

CHAIRMAN'S STATEMENT



Market Leadership

Strive to become the leader of SME's ERP market in Asian-Pacific region by 2010

On behalf of the Board, I hereby present the financial and operating results of Kingdee International Software Group Company Limited for the year ended 31 December 2005 to our shareholders.

In July 2005, the Group entered into a new era, switching our listing status from the GEM Board to the Main Board of the Stock Exchange of Hong Kong Limited. The Group successfully set foot in the international capital market by listing on the GEM Board in February 2001. Over the past five years, the Group achieved remarkable growth: turnover and profit attributable to shareholders both recorded a compound annual growth rate of 26% from 2001 to 2005 (5 years). We are confident that the listing of our shares on the Main Board will enhance our corporate profile. Our shares will be more attractive to investors both in Hong Kong and overseas, resulting in higher liquidity of our shares. All these will be conducive and beneficial to the future development of the Group and allow greater flexibility in financial management.

For the year ended 31 December 2005, the Group recorded an increase in turnover and profit attributable to shareholders of 19% and 40% respectively as compared with 2004. The success was attributable to the following factors:

1. During the reporting period, there continued to be growth in market demand for ERP in China. On the one hand, the SME application software market remained robust, as a result of an increasing number of SMEs becoming aware of the importance and necessity of informatization in strengthening internal management and hence their commitment to devoting more resources in this respect. On the other hand, the requirement for enterprise

management software from enterprises which have already achieved a certain scale of operations and standard of management continued to rise, as such enterprises saw the need for enterprise management software to meet the changing needs of business management.

2. During the reporting period, the Group continued to adhere to the strategy of "Product Leadership and Partner Oriented" and strived to consolidate and enhance our competitive edges in the mid to low-end ERP market segments. Crystallizing on past efforts, the Group has also attained steady progress in entering the high-end market segment. Furthermore, the strategy of "Proactive Services and Prompt Response" has brought about improved customer satisfaction.

During the reporting period, the Group continued to increase our investment in the research and development of ERP and middleware. The Group continued to consolidate our position in mid to low-end ERP market by launching the upgraded versions of Kingdee KIS professional version and Kingdee K/3 V10.2. To satisfy our customers' demand for integrated management and flexibility, the Group launched the management software package of "middleware + ERP" by combining the fundamental software platform, Kingdee BOS and high-end ERP product, Kingdee EAS V5.0 version. The Group has also upgraded our middleware, Apusic application server product, to version 4.1, which is the first in the Mainland China and the eleventh in the world that has passed the J2EE1.4 international standard accreditation and widely applied in various major projects.

The reporting period witnessed stable growth of the Group's direct sales business. The Group substantially expanded our distribution channels, with 200 newly-added distribution partners, which further consolidated the distribution network and laid a solid foundation for the future market development of the Group's ERP products. In addition, the Group furthered our efforts in proactive services and strived to enhance customer satisfaction and loyalty by improving existing customer management.

According to IDC's "Enterprise Applications Tracker in the Asian-Pacific region for the first half of 2005" (2005上半年亞太區軟件跟蹤重點), the Group was ranked first in SME market in terms of market share. According to IDC's "Market analysis report of China's ERM products in 2004", Kingdee is the number one brand name of ERM products in China. These reflect the level of confidence and recognition of both the market and our customers hold towards on the Group's products.

3. During the reporting period, the Group maintained an effective control over our costs and expenses. The new exceptional expenses on options and on switching to the Main Board were offset by the slower growth in the expenses of research and development and advertising. Accordingly, the overall growth in expenditure was lower than that of the turnover, realizing the benefits of scale of economies and the value added from unit cost.

In the next five years, China will continue to experience a rapid economic growth and the informatization of enterprises will continue to gain momentum.

1. In the "Eleventh Five-year Plan" of the PRC government, the software industry is classified as a core industry. It is expected that informatization of enterprises will continue to take pace at a rapid rate.
2. As SMEs gain a better understanding of informatization, they will realize the contribution of informatization to the enhancement of management efficiency and corporate competitiveness. The potential for SME application software market is therefore enormous, with SMEs committing more resources to informatization.
3. With customer acceptance of management software, followed by subsequent upgrade and additional authorization, there will be recurrent revenue and value-added for management software providers. A solid customer base and higher customer satisfaction will ensure a stable stream of future income for management software providers.

As a leading software provider in China, the Group will, in the coming five years, adhere to the development strategy of "Product leadership, Partner oriented, Proactive services, Prompt response". Moreover, in line with the "Blue ocean strategy", the Group will implement the "Customized ERP plan" and maintain our advantage in economies of scale, with a view to achieving higher growth in profit than in turnover. Meanwhile, the Group will continue to consolidate our leading position in the market by identifying appropriate investment and acquisition opportunities in ERP, mobile business and Application Service Provision companies. We will strive to become the leader of SME ERP market in Asian-Pacific region by 2010.

2006 will mark the starting point of the Group's next five-year strategy. The Group will continue to strengthen our human capital and build up a team of professional and innovative staff; increase our investment in research and development; initiate the "Customized ERP plan"; optimize the performance management of subsidiaries and improve the profit margin of direct sales.

Leveraging on the BOS platform, the Group will cooperate with more value-added partners to increase our market share. More effort will be put to enhance the relationship with, and services to, our existing customers. The Group will also consolidate our leading position in the SME ERP market, the market for financial and human resources management software for large enterprises and the middleware software market in China.

Finally, I would like to take this opportunity to express my heartfelt gratitude to our investors, customers and business partners for their relentless support.

Xu Shao Chun

Chairman of the Board of Directors

Shenzhen, the People's Republic of China,
28 March 2006