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This announcement, for which the directors of Kingdee International Software Group Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to Kingdee International Software Group Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

KINGDEE

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

金蝶國際軟件集團有限公司

(incorporated in the Cayman Islands with limited liability)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2002

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

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

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

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

Financial highlights for the year ended 31st December, 2002

- Total revenue increased by approximately 59.5% over 2001 to approximately RMB318,488,000.
- Net profit attributable to shareholders increased by approximately 35.5% over 2001 to approximately RMB40,698,000.
- Basic earnings per share increased by approximately 28.6% over 2001 to approximately RMB0.09.
- The Board of Directors recommended a final dividend of HK\$0.02 per share.

The board of directors (the “Board”) of Kingdee International Software Group Company Limited (“Kingdee International” or the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2002, together with the comparative audited consolidated figures for the corresponding year are as follows:

	<i>Notes</i>	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Sales	2(a)	294,532	187,742
Value-added tax refund	2(b)	23,956	11,993
		<u>318,488</u>	<u>199,735</u>
Cost of sales		(47,122)	(35,216)
Gross profit		271,366	164,519
Other operating income		9,267	4,203
Selling expenses		(163,004)	(99,901)
General and administrative expenses		(71,275)	(38,557)
Other operating expenses		(4,362)	(1,025)
		<u>41,992</u>	<u>29,239</u>
Profit from operations	4	41,992	29,239
Finance income, net	3	403	1,680
Share of results of associates		381	(686)
		<u>42,776</u>	<u>30,233</u>
Profit before tax		42,776	30,233
Taxation	5	(2,809)	(1,894)
		<u>39,967</u>	<u>28,339</u>
Profit after tax		39,967	28,339
Minority interests		731	1,697
		<u>40,698</u>	<u>30,036</u>
Net profit attributable to shareholders		40,698	30,036
Dividends	6	9,357	4,643
Earnings per share – basic	7	RMB0.09	RMB0.07
– diluted	7	RMB0.09	RMB0.07

Notes:

1. Basis of presentation

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

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

2. Turnover, sales and value-added tax refund

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

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

(b) Pursuant to the document Cai Shui Zi [2000] No.25 (“Document 25”) issued jointly by Ministry of Finance, State Administration of Taxation and General Administration of Customs, for subsidiaries engaging in the development and distribution of software, sales of software are subject to VAT at the rate of 17% and any VAT paid exceeding 3% of the sales will be refunded. In the opinion of directors, the effective rate of VAT of these subsidiaries on sales of software is 3% taking into account of the refund.

(c) No segment information is presented as the Group operates in one single industry and one single segment. The Group operates within one geographic segment as its revenues are primarily generated in the PRC and its major assets are located in the PRC.

3. Finance income, net

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

4. Profit from operations

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

5. Taxation

Taxation represents PRC income tax charged to:

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

- (a) No provision for profits tax in the Cayman Islands and Hong Kong has been made as the Group has no income assessable for profits tax for the year in those jurisdictions (2001: Nil).
- (b) Majority of the subsidiaries and associates of the Group are established in the PRC and subject to Enterprise Income Tax (“EIT”) at a rate of 33%, unless preferential rates are applicable in the cities where the subsidiaries are located.
- (c) Certain subsidiaries and associates of the Group are foreign owned enterprises and are entitled to full exemption from EIT for two years and a 50% reduction in the next three years thereafter starting from the first profit making year after offsetting prior year losses.
- (d) According to Shen Fu [1998] No. 29 “Provisions on further support to the high-technology enterprises” issued by the Shenzhen Municipal Government, those subsidiaries located in Shenzhen and recognised as a high-technology enterprise are entitled to a further tax exemption on EIT in 2001.

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

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

6. Dividends

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

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

7. Earnings per share

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

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

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

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Net profit	40,698	30,036
After-tax effect of interest on proceeds from exercise of share options	36	6
Net profit (diluted)	40,734	30,042
	2002 <i>Number '000</i>	2001 <i>Number '000</i> <i>(Note a)</i>
Issued ordinary shares at 1st January	437,750	350,000
Effect of shares issued	1,856	76,563
Effect of exercise of shares options	–	125
Weighted average number of ordinary shares for the year	439,606	426,688
Weighted average number of ordinary shares for the year	439,606	426,688
Effect of share options outstanding	5,533	706
Weighted average number of ordinary shares (diluted) for the year	445,139	427,394

Note (a): The issued shares in 2001 were presented after taking into consideration the capitalisation issue which took place in 2001.

8. Movements in shares issued

	Number of shares '000	Nominal value HK\$'000	Nominal value RMB'000
Share capital as of 1st January, 2002	437,750	43,775	46,840
Add: shares issued to TCL (<i>note</i>)	3,137	314	332
Share capital as of 31st December, 2002	440,887	44,089	47,172

Note: Increase in shares issued was due to the issue of 3,136,908 shares at HK\$2.03 per share on 27th May, 2002 to TCL Industries Holdings (H.K) Limited (“TCL”) as payment of the consideration for the acquisition of Beijing Case Software Technology Company Limited.

9. Statement of changes in equity

Statement of changes in equity of the Group for the year ended 31st December, 2002 was as follows:

	Share capital RMB'000	Share premium RMB'000	Reserves RMB'000	Total RMB'000
Balance at 1st January, 2001	107	–	60,633	60,740
Issue of shares	9,363	68,177	–	77,540
Capitalisation of share premium	37,343	(37,343)	–	–
Exercise of share options	27	249	–	276
Liquidation of subsidiaries	–	–	(391)	(391)
Net profit	–	–	30,036	30,036
Translation adjustments	–	–	(683)	(683)
Balance at 31st December, 2001	<u>46,840</u>	<u>31,083</u>	<u>89,595</u>	<u>167,518</u>
Balance at 1st January, 2002	46,840	31,083	89,595	167,518
Issue of shares	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	–	–	14	14
Balance at 31st December, 2002	<u>47,172</u>	<u>37,504</u>	<u>125,619</u>	<u>210,295</u>

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

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

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

To encourage the development of domestic software companies, the PRC government continuously reinforced its supportive policies to the software industry. As such, speeding up development of the software industry was regarded as one of the key development efforts for the China information industry. In this connection, the government introduced a series of software industry related policies. In particular, “the Summary of Measures for Vitalizing the Software Industry”《振興軟件產業行動綱要》was promulgated by the Office of the State Council throughout the nation. Further to “Certain Policies for Promoting the Development of Software and Integrated Circuit Industries”《鼓勵軟件和集成電路產業發展的若干政策》, the above-mentioned summary was another summary document aimed at blooming the development of China’s software industry. With substantial breakthroughs in the policies regarding the nurturing of domestic market, expansion of software exports, incubation of software enterprises, development of core technologies and training of software professionals, an amiable operating environment was created for domestic software companies.

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

BUSINESS REVIEW

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

Successful introduction of the tailor-made “Total Solution”

During the reporting period, the Group continued to enrich its product lines by successfully launching the upgraded versions of the K/3 ERP, Distribution Resource Planning (DRP), Customer Relationship Management (CRM) and Office Automation and Knowledge Management (KM). We provided our customers with the industry-specific total solutions for enterprise informatization V1.0. Our collaboration with Brio Software Incorporation (“Brio”), a business intelligence software provider, further enhanced the capability of Kingdee International in providing total solutions. To establish a foothold in different industries, software solutions for the financial, manufacturing, energy, tobacco, pharmacy sectors were designed specifically to each industry so as to tailor their individual requirement for informatization management at different stages. Enterprise users became more rational when the market matured. They demanded for optimal management software products suiting their specific requirements. Kingdee International provided its clients with advanced products. At the same time, with extensive customer experience, Kingdee International evaluated and analyzed the evolving management needs of the growing PRC enterprises. To cater for enterprises’ need at different stages, Kingdee International provided enterprises with customized enterprise informatization solutions, thereby enabling enterprise customers to bridge their gaps in development.

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

Improving management through internal consolidation and adjustment

In order to improve the internal management system of Kingdee International, the Group underwent resource consolidation and enhanced operational efficiency. Through the management model of “3 horizons and 5 verticals”, the Group integrated the 3 management levels (including institutional, regional and headquarter levels) into the 5 vertical lines (including headquarter, marketing, direct sales, distribution and services). Consequently, synergies among each management level and each business line were enhanced. With further consolidation of CASE into the Group, perfect synergies between Kingdee International and CASE in terms of products and channels were created through launching of latest upgraded versions of DRP and KM. Our research and development (“R&D”) teams in Beijing, Shanghai and Shenzhen were comprised of over 600 staff in total. Our product lines covered four major areas including ERM (Enterprise Resources Management), SCM (Supply Chain Management), CRM (Customer Relations Management) and KM (Knowledge Management). We have also restructured the nationwide market into seven major regions. Backed by 42 branches over the country, our sales network reached a geographical coverage of 221 cities. We also actively explored into the domestic market for gaining a larger market share.

Strengthening marketing efforts through various promotional activities

Close client-to-client connection and client-and-manufacturer relationship were cultivated for facilitating mutual exchange of successful application experiences among enterprises in China. Kingdee International was able to perceive advanced management philosophy from customers and work out practical management models and application solutions for different industries in order to enhance customers’ application level. In June, led by the National Office of the Working Group for Enterprise Informatization Management, Kingdee International launched the “Eastern Pearl Project” under a joint collaboration with several authoritative institutions like e-Commerce Association of China, the State Informatization Evaluation Centre (國家資訊化測評中心), Tsinghua University (CMIS-ERC) as well as a number of renowned domestic media. In this “Eastern Pearl Project”, 100 enterprises were selected as the most representative models for specific sectors and regions. The project’s objective was “to explore application through cases and foster development through application”. From an impressive track record of successful application, valuable experience for application can be aggregated, thereby providing the growing domestic enterprises with tailor-made tools and approaches according to their needs of informatization management. And eventually, it enables Kingdee International to attract more customers.

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

Enhancing the Group's strength for stronger market competitiveness

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

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

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

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

In March 2002, the Group entered into a strategic agreement with the State Engineering Research Center for Computer Integrated Manufacturing Systems, Tsinghua University (CIMS-ERC) to establish an "Enterprise Informatization Technology Research Center" with CIMS-ERC. Both parties can, through such cooperation, complement each other's strengths and weakness in education research, solution design, management consulting, market expansion and project implementation. In May, 2002, the Group formed a strategic partnership with a business intelligence software provider – Brio to jointly explore into the business intelligence analysis market. In November, 2002, the Group formed a strategic alliance with a US company – E5 Systems Company Limited ("E5 Systems"), and was appointed as E5 Systems' software outsourcing partner in China. The cooperation will enable Kingdee International to explore into the Northern American market.

Training outstanding personnel for enlarging backbone teams

Kingdee International is always in pursuit of high-quality personnel. Its human resources strategy is to provide internal training and attract external outstanding personnel. In addition to those self-trained managers, key mid-level staff, implementation consultants, sales consultants and sales experts, a number of competent personnel had joined Kingdee International. During the period under review, the Group employed a group of senior technology development and consulting expertise. All these professionals have become the core members of Kingdee International. The Group has provided a good working environment for staff, formulated an individual growth plan for each member, established “Kingdee University” to provide various trainings to staff, assessed the performance of each member so as to enhance individual capability, set up expertise reserve pool and shifted resources to staff with outstanding performance. The Group aims at sustaining competitive power by cultivating corporate culture of passion and upgrading human resource system. As at 31st December, 2002, staff members of the Group in total increased from 1,497 at the beginning of the year to 1,930.

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

FINANCIAL REVIEW

Consolidated results of operations

The Group’s total revenue for the year ended 31st December, 2002 was approximately RMB318,488,000, representing an increase of approximately 59.5% over year 2001 (2001: RMB199,735,000). The growth is mainly contributed by the substantial increase in revenue of selling software and providing solution consultation and support services. During the year, the Group’s revenue from sales of software amounted to RMB235,259,000, representing a 53.4% growth to year 2001 (2001: RMB153,413,000). Revenue from providing solution consultation and support services amounted to RMB55,873,000, representing a 79.3% increase as compared to year 2001 (2001: RMB31,170,000).

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

Gross profit

The Group’s gross profit increased by approximately 65% from RMB164,519,000 for the year 2001 to approximately RMB271,366,000 for the year 2002. During the year, a gross profit margin was approximately 85.2% (2001: approximately 82.4%).

Selling expenses

Selling expenses for the year 2002 amounted to approximately RMB163,004,000, representing an increase of approximately 63.2% over the previous year. Selling expenses as a percentage of total turnover for the period increased from 49.4% for the year 2001 to 51.2% for the year 2002. The reasons for the slightly increase in selling expenses as a percentage of total turnover for the year were mainly contributed to the enormous increase in sales. The sales and marketing expenses increased accordingly. In addition, the Group recruited a number of experienced sales and senior consultants in the year under review, which led to the increase in selling expenses.

General and administrative expenses

General and administrative expenses for the year 2002 amounted to approximately RMB71,275,000, representing an increase of approximately 84.9% over the previous year. Meanwhile, the general and administrative expenses as a percentage of total turnover increased to approximately 22.4% as compared to approximately 19.1% for the year 2001. Among them, research and development costs, salaries and staff welfare, provision for doubtful debt, depreciation of fixed connectivity expenses accounted for approximately 20.9%, 52.1%, 10.4% and 8.1% of the total general and administrative expenses for the year 2002 respectively. Provision for the doubtful debt during the year amounted to RMB7,429,000, representing an increase of 38.2% over the previous year. Since the ERP software business of the Group was enlarged and the receivables were increased, additional provision for doubtful debt was provided.

Capital expenditures

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

Financial resources and liquidity

The Group maintained a sound cash flow position. As at 31st December, 2002, cash and cash equivalents were at RMB131,426,000, representing a current ratio of 2.0 (2001: 4.0). Gearing ratio, expressed as a ratio of total liability and minority interests to shareholders' equity, was 2.0 (2001: 3.7). During the year, the Group recorded a lower current ratio and gearing ratio over 2001. The main reason for this was that the Group raised an additional short-term bank loan of RMB25,000,000 through appropriate financing during the reporting period. The management considered that the current financial position of the Company remained strong and stable.

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

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

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

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

FUTURE PROSPECTS

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

FINAL DIVIDENDS

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

CLOSURE OF REGISTER

The register of members of the Company will be closed from 23rd April, 2003 (Wednesday) to 25th April, 2003 (Friday) (both days inclusive), and during which no transfer of shares will be effected. In order to qualify the shareholders of the Company to attend, act and vote at the forth coming Annual General Meeting and to qualify the entitlement of the final dividends, all transfers 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 22nd April, 2003 (Tuesday).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

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

INTERESTS OF DIRECTORS IN EQUITY SECURITIES

As at 31st December, 2002, the beneficial interests of the Directors in the Shares or securities of the Company or any associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance, Chapter 396 of the laws of Hong Kong (“SDI Ordinance”)) required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have been taken under section 31 of , or Part 1 of the Schedule to the SDI Ordinance), or required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or required pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the GEM (“GEM Listing Rules”) to be notified to the Company and the Stock Exchange, were as follows:

• The Company

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

Notes:

- In February 2001, Oriental Gold Limited, a company wholly-owned by Mr. Xu Shao Chun, was granted rights of first refusal in the future sale of 37,950,500 shares held by 154 employees of the Group (including Mr. Xu Wen Hui, an executive director), one former employee of the Group and Mr. Hugo Shong, a non-executive director and a consultant of the Group. Each of the 154 employees of the Group had also undertaken to Project China Limited that if he/she is, within one year after he/she leaves the employment of the Group, involved in any business which may compete with the Group, Project China Limited will have an option to buy back his/her shares.
- The 83,606,250 shares were held by Oriental Gold Limited, and the 58,310,000 shares were held by Billion Ocean Limited.
- Project China Limited, a company wholly-owned by Mr. Zhang Wen Xing, held 1,599,500 shares as trustee of a discretionary trust established for the benefit of all the former and existing employees and consultants of the Group including Mr. Xu Shao Chun and Mr. Xu Wen Hui, executive directors.
- The share options were granted upon approval of the new share option scheme by the shareholders of the Company at the extraordinary general meeting held on 26th April, 2002.

THE PRE-IPO SHARE OPTION SCHEME

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

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

On 2nd July, 2001, Mr. Huang Xiao Jian exercised his share option to subscribe for 250,000 shares. As Mr. Huang left the Group on 31st December, 2001, his outstanding option to subscribe for the remaining 750,000 shares lapsed on the same date.

As at 31st December, 2002, Mr. Liu had not exercised any share option to subscribe for any shares and the option to subscribe for 300,000 shares remained outstanding under the Pre-IPO Share Option Scheme.

THE SHARE OPTION SCHEMES

Pursuant to the share option scheme of the Company adopted on 30th 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 27th September, 2001, pursuant to the implementation rules for share option scheme approved under the Old Scheme, options to subscribe for a total of 1,720,000 shares at a subscription price equal to HK\$1.49 per share were granted to 33 full-time employees of the Group and its subsidiaries.

The Old Scheme was terminated and replaced by a new share option scheme (the “New Scheme”) by an ordinary resolution passed at the extraordinary general meeting of the Company held on 26th 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 15th May, 2002, options to subscribe for a total of 5,620,000 shares at a subscription price of HK\$1.78 per share were granted to 22 full-time employees (including executive directors, Mr. Xu Shao Chun and Mr. Xu Wen Hui) of the Group pursuant to the New Scheme.

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

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

Note:

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

DIRECTOR'S RIGHTS TO ACQUIRE SHARES

Save as disclosed in the sections headed "Interests of Directors in Equity Securities", "Share Option Scheme" and "Pre-IPO Share Option Scheme", at no time during the year ended 31 December 2002 was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in the Company.

SUBSTANTIAL SHAREHOLDERS

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

Name	Number of Shares	Approximate percentage of share capital
Oriental Gold Limited (<i>Note 1</i>)	86,606,250	18.96%
Mr. Xu Shao Chun (<i>Note 1</i>)	141,916,250 (<i>Note 2</i>)	32.19%
Billion Ocean Limited	58,310,000	13.23%
Mr. Zhao Yong	66,601,750	15.11%

Notes:

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

COMPETING INTEREST

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

SPONSOR'S INTEREST

As at 31st December, 2002, none of the Company's sponsor, BNP Paribas Peregrine Capital Limited, its directors, employees or associates held any interest in the securities of the Company or any member of the Group.

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

AUDIT COMMITTEE AND ITS DUTIES

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

BOARD PRACTICES AND PROCEDURES

The Company has complied with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since its shares were listed on the GEM on 15th February, 2001.

On behalf of the Board
Kingdee International Software Group Company Limited
Xu Shao Chun
Chairman

The People's Republic of China, 21st March, 2003

This announcement will remain on the "Latest Company Announcement" page of the GEM Website at www.hkgem.com for 7 days from the date of its publication and the website of the Company at www.kingdee.com.