

# Kingdee

Kingdee International Software Group Company Limited

金蝶國際軟件集團有限公司

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

Interim Report **2005**



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# Kingdee

**KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED**

**金蝶國際軟件集團有限公司**

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

**(Stock Code: 268)**

## **INTERIM REPORT FOR THE SIX MONTHS ENDED 30TH JUNE 2005**

### **Financial highlights for the six months ended 30th June 2005**

- Turnover increased by approximately 19.5% over the same period in 2004 to approximately RMB244,560,000
- Profit for the period increased by approximately 31.0% over the same period in 2004 to approximately RMB23,084,000
- Profit attributable to equity holders of the Company during the period increased by approximately 31.7% over the same period in 2004 to approximately RMB23,217,000
- Basic earnings per share for profit attributable to the equity holders of the Company during the period increased by approximately 31.2% over the same period in 2004 to approximately RMB5.238 cents

The board (the “Board”) of directors (the “Directors”) of Kingdee International Software Group Company Limited (“Kingdee International” or the “Company”) hereby announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2005, together with the comparative unaudited consolidated figures for the corresponding periods in 2004 are as follows:

## CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2005

		<b>Six months ended 30th June</b>	
		<b>2005</b>	<b>2004</b>
			<b>As re-stated</b>
			<i>(Note 1)</i>
	<i>Notes</i>	<b>Unaudited</b>	<b>Unaudited</b>
		<i>RMB' 000</i>	<i>RMB' 000</i>
Turnover	2	244,560	204,664
Cost of sales		(47,363)	(44,058)
		<hr/>	<hr/>
Gross profit		197,197	160,606
Other operating income	3	24,047	27,527
Selling expenses		(121,679)	(103,654)
General and administrative expenses		(73,042)	(62,089)
Other operating expenses		(319)	(206)
		<hr/>	<hr/>
Profit from operations		26,204	22,184
Interest income		760	577
Finance expenses	5	(668)	(539)
Share of results of an associate		(516)	(1,405)
		<hr/>	<hr/>
Profit before taxation		25,780	20,817
Taxation	6	(2,696)	(3,189)
		<hr/>	<hr/>
Profit for the period		<b>23,084</b>	<b>17,628</b>
		<hr/>	<hr/>
Attributable to:			
Equity holders of the Company		23,217	17,632
Minority Interests		(133)	(4)
		<hr/>	<hr/>
		<b>23,084</b>	<b>17,628</b>
		<hr/>	<hr/>
Dividends		–	–
		<hr/>	<hr/>
Earnings per share for profit attributable to the equity holders of the Company during the period			
– basic	7	<b>RMB5.238 cents</b>	<b>RMB3.991 cents</b>
		<hr/>	<hr/>
– diluted	7	<b>RMB5.226 cents</b>	<b>RMB3.920 cents</b>
		<hr/>	<hr/>

## CONSOLIDATED BALANCE SHEET

As at 30th June 2005

	<i>Notes</i>	<b>30th June 2005 Unaudited RMB'000</b>	<b>31st December 2004 Audited RMB'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in associates		1,992	2,409
Available-for-sale investments		255	255
Property, plant and equipment		47,955	45,454
Lease prepayment		16,570	16,630
Intangible assets		83,156	79,006
Deferred tax assets		3,671	3,839
		<hr/>	<hr/>
Total non-current assets		153,599	147,593
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories		3,635	3,741
Trade receivables	8	77,078	68,210
Due from customers on implementation contracts		6,856	7,284
Other receivables and prepayments		29,275	29,084
Amounts due from related parties		894	803
Cash and bank balances		209,492	214,719
		<hr/>	<hr/>
Total current assets		327,230	323,841
		<hr/>	<hr/>
<b>Total assets</b>		<b>480,829</b>	<b>471,434</b>
		<hr/> <hr/>	<hr/> <hr/>

	<b>30th June 2005</b>	<b>31st December 2004</b>
<i>Notes</i>	<b>Unaudited</b>	<b>Audited</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>EQUITY AND LIABILITIES</b>		
<b>Shareholders' equity</b>		
Share capital	47,427	47,424
Share premium	44,729	41,081
Reserves		
Final dividend proposed	–	18,810
Others	229,995	206,737
	<hr/>	<hr/>
	322,151	314,052
<b>Minority interests</b>	1,605	1,738
	<hr/>	<hr/>
<b>Total shareholders' equity</b>	323,756	315,790
	<hr/>	<hr/>
<b>Current liabilities</b>		
Trade payables	3,947	5,921
Borrowings	31,000	24,000
Deferred income	30,724	31,632
Taxes payable	13,680	20,499
Provisions	1,715	3,691
Customers' deposits	38,345	35,011
Due to customers on implementation contracts	18,425	16,332
Salary and staff welfare payable	6,478	6,774
Accruals and other payables	12,759	11,784
	<hr/>	<hr/>
<b>Total current liabilities</b>	157,073	155,644
	<hr/>	<hr/>
<b>Total equity and liabilities</b>	480,829	471,434
	<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the six months ended 30th June 2005

	Attributable to equity holders of the Company			Minority Interests Unaudited RMB'000	Total Unaudited RMB'000
	Share Capital Unaudited RMB'000	Share premium Unaudited RMB'000	Reserves Unaudited RMB'000		
	At 1st January 2004, as previously reported	47,237	38,376		
Change in accounting policy – accounting for the option granted as expenses	–	698	(698)	–	–
At 1st January 2004, as restated	47,237	39,074	174,843	67	261,221
Profit for the period	–	–	17,632	(4)	17,628
Employees share option scheme:					
– Proceeds from share issued	157	2,291	–	–	2,448
– Value of employee service	–	728	–	–	728
Dividend relating to 2003	–	–	(4,696)	–	(4,696)
Translation adjustments	–	–	(378)	–	(378)
<b>Balance at 30th June 2004</b>	<b>47,394</b>	<b>42,093</b>	<b>187,401</b>	<b>63</b>	<b>276,951</b>
At 1st January 2005, as previously reported	47,424	41,081	225,547	1,738	315,790
Change in accounting policy – accounting for the option granted as expenses (Note 1(a))	–	3,934	(3,934)	–	–
At 1st January 2005, as restated	47,424	45,015	221,613	1,738	315,790
Profit for the period	–	–	23,217	(133)	23,084
Employees share option scheme:					
– Proceeds from share issued	3	34	–	–	37
– Value of employee service	–	3,614	–	–	3,614
Dividend relating to 2004	–	–	(18,794)	–	(18,794)
Translation adjustments	–	–	25	–	25
<b>Balance at 30th June 2005</b>	<b>47,427</b>	<b>48,663</b>	<b>226,061</b>	<b>1,605</b>	<b>323,756</b>

## CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2005

	Six months ended 30th June	
	2005	2004
	Unaudited	Unaudited
	RMB'000	RMB'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Profit for the period</b>	23,084	17,628
Adjustments for:		
Impairment charge for bad and doubtful debts	9,408	6,587
Depreciation of property, plant and equipment	6,190	7,699
Loss on disposals of property, plant and equipment	59	–
Share of results of associates	516	1,405
Charge of lease prepayments	60	–
Amortisation of intangible assets	16,524	15,871
Impairment of goodwill	1,196	–
Interest income	(760)	(577)
Interest expense	511	438
Value of employee service	3,614	728
Provision for income tax	2,696	3,189
	<hr/>	<hr/>
<b>Changes in working capital (excluding the effect of acquisition of subsidiaries)</b>	63,098	52,968
Inventories	106	(414)
Trade receivables	(18,274)	(35,601)
Bills receivable, other receivables and prepayments	(192)	(10,508)
Amounts due from related parties	(92)	–
Provision for warranty	(1,976)	(166)
Deferred income	(908)	(3,153)
Salary and staff welfare payable	(296)	341
Customers' deposits	3,334	10,542
Trade payables, accruals and other payables	(999)	889
Taxes payable (other than income tax)	(5,680)	(852)
Due from/to customers on implementation contracts	2,521	5,538
	<hr/>	<hr/>
<b>Cash flows from operating activities:</b>		
Cash generated from operating activities	40,642	19,584
Interest paid	(511)	(438)
PRC income tax paid	(3,667)	(5,172)
	<hr/>	<hr/>
<b>Net cash generated from operating activities</b>	<b>36,464</b>	<b>13,974</b>

	<b>Six months ended 30th June</b>	
	<b>2005</b>	<b>2004</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(9,008)	(9,725)
Payments for lease prepayment	–	(9,517)
Acquisition of subsidiaries, net of cash acquired	–	225
Investment in an associate	(100)	–
Payments for intangible assets other than goodwill	(21,870)	(20,863)
Proceeds from disposal of property, plant and equipment	259	–
Interest received	760	577
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	<b>(29,959)</b>	<b>(39,753)</b>
	<hr/>	<hr/>
<b>Cash flows from financing activities:</b>		
Proceeds from issue of shares	37	2,446
Proceeds from new bank loans	31,000	24,000
Repayment of bank loans	(24,000)	(20,000)
Dividends paid	(18,794)	(4,696)
	<hr/>	<hr/>
<b>Net cash generated from/(used in) financing activities</b>	<b>(11,757)</b>	<b>1,750</b>
	<hr/>	<hr/>
<b>Net decrease in cash and cash equivalents</b>	<b>(5,252)</b>	<b>(24,029)</b>
Cash and cash equivalents at beginning of the period	214,719	164,458
Effect of foreign exchange rate change	25	–
	<hr/>	<hr/>
<b>Cash and cash equivalents at end of the period</b>	<b>209,492</b>	<b>140,429</b>
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Notes:

## 1. Basis of preparation

### (a) Basis of preparation

All significant intercompany balances and transactions, including intercompany profits, are eliminated on consolidation. The financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

The consolidated results have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board.

In 2005, the Group adopted the revised IAS and new IFRSs (collectively "new IFRSs") below, which are relevant to its operations and effective for the accounting periods beginning on or after 1st January 2005. The 2004 accounts are amended as required, in accordance with the relevant requirements.

IAS 1 (revised 2003)	Presentation of Financial Statements
IAS 2 (revised 2003)	Inventories
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003)	Events after the Balance Sheet Date
IAS 16 (revised 2003)	Property, Plant and Equipment
IAS 17 (revised 2003)	Leases
IAS 21 (revised 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003)	Related Party Disclosures
IAS 27 (revised 2003)	Consolidated and Separate Financial Statements
IAS 28 (revised 2003)	Investments in Associates
IAS 31 (revised 2003)	Interests in Joint Ventures
IAS 32 (revised 2003)	Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003)	Earnings per Share
IAS 36 (revised 2004)	Impairment of Assets
IAS 38 (revised 2004)	Intangible Assets
IAS 39 (revised 2003)	Financial Instruments: Recognition and Measurement
IFRS 2 (issued 2004)	Share-based Payments
IFRS 3 (issued 2004)	Business Combinations
IFRS 4 (issued 2004)	Insurance Contracts
IFRS 5 (issued 2004)	Non-current Assets Held for Sale and Discontinued Operations

The Group has not early adopted these new IFRSs in the financial statements during the Relevant Periods but have assessed the impact of the adoption of these new IFRSs as follows:

The adoption of IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 31, 32, 33 and 39 (all revised 2003) and of IFRS 4 and 5 (both issued in 2004) will not result in substantial changes to the Group's accounting policies. In summary:

- IAS 1 will affect the presentation of minority interest and other disclosures.
- IAS 2, 8, 10, 16, 17, 27, 28, 31, 32, 33 and 39; and IFRS 4 and 5 will have no material effect on the Group's policies, except for additional disclosures required under these new IFRSs. There will have no restatements of account balances following the adoption of these new IFRSs.
- IAS 21 will have no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.
- IAS 24 will affect the identification of related parties and some other related-party disclosures.

During the Relevant Periods, the Group adopted the transitional provisions of IFRS 3, IAS 36 and IAS 38 to account for goodwill and intangible assets acquired in business combinations for which the agreement date was on or after 30th June 2004. In respect of previously recognised goodwill and negative goodwill acquired in business combinations for which the agreement date was before 30th June 2004 and in accordance with the transitional provisions of these IFRSs, the Group:

- (1) will cease amortisation of goodwill from 1st January 2005;
- (2) will eliminate the accumulated amortisation as at 31st December 2004 with a corresponding decrease in the cost of respective goodwill;
- (3) from the year ending 31st December 2005 onwards, will test goodwill annually for impairment, as well as when there are indications of impairment; and
- (4) will derecognise negative goodwill on 1st January 2005 of RMB46,000 with a corresponding adjustment to the opening balance of retained earnings.

The adoption of IFRS 2 has resulted in a change in the accounting policy for share-based payments. Under IFRS 2 “Sharebased Payment”, the Group is required to determine the fair value of all share-based payments to employees as remuneration and recognise an expense in the income statement. This treatment results in a reduction in profit as such items have not been recognised as expenses before 1st January 2005. Under the specific transitional provisions of IFRS 2, this treatment applies to equity-settled share-based payment transactions where shares, share options or other equity instruments were granted after 7th November 2002 and had not yet vested on 1st January 2005 and to liabilities arising from share-based payment transactions existing on 1st January 2005.

The adoption of IFRS 2 resulted in:

	<b>As at 31st December 2004</b>	
Increase in share premium	RMB3,934,000	
Decrease in retained earnings	RMB3,934,000	
	<b>For the six months ended 30th June</b>	
	<b>2005</b>	<b>2004</b>
Increase in general and administrative expenses	RMB3,614,000	RMB728,000
Decrease in basic earnings per share	RMB0.82 cents	RMB0.16 cents
Decrease in diluted earnings per share	RMB0.81 cents	RMB0.16 cents

*(b) Comparative figures*

In addition to the effect on the adoption of IFRS 2, the following comparative figures are restated:

- Tax and levies on main operation of RMB2,049,000 was reclassified from a deductible item of turnover to cost of sales;
- Expenditures arising from some sales activities of RMB2,227,000 was reclassified from general and administrative expenses to selling expenses;
- Service cost of RMB16,706,000 was reclassified from selling expenses to cost of sales.

## 2. Turnover

Turnover comprises the following:

	<b>Six months ended 30th June</b>	
	<b>2005</b>	<b>2004</b>
	<b>Unaudited</b>	<b>As restated</b>
	<i>RMB'000</i>	<i>(Note 1(b))</i>
		<b>Unaudited</b>
		<i>RMB'000</i>
Sales of software	197,668	164,553
Sales of computer and related products	2,658	539
Software solution consulting and support services	21,375	25,792
Software implementation services	22,859	13,780
	244,560	204,664

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

## 3. Other operating income

	<b>Six months ended 30th June</b>	
	<b>2005</b>	<b>2004</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Subsidy income		
VAT refund ( <i>Note (a)</i> )	23,508	19,718
Subsidy on development of new products ( <i>Note (b)</i> )	143	994
Subsidy for re-investment ( <i>Note (c)</i> )	–	5,110
	23,651	25,822
Others	396	1,705
	24,047	27,527

- (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 24th June 2000 to 31st 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 subsidies were granted by the local government authorities and included the portion of deferred subsidy income recognised during the year ended 31st December 2004.
- (c) Amount represented income tax refund for re-investment in a subsidiary by way of capitalisation of dividend.

#### 4. Consolidated profit (loss) before taxation

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

	Six months ended 30th June	
	2005	2004
	Unaudited	Unaudited
	RMB'000	RMB'000
Research and development costs *		
Amounts incurred	28,512	34,074
Less: amounts capitalised	(21,870)	(20,518)
Add: amortisation of capitalised costs	16,271	13,894
	<u>22,913</u>	<u>27,450</u>
Staff costs	112,052	100,306
Amount charged to research and development costs	(21,870)	(20,518)
	<u>95,781</u>	<u>79,788</u>
Cost of inventory consumed (included in cost of sales)	7,062	5,520
Depreciation of property, plant and equipment	6,190	7,699
Amortisation of software*	265	524
Amortisation of goodwill arising on acquisitions of:		
– subsidiaries *	–	1,245
– associates	–	395
Amortisation of negative goodwill *	–	(12)
Impairment of goodwill *	1,591	–
Trade receivables – impairment charge for bad and doubtful debts*	9,408	6,587
Operating lease rentals on premises	13,322	9,106
Loss on disposals of property, plant and equipment	59	–
Auditors' remuneration*	615	600
Charge of lease prepayments*	120	–
	<u>95,781</u>	<u>79,788</u>

\* included in general and administrative expenses

#### 5. Finance expenses

	Six months ended 30th June	
	2005	2004
	Unaudited	Unaudited
	RMB'000	RMB'000
Interest expense on bank loans:	(511)	(438)
Others	(157)	(101)
	<u>(668)</u>	<u>(539)</u>

## 6. Taxation

Taxation represents PRC income tax charged to:

	<b>Six months ended 30th June</b>	
	<b>2005</b>	<b>2004</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<i>RMB'000</i>	<i>RMB'000</i>
The Group		
– Current income tax	2,528	2,407
– Deferred income tax	168	782
	<u>2,696</u>	<u>3,189</u>

- (a) No provision for profits tax in the Cayman Islands and Hong Kong has been made as the Group has no income assessable for profits tax for the year in those jurisdictions.
- (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) 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.

## 7. Earnings per share for profit attributable to the equity holders of the Company

The calculation of basic and diluted earnings per share are based on the Group’s profit attributable to equity holders of the Company of RMB23,217,000 for the three months ended 31st June 2005 (for the three months ended 31st June 2004: RMB17,632,000).

The basic earnings per share is based on the weighted average of 443,275,000 (for the six months ended 31st June 2004: 441,716,000) ordinary shares in issue during the reporting period. The diluted earnings per share is based on 444,239,000 (for the six months ended 31st June 2004: 449,848,000) ordinary shares which is the weighted average number of ordinary shares in issue during the reporting period plus the weighted average of 964,000 (for the six months ended 31st June 2004: 8,132,000) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

Information on the profit attributable to equity holders of the Company and number of weighted average shares during the relevant periods is as follows:

	<b>Six months ended 30th June</b>	
	<b>2005</b>	<b>2004</b>
	<b>Unaudited</b>	<b>Unaudited</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Group’s profit attributable to equity holders of the Company	<u>23,217</u>	<u>17,632</u>
	<b>2005</b>	<b>2004</b>
	<i>Number'000</i>	<i>Number'000</i>
Weighted average number of shares in issue during the period	443,275	441,716
Weighted average number of shares deemed to be issued at no consideration if all outstanding options had been exercised	<u>964</u>	<u>8,132</u>
Weighted average number of shares for diluted earnings per share	<u>444,239</u>	<u>449,848</u>

## 8. Trade receivables

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

	<b>30th June 2005 Unaudited RMB'000</b>	<b>31st December 2004 Audited RMB'000</b>
Within 180 days	61,460	54,931
Over 180 days but within 360 days	33,826	28,754
Over 360 days	38,374	31,699
	<hr/>	<hr/>
	133,660	115,384
Less: provision for bad and doubtful debts	(56,582)	(47,174)
	<hr/>	<hr/>
	<b>77,078</b>	<b>68,210</b>

## 9. Contingent liabilities

The Group had no significant contingent liabilities as of 30th June 2005 (30th June 2004: nil).

## 10. Commitments

Operating lease commitments

The Group had total minimum future lease payments under non-cancellable operating leases in respect of buildings as follows:

	<b>30th June 2005 Unaudited RMB'000</b>	<b>31st December 2004 Audited RMB'000</b>
Payable		
– Not later than one year	16,875	4,511
– Later than one year and not later than five years	10,954	11,086
	<hr/>	<hr/>
	<b>27,829</b>	<b>15,597</b>

The Group had no significant commitment as at the end of each of the Relevant Periods.

## 11. Subsequent events

On 2nd September 2005, Kingdee Software (China) Co., Ltd. (金蝶軟件(中國)有限公司("Kingdee China")), a wholly-owned subsidiary of the Company, entered into a construction agreement with China Construction No. 4 Works Bureau (Hu) (中國建築第四工程局(滬)) ("No. 4 Works Bureau"), an Independent Third Party, pursuant to which Kingdee China has agreed to engage No. 4 Works Bureau to perform certain construction, installation, decoration and exterior overall work of Kingdee Software Research and Development Station (金蝶研發基地). The construction site is located at Chenhui Road, Zhangjiang High-Technology Park Zone, Pudong New Zone, Shanghai City (上海市浦東新區張江高科技園區晨暉路). The total consideration for the construction, installation, decoration and exterior overall work under the Construction Agreement amounts to approximately RMB30,000,000 (equivalent to approximately HK\$28,301,887).

The above transaction has been disclosed in an announcement published by the Company on 2nd September 2005.

## **INTERIM DIVIDEND**

The Board did not recommend the payment of an interim dividend for the six months ended 30th June 2005 (the six months ended 30th June 2004: Nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

During the reporting period, the Group continued to implement its corporate development strategy of “Product leadership, Partner oriented, Proactive services, Prompt response”. The Group increased its investment in product research and development, focused on the exploration of distribution partners, perfected its customer service system. The Group begins to shift towards distribution-centered model and further enhance the Group’s market share and its profitability to consolidate its leading position in the PRC enterprise application software market.

The Group was officially listed on the Main Board of the Hong Kong Stock Exchange on 20th July 2005. The listing of the Group on the Main Board helps to improve the Group’s shareholder base and share liquidity, enhance its corporate and brand profile, attract talents of high caliber and marked a new milestone in the Group’s development.

Review of major events during the reporting period:

- I. The Group further strengthened channel development and partnership support, perfected Kingdee’s “echo-chain” with partners, and shifted towards distribution-centered model, so as to control the cost of sales and improve profitability. Kingdee endeavored to gradually transform itself into a product and service platform for its partners.
  1. During the reporting period, the Group launched Kingdee KIS professional version, which targets at small enterprises mainly through its distribution channels. The product further strengthens Kingdee’s penetration into the small enterprise market. Kingdee KIS professional version realizes the complete integration of financial and business operation. It adopts more powerful database and Internet technology, which enable it to provide clients with customized services on a real time basis. Meanwhile, the Group has launched a “Campaign of total solution for Small Enterprises on Kingdee KIS” in more than 100 cities in the PRC and attracted more partners with a “Low investment with high return” program.
  2. During the reporting period, the Group successfully launched Kingdee K/3 V10.2 product and conducted the sales of Kingdee K/3 products gradually through its distribution channel. Kingdee K/3 10.2 has been further upgraded in functions, usability and performance, which can cater to the needs of fast growing medium and small enterprises. The product further consolidate the Group’s leading position in the small and medium enterprise management software market.

3. Meanwhile, Kingdee launched Kingdee EAS 4.1 Group Strategic Financial and Human Resources Solution. Kingdee EAS 4.1 Group Strategic Financial Solution provides a set of tools and methods to measure and improve the business performances and helps group enterprises to measure performances. Kingdee EAS 4.1 Human Resources Solution targets at group enterprises and to enable customers to improve its organization capabilities and strategy execution capabilities.
  4. With the successful release of Kingdee K/3 10.2 and Kingdee EAS4.1 during the reporting period, the technology platform acting as the architecture of them – Kingdee BOS (Business Operation System) is mature. Meanwhile, the Group has established an application integration department and client partner laboratory through which Kingdee’s BOS platform is open to clients and partners, enabling clients to flexibly carry out customized configuration and development according to their different needs in their enterprises’ respective development stages. The product also helps partners to develop industry application and enterprise customized application and creates more value-added room for partners. Kingdee BOS is the Group’s proprietary technology, and represents the Group’s third leading attempt to revolutionize the technologies of the PRC management software after the launch of its financial software based on Window platform and ERP system based on three-tier architecture.
  5. During the reporting period, the Group continued to implement its service strategy of “Proactive services, Prompt response”. With an emphasis on effective value orientation and by standardizing its service products, refining its service management and expediting its response to customers’ needs, the Group managed to provide prompter and more efficient services to clients and partners and further enhanced Kingdee’s edge in providing distinctive services.
- II. During the reporting period, the Group formally released its latest middleware product Kingdee Apusic V4.0. Meanwhile, Sun Microsystems of the United States officially certified that Kingdee’s Apusic V4.0 product passed the test based on the criterion of J2EE’s highest version – 1.4, making Kingdee the 11th company which passed this test in the world. Meanwhile, Kingdee’s middleware products received further recognition by an increasing number of clients and partners and are adopted in projects carried out by Ministry of Civil Affairs of the State and the State Bureau for Letters and Calls.
  - III. During the reporting period, the Group continued to explore the Asian Pacific application software market and launched multi-lingual products to satisfy the demands of its Asian Pacific clients. During the reporting period, the Group signed a strategic cooperative agreement with Pan-West, the largest golf product retailer in Asia, pursuant to which Kingdee will help Pan-West to deploy Kingdee K/3 product in China, Thailand, Singapore and Malaysia etc., so as to enhance its overall competitiveness.
  - IV. During the reporting period, the Group continued to strengthen its cooperation with international IT companies. The Group signed a global strategic cooperative agreement with IBM based on the “Independent Software Vendors Advantage Agreement for Small and Medium Business Companies” (IAA), and agreed to engage in closer cooperation technology in products, services and solutions. The Group also joined hand with Sun Microsystems, pursuant to which both parties will enter into all dimensional cooperation in the areas of marketing, sales and technology. In addition, the Group joined hand with HP in launching a solution for “Kingdee KIS Mini Version Financial Management Software + HP D260 Commercial Desktop PC”, which helps to implement full-scale accounting informatization for small enterprises.
  - V. During the reporting period, the Group drew conclusions from its 12 years of successful operation and clearly formulated its talent strategy based on the core philosophy of “helping staff to succeed”. The Group endeavored to nurture a corporate culture embodying an innovative spirit and retain human capital for the future success of the Group.



## Future Prospects

Looking ahead, the PRC enterprise application software market will continue to witness exponential growth. Upholding its enterprise development strategy of “Product leadership, Partner oriented, Proactive services, Prompt response”, the Group will continue to strengthen the research, development and marketing of new products such as Kingdee EAS and Kingdee BOS and expedite its shift towards a sales pattern based primarily on distribution channel, propel the continuous growth of its distribution and service business, scale down its cost of sales, facilitate the sustainable growth of the Group’s profit and further consolidate its leading position in the enterprise application software markets in the PRC and the Asian Pacific region.

## Financial Performance

### *Consolidated operating results*

For the six months ended 30th June 2005, turnover amounted to approximately RMB244,560,000, representing an increase of approximately 19.5% over the corresponding period in 2004 (For the six months ended 30th June 2004: RMB204,664,000). The total sales of software from Kingdee K/3 and Kingdee KIS targeting at the small and medium enterprise market amounted to approximately RMB175,940,000, representing an increase of approximately 17.9% over the corresponding period in 2004 (For the six months ended 30th June 2004: RMB149,239,000). The total sales of software from Kingdee EAS targeting at large group enterprise market amounted to approximately RMB11,613,000, representing an increase of approximately 33.1% over the corresponding period in 2004 (For the six months ended 30th June 2004: RMB8,722,000). Total service income reached approximately RMB44,234,000, increasing by approximately 11.8% from the corresponding period in 2004 (For the six months ended 30th June 2004: RMB39,572,000). Meanwhile, the Group’s profitability was further enhanced and its profit margin increased. As at 30th June 2005, profit for the period of the Group was approximately RMB23,084,000, representing a growth of approximately 31.0% from the corresponding period last year (For the six months ended 30th June 2004: RMB17,628,000). Earnings per share were RMB5.238 cents (For the six months ended 30th June 2004: RMB3.992 cents).

### *Gross profit*

Gross profit of the Group increased by approximately 22.8% from RMB160,606,000 for the six months ended 30th June 2004 to approximately RMB197,197,000 for the six months ended 30th June 2005. During the reporting period, the Group further enhanced staff efficiency and controlled on number of service staff, leading to an increase of gross profit margin to approximately 80.6% (For the six months ended 30th June 2004: approximately 78.5%).

### *Selling expenses and administrative expenses*

For the six months ended 30th June 2005, the Group’s selling expenses amounted to approximately RMB121,679,000, representing an increase of approximately 17.4% from the corresponding period last year (For the six months ended 30th June 2004: RMB103,654,000). General administrative expenses were approximately RMB73,042,000, representing an increase of approximately 17.6% over the corresponding period last year (For the six months ended 30th June 2004: RMB62,089,000). During the reporting period, selling expenses as a percentage of turnover decreased from 50.6% for the corresponding period last year to approximately 49.8%. General and administrative expenses as a percentage of turnover dropped to approximately 29.9% from 30.3% for the corresponding period last year. The decrease of selling expenses and general and administrative expenses as percentages of turnover during the reporting period was mainly attributable to the Group’s shift towards a sales pattern based primarily on distribution channel, resulting in a slower growth in the selling expenses and the corresponding general and administrative expenses.

## Financial resources and liquidity

The Group had a strong cash flow position. As at 30th June 2005, the Group had cash and cash equivalents amounting to approximately RMB209,492,000. Current ratio (defined as the ratio of current assets to current liabilities) was approximately 2.1 (As at 31st December 2004: 2.1). Liability ratio (defined as the ratio of bank borrowings to shareholder equity) was approximately 9.6% (As at 31st December 2004: 7.6%)

As at 30th June 2005, the Group's short-term bank loan balance amounted to RMB31,000,000 (As at 31st December 2004: RMB24,000,000).

As at 30th June 2005, the Group was not subject to any material exchange rate exposure, and had not entered into any foreign exchange futures contract to hedge against any fluctuation in exchange rates.

As at 30th June 2005, the Group did not have any material contingent liabilities (As at 31st December 2004: Nil).

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

As at 30th June 2005, 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 the Rules Governing the listing of securities on the Stock Exchange ("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 ( <i>Note 1</i> )	35.71%
	7,892,880	Beneficial owner	
	8,500,000	Other/share option ( <i>Note 2</i> )	
<i>Aggregate:</i>	<i>158,309,130</i>		
Luo Ming Xing	1,885,000	Beneficial owner	0.75%
	1,425,000	Other/share option ( <i>Note 2</i> )	
<i>Aggregate:</i>	<i>3,310,000</i>		
Hugo Shong	5,250,000	Beneficial owner	1.18%
<i>Aggregate:</i>	<i>5,250,000</i>		
Zhao Yong	54,910,750	Beneficial owner	12.39%
<i>Aggregate:</i>	<i>54,910,750</i>		

*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 “Outstanding Share Options”.

Save as disclosed in this paragraph, as at 30th June 2005, none of the Directors and chief executive of the Company 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 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 the Listing Rules.

## **OUTSTANDING SHARE OPTIONS**

Outstanding share options under the 2001 Scheme and 2002 Scheme

Pursuant to the share option scheme (“2001 Scheme”) of the Company adopted on 30th January 2001, an aggregate of 1,720,000 share options were granted, of which 385,000 share options were exercised, 672,500 were cancelled and 662,500 remained outstanding as at 30th June 2005.

Pursuant to the share option scheme (“2002 Scheme”) of the Company adopted on 26th April 2002, an aggregate of 48,462,500 share options were granted, of which 1,788,500 share options were exercised, 16,314,000 were cancelled and 30,360,000 remained outstanding as at 30th June 2005.

As at 30th June 2005, both of the 2001 Scheme and 2002 Scheme have been terminated by the Company. In the extraordinary general meeting of the Company convened on 11th July 2005, the Company adopted a new share option scheme. As at 30th June 2005, the Company has not granted options pursuant to this new share option scheme.

Details of these outstanding options are as follows:

	Options held at 1st January 2005	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options canceled during the reporting period	Options held at 30th June 2005	Exercise price HK\$	Grant date
Xu Shao Chun	4,000,000	-	-	-	-	4,000,000	3.18	23/03/2004 (4)
	1,500,000	-	-	-	-	1,500,000	1.78	15/05/2002 (2)
	-	3,000,000	-	-	-	3,000,000	1.55	21/04/2005 (7)
Luo Ming Xing	225,000	-	-	-	-	225,000	2.05	27/12/2004 (6)
	675,000	-	-	-	-	675,000	2.65	01/06/2004 (5)
	300,000	-	-	-	-	300,000	1.39	20/02/2003 (2)
	225,000	-	-	-	-	225,000	1.78	15/05/2002 (2)
Continuous contract employees	3,127,500	-	-	157,500	-	2,970,000	2.05	27/12/2004 (6)
	9,432,500	-	-	522,500	-	8,910,000	2.65	01/06/2004 (5)
	3,324,000	-	2,000	436,000	-	2,886,000	2.05	08/08/2003 (3)
	4,551,500	-	25,000	347,500	-	4,179,000	1.39	20/02/2003 (2)
	1,370,000	-	-	120,000	-	1,250,000	1.78	15/05/2002 (2)
	792,500	-	-	130,000	-	662,500	1.49	27/09/2001 (1)
Business partners	-	240,000	-	-	-	240,000	1.55	21/04/2005 (7)
Total	<u>29,523,000</u>	<u>3,240,000</u>	<u>27,000</u>	<u>1,713,500</u>	<u>-</u>	<u>31,022,500</u>		

Note:

- (1) 2001 Scheme. All of these options have a duration of 10 years from the date of grant, provided that the options may not be exercised in respect of more than 25%, 50% and 75% of the options within 12 months, 24 months and 36 months respectively from the date of grant.
- (2) 2002 Scheme. All of these options have a duration of 10 years from the date of grant, provided that the options may not be exercised within 12 months from the date of grant and that the options may not be exercised in respect of more than 25%, 50% and 75% of the options within 12 months, 24 months and 36 months respectively from 1 year after the date of grant.
- (3) 2002 Scheme. All of these options have a duration of 10 years from the date of grant, provided that the options can only be exercised from the date of 8th August 2004.
- (4) 2002 Scheme. All of these options have a duration of 10 years from 23rd March 2004, provided that the options may not be exercised in respect of more than 50% of the options prior to the date of 31st December 2004.
- (5) 2002 Scheme. All of these options have a duration of 10 years from the date of grant, provided that
  - (i) the options cannot be exercised within 1 year from the date of grant;
  - (ii) the number of options that can be exercised within the 2 years from the date of grant cannot be more than 25% of the revenue ratio for the financial year of 2004;
  - (iii) the number of options that can be exercised within the 3 years from the date of grant cannot be more than 25% of the aggregate revenue ratios for the financial years of 2004 and 2005;

- (iv) the number of options that can be exercised within the 4 years from the date of grant cannot be more than 25% of the aggregate revenue ratios for the financial years of 2004, 2005 and 2006;
- (v) the number of options that can be exercised after 4 years from the date of grant cannot be more than 25% of the aggregate revenue ratios for the financial years of 2004, 2005, 2006 and 2007;

“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.

- (6) 2002 Scheme. All of these options have a duration of 10 years from the date of grant and the options can be exercised from the date of grant.
- (7) 2002 Scheme. All of these options have a duration of 5 years from the date of grant.

## **SUBSTANTIAL SHAREHOLDERS’ AND OTHER PERSONS’ INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 30th June 2005, so far as the Directors were aware, the following persons (other than the Directors and chief executive of the Company) had interests or 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**

<b>Name</b>	<b>Number of Shares/underlying shares (where appropriate)</b>	<b>Capacity</b>	<b>Percentage of issued share capital</b>
Oriental Gold Limited	83,606,250	Beneficial owner	18.86%
Billion Ocean Limited	58,310,000	Beneficial owner	13.15%

Save as disclosed above, as at 30th June 2005, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or 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**

None of the Company or the any of its subsidiaries had purchased, sold or redeemed any of its listed securities during the period ended 30th June 2005.

### **COMPETING INTEREST**

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

## **CORPORATE GOVERNANCE**

The Company has complied with the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules, which became effective from 1st January 2005 throughout the six months ended 30th June 2005, except with deviation from code provision A.2.1 in respect of the requirement for the segregation of the roles of the chairman and chief executive officer (“CEO”).

Code provision A.2.1 provides that the roles of chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

During the period under review, Xu Shao Chun was the chairman and CEO of the Company. The Board considers that although Xu Shao Chun is both the Chairman and CEO, he is able to differentiate his responsibilities under the each role and act accordingly. In addition, Xu Shao Chun is proficient in IT knowledge and the fast and myriad changes in the business that he could lead the Company to react swiftly to any market change, make timely decision in this fast-moving IT industry and ensure sustainable development of the Company. The arrangement under which the roles of chairman and CEO are performed by the same individual has been considered to be beneficial to the Company at the present stage as it helps to maintain the continuity of the Company’s policies and the stability of the Company’s operations, as well as to enhance the efficiency of the Company’s management. Notwithstanding the above, the Board will review the current organization structure from time to time and will make appropriate changes when necessary.

In order to guarantee to follow the Code strictly, the Company has perfected the Board and organized the construction that is built up, have standardized the rules of procedure of board of directors. The Board has set up four specialized committees, including audit committee, remuneration committee, nomination committee and strategic committee. The committees are served mostly by independent non-executive Directors and non-executive Directors.

## **AUDIT COMMITTEE**

During the reporting period, the Audit Committee of the Company (“Audit Committee”), which comprises three independent non-executive Directors and one non-executive Director, has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters. Especially, the rules of procedure of board of directors set out the scopes of official duty of the Audit Committee in order to check the Company’s financial statements and the procedures which the auditor audited independently and accounting policy, and supervise the Company’s financial reporting system and inside and control the procedures. The Audit Committee has reviewed the Group’s unaudited quarterly financial statements for the six months ended 30th June 2005 in terms of the rules of procedure of board of directors.

## REMUNERATION COMMITTEE

During the reporting period, the Remuneration Committee of the Company (“Remuneration Committee”) comprises two independent non-executive Directors and one executive Director. The Committee has adopted terms of reference, which are in line with the Code and the rules of procedure of board of directors. The Remuneration Committee has held its first meeting on 11th April 2005, confirming that the responsibilities of the Remuneration Committee members are discussing and establishing the system of hierarchical method of the wages, and approving the administration and supervision authorities’ wages of 2005.

## INTERNAL CONTROL

The Board places great importance on internal control and risk management and responsible for the purposes of establishing and maintaining adequate internal control over financial reporting for the Company and assessing the overall effectiveness of those internal controls.

## ADOPTION OF CODE OF CONDUCT REGARDING DIRECTOR’S SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors’ securities transaction on terms no less exacting than the required standard set out in Appendix 10 – Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules. The Directors have complied with such code of conduct throughout the accounting period covered by this interim report.

## APPRECIATION

The Board would like to express its sincere appreciation to its bankers, suppliers, customers and shareholders for their continued support to the Group. The Board also wishes to thank the Group’s management and staff for achieving major progress in the Group’s business and their dedication and commitment for improving the Group’s product quality.

By order of the Board  
**Kingdee International Software Group Company Limited**  
**Xu Shao Chun**  
*Chairman*

Shenzhen, The People’s Republic of China, 15th September 2005

*As at the date hereof, the executive Directors is Mr. Xu Shao Chun (Chairman of the Company) the non-executive Directors are Mr. Zhao Yong,, Mr. Hugo Shong and Mr. James Ming King; and the independent non-executive Directors are Ms. Yang Zhou Nan, Mr. Wu Cheng, Mr. Yeung Kwok On and Mr. Gary Clark Biddle.*

*The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*