Globalized together

annual report 2004 二零零四年年報

Kingdee

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

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

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

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

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

香港聯合交易所有限公司（「聯交所」）創業板市場（「創業板」）的特色

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

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

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

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金蝶KIS

金蝶K3

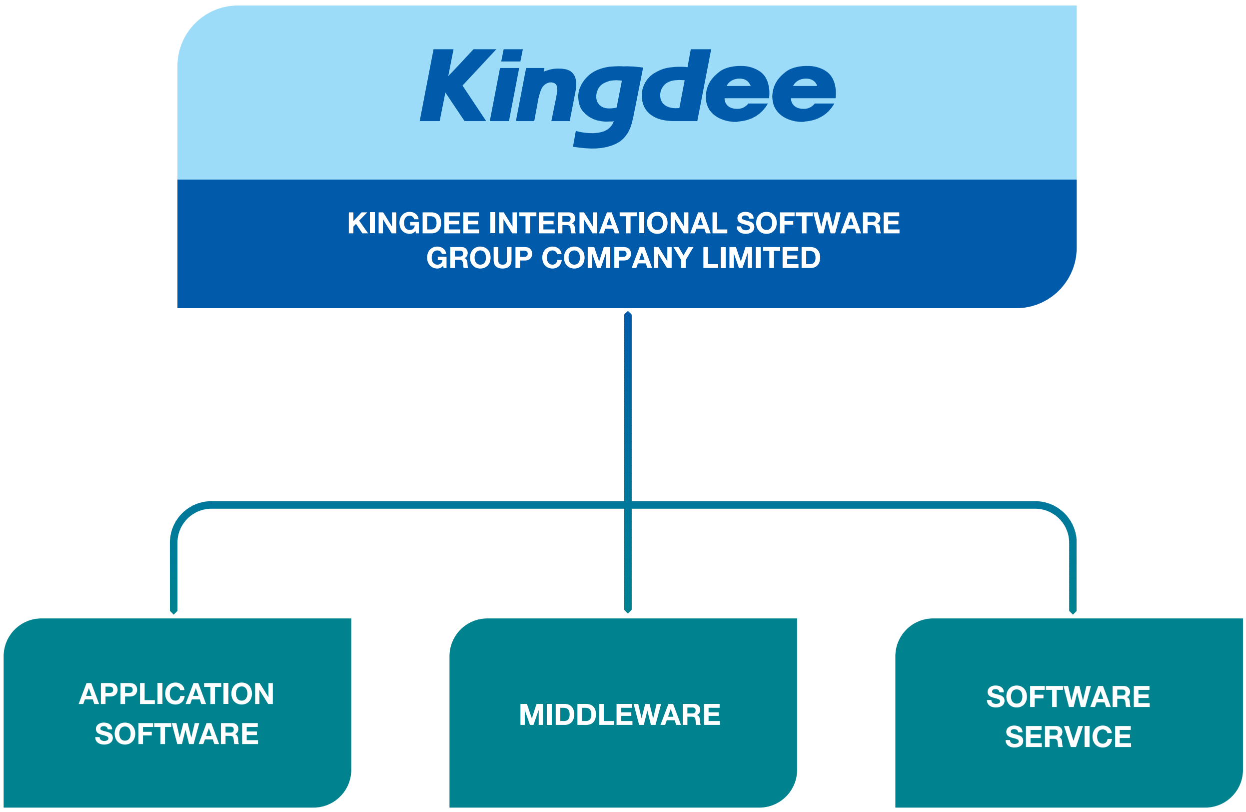
金蝶EAS

Apusic

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

ABOUT KINGDEE INTERNATIONAL



CORPORATE INFORMATION

EXECUTIVE DIRECTOR AND MANAGING DIRECTOR

Mr. Xu Shao Chun, Chairman and CEO
Mr. Luo Ming Xing, Senior vice-president and CFO

NON-EXECUTIVE DIRECTOR

Mr. James Ming King (re-designated from an executive director to a Non-executive Director on 30 December 2004)
Mr. Zhao Yong
Mr. Hugo Shong

INDEPENDENT NON-EXECUTIVE DIRECTOR

Ms. Yang Zhou Nan
Mr. Wu Cheng
Mr. Yeung Kwok On
Mr. Gary Clark Biddle (appointed on 28 September 2004)

COMPANY SECRETARY

Ms. Chung Oi Yin, Irene, ACS, ACIS

COMPLIANCE OFFICER

Mr. Luo Ming Xing

QUALIFIED ACCOUNTANT

Mr. Yang Jian Wen, ACCA

AUDIT COMMITTEE

Ms. Yang Zhou Nan
Mr. Zhao Yong
Mr. Wu Cheng
Mr. Gary Clark Biddle

AUTHORISED REPRESENTATIVES

Mr. Xu Shao Chun
Mr. Luo Ming Xing

AUDITORS

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

LEGAL ADVISORS

Hong Kong:

Mallesons Stephen Jaques
37th Floor
Two International Finance Centre
8 Finance Street
Central, Hong Kong

The PRC:

Sincere Partner & Attorneys
24th Floor, City Tower,
Shennan Road
Shenzhen, the PRC

Cayman Islands:

Maples and Calder Asia
Suite 1002, One Exchange Square
8 Connaught Place
Central, Hong Kong

PRINCIPAL BANKERS

China Merchant Bank
Bank of China, Shenzhen Branch
Bank of Communications
Shenzhen Development Bank
The Hong Kong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
46th 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
Hi-Tech Industrial Park
Shennan Highway, Nanshan District
Shenzhen, Guangdong Province
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 1501, 15th Floor
Central Plaza,
18 Harbour Road, Wanchai
Hong Kong

COMPANY WEBSITE

www.kingdee.com

GEM STOCK CODE

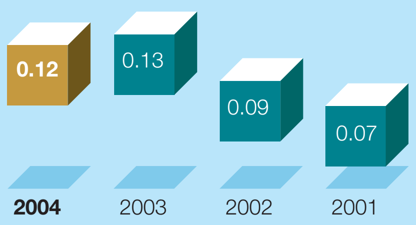
8133

FINANCIAL HIGHLIGHTS

	2004 RMB'000	2003 RMB'000
Turnover	**445,922**	365,573
Net profit attributable to shareholders	**54,965**	59,130
Dividends per share	**HKD0.04**	HKD0.01
Earnings per share		
– basic	**RMB0.12**	RMB0.13
– diluted	**RMB0.12**	RMB0.13

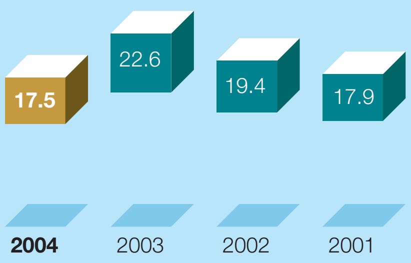
EARNINGS PER SHARE - BASIC

RMB

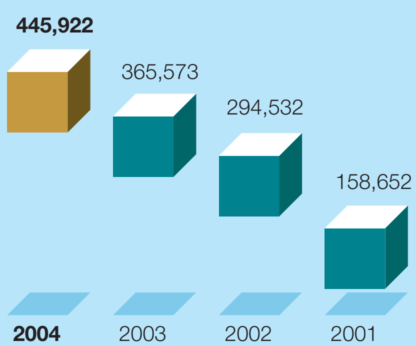


RETURN ON EQUITY

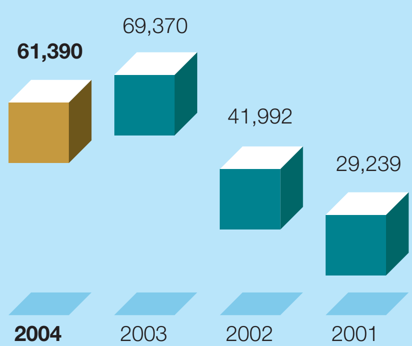
%



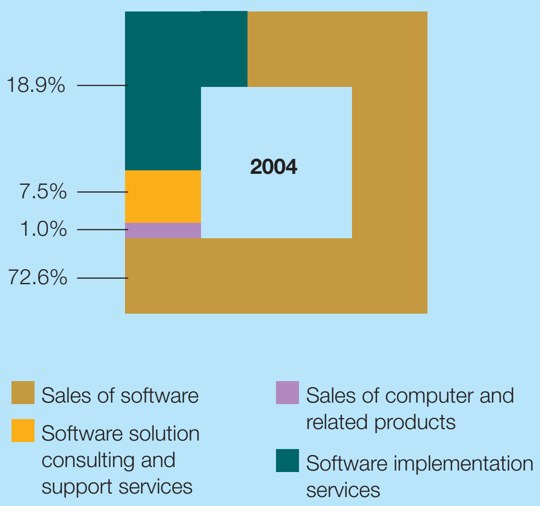
TURNOVER
RMB'000



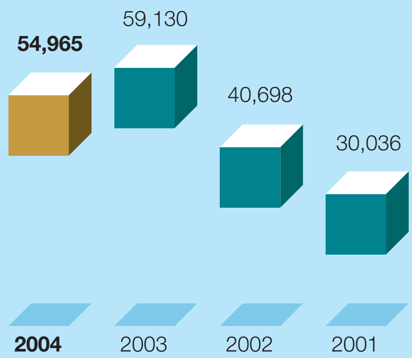
OPERATING INCOME
RMB'000



TURNOVER BREAKDOWN BY BUSINESS



PROFIT ATTRIBUTABLE TO SHAREHOLDERS
RMB'000



CHAIRMAN'S STATEMENT

On behalf of Kingdee International Software Group Company Limited ("Kingdee International") and its subsidiaries, I am pleased to present the Group's audited annual results for the year ended 31 December 2004.

During 2004, the Group continued to implement its competitive strategy of "Product leadership, Partner oriented", and managed to gain a strong competitive edge even under the adverse impact of the macro economic control implemented by the Chinese government. For the year ended 31 December 2004, the Group's turnover increased by 22% when compared to 2003. During the reporting period, the Group increased its investment on the research and development of high-end products and the marketing of Kingdee's brandname, thereby affecting its short-term profit to a certain extent. For the year ended 31 December 2004, profit attributable to the Group's shareholders decreased by 7% when compared to 2003.

During the reporting period, the macro economic control by the Chinese government forced many Chinese enterprises to enhance their own management capabilities and competitiveness. The implementation of enterprise management informatization systems is an indispensable measure to enhance management capabilities and competitiveness. Although the macro economic control prompted enterprises in certain industries to delay or cancel their investment on management informatization, in the long-term, it will still be a trend for Chinese enterprises and government departments to increase their investments on management informatization. The market potential for Chinese enterprise application software is still enormous. Accordingly, the management believes that the Group's enterprise application software business will continue to grow at a fast pace in future.

During the reporting period, the Group bore fruitful results in building Kingdee's brandname. Kingdee's brandname, which represents innovation, speed and internationalization, was widely promoted. The value of Kingdee's brandname was rapidly enhanced, and this helped the Group to gain a leading market share in the lower-level application software market and win the acclaim of its customers. The launch of Kingdee K/3 V10.1 consolidated the Group's position in the lower-level application software market. Kingdee EAS, which targets at the superior application software market, is well-recognized among the strategic customers after years of research and development and has laid a solid foundation for the Group to explore the superior application software market in future. Meanwhile, the Group establishes strategic partnerships with IBM, HP, SUN and INTEL thereby creating a higher market value for the Group.

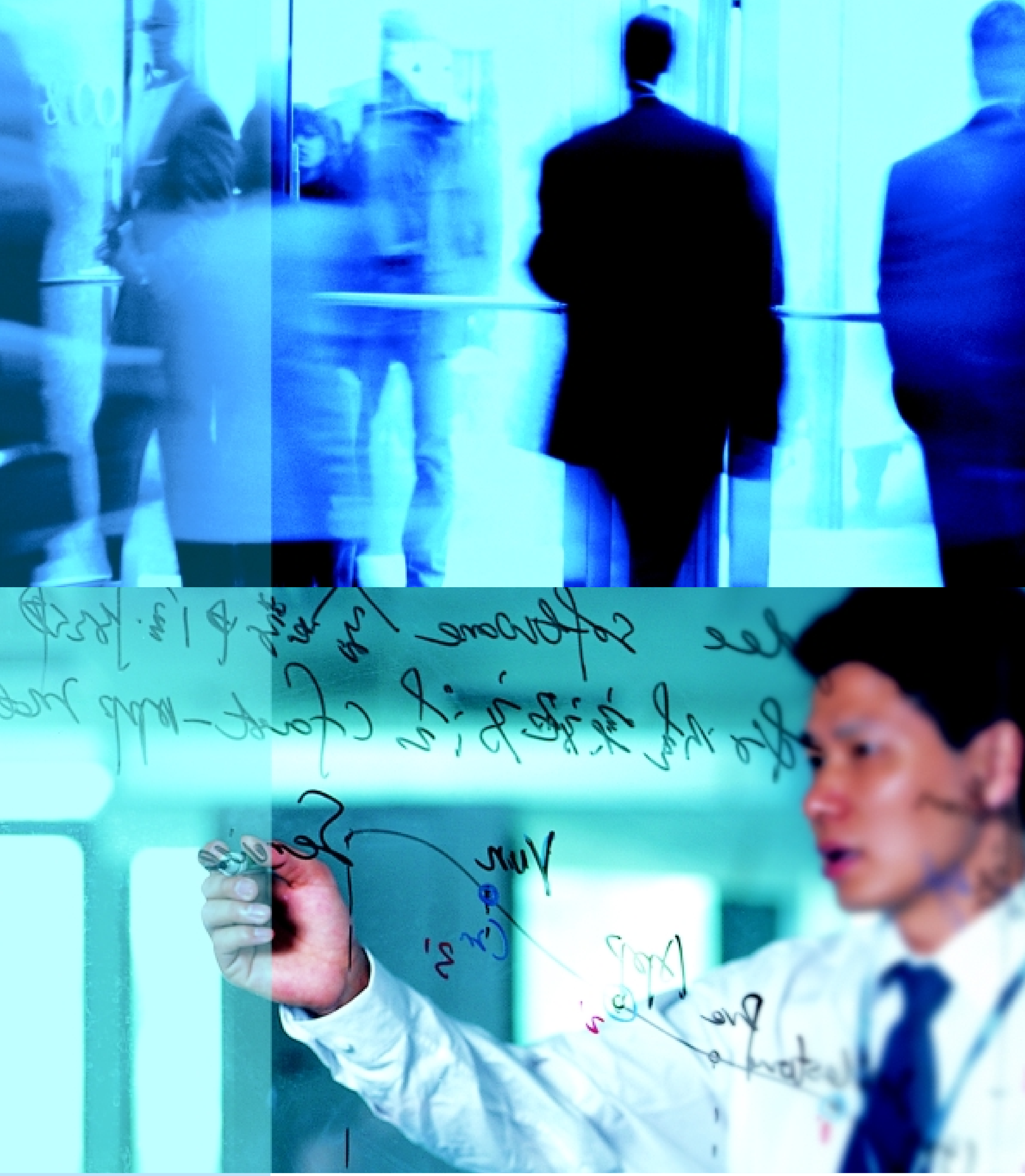
The emerging business of the Group, the middleware system software, developed well during the reporting period. Due to the high quality of the product, the Group managed to secure orders from government departments and industry customers and began to establish its presence in the PRC middleware system market. At the same time, the Group leveraged on Kingdee APUSIC middleware to gain a strong competitive advantage with its "Middleware + ERP". The Group's product and technological edges also lay a solid foundation for it to develop software industry eco-chain partners. Income from partners continues to grow and the Group is establishing strategic partnerships with a group of consultation, training and implementation companies within the industry.

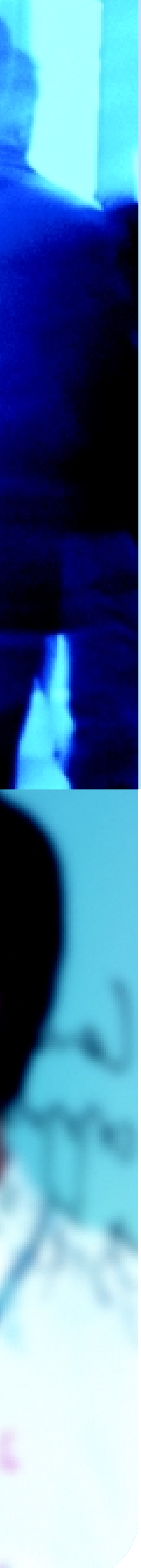
As software service business begins to develop in the PRC, the Group also actively expands its software outsourcing service business. With its edges in brandname value, quality control and project control, the Group believes that it will be able to rapidly develop this business segment in future.

Looking ahead, the Group will endeavour to consolidate and enhance its competitive edges in the lower-level application software market and be well-positioned to gradually tap into the superior application software market. The Group will implement the strategy of "Proactive services" to enhance customer satisfaction, improve operating efficiency and maximize shareholders' value. Last but not least, I would like to take this opportunity to express my heartfelt gratitude to investors for their relentless support of Kingdee International.

Xu Shao Chun
Chairman of the Board of Directors

Shenzhen, The PRC
29 March 2005





MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Industry Review

The enormous growth potential of the enterprise application software market represents high growth opportunities for the enterprise application software vendors

Upon the access of the PRC into the WTO and the implementation of macro economic control by the Chinese government, Chinese enterprises face more intensive market competition and more enterprises will choose to implement management informatization systems to enhance their own competitiveness. According to the forecasts of IDC, the market size of the PRC packaged software will exceed RMB48 billion in 2008 and application software will account for more than 50% of the packaged software market (Source: IDC, June 2004 China Parkaged Software 2004-2008 Forecast and Analysis). According to the second countrywide general investigation of the State Statistical Bureau, there are more than 3 million small and medium enterprises in the PRC. Therefore, the small and medium enterprises market will become the most important market of the PRC enterprise application software industry.

Middleware market will enter into a rapid development era

According to the forecasts of IDC, the capacity of the middleware market will reach RMB1.17 billion in 2005, representing a growth of 38.5% when compared with the corresponding period. The compound annual growth rate between 2004 and 2008 will exceed 30%. The middleware market will enter into a rapid development stage.

The business of software outsourcing services in the PRC

According to the forecasts of IDC, the capacity of the PRC software outsourcing service market will reach RMB5.5 billion in 2005, representing a compound growth rate of 44% between 2003 and 2008. The PRC software outsourcing service business is at its initial stage of development and the PRC government strongly encourages the PRC software enterprises to actively expand their international software outsourcing service business.

Exponential Market Growth

The Group's competitive edges in the PRC enterprise application software market

The PRC enterprise application software market has been developing for almost 20 years. Domestic and foreign competitors have already tapped into all segments of the PRC enterprise application software market. Facing competitions, the competitive edges of the Group are apparent:

Strong customer base

Following 12 years of development, the Group has accumulated approximately 200,000 customers. These customers not only provide the Group with a stable revenue source for its software after-sales maintenance service, but also represent enormous market potential for the Group's product upgrades and sales of new products resulting from its customers' continuous and further application of management informatization. During the reporting period, more than 30% of the revenue from the Group's enterprise application software derived from product upgrades of its existing customers and the increase in the number of authorized users. The renowned customers of the Group include: Hong Kong China Merchants Group, Hong Kong China Travel Group, Hong Kong Hantec Group, Olympus Hong Kong, UPS Hong Kong, McDonald China Co., Ltd, China Resources Group, China Vanke Group, China Construction Bank, The People's bank of China, China South Automotive Group, TCL Group, Shanghai Electric Power Group and New Hope Group.

Advantage in offering proactive and prompt services

Kingdee International has a sales and service channel covering the Asia-Pacific region and has set up about 40 branches in the major cities of Mainland China. Kingdee International has also engaged more than 1,000 product and service agents and established its Asia-Pacific headquarter in Hong Kong. An extensive sales and service network is a strong guarantee for the Group's business development.

Develop core technologies under its own intellectual property right

The Group is the only domestic enterprise application software vendor which develops its core technologies under its own intellectual property right. These core technologies include Kingdee APUSIC application server which meets J2EE standard and Kingdee BOS System, an open integrated application development platform. The perfect integration of middleware system and application system illustrates the leading technological edges of the Group in the PRC and the Asia-Pacific region.

Business Analysis

The Group is principally engaged in the provision of enterprise application software, middleware and software outsourcing services. At present, more than 95% of the Group's business is conducted in Mainland China.

Analysis of the enterprise application software business

During the reporting period, the Group's leading position in the PRC enterprise application software market was further consolidated and the Group was highly acclaimed by all parties. According to the special research report of IDC, Kingdee International was accredited as the first brand of PRC management software (ERM) products. Kingdee was accredited as the best technological partner by SUN and was accredited as the "Best brand in terms of user satisfaction on product quality in the PRC software market" by the People's Daily.

During the reporting period, revenue from enterprise application software and related services accounted for more than 90% of the Group's turnover and has always been an important source of the Group's steady revenue growth, the business will continue to have a rapid growth potential in future. The Group will continue to pursue its competitive strategy of "Product leadership, Partner oriented" and maintain its leading edge in this area.

The market positioning of enterprise application software products

Taking into account the operating scales of the Chinese enterprises and the existing market condition of enterprise application software, the Group categorizes the application of its enterprise customers of different scales into elementary application, small enterprise application, lower-level application, higher-level application and superior application on the basis of their application levels and the complexities of their application.

Targeting at different market segments, the Group provides three kinds of application software, namely Kingdee KIS, Kingdee K/3 and Kingdee EAS. Targeting at the small and medium business market, the Group provides Kingdee KIS and Kingdee K/3 to offer solutions to customers. In the enterprise market, the Group designs Kingdee EAS and Kingdee K/3 to offer higher application solutions to customers. Meanwhile, the Group is gradually implementing IPD (Integrated Product Development), which effectively enhances the Group's product planning capability, design capability and product quality.

Fast-growing enterprise application software business

The Kingdee KIS System, targeting at elementary application and small enterprise application, is the result of ten years of research and development of the Group and the applications of customers. The product is very mature and highly applicable. During the reporting period, the delivery of the packaged product increased by more than 30% and provided a stable operating cashflow for the Group.

Being able to be installed speedily, Kingdee K/3 System may cater for the specific needs of its customers and may help expanding enterprises to resolve the conflict between standardization and customization of information. It is also the first multi-lingual ERP system in the PRC. While satisfying the strong demand from domestic foreign invested foreign enterprises, the product is also well-positioned to tap into the Asia-Pacific market. Kingdee K/3 System includes modules for finance, HR, SCM, and manufacturing. During the reporting period, the sales contracts of Kingdee K/3 System increased by more than 25% when compared with 2003.

The Group's Kingdee EAS products adopt the technology application mode of "Middleware + ERP", which may help the Group's customers to perform integration conveniently, it is independent of technical platform, process driven and open to visualized and customized development, thereby satisfying the customers' major needs. The architecture of Kingdee EAS products is based on the design concept of "integrated management and accommodating needs" and it can completely solve the conflict between the standardization of management software products and the customized need for enterprises' informatization.

Middleware business analysis

Kingdee's middleware APUSIC application server 3.0 version was released in 2004, signifying an important breakthrough achieved by APUSIC application server in the area of system software manufactured under PRC's own intellectual property right. APUSIC V3.0 is the first domestic Java application server manufactured under the PRC's own intellectual property right to obtain the J2EE standard testing certificate. Kingdee International is also the first PRC Java middleware manufacturer to obtain the J2EE certificate and the first PRC middleware enterprise to join the JCP Organization. Apart from their technological edges, the middleware products of Kingdee International are competitively priced, have excellent performance and come with localized technical services.

During the reporting period, revenue from the middleware business accounted for approximately 1.5% of the Group's revenue, thereby achieving a significant breakthrough. Kingdee APUSIC middleware begins to be applied in areas such as finance and e-government. Kingdee International also establishes partnership with many e-government integration manufacturers and actively seeks partners within the industry. Following years of continuous investment, Kingdee middleware begins to enter the rapid development stage.

Analysis of the software outsourcing service business

In order to cater for the industry-specific management needs of its customers and the customized orders for overseas software outsourcing services, the Group has restructured its software technology service companies in Shanghai and Beijing, which are engaged principally in the business of software outsourcing services. Since the market demand for software outsourcing services continues to grow, the Group will build on its quality and cost advantages to actively and steadily develop its software outsourcing service business and begins to undertake some overseas software outsourcing service orders. During the reporting period, Kingdee International was designated as a pilot enterprise engaging in the "export of PRC software to Europe and the United States" by the Ministry of Science and Technology of the State (Type A software outsourcing enterprise).

Strengthen the promotion of the Group's brandname, enlarging its strategic partner alliance

During the reporting period, the Group replaced its brand logo and actively promoted the characteristics of its new international brand: innovative, speed and internationalized. We believe that the substantial investment made on brandname promotion lays a solid foundation for the rapid growth of the Group and its profitability in future.

During the reporting period, the Group's business in Hong Kong grew by 156% when compared with the corresponding period. At the same time, Kingdee International began to develop its business and train up local cooperation partners in Taiwan, Singapore and Malaysia.

FINANCIAL PERFORMANCE

Operating Results

The Group's turnover for the year ended 31 December 2004 was approximately RMB445,922,000, an increase of approximately 22% as compared with 2003 (2003: RMB365,573,000). The increase was mainly attributable to the significant growth of the sales of the Group's enterprise management software Kingdee K/3 and the provision of service. During the year, the Group's income from the sales of software amounted to RMB323,811,000, an increase of approximately 9.1% compared with 2003 (2003: RMB296,898,000); Income from the provision of services amounted to RMB117,827,000, an increase of approximately 85.5% over 2003 (2003: RMB63,510,000). During the year, the Group's cash flow from operating activities was approximately RMB116,686,000, an increase of approximately 10.3% when compared with 2003 (2003: RMB105,817,000).

During the reporting period, the debtors turnover days were 82 days (the average of the debtor balance at the beginning and end of the year divided by total income for the year times 365 days), which was the same as 2003. The Group continued to strengthen the management and recovery of its debtors during the reporting period. Accordingly, the debtors turnover days remained at a reasonable level.

Profit attributable to the Group's shareholders for the year ended 31 December 2004 was RMB54,965,000, representing a decrease of approximately 7% when compared with 2003 (2003: RMB59,130,000). The earnings per share amounted to RMB0.12 (2003: RMB0.13).

Gross profit

The Group's gross profit increased by approximately 17.5% from RMB307,476,000 for the year 2003 to approximately RMB361,246,000 for the year 2004. During the year, the gross profit margin was approximately 81% (2003: approximately 84.1%). The decrease in gross profit margin was partly due to the fact that the headquarter's service cost of approximately RMB7,000,000 during the reporting period was stated as "selling expenses" in prior years and was accounted for under "costs" from 2004.

A Strong Brand Reputation


EAS5.0
CRM
EAS4.0
K3
CMM4
K3
03
04

Selling expenses

Selling expenses for the year 2004 amounted to approximately RMB228,789,000 (2003: RMB192,624,000), representing an increase of approximately 18.8% over the previous year. Selling expenses as a percentage of turnover for the period decreased from 52.7% in year 2003 to 51.3%.

General and administrative expenses

General and administrative expenses for the year 2004 amounted to approximately RMB125,791,000 (2003: RMB93,816,000), representing an increase of approximately 34% over the pervious year. During the period, the general and administrative expenses as a percentage of turnover increased to 28.2% as compared to 25.7% for the year 2003. The increase in the general and administrative expenses as a percentage of turnover for the year was mainly because the Group further increased its R&D investment in high-end enterprise management software Kingdee EAS and expenses incurred from the application to be listed in the Main Board by way of Introduction. Among the general and administrative expenses, research and development costs amounted to approximately RMB53,792,000, representing an increase of approximately 108.7% over 2003 (2003: RMB25,770,000). The related expenses incurred from the change of listing from GEM to the Main Board amounted to RMB3,267,000 (2003: nil).

Capital expenditures

As at 31 December 2004, the Group's capital expenditure include: prepayment of land use right amounted to RMB16,708,000 (2003: nil); capitalization of R&D expenditure amounted to RMB40,494,000 (2003: RMB40,976,000); purchase of computer and relevant equipment amounted to RMB12,929,000 (2003: RMB11,502,000).

Financial resources and liquidity

The Group maintained a sound cash flow position. As at 31 December 2004, the Group's cash and cash equivalents were approximately RMB214,719,000 (2003: RMB164,458,000). The Group's current ratio was 2.08 (2003: 2.22). Gearing ratio, expressed as a ratio of bank borrowings to shareholders' equity, was 8% (2003: 8%). During the reporting period, the Group's current ratio decreased when compared with 2003, mainly because of the increase of customers' deposits received by the Group at the end of the reporting period.

The Group intends to finance its daily operations and production with its internal funds and the Group implements stringent control on its financial activities. Unutilized amounts will be placed with banks to generate interest income. When appropriate opportunities arise, the Group will also consider engaging in merger and acquisition activities in order to enhance the Group's competitiveness.

As at 31 December 2004, the Group had outstanding short-term bank loan of RMB24,000,000 (2003: RMB20,000,000) and no outstanding long term bank loan.

Product Leadership

As at 31 December 2004, the Group was not subject to material currency fluctuation risk, and had not entered into any foreign currency future contracts to hedge against the currency fluctuation.

As at 31 December 2004, the Group had no significant contingent liabilities (2003: nil).

FUTURE PROSPECTS

The development prospect of enterprise application software market is promising

In 2005, the Group will actively explore the small and medium business market, enhance its penetration into the market, increase product delivery and increase the revenue from product authorization licence. The Group aims at gaining 30% market share in the small and medium business market. In the enterprise market, the Group will gradually improve its product modules and strengthen product sales and promotion and increase the sales revenue of Kingdee EAS System to account for more than 20% of the total revenue of the Group's application software, so that the Kingdee EAS will become the new growth driver of the Group.

By implementing the strategy of "Proactive services, Prompt response", the Group intends to enhance customer satisfaction so that the after-sales maintenance service of the enterprise application software may bring a higher profit contribution to the Group. The Group hopes that, more than 60% of the Group's customers will purchase the maintenance service. On the other hand, by providing proactive services, the Group may enhance the management of software implementation projects, guarantee the successful implementation of the projects and add value for customers.

The prospect of the emerging business such as middleware and software outsourcing services is promising

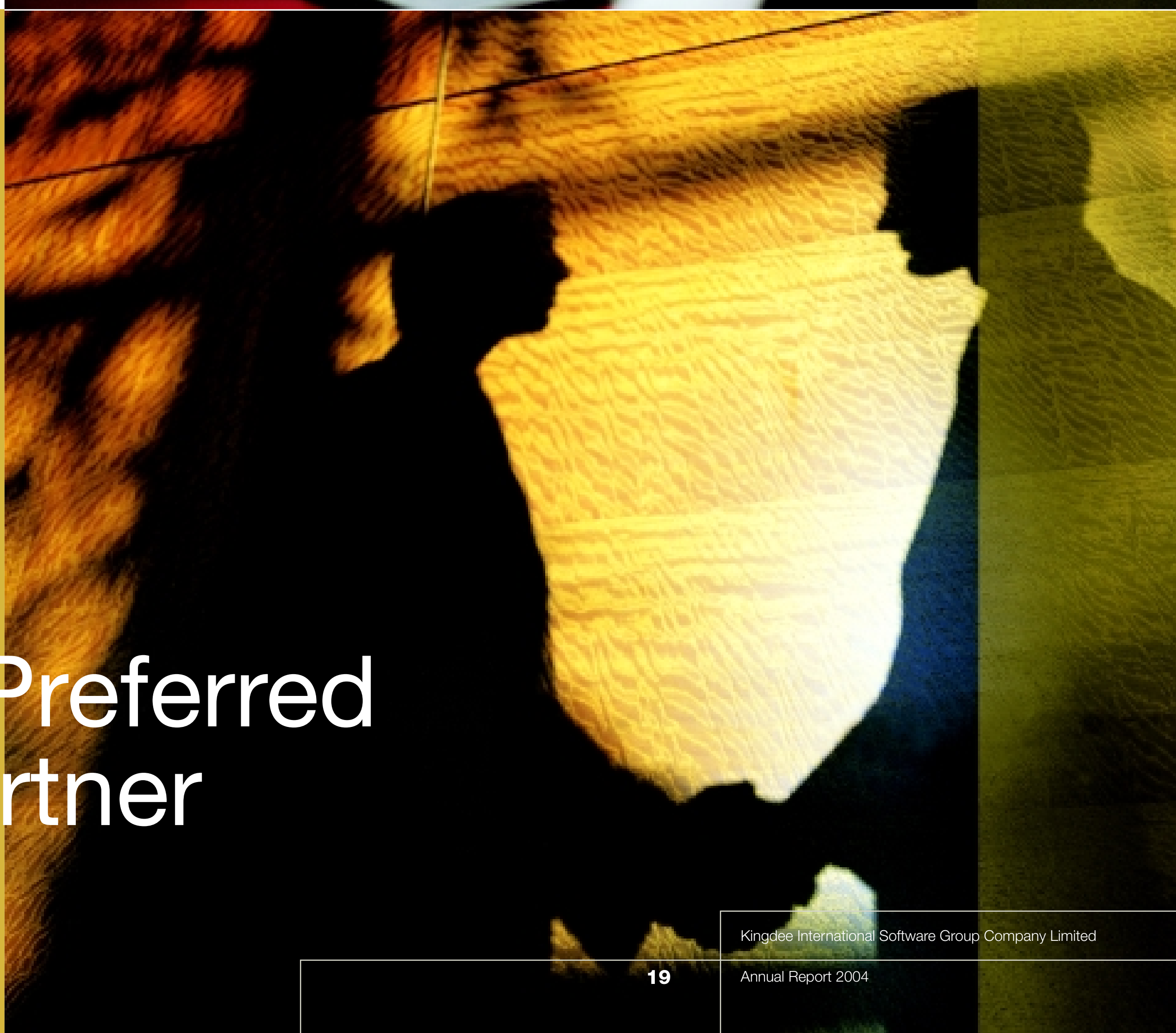
The Group expects that the sales revenue from Kingdee APUSIC middleware will grow by more than 100% in the next two to three years and the business will soon reach economies of scale. It is the Group's objective that the sales revenue from Kingdee APUSIC middleware will account for more than 5% of the Group's total revenue.

The PRC has specific competitive edges in undertaking overseas software outsourcing service orders since its economic development is rapid, its labour cost is low, its software talents are abundant and its project management capability is strengthening. The Group intends to expand its new business of software outsourcing services by different means and hopes to capture groundbreaking growth opportunities.

Capitalizing on merger and acquisition opportunities to expand its business

The Group is actively identifying merger and acquisition opportunities. The Group's major merger and acquisition target is fast growing application software business, especially application software business catering for industries which have competitive advantages, such as the real estate industry, the finance industry and the logistics industry. The Group will make good use of the capital market to actively engage in merger and acquisition activities in order to enhance its profitability.

The management believes that the reduction of the Group's profit in 2004 is a temporary issue, and the Group's competitive edges will not be affected accordingly. The software products developed and the services provided by the Group still have enormous room for market development. The Group's business will continue to grow steadily. Meanwhile, the Group will implement overall budgeting, improve its cost structure, enhance its profitability and maximize shareholders' value.



A Preferred Partner

Customer Oriented Products

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Xu Shao Chun
Luo Ming Xing

Non-executive Directors

Zhao Yong
Hugo Shong
James Ming King

Independent non-executive Directors

Yang Zhou Nan
Wu Cheng
Yeung Kwok On
Gary Clark Biddle

COMPANY SECRETARY

Chung Oi Yin, Irene, aged 33, company secretary of the Company. Ms. CHUNG is a professional company secretary appointed by our Company for the purpose of attending and assisting our Company in ensuring compliance with filing requirements under the Companies Ordinance and the Listing Rules. Ms. CHUNG is also an employee of Mallesons Stephen Jaques, the legal advisers to the Company. Ms. CHUNG is an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Company Secretaries. Ms. Chung is also acting as the company secretary of Baoye Group Company Limited, a company listed on the Main Board of Hong Kong.

QUALIFIED ACCOUNTANT

Yang Jian Wen, aged 32, 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. Mr. YANG became a member of the Association of Chartered Certified Accountants in 2000. Prior to joining the Company in March 2001, Mr. YANG worked for Shekou Container Terminals Limited.

SENIOR MANAGEMENT

Jin Zhuo Jun
Tian Rong Ju
Zhang Yong
Li Guang Xue
Chen Deng Kun

BACKGROUND OF DIRECTORS AND SENIOR MANAGEMENT SET OUT AS FOLLOWS:

BOARD AND MANAGEMENT:

Xu Shao Chun, Robert, aged 41, chairman and chief executive officer of the Company, the founder of the Group. He is a 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, and has been awarded the Government Special Expert Allowance by the State Council of China. Mr. Xu received a Bachelor degree of Computer Science from Computer Science and Engineering Department of Southeast University in the PRC, in 1983, and graduated from the Science & Research Institute of Finance Ministry with a Master degree in Accounting Computerization under the guidance of Professor Yang Ji Wan, a nation-wide renowned accounting theory acedemician in the PRC. Mr. Xu obtained MBA from China Europe International Business School in 2004, he is a Senior Economist as well. Mr. Xu founded Shenzhen APT Computer Technology Co Ltd in 1991, and Mr. Xu established Shenzhen Panavision Technology Development Co Ltd (SZPT), the predecessor of the Company in 1993. Mr. Xu has insightful knowledge in strategic management and business operation, ever participated in and led the design and development of a series of leading enterprise application software and has been awarded great honors and glories for his outstanding achievements as well as significant contribution to the evolvement of China's enterprise management software.

Luo Ming Xing, Mison, aged 35, executive Director, senior vice-president. Mr. Luo is in charge of finance, securities and investment management. He received a bachelor degree from Jiangxi Finance University of the PRC, and is a member of Certificated Accountant Association of China. Mr. Luo joined the Company in 1997, and has been appointed as important posts in finance, marketing, and sales of the Company. Prior to joining the Company, Mr. Luo had extensive experience in financial planning and audit work.

James Ming King, aged 56, Non-executive Director, Chief Consultant of Strategy Committee of Board. Mr. King provides strategic consultation for the Group and training course for employees, partners and giant customers of the Company. Mr. King received a master degree of engineer management in U.S.A. He has thirty-year experience in sales and marketing management home and abroad. He was formerly Vice President of Sales and Marketing for Dell Computer China Operations, the first Country Manager for Novell China, and had worked for Hewlett Packard ("HP") for several years. As an expert in sales and project implementation training in the ERP field, Mr. King strives to train management talents and professional managers for such tech-based enterprises in recent years.

Zhao Yong, Richard, aged 59, Non-executive Director. 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 the Company, Mr. Zhao worked for Shekou Industrial Zone as an assistant to the general manager, and the Gugangdong Float Glass Company as general manager.

Hugo Shong, aged 48, Non-executive Director. Mr. Xiong is senior vice-President and Asian President of IDG. Mr. Xiong graduated from Hunan University majoring in Foreign Language in 1982, and achieved a Master degree of Mass-communication of Boston University of America in 1987. In 1996, Mr. Xiong joined IDG leading the business regarding info technology issue, marketing research and trade Expo. Mr. Xiong is also the director of IDG Technology Venture Investment, Inc.

Yang Zhou Nan, aged 66, Independent Non-executive Director. Ms. Yang is a Professor of Graduate School of the Institute of Fiscal Science of the Ministry of Finance 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. Professor Wu is a professor and Ph.D. supervisor of Department of Automation, Tsinghua University, and an academician of Chinese Academy of Engineering. Professor Wu is also the director of State CIMS Engineering Technical Research Center. He graduated from the Department of Electrical Engineering, Tsinghua University with a bachelor and a master degree. 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.

Yeung Kwok On, Arthur, aged 44, Independent Non-executive Director. Mr. Yeung is a Professor of Business Administration of University of Michigan Business School, and also a part-time Professor of China Europe International Business School. He received a Ph. D degree of Business Administration from University of Michigan in 1990. 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 Editoral Advisory Board of Harvard Business Review (China). Professor Yeung 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.

Gary Clark Biddle, aged 52, Independent Non-executive Director. Mr. Biddle is Head and Professor of the Department of Accounting, Associate Dean of the School of Business and Management, and Council Member of Hong Kong University of Science and Technology. He earned his Ph.D. degree from University of Chicago. He also served as professor at University of Chicago and University of Washington, and as visiting professor at University of Glasgow and China Europe International Business School. He is a member of American Accounting Association, American Chamber of Commerce of Hong Kong, American Institute of Certified Public Accountants, Hong Kong Institute of Certified Public Accountants, and Washington Society of Certified Public Accountants, and he is President and co-founding Council member of the Hong Kong Academic Accounting Association.

Jin Zhuo Jun, Jane, aged 43, senior vice-president of the Company. Ms. Jin is responsible for the product management of the Company. She received a bachelor degree from Chongqing University, and is a senior engineer in computer application. She has more than twenty years technical and management experience in the research and development, implementation and training in relation to enterprise informatization system MRPII/ERP and CIMS. Ms. Jin joined the Company in 1999, and has been successively appointed as the vice-general manager of the K/3 project Department, the general manager of the customer support center and the vice-president of the Company.

Tian Rong Ju, Bit, aged 33, Vice-president of the Company. Mr. Tian is responsible for the research and development center of the Company. He received a bachelor degree from Chongqing Yuzhou University. He joined the Company in 1999, and has been successively appointed as the senior manager of the products program, R&D and testing Dept. He has program, design, research and relevant professional technique and rich management experience in the enterprise management software field.

Zhang Yong, Jason, aged 30, Vice-president of the Company. Mr. Zhang is responsible for the marketing and sales of the Company. Mr. Zhang is now having the EMBA course in the China Europe International Business School. Mr. Zhang joined the Company in 1995, and has been successively appointed as the general manager of Shanghai Branch and Eastern Region. He has extensive experience in marketing, sales and team management. Mr. Zhang is the member of tenth Putuo Disrict of Shanghai Committee of Political Consultative Conference. He has been awarded great honors as "Top Ten Outstanding Youth of Putuo District of Shanghai", "Innovation Reward for Shanghai Technology Entrepreneurs" and "Top Ten IT Youth of Shanghai".

Li Guang Xue, Timon, aged 36, Vice-president of the Company. Mr. Li is responsible for the Quality and Information Management of the Company. Mr. Li received a bachelor degree from China Ocean University. He joined the Company in 1995, and has been successively appointed as the senior manager of R&D, service, sales, human resource and information management department.

Chen Deng Kun, Duke, aged 28, President Assistant and Director of HR Dept. Mr. Chen is responsible for HR and Administration Management of the Company. Mr. Chen received a bachelor degree from Anhui Finance and Business University. He is a member of Certificated Accountant Association of China. He joined the Company in 2000, and has been successively in charge of audit, administration and HR department.

The directors of the Company ("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 2004 ("reporting period").

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 2004 were RMB445,922,000 and RMB54,965,000 respectively. Among which, approximately 72.6% was derived from the sales of software, approximately 7.5% was derived from the income of provision of solution consulting and technical support services, approximately 18.9% was derived from the income of software implementation and 1% from sales of computer hardware and related products respectively. For details, please refer to the consolidated income statement set out on page 34.

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 2004, there were about 40 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 ended 31 December 2004 are set out in the consolidated income statement on page 34 and the appropriation is set out in Note 35 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2004, the Company had distributable reserves amounted to RMB57,653,000 (2003: RMB17,668,000).

FINAL DIVIDENDS

At the Annual General Meeting ("AGM") of the Company to be held on 27 April 2005 ("Forthcoming AGM"), the Board will recommend a final dividend of HK$0.04 per share to the shareholders of the Company for the year ended 31 December 2004 (2003: HK$0.01 per share). Subject to the approval of shareholders at the forthcoming AGM, the final dividend will be payable on 27 June 2005 to shareholders whose names appear on the register of members of the Company on 27 April 2005.

CLOSURE OF REGISTER

The register of members of the Company will be closed from 25 April 2005 (Monday) to 27 April 2005 (Wednesday) (both days inclusive), and during which no transfer of shares will be affected. In order to qualify the shareholders of the Company to attend, act and vote at the forthcoming AGM 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 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 22 April 2005 (Friday).

STRATEGIC ALLIANCES AND COLLABORATIONS

During the reporting period, the Group continued its close cooperation with Strategic Partners.

In May 2004, Kingdee K/3 V10.1 passed the performance test on Intel Itanium and Xeon platform designed for high-end clients.

In June 2004, the Group and IBM signed a strategic co-operation agreement in Shanghai, announcing a closer co-operation in the areas of products, services and solutions.

In June 2004, Kingdee Apusic Application Server product V3.0 passed the authentication test of J2EE and it becomes China's first Java middleware product accessed with J2EE certification by SUN corporation.

In November 2004, the Group and Citrix Systems (Nasdaq: CTXS) signed the strategic alliance cooperation agreement in Shenzhen, China. According to the agreement, Kingdee will leverage on Citrix's MetaFrame Presentation Server as the sole remote approach interface solution for enterprise management software, which will fast improve the remote deployment ability of Kingdee K/3.

MATERIAL INVESTMENT AND ACQUISITION

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

BANK BORROWINGS

Details of the bank borrowings of the Group as at 31 December 2004 are set out in notes 27 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company for the year ended 31 December 2004 are set out in the consolidated statement of changes in shareholder's equity on page 38.

FIXED ASSETS

Details of the movements in the fixed assets of the Group for the year ended 31 December 2004 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 ended 31 December 2004.

Share Capital and Options

- *Share Capital*

  Details of the movements in share capital of the Company for the year ended 31 December 2004 are set out in note 33 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 ended 31 December 2004.

- *Pre-IPO Share Option Scheme*

  Pursuant to the pre-IPO share option scheme ("Pre-IPO Share Option Scheme") adopted by the Company on 30 January 2001, share 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 employees 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 2004, 475,000 shares option was exercised, 825,000 shares option were canceled and no more options remained outstanding under the Pre-IPO Share Option Scheme.

- *Share Option Scheme*

  Pursuant to the share option scheme (the "Old Scheme") of the Company adopted on 30 January 2001, 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, 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 pursuant to the Old Scheme.

  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 Mr. Xu Shao Chun and Mr. Luo Ming Xing, both being executive directors) of the Group pursuant to the New Scheme.

  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 Mr. Luo Ming Xing, an executive director) 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, a non-executive Director, pursuant to the New Scheme.

  At the board meeting of the Company held on 23 March 2004, the Board recommended and resolved with the approval of the Directors (including independent non-executive Directors but excluding Mr. Xu Shao Chun, an executive Director who was required to abstain from voting under the Articles of Association of the Company), to grant options to subscribe for 8,000,000 shares to Mr. Xu Shao Chun under the New Scheme. At the extraordinary general meeting of the Company held on 16 April 2004, the proposed grant of options to subscribe for a total of 8,000,000 shares to Mr. Xu Shao Chun, pursuant to the New Scheme, was approved by the shareholders of the Company.

  At the board meeting of the Company held on 1 June 2004, options to subscribe for a total of 14,980,000 shares at a subscription price of HK$2.65 per share were granted to 178 full-time employees (including Mr. Luo Ming Xing, an executive Director) of the Group pursuant to the New Scheme.

  At the board meeting of the Company held on 27 December 2004, options to subscribe for a total of 3,352,000 shares at a subscription price of HK$2.05 per share were granted to 155 full-time employees (including Mr. Luo Ming Xing, an executive Director) of the Group pursuant to the New Scheme.

Details of the share options as at 31 December 2004 which had been granted under the Old Scheme and the New Scheme were as follows:

	Options held at 1 January 2004	Options granted during the reporting period *(1)*	Options exercised during the reporting period	Options lapsed during the reporting period	Options canceled during the reporting period	Options voluntarily given up by the grantees during the reporting period	Options held at 31 December 2004	Exercise price HK$	Grant date
Xu Shao Chun	–	8,000,000	–	–	–	4,000,000 *(10)*	4,000,000	3.18	23/03/2004 *(10)*
	1,500,000	–	–	–	–	–	1,500,000	1.78	15/05/2002 *(5)*
Luo Ming Xing	–	225,000	–	–	–	–	225,000	2.05	27/12/2004 *(12)*
	–	900,000	–	–	–	225,000 *(11)*	675,000	2.65	01/06/2004 *(11)*
	400,000 *(1)*	–	100,000	–	–	–	300,000	1.39	20/02/2003 *(7)*
	300,000	–	75,000	–	–	–	225,000	1.78	15/05/2002 *(5)*
James Ming King	1,000,000 *(3)*	–	–	1,000,000 *(9)*	–	–	–	2.69	30/12/2003 *(9)*
Continuous contract employees	–	3,127,500	–	–	–	–	3,127,500	2.05	27/12/2004 *(12)*
	–	14,080,000	–	1,390,000 *(11)*	–	3,257,500 *(11)*	9,432,500	2.65	01/06/2004 *(11)*
	4,740,000 *(2)*	–	34,000	1,382,000 *(8)*	–	–	3,324,000	2.05	08/08/2003 *(8)*
	7,130,000 *(1)*	–	855,500	1,723,000 *(7)*	–	–	4,551,500	1.39	20/02/2003 *(7)*
	3,571,000	–	448,000	1,753,000 *(5)*	–	–	1,370,000	1.78	15/05/2002 *(5)*
	1,585,000 *(4)*	–	250,000	542,500 *(6)*	–	–	792,500	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 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. As at 31 December 2004, 1,753,000 share options were lapsed.

(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. As at 31 December 2004, 542,500 share options were lapsed.

(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. As at 31 December 2004, 1,723,000 share options were lapsed.

(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. As at 31 December 2004, 1,382,000 share options were lapsed.

(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. As at 31 December 2004, 1,000,000 share options were lapsed and no more option remained outstanding.

(10) All of these options have a duration of 10 years from the grant date, provided that the options can only be exercised no more than 50% of the underlying shares from the grant day to the date of 31 December 2004. The options to subscribe for the remaining 50% shares, i.e. 4,000,000 shares can be exercised after the date of 31 December 2004. As at 31 December 2004, 4,000,000 share options were voluntarily given up by the grantee.

(11) 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%* Revenue Ratio for the financial year 2004, 25%* (Revenue Ratio for the financial year 2004+Revenue Ratio for the financial year 2005), 25%* (Revenue Ratio for the financial year 2004 + Revenue Ratio for the financial year 2005+Revenue Ratio for the financial year 2006) of the underlying shares within 12 months, 24 months and 36 months respectively from the date of 1 June 2005. (Note: Revenue Ratio shall equal to the actual revenue of the Group divided by the estimated revenue of the Group as determined by the Board for a particular financial year.) As at 31 December 2004, 3,482,500 share options were voluntarily given up by the grantees and 1,390,000 share options were lapsed.

(12) 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%* Revenue Ratio for the financial year 2004, 25%* (Revenue Ratio for the financial year 2004+Revenue Ratio for the financial year 2005), 25%* (Revenue Ratio for the financial year 2004+ Revenue Ratio for the financial year 2005+Revenue Ratio for the financial year 2006) of the underlying shares within 12 months, 24 months and 36 months respectively from the date of 27 December 2005. (Note: Revenue Ratio shall equal to the actual revenue of the Group divided by the estimated revenue of the Group as determined by the Board for a particular financial year.)

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 SERVICE CONTRACTS OF DIRECTORS

The Directors since the date of incorporation and up to the date of this report were:

Executive Directors and Managing Directors

Mr. Xu Shao Chun
Mr. Luo Ming Xing

Non-executive Directors

Mr. Zhao Yong
Mr. Hugo Shong
Mr. James Ming King (re-designated from executive director to non-executive director on 30 December 2004)

Independent Non-executive Directors

Ms. Yang Zhou Nan

Mr. Wu Cheng

Mr. Yeung Kwok On

Mr. Gary Clark Biddle (appointed on 28 September 2004)

In accordance with Article 116 of the Company's Articles of Association, Mr. Hugo Shong, a Non-executive Director and Mr. Wu Cheng, an Independent Non-executive Director, would retire by rotation at the forthcoming annual general meeting of the Company ("AGM"), and would offer themselves for re-election as directors of the Company at the forthcoming AGM.

Mr. Gary Clary Biddle, an Independent Non-executive Director, would retire in accordance with Article 99 of the Company's Articles of Association, and would offer himself for re-election as a Director at the forthcoming AGM.

Mr. Xu Shao Chun had entered into a service contract with the Company in relation to his appointment as an executive Director of the Company. The 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.

Mr. Zhao Yong, Mr. Hugo Shong and Mr. James Ming King had entered into appointment letters and acceptance with the Company respectively. All of the length of term of appointment of non-executive directors is two years.

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

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OR DEBENTURES

As at 31 December 2004, 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")), which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46-5.68 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	141,916,250	Interests of controlled corporation *(Note 1)*	
	6,872,880	Beneficial owner	
	5,500,000	Other/ Share option *(Note 2)*	
Aggregate:	154,289,130		34.81%
Luo Ming Xing	1,885,000	Beneficial owner	
	1,425,000	Other/ Share Option *(Note 2)*	
Aggregate:	3,310,000		0.75%
Hugo Shong	5,250,000	Beneficial owner	
Aggregate:	5,250,000		1.18%
Zhao Yong	54,910,750	Beneficial owner	
Aggregate:	54,910,750		12.39%

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. 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 2004, none of the Directors and chief executive had any 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 Securities and Futures Ordinance (the "SFO")) , which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Par XV of the SFO or which will be required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46-5.68 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Interests of Directors in Equity Securities", "Share Option Scheme" and "Pre-IPO Share Option Scheme", none of the Directors of or their respective associates (as defined under the GEM Listing Rules) was granted by the Company, or any of its subsidiaries to any rights or options to acquire shares or debentures in the Company during the year ended 31 December 2004.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2004, as far as the Directors were aware, 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 which would fall to be disclosed to the Company under the provisions of Part XV of the SFO and required to be 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	18.86%
Billion Ocean Limited	58,310,000	Beneficial owner	13.15%
Schroder Investment Management (Singapore) Ltd	30,948,000	Beneficial owner	6.98%

Save as disclosed above, as at 31 December 2004, 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 2002 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 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 ended 31 December 2004.

COMPETING INTEREST

None of the Directors or their respective associates (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

CONNECTED TRANSACTIONS

During the year ended 31 December 2004, 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 suppliers are as follows:

Sales

–	the largest customer	1.37%
–	five largest customers combined	3.67%

Purchases

–	the largest supplier	26.74%
–	five largest suppliers combined	72.28%

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

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

Mr. Gary Clark Biddle was appointed as an independent Non-executive Director and a member of the Audit Committee of the Company with effective from 28 September 2004 by the Board.

Mr. James Ming King was re-designated from an executive Director to a Non-executive Director on 30 December 2004 and was no longer qualified as the compliance officer of the Company. In replacement of Mr. James Ming King, Mr. Luo Ming Xing, an executive Director was appointed as the compliance officer on 24 January 2005.

In accordance with Article 116 of the Company's Articles of Association, Mr. Hugo Shong, a Non-executive Director and Mr. Wu Cheng, an Independent Non-executive Director, would retire by rotation at the forthcoming annual general meeting of the Company ("AGM"), and would offer themselves for re-election as directors of the Company at the forthcoming AGM.

Mr. Gary Clary Biddle, an Independent Non-executive Director, would retire in accordance with Article 99 of the Company's Articles of Association, and would offer himself for re-election as a Director at the forthcoming AGM.

SPONSOR'S INTEREST

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 has not maintained sponsor since 1 January 2004.

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the reporting period with the provision on board practices and procedures under the GEM Listing Rules, which was substantially revised with effect from 1 January 2005. Subject to the transitional arrangements, the Company will comply with the revised GEM Listing Rules, in particular, the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules from the financial year commencing on 1 January 2005.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the nine months ended 31 December 2004. The Company had also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

AUDIT COMMITTEE AND ITS DUTIES

The audit committee of the Company comprises of Mr. Zhao Yong, a Non-executive Director, Ms. Yang Zhou Nan, Mr. Wu Cheng and Mr. Gary Clark Biddle, all 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 five meetings during the year ended 31 December 2004 to review the accounts and reports of the Group and to provide advices and recommendations to the Board.

AUDITORS

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

On behalf of the Board
Xu Shao Chun
Chairman

29 March 2005

PRICEWATERHOUSECOOPERS

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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 (together the "Group") and balance sheet of the Company as of 31 December 2004, and the related consolidated statements of income, cash flow and changes in shareholders' equity of the Group for the year then ended. These financial statements set out on pages 34 to 73 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 Company standing alone and of the Group as of 31 December 2004 and of the results of operations and their cash flows 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, 29 March 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
Turnover	4	**445,922**	365,573
Cost of sales		**(84,676)**	(58,097)
Gross profit		**361,246**	307,476
Other operating income	5	**56,125**	50,012
Selling expenses		**(228,789)**	(192,624)
General and administrative expenses		**(125,791)**	(93,816)
Other operating expenses		**(1,401)**	(1,678)
Profit from operations	6	**61,390**	69,370
Interest income		**1,213**	538
Finance expenses	8	**(1,219)**	(562)
Share of results of associates	15	**(1,852)**	(1,121)
Profit before tax		**59,532**	68,225
Taxation	9	**(3,312)**	(10,184)
Profit after tax		**56,220**	58,041
Minority interests		**(1,255)**	1,089
Profit attributable to shareholders		**54,965**	59,130
Dividends	10	**18,810**	4,691
Earnings per share			
– basic	11	**RMB0.12**	RMB0.13
– diluted	11	**RMB0.12**	RMB0.13

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

CONSOLIDATED BALANCE SHEET

As at 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
ASSETS			
Non-current assets			
Investment in associates	15	**2,409**	4,261
Available-for-sale investments	16	**255**	335
Property, plant and equipment	17	**45,454**	44,044
Lease prepayments	18	**16,630**	–
Intangible assets	19	**79,006**	74,263
Deferred tax assets	20	**3,839**	2,928
Total non-current assets		**147,593**	125,831
Current assets			
Inventories	21	**3,741**	2,743
Trade receivables	22	**68,210**	47,220
Bills receivable		**–**	824
Due from customers on implementation contracts	23	**7,284**	–
Other receivables and prepayments	24	**29,084**	30,308
Amounts due from related parties	25	**803**	694
Cash and cash equivalents	26	**214,719**	164,458
Total current assets		**323,841**	246,247
Total assets		**471,434**	372,078

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

	Notes	2004 RMB'000	2003 RMB'000
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	33	**47,424**	47,237
Share premium	33	**41,081**	38,376
Proposed final dividend	35	**18,810**	4,691
Other reserves	35	**206,737**	170,850
Total shareholders' equity		**314,052**	261,154
Minority interests		**1,738**	67
Current liabilities			
Trade payables	28	**5,921**	3,095
Borrowings	27	**24,000**	20,000
Deferred income	29	**31,632**	26,414
Taxes payable	30	**20,499**	17,268
Provisions	31	**3,691**	5,897
Customers' deposits		**35,011**	10,610
Due to customers on implementation contracts	23	**16,332**	10,980
Salary and staff welfare payable		**6,774**	5,988
Accruals and other payables		**11,784**	10,605
Total current liabilities		**155,644**	110,857
Total equity and liabilities		**471,434**	372,078
Net current assets		**168,197**	135,390
Total assets less current liabilities		**315,790**	261,221

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 2004

	Notes	2004 RMB'000	2003 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries	13	**113,218**	58,196
Investment in a jointly controlled entity	14	**–**	–
Total non-current assets		**113,218**	58,196
Current assets			
Amounts due from subsidiaries	32	**38,800**	31,929
Cash and cash equivalents	26	**6,371**	15,305
Total current assets		**45,171**	47,234
Total assets		**158,389**	105,430
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	33	**47,424**	47,237
Share premium	33	**41,081**	38,376
Proposed final dividend	35	**18,810**	4,691
Other reserves	35	**38,048**	12,460
Total shareholders' equity		**145,363**	102,764
Current liabilities			
Amount due to a subsidiary	32	**13,026**	2,666
Total equity and liabilities		**158,389**	105,430
Net current assets		**32,145**	44,568
Total assets less current liabilities		**145,363**	102,764

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 SHAREHOLDER'S EQUITY

For the year ended 31 December 2004

	Notes	Share capital RMB'000 (Note 33)	Share premium RMB'000 (Note 33)	Reserves RMB'000 (Note 35)	Total RMB'000
Balance at 1 January 2003		47,172	37,504	125,619	210,295
Issue of shares	33	65	872	–	937
Dividend relating to 2002		–	–	(9,357)	(9,357)
Net profit		–	–	59,130	59,130
Translation adjustments	35	–	–	149	149
Balance at 31 December 2003		47,237	38,376	175,541	261,154
Balance at 1 January 2004		47,237	38,376	175,541	261,154
Issue of shares	33	187	2,705	–	2,892
Dividend relating to 2003		–	–	(4,691)	(4,691)
Net profit		–	–	54,965	54,965
Translation adjustments	35	–	–	(268)	(268)
Balance at 31 December 2004		47,424	41,081	225,547	314,052

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
Cash flows from operating activities:			
Cash generated from operating activities	37(a)	**122,831**	112,369
Interest paid		**(1,083)**	(488)
PRC income tax paid		**(5,062)**	(6,064)
Net cash from operating activities		**116,686**	105,817
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(16,181)**	(15,014)
Payments for lease prepayments		**(16,708)**	–
Acquisition of subsidiaries, net of cash acquired	37(b)	**631**	–
Payments for intangible assets other than goodwill		**(40,494)**	(42,195)
Proceeds from disposal of property, plant and equipment		**2,981**	–
Interest received		**1,213**	538
Net cash used in investing activities		**(68,558)**	(56,671)
Cash flows from financing activities:			
Proceeds from issue of shares		**2,892**	937
Proceeds from new bank loans		**24,000**	40,093
Capital contributed by minority shareholder		**200**	–
Repayment of other loans		**–**	(1,000)
Repayment of bank loans		**(20,000)**	(46,936)
Dividends paid		**(4,691)**	(9,357)
Net cash (used in)/from financing activities		**2,401**	(16,263)
Effect of foreign exchange rate change		**(268)**	149
Net increase in cash and cash equivalents		**50,261**	33,032
Cash and cash equivalents at beginning of year		**164,458**	131,426
Cash and cash equivalents at end of year	26	**214,719**	164,458

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

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").

These accounting policies are consistent with those used in the previous year except for the implementation of IFRS 3 "Business Combinations" ("IFRS 3") for business combinations for which the agreement date is on or after 31 March 2004. The Group also adopted International Accounting Standard 36 (revised 2004) "Impairment of Assets" ("IAS 36") and International Accounting Standard 38 (revised 2004) "Intangible Assets" ("IAS 38") for goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004. Details of the implementation of IFRS 3, IAS 36 and IAS 38 are disclosed in Note 2(f).

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

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

These financial statements have been prepared under the historical cost convention except for available-for-sale investments, the accounting policies of which are disclosed below.

The names of some of the companies referred to in this report represent management's translation of the Chinese names of these companies as no English names have been registered.

(b) Group accounting

(1) Basis of consolidation

The consolidated financial statements include financial statements of the Company and its subsidiaries and jointly controlled entities 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.

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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) ***Group accounting*** *(continued)*

(2) Subsidiaries (continued)

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

In the Company's balance sheet the investment in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(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 and impairment) on acquisition recognised is accordance with Note 2(f)(1) and (2). 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) Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the jointly controlled entities' 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 jointly controlled entity that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that result from the purchase of assets by the Group from the jointly controlled entity 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.

(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 consolidated income statement.

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

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Construction in progress

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

(e) Lease prepayments

Lease prepayments represent lease payments paid or payable for the land use rights less accumulated charges and are recognised as an expense in the income statement on a straight-line basis over the lease period of land use rights.

(f) 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, jointly controlled entity or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries or jointly controlled entity is included in intangible assets. Goodwill on acquisitions of associates is included in investment in associates.

In respect of business combinations for which the agreement date is before 31 March 2004, 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.

In respect of business combinations for which the agreement date is on or after 31 March 2004, goodwill is tested annually for impairment and carried at cost less any accumulated impairment loss.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(2) Negative goodwill

In respect of business combinations for which the agreement date is before 31 March 2004, the excess (the "Excess") of the fair value of the Group's share of the net assets of the acquired subsidiary, jointly controlled entity or associate at the date of acquisition over the cost of an acquisition is recognised as negative goodwill. Negative goodwill is presented in the same 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.

In respect of business combinations for which the agreement date is on or after 31 March 2004, the Excess is recognised directly in the consolidated income statement.

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

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(f) ***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.

(g) ***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.

In respect of business combinations for which the agreement date is on or after 31 March 2004, assets acquired that have an indefinite useful life are not subject to amortisation and are tested annually for impairment.

(h) ***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 express 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. Available-for-sale investments are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value are included in the equity in the year in which they arise.

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 investees.

(i) ***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.

(j) ***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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) 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, under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on implementation contracts, under current liabilities.

(k) 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 effective interest rate.

(l) 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 banks with original maturities of 3 months or less.

(m) Foreign currency translation and 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 at year-end exchange rate of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

(3) Group companies

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Revenue recognition

Revenue comprises the income derived from the sale of goods and services net of value-added tax, rebates and discounts, and after eliminating sales within the Group. Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

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.

(o) Dividends

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

(p) 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.

(q) 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 qualifying 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.

(r) 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 jointly controlled entities, 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.

(s) 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.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(t) 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. 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.

(u) 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.

(v) 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 that reimbursement will be received if the Group settles the obligation.

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.

(w) Financial assets and liabilities

Financial assets and financial liabilities carried on the balance sheet include cash and bank balances, available-for-sale investments, trade receivables (including bills receivable and amounts due from related parties), other receivables and prepayments, trade payables, accruals and other payables, customers' deposits and borrowings. Available-for-sale investments, trade receivables, cash and bank balances and borrowings are stated at carrying amounts determined in accordance with Notes 2(h), 2(k) 2(l) and 2(p) respectively. Other financial assets and financial liabilities are stated at amortised cost.

(x) Share capital

Ordinary shares with discretionary dividends are classified as equity. Other shares including mandatorily redeemable preferred shares are classified as liabilities.

Incremental external costs directly attributable to the issue of new shares, other than in connection with business combination, are shown in equity as a deduction, net of tax, from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

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. No single customer accounted for greater than 5% of total revenues during the year ended 31 December 2004.

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. The conversion of RMB into foreign currencies is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

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 27.

(2) *Fair value estimation*

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 their short maturities.

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 other financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rates available to the Group for similar financial instruments.

4. TURNOVER

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

	2004 RMB'000	2003 RMB'000
Sales of software	**323,811**	296,898
Sales of computer and related products	**4,284**	5,165
Software solution consulting and support services	**33,631**	39,506
Software implementation services	**84,196**	24,004
	445,922	365,573

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

	2004 **RMB'000**	2003 RMB'000
Subsidy income		
VAT refund (Note (a))	**47,048**	42,689
Subsidy on development of new products (Note (b))	**1,722**	4,317
Subsidy for re-investment (Note (c))	**5,110**	1,935
	53,880	48,941
Others	**2,245**	1,071
	56,125	50,012

(a) According to the current tax regulations in the PRC, the development and sales of computer software are subject to VAT with an applicable rate of 17%. In September 2000, the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs of the PRC jointly issued a circular regarding the Taxation Policy for Encouraging the Development of the Software and Integrated Circuits Industries (Cai Shui Zi [2000] No.25). Pursuant to the Circular, for the period from 24 June 2000 to 31 December 2010, software enterprises which engage in the sale of self-developed software in the PRC are entitled to a preferential taxation treatment which provides for the payment of VAT at the rate of 17% and the refund of any VAT paid for the sales of the software in the PRC which exceeds the VAT rate of 3%.

(b) The subsidy was granted by the local government authorities and included the portion of deferred subsidy income (Note 29) recognised during the year.

(c) Amount represented income tax refund for re-investment in a subsidiary by way of capitalisation of dividend.

6. PROFIT FROM OPERATIONS

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

	2004 RMB'000	2003 RMB'000
Research and development costs *		
Amounts incurred	**63,476**	52,395
Less: amounts capitalised	**(40,494)**	(40,976)
Add: amortisation of capitalised costs	**30,476**	14,351
Add: impairment of capitalised costs	**334**	–
	53,792	25,770
Staff costs (Note 7)	**205,690**	166,745
Amount charged to research and development costs	**(40,494)**	(40,976)
	165,196	125,769
Cost of inventories consumed (included in cost of sales)	**9,686**	11,161
Depreciation of property, plant and equipment	**12,496**	12,566
Amortisation of software	**1,268**	1,718
Amortisation of goodwill arising on acquisitions of:		
– subsidiaries *	**2,490**	2,488
– associates	**790**	790
Amortisation of negative goodwill *	**(23)**	(23)
Impairment of goodwill *	**1,206**	2,576
Trade receivables – impairment charge for bad and doubtful debts	**10,187**	12,459
Operating lease rentals on premises	**21,728**	17,997
Loss on disposals of property, plant and equipment	**286**	1,140
Auditors' remuneration *	**1,200**	1,180
Charge of lease prepayments *	**78**	–
Negative goodwill recognised upon dissolution of subsidiaries*	**(870)**	–

* Wholly included in general and administrative expenses

7. STAFF COSTS

	2004 RMB'000	2003 RMB'000
Salaries, allowances, commissions and bonus	**186,830**	149,665
Staff welfare	**5,943**	6,930
Pension scheme contributions (Note (b))	**12,917**	10,150
	205,690	166,745

(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 2,928 (2003: 2,557).

8. FINANCE EXPENSES

	2004 RMB'000	2003 RMB'000
Interest expense on bank loans	**1,083**	488
Others	**136**	74
	1,219	562

9. TAXATION

Taxation represents PRC income tax charged to:

	2004 RMB'000	2003 RMB'000
The Group		
– Current income tax	**5,363**	6,341
– Over-provision in previous years	**(1,140)**	–
– Deferred income tax (Note 20)	**(911)**	3,843
	3,312	10,184

(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 (2003: 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 rate to the statutory tax rate is as follows:

	2004 RMB'000	2003 RMB'000
Accounting profit before taxation	**59,532**	68,225
Tax at the statutory tax rate of 33% (2003: 33%)	**19,645**	22,514
– Effect of preferential tax rates	**(13,692)**	(15,692)
– Tax losses not recognised	**4,437**	4,419
– Expenses not deductible for tax purposes	**1,231**	2,554
– Effects on change of tax rate	**–**	2,257
– Income not subject to tax	**(4,648)**	(4,308)
– Additional deductible allowance for research and development expenses	**(2,521)**	(1,560)
– Over-provision of income tax in previous years	**(1,140)**	–
Taxation per accounts	**3,312**	10,184

10. DIVIDENDS

	2004 RMB'000	2003 RMB'000
Final, proposed	**18,810**	4,691

At the meeting held on 29 March 2005, the Board of Directors recommended a final dividend of RMB0.04 (HK$0.04) (2003: RMB0.01 (HK$0.01)) per share for the year ended 31 December 2004. 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 2005.

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of RMB54,965,000 (2003: RMB59,130,000).

The basic earnings per share are based on the weighted average of 442,640,000 (2003: 440,994,000) ordinary shares in issue during the year. The diluted earnings per share is based on 447,663,000 (2003: 441,362,000) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 5,023,000 (2003: 368,000) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

12. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENT

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

	2004 RMB'000	2003 RMB'000
Fees	**509**	300
Salaries, allowances and benefits in kind	**3,979**	2,026
Retirement scheme contributions	**16**	15
	4,504	2,341

12. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENT *(continued)*

The emoluments received by individual directors are as follows:

	2004 RMB'000	2003 RMB'000
Director A	**1,039**	975
Director B	**–**	552
Director C	**50**	50
Director D (Independent non-executive director)	**50**	50
Director E (Independent non-executive director)	**50**	50
Director F	**50**	25
Director G	**856**	589
Director H (Independent non-executive director)	**106**	50
Director I (Independent non-executive director)	**53**	–
Director J	**2,250**	–
	4,504	2,341

During the year a total of 8,900,000 (2003: 1,800,000) options were granted to two directors (2003: three directors). The market value per share at the date of grant is close to the exercise price of these options.

Directors' fee above include RMB259,000 (2003: RMB150,000) paid to independent non-executive directors. No directors waived any emolument during the year ended 31 December 2004 (2003: Nil).

The emoluments of the Directors of the Company fell within the following bands:

	Number of Directors	
Emolument bands	**2004**	2003
RMB Nil – RMB1,060,000	**9**	10
RMB2,120,000 – RMB2,650,000	**1**	–
	10	10

12. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENT *(continued)*

(ii) The emoluments of the five individuals whose emoluments were the highest in the Group include 3 (2003: 3) directors whose emoluments are reflected in the analysis presented above.

Details of the emoluments of the remaining 2 (2003: 2) individuals are as follows:

	2004 RMB'000	2003 RMB'000
Salaries, allowances and benefits in kind	**1,587**	1,402
Retirement scheme contributions	**5**	4
	1,592	1,406

The emoluments of these individuals are below RMB1,060,000.

13. INVESTMENT IN SUBSIDIARIES – THE COMPANY

	2004 RMB'000	2003 RMB'000
Unlisted shares, at cost	**103,518**	43,196
Loans to subsidiaries	**15,000**	15,000
	118,518	58,196
Provision for impairment of investment	**(5,300)**	–
	113,218	58,196

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

13. INVESTMENT IN SUBSIDIARIES – THE COMPANY *(continued)*

As at 31 December 2004, 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
			2004	2003	
Directly held:					
Kingdee Software (China) Co., Ltd. ("Kingdee China")	PRC	RMB100,000,000	**100%**	100%	Investment holding, developing, manufacturing and selling of software products and provision of software-related technical services
Kingdee International Software Group (H.K.) Ltd. ("Kingdee HK")	Hong Kong	HKD1,000,000	**100%**	100%	Selling of software products and provision of software-related technical services
Indirectly held:					
Kingdee Software Technology (Shanghai) Co., Ltd.	PRC	HKD4,720,000	**100%**	–	Researching, designing, developing, manufacturing and selling of software and provision of software outsourcing, related technical consultation and services
Shanghai Kingdee Software Technology Co., Ltd.	PRC	RMB10,000,000	**90%**	90%	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	RMB5,000,000	**65%**	65%	Developing, manufacturing and selling of middleware
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

14. INVESTMENT IN A JOINTLY CONTROLLED ENTITY – THE COMPANY

	2004 RMB'000	2003 RMB'000
Unlisted share, at cost	–	5,300
Provision for impairment	–	(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. ("Beijing KINGCB") which is a wholly foreign owned enterprise incorporated in the PRC and engaged in selling of software and provision of software-related technical services.

In June 2004, the Company acquired the other 50% equity interest in Carterton from the joint venture partner at nil consideration. Since then, Carterton became a wholly owned subsidiary of the Company. Beijing KINGCB was then liquidated in July 2004.

15. INVESTMENT IN ASSOCIATES – THE GROUP

	2004 RMB'000	2003 RMB'000
Unlisted investments held indirectly:		
At beginning of year	4,261	5,382
Share of results		
Share of results before and after tax	(1,062)	(331)
Amortisation of goodwill	(790)	(790)
	(1,852)	(1,121)
At end of year	2,409	4,261
Represented by:		
Share of net assets	563	1,625
Goodwill		
At cost	3,953	3,953
Accumulated amortisation	(2,107)	(1,317)
	1,846	2,636
	2,409	4,261

15. INVESTMENT IN ASSOCIATES – THE GROUP *(continued)*

All associates of the Group are companies with limited liability. Details of the principal associates at 31 December 2004 are as follows:

Company	Place/country of incorporation/ operation	Registered and paid-up capital	Percentage of equity interests attributable to the Group		Principal activities
			2004	2003	
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

	2004 RMB'000	2003 RMB'000
Unlisted investments		
At the beginning of year	**335**	335
Deemed disposals (Note 37(b))	**(80)**	–
At the end of year	**255**	335

These investments are companies incorporated in the PRC and principally engaged in selling of software products of the Group and provision of software-related technical services. At 31 December 2004, the Group has 3% to 10% (2003: 3% to 10%) equity interest in these companies. The Directors regard these companies as related parties as the Group is the sole supplier of these companies and has influence over their business operation.

17. PROPERTY, PLANT AND EQUIPMENT – THE GROUP

	Buildings	Computer and related equipment	Other office equipment	Motor vehicles	Leasehold improve-ments	Con-struction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Opening net book amount	11,085	25,288	148	3,787	3,329	407	44,044
Acquisition of subsidiaries	–	666	93	233	–	–	992
Additions	–	12,929	312	974	1,049	917	16,181
Disposals	–	(2,309)	(11)	(540)	–	(407)	(3,267)
Depreciation charge	(456)	(8,765)	(349)	(726)	(2,200)	–	(12,496)
Closing net book amount	10,629	27,809	193	3,728	2,178	917	45,454
At 31 December 2004							
Cost	**13,798**	**50,882**	**1,183**	**6,737**	**12,449**	**917**	**85,966**
Accumulated depreciation	**(3,169)**	**(23,073)**	**(990)**	**(3,009)**	**(10,271)**	**–**	**(40,512)**
Net book amount	**10,629**	**27,809**	**193**	**3,728**	**2,178**	**917**	**45,454**
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

The Group's buildings are located in the PRC and constructed on land for which rights to use for 50 years were granted.

18. LEASE PREPAYMENTS – THE GROUP

	RMB'000
Opening net book amount	–
Additions during 2004	16,708
Charge to income statement	(78)
Closing net book amount	16,630

18. LEASE PREPAYMENTS – THE GROUP *(continued)*

	At 31 December 2004 RMB'000	At 31 December 2003 RMB'000
Cost	**16,708**	–
Accumulated charge	**(78)**	–
Net book amount	**16,630**	–

Lease prepayments represent payments for land use rights and are charged to income statement on a straight-line basis over the lease periods.

19. INTANGIBLE ASSETS – THE GROUP

	Goodwill RMB'000	**Negative goodwill** RMB'000	**Development costs** RMB'000	**Software** RMB'000	**Total** RMB'000
Opening net book amount	28,050	(69)	44,486	1,796	74,263
Additions	–	(870)	–	–	(870)
Impairment charge	(1,206)	–	(334)	–	(1,540)
Development costs capitalised	–	–	40,494	–	40,494
Amortisation charge	(2,490)	23	(30,476)	(1,268)	(34,211)
Recognised	–	870	–	–	870
Closing net book amount	24,354	(46)	54,170	528	79,006
At 31 December 2004					
Cost	**32,437**	**(115)**	**105,365**	**5,012**	**142,699**
Accumulated amortisation	**(6,877)**	**69**	**(50,861)**	**(4,484)**	**(62,153)**
Impairment provision	**(1,206)**	**–**	**(334)**	**–**	**(1,540)**
Net book amount	**24,354**	**(46)**	**54,170**	**528**	**79,006**
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

20. DEFERRED TAX ASSETS – THE GROUP

	2004 RMB'000	2003 RMB'000
At beginning of year	**2,928**	6,771
Recognised in income statement	**911**	(3,843)
At end of year	**3,839**	2,928

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

	1 January 2004 RMB'000	Credited/ (charged) to income statement RMB'000	31 December 2004 RMB'000
Provision for bad and doubtful debts	3,699	741	4,440
Deferred income	2,641	522	3,163
Provisions	590	(221)	369
Tax losses	186	(186)	–
Deferred development costs	(4,449)	316	(4,133)
Others	261	(261)	–
Deferred tax assets, net	2,928	911	3,839

The deferred tax assets expected to be recovered after more than one year amounted to RMB2,560,000 (2003: RMB1,900,000).

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 RMB55,023,000 (2003: RMB37,720,000) of which the realisation is uncertain. These tax losses expire in:

	2004 RMB'000	2003 RMB'000
Year 2004	**–**	285
Year 2005	**566**	684
Year 2006	**1,679**	1,761
Year 2007	**6,187**	9,930
Year 2008	**20,196**	25,060
Year 2009	**26,395**	–
	55,023	37,720

21. INVENTORIES – THE GROUP

	2004 RMB'000	2003 RMB'000
Raw materials	**979**	1,148
Finished goods	**2,762**	1,595
	3,741	2,743

All inventories are stated at cost.

22. TRADE RECEIVABLES – THE GROUP

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

	2004 RMB'000	2003 RMB'000
Within 180 days	**54,931**	40,734
Over 180 days but within 360 days	**28,754**	22,563
Over 360 days	**31,699**	20,910
	115,384	84,207
Less: provision for bad and doubtful debts	**(47,174)**	(36,987)
	68,210	47,220

23. IMPLEMENTATION CONTRACTS – THE GROUP

	2004 RMB'000	2003 RMB'000
Contract costs incurred	**25,499**	4,278
Contract profit recognised	**34,088**	3,504
Billings	**(68,635)**	(18,762)
Work in progress at end of year	**(9,048)**	(10,980)
Represented by:		
Due to customers on implementation contracts	**(16,332)**	(10,980)
Due from customers on implementation contracts	**7,284**	–
	(9,048)	(10,980)
Advances received on implementation contracts included in customers' deposits	**2,994**	2,205
Due from customers on implementation contracts billed included in trade receivables	**44,898**	6,262

24. OTHER RECEIVABLES AND PREPAYMENTS – THE GROUP

	2004 RMB'000	2003 RMB'000
Prepayments	**275**	2,657
Advances to employees (Note (a))	**4,565**	3,192
Deposits	**4,218**	12,095
VAT recoverable	**12,676**	8,731
Others	**7,350**	3,633
	29,084	30,308

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

25. AMOUNTS DUE FROM RELATED PARTIES – THE GROUP

The amounts due from related parties represent outstanding trade balances in relation to sales of software to these companies. The amounts are unsecured, non-interest bearing and repayable in accordance with the terms of the sales contracts. All amounts aged within 180 days.

26. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Cash and bank balances	**214,719**	164,458	**6,371**	15,305

Cash and bank balances are mainly denominated in RMB. The effective interest rate on bank balances was 0.8% (2003: 0.5%) and these balances could be withdrawn at call.

27. BORROWINGS – THE GROUP

	2004 RMB'000	2003 RMB'000
Bank borrowings:		
Unsecured bank loans wholly due within 1 year	**24,000**	20,000

The loans are borrowed at fixed rates and the weighted average effective annual interest rate was 4.80% (2003: 4.59%). These loans are dominated in RMB.

28. TRADE PAYABLES – THE GROUP

The ageing analysis of trade payables is as follows:

	2004 RMB'000	2003 RMB'000
Within 180 days	**4,940**	2,059
Over 180 days but within 360 days	**390**	337
Over 360 days	**591**	699
	5,921	3,095

29. DEFERRED INCOME – THE GROUP

	2004 RMB'000	2003 RMB'000
Deferred sales (Note (a))	**31,394**	24,954
Deferred subsidy income (Note (b))	**238**	1,460
	31,632	26,414

(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

	2004 RMB'000	2003 RMB'000
At beginning of year	**1,460**	1,388
Additions	**–**	916
Recognised in income statement	**(1,222)**	(844)
At end of year	**238**	1,460

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.

30. TAXES PAYABLE – THE GROUP

	2004 RMB'000	2003 RMB'000
EIT payable	**4,876**	6,202
VAT payable	**12,387**	9,006
Business tax payable	**3,236**	2,060
	20,499	17,268

31. PROVISIONS – THE GROUP

	2004 RMB'000	2003 RMB'000
At beginning of year	**5,897**	3,005
Additional provisions	**–**	5,897
Less: Amounts utilised	**(2,206)**	(3,005)
At end of year	**3,691**	5,897

The Group provides 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 2005.

32. AMOUNTS DUE FROM/TO SUBSIDIARIES – THE COMPANY

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

33. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares '000	Nominal value HK$'000	Book value RMB'000	Share premium RMB'000
Authorised share capital (HK$0.10 each):				
As at 31 December 2003 and 31 December 2004	1,000,000	100,000	107,000	
Issued and fully paid (HK$0.10 each):				
As at 1 January 2003	440,887	44,089	47,172	37,504
Issue of shares on exercise of share options (Note 34)	609	61	65	872
As at 31 December 2003 and				
1 January 2004	441,496	44,150	47,237	38,376
Issue of shares on exercise of share options (Note 34)	1,763	176	187	2,705
As at 31 December 2004	**443,259**	**44,326**	**47,424**	**41,081**

34. 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	23 March 2004	1 June 2004	27 December 2004	Total
Exercise price	**HK$1.03**	**HK$1.49**	**HK$1.78**	**HK$1.39**	**HK$2.05**	**HK$2.69**	**HK$3.18**	**HK$2.65**	**HK$2.05**	
Granted to	**2 employees**	**33 employees**	**2 directors and 20 employees**	**1 director and 75 employees**	**2,370 employees**	**1 director**	**1 director**	**1 director and 177 employees**	**1 director and 154 employees**	
Exercisable period	**10 years** Note (a)	**10 years** Note (a)	**10 years** Note (b)	**10 years** Note (b)	**10 years** Note (c)	**10 years** Note (b)	**10 years** Note (d)	**10 years** Note (e)	**10 years** Note (f)	
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)
At 31 December 2003	–	1,585,000	5,371,000	7,530,000	4,740,000	1,000,000				20,226,000
At 1 January 2004		1,585,000	5,371,000	7,530,000	4,740,000	1,000,000	–	–	–	20,226,000
Granted		–	–	–	–	–	8,000,000	14,980,000	3,352,500	26,332,500
Exercised		(250,000)	(523,000)	(955,500)	(34,000)	–	–	–	–	(1,762,500)
Waived		–	–	–	–	–	(4,000,000)	(3,482,500)	–	(7,482,500)
Lapsed due to resignation		(542,500)	(1,753,000)	(1,723,000)	(1,382,000)	(1,000,000)	–	(1,390,000)	–	(7,790,500)
At 31 December 2004		**792,500**	**3,095,000**	**4,851,500**	**3,324,000**	**–**	**4,000,000**	**10,107,500**	**3,352,500**	**29,523,000**

Notes:

(a) 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 grant date.

(b) 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 1 year after the grant date.

(c) 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.

(d) All of these options have a duration of 10 years from the grant date, provided that the options can only be exercised no more than 50% of the underlying shares from the grant day to the date of 31 December 2004. While the options can totally be exercised after the date of 31 December 2004.

(e) All 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% of Revenue Ratio for the financial year 2004, 25% of (Revenue Ratio for the financial year 2004 plus Revenue Ratio for the financial year 2005), 25% of (Revenue Ratio for the financial year 2004 plus Revenue Ratio for the financial year 2005 plus Revenue Ratio for the financial year 2006) of the underlying shares within 12 months, 24 months and 36 months respectively from the date of 1 June 2005. (Note: Revenue Ratio shall equal to the actual revenue of the Group divided by the estimated revenue of the Group as determined by the Board for a particular financial year.)

(f) 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% of Revenue Ratio for the financial year 2004, 25% of (Revenue Ratio for the financial year 2004 plus Revenue Ratio for the financial year 2005), 25% of (Revenue Ratio for the financial year 2004 plus Revenue Ratio for the financial year 2005 plus Revenue Ratio for the financial year 2006) of the underlying shares within 12 months, 24 months and 36 months respectively from the date of 27 December 2005 (Note: Revenue Ratio shall equal to the actual revenue of the Group divided by the estimated revenue of the Group as determined by the Board for a particular financial year.)

35. RESERVES

The Group	Merger reserve (Note (a)) RMB'000	Capital reserve (Note (b)) RMB'000	Statutory surplus reserve funds (Note (c)) RMB'000	Exchange fluctuation reserve RMB'000	Retained earnings RMB'000	Total RMB'000	Represented by: Final dividend proposed RMB'000	Represented by: Others RMB'000
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	–	–	–	–	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	4,691	170,850
Balance at 1 January 2004	6,570	57,197	24,246	(520)	88,048	175,541		
Dividend relating to 2003	–	–	–	–	(4,691)	(4,691)		
Net profit	–	–	–	–	54,965	54,965		
Appropriation to reserve funds	–	50,000	–	–	(50,000)	–		
Translation adjustments	–	–	–	(268)	–	(268)		
Balance at 31 December 2004	**6,570**	**107,197**	**24,246**	**(788)**	**88,322**	**225,547**	**18,810**	**206,737**

35. RESERVES *(continued)*

The Company	Contributed surplus (Note (d)) RMB'000	Exchange fluctuation reserve RMB'000	(Accumulated losses)/ Retained earnings RMB'000	Total RMB'000	Represented by: Final dividend proposed RMB'000	Represented by: Others RMB'000
Balance at 1 January 2003	33,831	(669)	(3,744)	29,418		
Transfer of reserves	(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	20,730	(517)	(3,062)	17,151	4,691	12,460
Balance at 31 January 2004	20,730	(517)	(3,062)	17,151		
Transfer of reserves	(20,730)	–	20,730	–		
Dividend relating to 2003	–	–	(4,691)	(4,691)		
Net profit (Note (e))	–	–	44,676	44,676		
Translation adjustments	–	(278)	–	(278)		
Balance at 31 December 2004	**–**	**(795)**	**57,653**	**56,858**	**18,810**	**38,048**

(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 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. The reserve fund can only be used, upon approval by the relevant authorities, to offset accumulated losses or increase capital.

(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 profit of RMB44,676,000 (2003: loss of RMB3,062,000).

36. 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:

	2004 RMB'000	2003 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. ("Tianjin Jinshen") (Note 37(b))	**362**	1,710
Xiamen Kingdee Software Co., Ltd. ("Xiamen Kingdee") (Note 37 (b))	**2,331**	1,399
Shantou Kingdee Software Technology Co., Ltd.	**1,358**	1,370
Lanzhou Kingdee Software Technology Co., Ltd.	**316**	436
Hainan Kingdee Software Technology Co., Ltd.	**391**	652
	4,758	5,567

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.

The balances at end of the year arising from the above transactions are disclosed in Note 25.

37. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of net profit to cash generated from operating activities

	2004 RMB'000	2003 RMB'000
Net profit	**54,965**	59,130
Adjustments for:		
Impairment charge for bad and doubtful debts	**10,187**	12,459
Depreciation of property, plant and equipment	**12,496**	12,566
Loss on disposals of property, plant and equipment	**286**	1,140
Share of results of associates	**1,852**	1,121
Charge of lease prepayments	**78**	–
Amortisation of intangible assets	**34,211**	18,534
Impairment of goodwill	**1,206**	2,576
Impairment of development costs capitalised	**334**	–
Negative goodwill recognised as income	**(870)**	–
Interest income	**(1,213)**	(538)
Interest expense	**1,083**	488
Minority interests	**1,255**	(1,089)
Provision for income tax	**3,312**	10,184
	119,182	116,571
Changes in working capital (excluding the effect of acquisition of subsidiaries)		
Inventories	**(337)**	118
Trade receivables	**(31,060)**	(4,441)
Bills receivable, other receivables and prepayments	**2,725**	(15,913)
Amounts due from related parties	**(109)**	(100)
Provision for warranty	**(2,206)**	2,892
Deferred income	**5,218**	7,314
Salary and staff welfare payable	**238**	1,079
Customers' deposits	**23,746**	(897)
Trade payables, accruals and other payables	**3,551**	(6,992)
Taxes payable (other than income tax)	**3,815**	1,758
Due from/to customers on implementation contracts	**(1,932)**	10,980
Cash generated from operating activities	**122,831**	112,369

37. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Acquisition of subsidiaries

During the year, the Group acquired additional equity interests in Tianjin Jinshen and Xiamen Kingdee, the available-for-sale investments of the Group. Upon the completion of the acquisitions, these companies became subsidiaries of the Group.

Details of net assets acquired and negative goodwill arising from the acquisitions are as follows:

	Tianjin Jinshen	**Xiamen Kingdee**	
Original equity interest held	10%	10%	
Additional equity interest acquired	90%	60%	
Equity interest held after acquisition	100%	70%	
			Total
	RMB'000	RMB'000	RMB'000
Purchase consideration satisfied by			
– Cash paid	225	240	465
– Payable	225	60	285
	450	300	750
Deemed disposal of available-for-sale investments	50	30	80
Less: Fair value of net assets acquired	(1,193)	(507)	(1,700)
Negative goodwill	(693)	(177)	(870)

The fair value of the net assets approximated to the book value of the net assets acquired.

37. NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) *Acquisition of subsidiaries* *(continued)*

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

	Tianjin Jinshen RMB'000	Xiamen Kingdee RMB'000	Total RMB'000
Cash and cash equivalents	405	691	1,096
Property, plant and equipment	302	690	992
Inventories	424	237	661
Receivables	1,005	413	1,418
Payables	(943)	(1,308)	(2,251)
Minority interests	–	(216)	(216)
Fair value of net assets acquired	1,193	507	1,700
Less: Deemed disposal of available-for-sale investments	(50)	(30)	(80)
	1,143	477	1,620
Negative goodwill	(693)	(177)	(870)
Purchase consideration	450	300	750
Less:			
Payable arising from acquisition	(225)	(60)	(285)
Cash and cash equivalents in subsidiaries acquired	(405)	(691)	(1,096)
Cash (inflow) on acquisitions	(180)	(451)	(631)

38. COMMITMENTS

(a) *Capital commitments*

As of 31 December 2004, the Group had capital expenditure contracted for but not recognised in the financial statements as follows:

	Group	
	2004 **RMB'000**	2003 RMB'000
Lease prepayments	**–**	4,488

(b) *Operating lease commitments*

As of 31 December 2004, the Group had total minimum future lease payments under non-cancellable operating leases in respect of buildings as follows:

	Group	
	2004 **RMB'000**	2003 RMB'000
Payable:		
– Not later than one year	**8.995**	11,657
– Later than one year and not later than five years	**6.602**	6,890
	15,597	18,547

As at 31 December 2004, the Company had no outstanding commitment (2003: Nil).

39. ULTIMATE HOLDING COMPANY

The directors regard the Company has no ultimate holding company.

40. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 29 March 2005.

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, Hi-Tech Industrial Park, Shennan Highway, Nanshan District, Shenzhen, Guangdong Province The People's Republic of China ("PRC") on Wednesday, 27th April, 2005 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, 2004;

2. To declare a final dividend for the year 2004;

3. (A) To re-elect Mr. Wu Cheng as a director ("Director") of the Company;

   (B) To re-elect Mr. Hugo Shong as a Director;

   (C) To re-elect Mr. Gary Clark Biddle as a Director;

   (D) 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

(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 No. 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."

(D) "**THAT** conditional upon the Listing Committee of The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the shares of HK$0.10 each in the share capital of the Company to be issued pursuant to the exercise of any options which may be granted under the Refreshed Scheme Mandate Limit (as defined below), the total number of shares which may be issued upon exercise of all options to be granted under the share option scheme adopted by the Company on 26 April 2002 ("Share Option Scheme") and any other option schemes of the Company (excluding options previously granted under the Share Option Scheme and any other share option schemes of the Company) be and is hereby approved subject to a maximum limit equal to 10% of the total number of the issued shares of the Company as at the date of the passing of this resolution ("Refreshed Scheme Mandate Limit"); and that the directors of the Company be and are hereby unconditionally authorised to grant options to subscribe for shares up to the Refreshed Scheme Mandate Limit and to exercise all the powers of the Company to allot, issue and deal with the shares of the Company pursuant to the exercise of subscription rights under such options."

By order of the Board
KINGDEE INTERNATIONAL SOFTWARE
GROUP COMPANY LIMITED
Xu Shao Chun
Chairman

Shenzhen, the PRC, 31st March 2005

Registered Office:
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Cayman Islands
British West Indies

Principal place of business in the PRC:
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Shennan Highway, Nanshan District
Shenzhen, Guangdong Province
The PRC

Notes:

(i) A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote on his/her/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 46th 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 25th April, 2005 (Monday) to 27th April, 2005 (Wednesday) (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, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 22nd April, 2005 (Friday).

(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 2004.

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Kingdee