	(459)	(7,244)	(326)	(772)	(3,765)	–	(12,566)
Closing net book amount	11,085	25,288	148	3,787	3,329	407	44,044
At 31 December 2003							
Cost	13,798	41,975	792	6,610	11,400	407	74,982
Accumulated depreciation	(2,713)	(16,687)	(644)	(2,823)	(8,071)	–	(30,938)
Net book amount	11,085	25,288	148	3,787	3,329	407	44,044
At 31 December 2002							
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

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

18. Intangible assets – the Group

	Goodwill <i>RMB'000</i>	Negative goodwill <i>RMB'000</i>	Development costs <i>RMB'000</i>	Software <i>RMB'000</i>	Total <i>RMB'000</i>
Opening net book amount	33,114	(92)	17,861	2,295	53,178
Impairment of goodwill of a joint venture	(2,576)	–	–	–	(2,576)
Internally generated development costs capitalised	–	–	40,976	–	40,976
Purchase of software	–	–	–	1,219	1,219
Amortisation charge	(2,488)	23	(14,351)	(1,718)	(18,534)
Closing net book amount	28,050	(69)	44,486	1,796	74,263
At 31 December 2003					
Cost	32,437	(115)	64,871	5,012	102,205
Accumulated amortisation	(4,387)	46	(20,385)	(3,216)	(27,942)
Net book amount	28,050	(69)	44,486	1,796	74,263
At 31 December 2002					
Cost	35,013	(115)	23,895	3,793	62,586
Accumulated amortisation	(1,899)	23	(6,034)	(1,498)	(9,408)
Net book amount	33,114	(92)	17,861	2,295	53,178

19. Deferred tax assets – the Group

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
At beginning of year	6,771	3,197
Recognised in income statement	(3,843)	3,574
At end of year	2,928	6,771

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

	1 January 2003 <i>RMB'000</i>	Credited/ (charged) to income statement <i>RMB'000</i>	31 December 2003 <i>RMB'000</i>
Provision for bad and doubtful debts	3,679	20	3,699
Deferred income	2,865	(224)	2,641
Provisions	451	139	590
Tax losses	744	(558)	186
Deferred development costs	(2,679)	(1,770)	(4,449)
Others	1,711	(1,450)	261
Deferred tax assets, net	6,771	(3,843)	2,928

Deferred income tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through the future taxable profits is probable. The Group has not recognised tax losses of RMB37,720,000 (2002: RMB15,000,000) of which the realisation is uncertain.

The applicable tax rate for those subsidiaries established in Shenzhen was changed from 15% in 2002 to 10% in 2003 as these companies are regarded as important software enterprises during the year. The change has resulted a reduction in opening deferred tax assets by Rmb2,257,000.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

20. Inventories – the Group

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Raw materials	1,148	438
Finished goods	1,595	2,423
	2,743	2,861

All 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:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Within 180 days	40,734	52,529
Over 180 days but within 360 days	22,563	14,551
Over 360 days	20,910	12,686
	84,207	79,766
Less: provision for bad and doubtful debts	(36,987)	(24,528)
	47,220	55,238

22. Implementation contracts – the Group

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Contract costs incurred	4,278	1,205
Contract profit recognised	3,504	2,626
Billings	(18,762)	(3,831)
Work in progress at end of year	(10,980)	–
Represented by:		
Due to customers on implementation contracts	10,980	–
Advances received on implementation contracts included in customers' deposits	2,205	–
Due from customers on implementation contracts billed included in trade receivables	6,262	–

23. Other receivables and prepayments – the Group

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Prepayments	2,657	745
Advances to employees (Note (a))	3,192	2,952
Deposits	12,095	4,876
VAT recoverable	8,731	2,510
Others	3,633	3,497
	30,308	14,580

- (a) The amounts advanced to employees are interest free, unsecured and repayable within twelve months of the balance sheet date.

24. 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 within 180 days.

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

25. Cash and cash equivalents

	Group		Company	
	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Cash and bank balances	164,458	131,426	15,305	31,143

26. Borrowings – the Group

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Bank borrowings:		
Unsecured bank loans wholly due within 1 year	20,000	25,000
Mortgage bank loan		
Portion due within 1 year	–	256
Portion due between 2 to 5 years	–	1,279
Portion due over 5 years	–	308
Other loan wholly due within 1 year	–	1,843
	–	1,000
Total borrowings	20,000	27,843
Included in:		
Current liabilities	20,000	26,256
Non-current liabilities	–	1,587
	20,000	27,843

26. Borrowings – the Group *(continued)*

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

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Total borrowings		
– at fixed rates	20,000	25,000
– at floating rates	–	1,843
– interest free	–	1,000
	20,000	27,843

Weighted average effective annual interest rates were as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
– bank borrowings	4.59%	4.71%
– other borrowings	0%	0%

27. Trade payables – the Group

The aging analysis of trade payables is as follows:

	2003 <i>RMB'000</i>	2002 <i>RMB'000</i>
Within 180 days	2,059	3,684
Over 180 days but within 360 days	337	1,242
Over 360 days	699	–
	3,095	4,926

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

28. Deferred income – the Group

	2003 RMB'000	2002 RMB'000
Deferred sales (<i>Note (a)</i>)	24,954	17,712
Deferred subsidy income (<i>Note (b)</i>)	1,460	1,388
	26,414	19,100

(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

	2003 RMB'000	2002 RMB'000
At beginning of year	1,388	1,800
Additions	916	1,450
Recognised in income statement	(844)	(1,862)
At end of year	1,460	1,388

Amounts represented various subsidies granted by and received from Shenzhen Municipal Government and Ministry of Science and Technology of the PRC for research and development projects. These subsidies are amortised and recognised as income on a straight-line basis over the period of the projects.

29. Taxes payable – the Group

	2003 RMB'000	2002 RMB'000
EIT payable	6,202	5,925
VAT payable	9,006	7,626
Other taxes payable	2,060	1,682
	17,268	15,233

30. Provisions – the Group

	2003 RMB'000	2002 RMB'000
At beginning of year	3,005	–
Additional provisions	5,897	3,005
Less: Amounts utilised	(3,005)	–
At end of year	5,897	3,005

The Group provides a one-year warranty on maintenance service for certain products. Provision is recognised at the year-end for expected warranty claims based on the past experience of the level of repairs and maintenance service provided. It is expected that the amount will be used during 2004.

31. Amounts due from/to subsidiaries – the Company

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

32. Share capital and share premium

	Number of shares '000	Nominal value HK\$'000	Book value RMB'000	Share premium RMB'000
<i>Authorised share capital (HK\$0.10 each):</i>				
As at 31 December 2002 and 31 December 2003	1,000,000	100,000	107,000	
<i>Issued and fully paid (HK\$0.10 each):</i>				
As at 1 January 2002	437,750	43,775	46,840	31,083
Issue of shares	3,137	314	332	6,421
As at 31 December 2002	440,887	44,089	47,172	37,504
As at 1 January 2003	440,887	44,089	47,172	37,504
Issue of shares	609	61	65	872
As at 31 December 2003	441,496	44,150	47,237	38,376

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

33. 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	20 February 2003	8 August 2003	30 December 2003	
Exercise price	HK\$1.03	HK\$1.49	HK\$1.78	HK\$1.39	HK\$2.05	HK\$2.69	
Granted to	2 employees	33 employees	2 directors and 20 employees	1 director and 75 employees	2,370 employees	1 director	Total
Exercisable period	10 years	10 years	10 years	10 years	10 years	10 years	
As at 1 January 2002	300,000	1,720,000	-	-	-	-	2,020,000
Granted	-	-	5,620,000	-	-	-	5,620,000
As at 31 December 2002	300,000	1,720,000	5,620,000	-	-	-	7,640,000
As at 1 January 2003	300,000	1,720,000	5,620,000	-	-	-	7,640,000
Granted	-	-	-	7,530,000	4,740,000	1,000,000	13,270,000
Exercised	(225,000)	(135,000)	(249,000)	-	-	-	(609,000)
Lapsed due to resignation	(75,000)	-	-	-	-	-	(75,000)
As at 31 December 2003	-	1,585,000	5,371,000	7,530,000	4,740,000	1,000,000	20,226,000

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.

34. Reserves

The Group	Merger reserve (Note (a)) RMB'000	Capital reserve (Note (b)) RMB'000	Statutory	Exchange	Retained earnings RMB'000	Total RMB'000
			surplus reserve funds (Note (c)) RMB'000	fluctuation reserve RMB'000		
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 (Note (e))	-	-	-	-	40,698	40,698
Appropriation to reserve funds	-	-	6,824	-	(6,824)	-
Translation adjustments	-	-	-	14	-	14
Balance at 31 December 2002	6,570	57,197	14,305	(669)	48,216	125,619
Balance at 1 January 2003	6,570	57,197	14,305	(669)	48,216	125,619
Dividend relating to 2002	-	-	-	-	(9,357)	(9,357)
Net profit (Note (e))	-	-	-	-	59,130	59,130
Appropriation to reserve funds	-	-	9,941	-	(9,941)	-
Translation adjustments	-	-	-	149	-	149
Balance at 31 December 2003	6,570	57,197	24,246	(520)	88,048	175,541

The Company	Contributed surplus (Note (d)) RMB'000	Exchange	Accumulated losses RMB'000	Total RMB'000
		fluctuation reserve RMB'000		
Balance at 1 January 2002	42,039	(683)	(3,565)	37,791
Transfer of reserve	(8,208)	-	8,208	-
Dividend relating to 2001	-	-	(4,643)	(4,643)
Net loss (Note (e))	-	-	(3,744)	(3,744)
Translation adjustments	-	14	-	14
Balance at 31 December 2002	33,831	(669)	(3,744)	29,418
Balance at 31 January 2003	33,831	(669)	(3,744)	29,418
Transfer of reserve	(13,101)	-	13,101	-
Dividend relating to 2002	-	-	(9,357)	(9,357)
Net loss (Note (e))	-	-	(3,062)	(3,062)
Translation adjustments	-	152	-	152
Balance at 31 December 2003	20,740	(517)	(3,062)	17,151

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

34. Reserves (continued)

- (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 surplus reserve 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 authorities, 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.
- (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.
- (e) The net profit of the Group is dealt with in the accounts of the Company to the extent of a loss of RMB3,062,000 (2002: RMB3,744,000).

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:

	2003 RMB'000	2002 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.	1,710	1,578
Xiamen Kingdee Software Co., Ltd.	1,399	1,393
Shantou Kingdee Software Technology Co., Ltd.	1,370	840
Lanzhou Kingdee Software Technology Co., Ltd.	436	424
Hainan Kingdee Software Technology Co., Ltd.	652	308
	5,567	4,543

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

	2003 RMB'000	2002 RMB'000
Reconciliation of net profit to cash generated from operating activities		
Net profit	59,130	40,698
Adjustments for:		
Provision for bad and doubtful debts	12,459	7,429
Provision for warranty	2,892	3,005
Depreciation of property, plant and equipment	12,566	12,271
Loss on disposals of property, plant and equipment	1,140	2,435
Share of results of associates	1,121	(381)
Amortisation of intangible assets	18,534	8,619
Impairment of goodwill	2,576	–
Interest income	(488)	(808)
Interest expense	538	180
Gain on liquidation of subsidiaries	–	(45)
Minority interests	(1,089)	(731)
Provision for income tax	10,184	2,809
	119,563	75,481
Changes in working capital (excluding the effect of acquisition of subsidiaries and investment in a joint venture)		
Inventories	118	(1,319)
Trade receivables	(4,441)	(31,496)
Bills receivable, other receivables and prepayments	(15,913)	318
Amounts due from related parties	(100)	158
Deferred income	7,314	4,190
Salary and staff welfare payable	1,079	(4)
Customers' deposits	(897)	(1,335)
Trade payables, accruals and other payables	(6,992)	(7,249)
Taxes payable (other than EIT)	1,758	3,171
Due to customers on implementation contracts	10,980	–
	112,469	41,915
Cash generated from operating activities	112,469	41,915

37. Contingent liabilities

The Group had no significant contingent liabilities as of 31 December 2003 (2002: Nil).

Notes to the Financial Statements (cont'd)

For the year ended 31 December 2003

38. Commitments

Capital commitments

As of 31 December 2003, the Group had capital expenditure contracted for but not recognised in the financial statements as follows:

	2003 RMB'000	Group 2002 RMB'000
Land use right	4,488	–

Operating lease commitments

As of 31 December 2003, the Group had total minimum future lease payments under non-cancellable operating leases in respect of buildings as follows:

	2003 RMB'000	Group 2002 RMB'000
Payable:		
– Not later than one year	11,657	3,871
– Later than one year and not later than five years	6,890	3,103
	18,547	6,974

39. 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.

40. Ultimate holding company

The directors regard the Company has no ultimate holding company.

41. Approval of financial statements

The financial statements were approved by the Board of Directors on 10 March 2004.

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 4th Level, Zone B, Block W1, High-New Technology Industrial Estate, Shennan Highway, Nanshan District, Shenzhen, Guangdong Province, The People’s Republic of China (“PRC”) on Friday, 16th April, 2004 at 2:00 p.m. for the following purposes:

1. To receive and adopt the audited consolidated accounts and the reports of the directors and auditors of the Company for the year ended 31st December, 2003;
2. To declare a final dividend for the year 2003;
3. (A) To re-elect retiring directors;
(B) To authorise the board of directors (“the Board”) to fix the remuneration of the directors;
4. To consider and approve the appointment of the auditors of the Company and to authorise 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 securities or debentures convertible into such shares or options) which might require the exercise of such powers either during or after the Relevant Period, be and is hereby generally and unconditionally approved;
 - (ii) the approval in paragraph (i) of this resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;
 - (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in sub-paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as defined below); (b) the exercise of warrants to subscribe for shares of the Company or the exercise of options granted under any share option scheme adopted by the Company; or (c) an issue of shares of the Company in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and this approval shall be limited accordingly; and

Notice of Annual General Meeting (cont'd)

- (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 an 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.”

By order of the Board

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

Xu Shao Chun

Chairman

Shenzhen, the PRC, 19 March 2004

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

Notice of Annual General Meeting (cont'd)

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/its 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, Computershare Hong Kong Investor Services 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 14th April, 2004 (Wednesday) to 16th April, 2004 (Friday) (both days inclusive), during which period no transfer of Shares will be effected. 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, Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 13th April, 2004 (Tuesday).
- (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 2003.

**Kingdee International Software Group
Company Limited**

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

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Kingdee