1. General information

Kingdee International Software Group Company Limited (the "Company") was incorporated in the Cayman Islands in 1999 as an exempted company with limited liability. The address of its office is 4th Level, Zone B, Block W1, Hi-Tech Industrial Park, Shennan Highway, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China (the "PRC").

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 PRC.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 28 March 2006.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The adoption of new/revised IFRS

In 2005, the Group adopted the new/revised IFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with 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

2. Summary of significant accounting policies *(continued)*

2.1 Basis of presentation (continued)

The adoption of new/revised IAS 1, 2, 8, 10, 16, 17, 21, 24, 27, 28, 31, 32, 33 and 39 and IFRS 4 did not result in substantial changes to the Group's accounting policies. In summary:

– IAS 1 has affected the presentation of minority interest and other disclosures.

– IAS 2, 8, 10, 16, 17, 27, 28, 31, 32, 33 and 39; and IFRS 4 had no material effect on the Group's policies.

– IAS 21 had 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. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– IAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of IFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective years (Note 2.17).

The adoption of IFRS 3, IAS 36 and IAS 38 results in a change in the accounting policy for goodwill and negative goodwill.

Until 31 December 2004, goodwill is amortised using the straight-line method over its estimated useful life and assessed for an indication of impairment at each balance sheet date. Negative goodwill is recognised in the 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 accordance with the provisions of IFRS 3 (Note 2.7):

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. The excess of the fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition over the cost of an acquisition is recognised directly in the consolidated income statement.

(All amounts in Renminbi thousand unless otherwise stated)

2. Summary of significant accounting policies *(continued)*

2.1 Basis of presentation (continued)

In respect of previously recognised goodwill and negative goodwill acquired in business combinations for which the agreement date was before 31 March 2004 and in accordance with the transitional provisions of IFRS 3:

(a) The Group ceased amortisation of goodwill from 1 January 2005;

(b) Accumulated amortisation as at 1 January 2005 has been eliminated with a corresponding decrease in the cost of respective goodwill;

(c) From the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment; and

(d) Negative goodwill on 1 January 2005 of RMB46,000 has been derecognised with a corresponding adjustment to the opening balance of retained earnings.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of IAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. No standards adopted by the Group require retrospective application other than IFRS 2.

The adoption of IFRS 2 resulted in:

	As at 31 December	
	2005	2004
Increase in share capital	**9,636**	3,935
Decrease in retained earnings	**9,636**	3,935

	For the year ended 31 December	
	2005	2004
Increase in administrative expenses	**5,589**	3,237
Increase in selling and marketing expenses	**112**	–
Decrease in basic earnings per share	**RMB0.01**	RMB0.01
Decrease in diluted earnings per share	**RMB0.01**	RMB0.01

	As at 1 January 2004
Increase in share capital	698
Decrease in retained earnings	698

The adoption of IFRS 3 resulted in:

	As at 31 December 2005
Increase in intangible assets	**46**
Increase in retained earnings	**46**

2. Summary of significant accounting policies *(continued)*

2.1 Basis of presentation (continued)

There was no impact on opening retained earnings at 1 January 2004 from the adoption of IFRS 3.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (see Note 2.7).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see Note 2.7).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2. Summary of significant accounting policies *(continued)*

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional 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 rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity 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. Summary of significant accounting policies *(continued)*

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives 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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount, and included in the income statement.

2.6 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.

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill on acquisitions of associates is included in "investment in associates". Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

2. Summary of significant accounting policies *(continued)*

2.7 *Intangible assets (continued)*

(b) Research and development expenditure

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 technical feasibility and its costs can be measured reliably. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, not exceeding 30 months.

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis over their estimated useful lives, not exceeding 2 years.

2.8 *Impairment of non-financial assets*

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment 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 asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 *Financial assets*

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

The Group only has financial assets classified as "loans and receivables" and "available-for-sale financial assets" in the respective periods.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet (Note 2.12).

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2. Summary of significant accounting policies *(continued)*

2.9 *Financial assets (continued)*

Regular purchases and sales of investments are recognised on trade-date which is the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets are subsequently carried at fair value and loans and receivables are carried at amortised cost using the effective interest method.

Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

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.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade and other receivables is described in Note 2.12.

2.10 *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 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 selling expenses.

2.11 *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.

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.

2. Summary of significant accounting policies *(continued)*

2.11 *Implementation contracts (continued)*

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.

2.12 *Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is 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 asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

2.13 *Cash and cash equivalents*

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.14 *Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.15 *Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between proceeds (net of transaction cost) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.16 *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 consolidated financial statements. However, the deferred income tax, if it is not accounted for, arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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 and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. Summary of significant accounting policies *(continued)*

2.17 Employee benefits

(a) 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.

(b) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provision are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

2. Summary of significant accounting policies *(continued)*

2.19 Revenue recognition (continued)

(b) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.20 Operating leases

Lease in which 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.

2.21 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants 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 relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.22 Dividend distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. Financial risk management

3.1 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 relates 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.

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.

3. Financial risk management *(continued)*

3.1 *Financial risk factors (continued)*

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 21.

3.2 *Fair value estimation*

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as estimated discounted cash flows. The Group was a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

4. Critical accounting estimates and judgements

The preparation financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

4.1 *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value of the cash-generating unit to which goodwill has been allocated. The recoverable amount of the cash-generating unit has been determined based on a value-in-use calculation, which uses cash flow projection based on a financial forecast approved by management covering a ten-year period and a discount rate of 6.12%. Based on the calculation, management recognised an impairment loss of RMB998,000 as at 31 December 2005 (Note 8).

4.2 *Impairment of development costs*

Determining whether development cost is impaired requires an estimation of the value of the developed projects. The recoverable amount of development projects has been determined based on a value-in-use calculation, which uses cash flow projection based on a financial forecast approved by management covering a five-year period and a discount rate of 6.12%. Based on the calculation, management determined that there was no impairment of any of its development projects as at 31 December 2005.

4.3 *Impairment of trade receivables*

Management decides to determine that the impairment of trade receivables on a regular basis. This estimate is based on the credit history of its customers, age of the debts and current conditions. Management reassesses the impairment of trade receivables at the balance sheet date.

(All amounts in Renminbi thousand unless otherwise stated)

5. Segment information

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.

6. Property, plant and equipment

	Buildings	Computer and related equipment	Other office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
At 1 January 2004							
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
Year ended 31 December 2004							
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
Year ended 31 December 2005							
Opening net book amount	**10,629**	**27,809**	**193**	**3,728**	**2,178**	**917**	**45,454**
Additions	**–**	**8,530**	**332**	**751**	**–**	**12,271**	**21,884**
Disposals *(Note 33(a))*	**(1,535)**	**(509)**	**–**	**(267)**	**–**	**–**	**(2,311)**
Depreciation charge	**(371)**	**(8,056)**	**(171)**	**(884)**	**(2,178)**	**–**	**(11,660)**
Closing net book amount	**8,723**	**27,774**	**354**	**3,328**	**–**	**13,188**	**53,367**
At 31 December 2005							
Cost	**12,164**	**58,254**	**1,300**	**6,639**	**12,449**	**13,188**	**103,994**
Accumulated depreciation	**(3,441)**	**(30,480)**	**(946)**	**(3,311)**	**(12,449)**	**–**	**(50,627)**
Net book amount	**8,723**	**27,774**	**354**	**3,328**	**–**	**13,188**	**53,367**

(All amounts in Renminbi thousand unless otherwise stated)

6. Property, plant and equipment *(continued)*

Depreciation expense of RMB4,265,000 (2004: RMB4,322,000) has been expensed in selling and marketing expenses and RMB7,395,000 (2004: RMB8,174,000) in administrative expenses.

7. Lease prepayments

	2005	2004
Opening net book amount	**16,630**	–
Additions	**–**	16,708
Income statement charge	**(384)**	(78)
Closing net book amount	**16,246**	16,630
Represented by:		
Cost	**16,708**	16,708
Accumulated charges	**(462)**	(78)
	16,246	16,630

Amounts were paid for land use rights in the PRC, which were granted for 50 years.

RMB384,000 (2004: RMB78,000) of lease prepayments has been charged to administrative expenses in the income statement.

(All amounts in Renminbi thousand unless otherwise stated)

8. Intangible assets

	Goodwill	Negative goodwill	Development costs	Computer software	Total
At 1 January 2004					
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
Year ended 31 December 2004					
Opening net book amount	28,050	(69)	44,486	1,796	74,263
Additions	–	(870)	–	–	(870)
Impairment of goodwill	(1,206)	–	–	–	(1,206)
Impairment of development costs capitalised	–	–	(334)	–	(334)
Internally generated development costs capitalised (Note 26)	–	–	40,494	–	40,494
Amortisation charge	(2,490)	23	(30,476)	(1,268)	(34,211)
Recognised in the income statement	–	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
Year ended 31 December 2005					
Opening net book amount	**24,354**	**(46)**	**54,170**	**528**	**79,006**
Derecognition of negative goodwill *(Note 2.1)*	**–**	**46**	**–**	**–**	**46**
Impairment of goodwill	**(998)**	**–**	**–**	**–**	**(998)**
Internally generated development costs capitalised (Note 26)	**–**	**–**	**39,128**	**–**	**39,128**
Amortisation charge	**–**	**–**	**(31,785)**	**(528)**	**(32,313)**
Closing net book amount	**23,356**	**–**	**61,513**	**–**	**84,869**
At 31 December 2005					
Cost	**25,560**	**–**	**144,493**	**5,012**	**175,065**
Accumulated amortisation	**–**	**–**	**(82,646)**	**(5,012)**	**(87,658)**
Impairment provision	**(2,204)**	**–**	**(334)**	**–**	**(2,538)**
Net book amount	**23,356**	**–**	**61,513**	**–**	**84,869**

Amortisation charge of RMB32,313,000 (2004: RMB34,211,000) is included in administrative expenses.

Accumulated amortisation of goodwill of RMB6,877,000 has been eliminated with a corresponding decrease in the cost of goodwill as at 1 January 2005.

(All amounts in Renminbi thousand unless otherwise stated)

9. Investment in subsidiaries

	2005	2004
Unlisted shares		
At cost (a)	128,496	103,518
Provision for impairment	(5,300)	(5,300)
	123,196	98,218
Loans to subsidiaries (b)	15,000	15,000
	138,196	113,218

(a) The following is a list of the principal subsidiaries at 31 December 2005:

Company	Place/country of incorporation or establishment/ operation	Registered and paid-up capital	Percentage of equity interests attributable to the Company	Kind of Legal entity	Principal activities
Directly held:					
Kingdee Software (China) Co., Ltd. ("Kingdee China")	PRC	RMB125,000,000	100%	Wholly foreign-owned enterprise	Developing, manufacturing and selling of software and hardware products and provision of software-related technical services
Kingdee International Software Group (H.K.) Ltd. ("Kingdee HK")	Hong Kong	HKD1,000,000	100%	-	Selling of computer software and hardware products and provision of related services
Indirectly held:					
Guangdong Kingdee Software Technology Co., Ltd.	PRC	RMB500,000	90%	Limited liability company	Selling of software products and provision of software-related technical services
Shenzhen Kingdee Middleware Co., Ltd.	PRC	RMB5,000,000	70%	Limited liability company	Developing of computer software and hardware and provision of consultation services
Beijing Case Software Technology Co., Ltd.	PRC	USD540,000	100%	Equity joint venture (Hong Kong invested)	Developing, manufacturing of computer software system and related hardware products, selling and provision of technical training and business consultation
Kingdee Information Technology (Beijing) Co., Ltd.	PRC	RMB5,000,000	100%	Wholly foreign-owned enterprise	Developing of management system software, provision of sale and maintenance service to computer hardware
Xiamen Kingdee Software Co., Ltd.	PRC	RMB300,000	70%	Limited liability company	Selling of software products and provision of software-related technical services

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

(All amounts in Renminbi thousand unless otherwise stated)

10. Investment in associates

	2005	2004
At beginning of the year	**2,409**	4,261
Additions	**100**	–
Share of results		
Profit/(Loss) before and after taxation	**108**	(1,062)
Amortisation of goodwill	**–**	(790)
	108	(1,852)
At end of the year	**2,617**	2,409
Represented by:		
Share of net assets	**697**	563
Goodwill		
At cost	**1,920**	3,953
Accumulated amortisation	**–**	(2,107)
	1,920	1,846
	2,617	2,409

Accumulated amortisation of RMB2,107,000 has been eliminated with a corresponding decrease in the cost of goodwill as at 1 January 2005.

The Group's interests in its principal associates, all of which are unlisted, were as follows:

Company	**Place/country of incorporation**	**Registered and paid-up capital**	**% interest held**		**Principal activities**
			2005	2004	
Asia 21 – Cybics Technology Limited	Hong Kong	HKD1,333,333	**37%**	25%	Investment holding (holding company of Cybics Software (Ningbo) Co., Ltd.)
Cybics Software (Ningbo) Co., Ltd.	PRC	RMB7,000,000	**37%**	25%	Selling of software and computer products

In February 2005, the Group acquired additional interests in Asia 21 – Cybics Technology Limited at a consideration of RMB100,000. As a result, as at the date of this report, the Group owned 37% interest in these companies.

(All amounts in Renminbi thousand unless otherwise stated)

11. Deferred income tax assets

	2005	2004
At beginning of the year	**3,839**	2,928
Recognised in income statement	**1,257**	911
At end of the year	**5,096**	3,839
Deferred income tax assets:		
– to be recovered after more than 12 months	**2,695**	2,811
– to be recovered within 12 months	**2,401**	1,028
	5,096	3,839

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

	At 1 January 2004	Credited/ (charged) to the income statement	At 31 December 2004	Credited/ (charged) to the income statement	**At 31 December 2005**
Provision for bad and doubtful debts	3,699	741	4,440	1,612	**6,052**
Deferred income	2,641	522	3,163	1,322	**4,485**
Provisions	590	(221)	369	(15)	**354**
Tax losses	186	(186)	–	–	**–**
Deferred development costs	(4,449)	316	(4,133)	(1,662)	**(5,795)**
Others	261	(261)	–	–	**–**
Deferred tax assets, net	2,928	911	3,839	1,257	**5,096**

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 tax losses with uncertain realisation which were not recognised by the Group amounted to RMB77,698,000 (2004: RMB55,023,000).

(All amounts in Renminbi thousand unless otherwise stated)

12. Available-for-sale financial assets

	Group		Company	
	2005	2004	**2005**	2004
Unlisted investments				
At beginning of the year	**255**	335	**–**	–
Deemed additions	**41**	–	**954**	–
Impairment loss	**(230)**	–	**(948)**	–
Deemed disposals	**–**	(80)	**–**	–
At end of the year	**66**	255	**6**	–
Represented by:				
Cost	**296**	255	**954**	–
Provision for impairment	**(230)**	–	**(948)**	–
	66	255	**6**	–

These investments are companies established in the PRC and principally engaged in selling of software products and provision of software-related technical services. The Group has 3% to 19% equity interests in these companies.

13. Inventories

	2005	2004
At cost		
Raw materials	**1,845**	979
Finished goods	**2,115**	2,762
	3,960	3,741

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB18,217,000 (2004: RMB12,253,000).

(All amounts in Renminbi thousand unless otherwise stated)

14. Trade and other receivables

	Group		Company	
	2005	2004	**2005**	2004
Trade receivables (a)	**129,762**	115,384	**–**	–
Less: provision for impairment (b)	**(65,658)**	(47,174)	**–**	–
Trade receivables – net	**64,104**	68,210	**–**	–
Notes receivable	**794**	–	**–**	–
Advances to employees (c)	**3,885**	4,565	**–**	–
Deposits	**5,483**	4,218	**–**	–
VAT recoverable	**22,208**	12,676	**–**	–
Amounts due from subsidiaries (d)	**–**	–	**42,060**	38,800
Others	**7,309**	8,428	**731**	–
	103,783	98,097	**42,791**	38,800

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

	Group	
	2005	2004
Within 180 days	**59,602**	54,931
Over 180 days but within 360 days	**22,301**	28,754
Over 360 days	**47,859**	31,699
	129,762	115,384

(b) The Group has recognised a loss of RMB18,484,000 (2004: RMB10,187,000) for the impairment of its trade receivables during the year ended 31 December 2005. The loss has been included in administrative expenses in the income statement.

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

(d) Amounts due from subsidiaries are unsecured, interest free and repayable on demand.

(All amounts in Renminbi thousand unless otherwise stated)

15. Implementation contracts

	2005	2004
Contract costs incurred	**34,700**	25,499
Contract profit recognised	**58,693**	34,088
Billings	**(99,959)**	(68,635)
Work in progress at end of the year	**(6,566)**	(9,048)
Represented by:		
Due to customers on implementation contracts	**(14,297)**	(16,332)
Due from customers on implementation contracts	**7,731**	7,284
	(6,566)	(9,048)
Advances received on implementation contracts included in customers' deposits	**2,848**	2,994
Due from customers on implementation contracts billed included in trade receivables	**24,379**	44,898

16. Cash and cash equivalents

	Group		**Company**	
	2005	2004	**2005**	2004
Cash at bank and in hand (a)	**286,622**	214,719	**5,359**	6,371
Less: short-term bank deposits (b)	**(39,569)**	–	**–**	–
Pledged bank deposits (c)	**(5,000)**	–	**–**	–
	242,053	214,719	**5,359**	6,371

(a) Cash at bank and in hand are mainly denominated in RMB.

(b) The effective interest rate on short-term bank deposits was 2.07%. These deposits have a maturity of six months.

(c) The bank deposits were pledged to bank as a security for short-term bank loans granted to a related party (Note 35).

17. Share capital

	Note	Number of shares (thousands)	Book value of shares	Share premium	Total
Balance at 1 January 2004, as previously reported		441,496	47,237	38,376	85,613
Opening adjustment for the adoption of IFRS 2	2.1	–	–	698	698
Balance at 1 January 2004, as restated		441,496	47,237	39,074	86,311
Employee share option scheme:					
– Value of services provided	27	–	–	3,237	3,237
– Exercise of share options		1,763	187	2,705	2,892
Balance at 31 December 2004, as restated		443,259	47,424	45,016	92,440
Balance at 1 January 2005		443,259	47,424	45,016	92,440
Employee share option scheme:					
– Value of services provided	27	–	–	5,589	5,589
– Exercise of share options		338	36	475	511
Share options granted to business partners		–	–	112	112
Balance at 31 December 2005		**443,597**	**47,460**	**51,192**	**98,652**

The authorised number of ordinary shares is 1,000,000,000 shares (2004: 1,000,000,000 shares) with a par value of HK$0.1 per share (2004: HK$0.1 per share). All issued shares are fully paid and ranked pari passu in all respects.

(All amounts in Renminbi thousand unless otherwise stated)

18. Share options

Details of share options granted and movements in the number of share options outstanding are as follows:

Date of grant	27 September 2001	15 May 2002	20 February 2003	8 August 2003	30 December 2003	23 March 2004	1 June 2004	27 December 2004	21 April 2005	
Exercise price	**HK$1.49**	**HK$1.78**	**HK$1.39**	**HK$2.05**	**HK$2.69**	**HK$3.18**	**HK$2.65**	**HK$2.05**	**HK$1.55**	
Granted to	**33 employees**	**2 directors and 20 employees**	**2 directors and 74 employees**	**2,370 employees**	**1 director**	**1 director**	**1 director and 177 employees**	**1 director and 154 employees**	**1 director and 3 business partners**	**Total**
Exercisable period	**10 years**	**10 years**	**10 years**	**10 years**	**10 years**	**10 years**	**10 years**	**10 years**	**5 years**	
Note	(a)	(b)	(b)	(c)	(b)	(d)	(e)	(f)	(g)	
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
At 1 January 2005	792,500	3,095,000	4,851,500	3,324,000	–	4,000,000	10,107,500	3,352,500	–	29,523,000
Granted	–	–	–	–	–	–	–	–	3,240,000	3,240,000
Exercised	–	(30,000)	(305,500)	(2,000)	–	–	–	–	–	(337,500)
Waived	–	–	–	–	–	–	–	–	–	–
Lapsed due to resignation	(145,000)	(445,000)	(722,500)	(650,000)	–	–	(1,932,500)	(627,500)	–	(4,522,500)
At 31 December 2005	**647,500**	**2,620,000**	**3,823,500**	**2,672,000**	**–**	**4,000,000**	**8,175,000**	**2,725,000**	**3,240,000**	**27,903,000**

Notes:

(a) 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.

(b) 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.

(c) 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 8 August 2004.

(d) All of these options have a duration of 10 years from 23 March 2004, provided that the options may not be exercised in respect of more than 50% of the options prior to the date of 31 December 2004.

18. Share options *(continued)*

Notes: (continued)

(e) All of these options have a duration of 10 years from the date of grant, provided that

(1) the options cannot be exercised within 1 year from the date of grant;

(2) the number of options that can be exercised within 2 years from the date of grant cannot be more than 25% of the revenue ratio for the financial year of 2004;

(3) the number of options that can be exercised within 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;

(4) the number of options that can be exercised within 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; and

(5) 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.

(f) 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.

(g) All of these options have a duration of 5 years from the date of grant and the options can be exercised from the date of grant.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005		2004	
	Average exercise price in HK$ per share	**Options (thousands)**	Average exercise price in HK$ per share	Options (thousands)
At 1 January	**2.26**	**29,523**	1.72	20,226
Granted	**1.55**	**3,240**	2.73	26,333
Exercised	**1.43**	**(338)**	1.53	(1,763)
Lapsed	**2.15**	**(4,522)**	2.45	(15,273)
At 31 December	**2.20**	**27,903**	2.26	29,523

Out of the 27,903,000 outstanding options (2004: 29,523,000 options), 15,037,000 options (2004: 9,538,000 options) were exercisable. The related weighted average share price at the time of exercise was HK$1.81 (2004: HK$2.86) per share.

The fair value of options granted during the year determined using the Black-Scholes valuation model was RMB5,701,000 (2004: RMB3,237,000). The significant inputs into the model were share price of HK$1.52 (2004: HK$2.63) at the grant date, exercise price shown above, standard deviation of expected share price returns of 47% (2004: 46%), expected average life of options of 3 years (2004: 6 years), expected dividend paid out of HK$0.02 per share (2004: HK$0.02 per share) and annual risk-free interest rate of 2.28% (2004: 1.05%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the period from the ending of the locking period to the grant date of share options.

(All amounts in Renminbi thousand unless otherwise stated)

19. Other reserves

Group	Merger reserve Note (a)	Capital reserve Note (b)	Statutory surplus reserve fund Note (c)	Exchange fluctuation reserve	Total
Balance at 1 January 2004	6,570	57,197	24,246	(520)	87,493
Capitalisation of retained earnings of a subsidiary	–	50,000	–	–	50,000
Translation adjustment	–	–	–	(268)	(268)
Balance at 31 December 2004	6,570	107,197	24,246	(788)	137,225
Balance at 1 January 2005	6,570	107,197	24,246	(788)	137,225
Capitalisation of retained earnings of a subsidiary	–	25,000	–	–	25,000
Appropriation to reserve fund	–	–	13,313	–	13,313
Translation adjustment	–	–	–	(859)	(859)
Balance at 31 December 2005	**6,570**	**132,197**	**37,559**	**(1,647)**	**174,679**

Company	Contributed surplus Note (d)	Exchange fluctuation reserve	Total
Balance at 1 January 2004	20,730	(517)	20,213
Transfer to retained earnings	(20,730)	–	(20,730)
Translation adjustment	–	(278)	(278)
Balance at 31 December 2004	–	(795)	(795)
Balance at 1 January 2005	–	(795)	(795)
Translation adjustment	–	(1,017)	(1,017)
Balance at 31 December 2005	**–**	**(1,812)**	**(1,812)**

(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 their net profit to the reserve fund until the balance of such fund has reached 50% of their registered capital. The reserve fund can only be used, upon approval by the relevant authorities, to offset accumulated losses or increase capital.

(All amounts in Renminbi thousand unless otherwise stated)

19. Other reserves *(continued)*

(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, net of amounts transferred to retained earnings.

20. Trade and other payables

	Group		Company	
	2005	2004	2005	2004
Trade payables (a)	10,991	5,921	–	–
Salary and staff welfare payable	10,682	6,774	–	–
Customers' deposits	35,341	35,011	–	–
VAT and business tax payable	16,926	15,623	–	–
Amounts due to subsidiaries (b)	–	–	663	13,026
Other	13,387	11,784	–	–
	87,327	75,113	663	13,026

(a) As at 31 December 2005, the ageing analysis of trade payables is as follows:

	Group	
	2005	2004
Within 180 days	9,512	4,940
Over 180 days but within 360 days	554	390
Over 360 days	925	591
	10,991	5,921

(b) Amounts due to subsidiaries are unsecured, interest free and repayable on demand.

21. Borrowings

	2005	2004
Unsecured bank borrowings wholly due within 1 year	30,000	24,000

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

	2005	2004
Total borrowings		
– at fixed rates	30,000	20,000
– interest free	–	4,000
	30,000	24,000
Weighted average effective annual interest rates	4.91%	4.80%

The carrying amount of short-term borrowings are denominated in RMB and approximate their fair values.

(All amounts in Renminbi thousand unless otherwise stated)

22. Deferred income

	2005	2004
Deferred sales (a)	40,994	31,394
Deferred subsidy income (b)	3,854	238
	44,848	31,632

(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) Movement of deferred subsidy income is as follows:

	2005	2004
At beginning of the year	238	1,460
Additions	7,760	–
Recognised in the income statement (note 25)	(4,144)	(1,222)
At end of the year	3,854	238

Amounts represented various subsidies granted by and received from local government authorities for research and development projects.

23. Provisions

	2005	2004
At beginning of the year	3,691	5,897
Additional provisions	4,495	–
Amounts utilised	(4,649)	(2,206)
At end of the year	3,537	3,691

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 within one year.

(All amounts in Renminbi thousand unless otherwise stated)

24. Turnover

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

	2005	2004
Sale of software	377,105	323,811
Software implementation services	102,441	84,196
Software solution consulting and support services	44,696	33,631
Sales of computer and related products	5,101	4,284
	529,343	445,922

25. Other income

	2005	2004
Subsidy income		
VAT refund (a)	51,802	47,048
Subsidy on development of new products (Note 22)	4,144	1,222
Subsidies for re-investment (b)	–	5,110
	55,946	53,380
Interest income	1,330	1,213
Gains on disposal of equity interest in a subsidiary	1,285	–
Others	2,536	2,745
	61,097	57,338

(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 sale of the software in the PRC which exceeds the VAT rate of 3%.

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

(All amounts in Renminbi thousand unless otherwise stated)

26. Expenses by nature

Expenses included in cost of sales, selling and marketing expenses and administrative expenses are analysed as follows:

	2005	2004
Research and development costs		
Amounts incurred	**57,819**	63,476
Less: amounts capitalised (Note 8)	**(39,128)**	(40,494)
Add: amortisation of capitalised costs (Note 8)	**31,785**	30,476
Add: impairment of capitalised costs (Note 8)	**–**	334
	50,476	53,792
Employee benefit expense (Note 27)	**262,910**	234,853
Less: amount capitalised in development costs	**(39,128)**	(40,494)
	223,782	194,359
Cost of inventories consumed (Note 13)	**18,217**	12,253
Depreciation of property, plant and equipment (Note 6)	**11,660**	12,496
Amortisation of computer software (Note 8)	**528**	1,268
Amortisation of goodwill arising on acquisitions of subsidiaries (Note 8)	**–**	2,490
Amortisation of negative goodwill (Note 8)	**–**	(23)
Charge of lease prepayments (Note 7)	**384**	78
Impairment of goodwill (Note 8)	**998**	1,206
Impairment of receivables (Note 14)	**18,484**	10,187
Impairment of available-for-sale financial assets (Note 12)	**230**	–
Loss on disposals of property, plant and equipment	**795**	286
Negative goodwill recognised upon dissolution of subsidiaries	**–**	(870)
Warranty provision (Note 23)	**4,495**	–
Auditors' remuneration	**1,230**	1,200
Advertising costs	**35,221**	40,401
Sales promotion costs	**25,282**	17,652
Share options granted to business partners	**112**	–
Professional service costs	**10,386**	4,056
Travelling	**17,149**	16,176
Rental and utilities	**21,656**	21,728

(All amounts in Renminbi thousand unless otherwise stated)

27. Employee benefit expense

	2005	2004
Salaries, allowances, and bonus	**200,555**	186,830
Commission	**32,290**	25,926
Staff welfare	**8,136**	5,943
Pension scheme contributions (Note (a))	**16,340**	12,917
Share options granted to directors and employees (Note 17)	**5,589**	3,237
	262,910	234,853

(a) 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.

(b) *Director's and senior management's emoluments*

The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name of Director	Fees	Salary	Bonuses	Share options	Employer's contributions to pension scheme	Total
Mr. Xu Shao Chun	50	851	300	1,397	15	2,613
Mr. Chen Deng Kun	5	27	–	16	1	49
Mr. Luo Ming Xing	38	448	220	–	10	716
Mr. James Ming King	50	–	–	–	–	50
Mr. Zhao Yong	50	–	–	–	–	50
Mr. Hugo Shong	50	–	–	–	–	50
Ms. Yang Zhou Nan	100	–	–	–	–	100
Mr. Wu Cheng	50	–	–	–	–	50
Mr. Yeung Kwok On	104	–	–	–	–	104
Mr. Gary Clark Biddle	104	–	–	–	–	104

(All amounts in Renminbi thousand unless otherwise stated)

27. Employee benefit expense *(continued)*

(b) Director's and senior management's emoluments (continued)

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name of Director	Fees	Salary	Bonuses	Share options	Employer's contributions to pension scheme	Total
Mr. Xu Shao Chun	50	676	300	–	13	1,039
Mr. Luo Ming Xing	50	563	199	718	3	1,533
Mr. James Ming King	50	2,200	–	–	–	2,250
Mr. Zhao Yong	50	–	–	–	–	50
Mr. Hugo Shong	50	–	–	–	–	50
Ms. Yang Zhou Nan	50	–	–	–	–	50
Mr. Wu Cheng	50	–	–	–	–	50
Mr. Yeung Kwok On	100	–	–	–	–	100
Mr. Gary Clark Biddle	50	–	–	–	–	50

Notes:

(a) Mr. Luo Ming Xing resigned on 15 September 2005.

(c) Mr. Chen Deng Kun was appointed on 4 November 2005.

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2004: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: two) individuals during the year are as follows:

	2005	2004
Basic salaries, housing allowances, other allowances and benefits in kind	**1,884**	1,126
Bonuses	**933**	461
Pension scheme contributions	**43**	5
Share options	**683**	366
	3,543	1,958

(All amounts in Renminbi thousand unless otherwise stated)

27. Employee benefit expense *(continued)*

(c) *Five highest paid individuals (continued)*

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Emolument bands		
HK$0 – HK$1,000,000	**1**	1
HK$1,000,001 – HK$2,000,000	**2**	1

28. Finance costs

	2005	2004
Interest expense on bank borrowings	**517**	1,083
Net foreign exchange gains	**(129)**	(3)
	388	1,080

29. Taxation expense

	2005	2004
PRC income tax		
– Current income tax	**8,881**	5,363
– Over-provision in previous year	**(1,072)**	(1,140)
– Deferred income tax (Note 11)	**(1,257)**	(911)
	6,552	3,312

(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 years 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) 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 years' 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 year.

29. Taxation expense *(continued)*

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

	2005	2004
Profit before tax	79,840	56,295
Tax at the statutory tax rate of 33% (2004: 33%)	26,347	18,577
– Effect of preferential tax rates	(18,363)	(12,948)
– Tax losses not recognised	6,532	4,437
– Expenses not deductible for tax purposes	1,086	1,555
– Income not subject to tax	(5,087)	(4,648)
– Additional deductible allowance for research and development expenses	(2,891)	(2,521)
– Over-provision of income tax in previous year	(1,072)	(1,140)
Taxation expense	6,552	3,312

30. Profit attributable to equity holders of the Company

The profit attributable to equity holders of the Company is dealt within the financial statements of the Company to the extent of RMB53,941,000 (2004: RMB44,676,000).

31. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005	2004
Profit attributable to equity holders of the Company	72,290	51,728
Weighted average number of ordinary shares in issue (thousands)	443,596	442,640
Basic earnings per share (RMB per share)	0.16	0.12

Diluted

Diluted earnings per share is calculated adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has just one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

31. Earnings per share *(continued)*

	2005	2004
Profit attributable to equity holders of the Company	72,290	51,728
Weighted average number of ordinary shares in issue (thousands)	443,596	442,640
Adjustments – share options (thousands)	1,055	5,023
Weighted average number of ordinary shares for diluted earnings per share (thousands)	444,651	447,663
Diluted earnings per share (RMB per share)	0.16	0.12

32. Dividends

	2005	2004
Final, proposed	20,843	18,810

A dividend in respect of 2005 of RMB0.047 (HK$0.045) (2004: RMB0.04 (HK$0.04)) per share, is to be proposed at the Annual General Meeting on 28 April 2006. These financial statements do not reflect this dividend payable.

(All amounts in Renminbi thousand unless otherwise stated)

33. Notes to consolidated cash flow statement

(a) Cash generated from operations

	2005	2004
Profit for the year	72,290	51,728
Adjustments for:		
Income tax expenses (Note 29)	6,552	3,312
Depreciation of property, plant and equipment (Note 6)	11,660	12,496
Loss on disposals of property, plant and equipment	795	286
Share of results of associates (Note 10)	(108)	1,852
Charge of lease prepayments (Note 7)	384	78
Amortisation of intangible assets (Note 8)	32,313	34,211
Impairment of goodwill (Note 8)	998	1,206
Impairment of development costs capitalised (Note 8)	–	334
Negative goodwill recognised as income (Note 8)	–	(870)
Interest income (Note 25)	(1,330)	(1,213)
Interest expense (Note 28)	517	1,083
Share option expenses		
– granted to directors and employees	5,589	3,237
– granted to business partners	112	–
Gain on disposal of equity interest in a subsidiary	(1,285)	–
Impairment of available-for-sale financial assets (Note 12)	230	–
Minority interest	998	1,255
	129,715	108,995
Changes in working capital		
Inventories	(219)	(337)
Trade and other receivables	(4,146)	(18,257)
Provision	(154)	(2,206)
Deferred income	13,216	5,218
Trade and other payables	9,214	31,350
Due from/to customers on implementation contracts	(2,482)	(1,932)
Cash generated from operating activities	145,144	122,831

(All amounts in Renminbi thousand unless otherwise stated)

33. Notes to consolidated cash flow statement *(continued)*

(a) *Cash generated from operations (continued)*

In the cash flow statement, proceeds from sale of property, plant and equipment comprises:

	2005	2004
Net book amount (Note 6)	**2,311**	3,267
Loss on sale of property, plant and equipment	**(795)**	(286)
Proceeds from sale of property, plant and equipment	**1,516**	2,981

(b) *Disposal of equity interest in a subsidiary*

During the year, the Group disposed of a total of 81% equity interest in a subsidiary, Kingdee Technology (Shanghai) Co., Ltd. ("Kingdee Technology").

The Group deconsolidated Kingdee Technology from 30 November 2005.

Share of net assets disposed	**405**
Gain on the disposal (Note 25)	**1,285**
Disposal consideration	**1,690**
Less: consideration receivable	**(1,440)**
cash and cash equivalents deconsolidated	**(446)**
Net cash outflow on the disposal	**(196)**

34. Commitments – Group

Capital commitments

The Group had capital expenditure contracted for but not recognised in the accounts as follows:

	2005	2004
Capital commitments	**21,476**	–

Operating lease commitments

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

	2005	2004
Payable:		
– Not later than one year	**14,286**	8,995
– Later than one year and not later than five years	**7,590**	6,602
	21,876	15,597

The Company had no other significant commitment as at the end of the year.

35. Related party transactions

Shenzhen Kingdee Software Accessories Co., Ltd. ("Kingdee Accessories"), the minority shareholder of certain subsidiaries, is held by employee of unions and employee representatives of the Group. In December 2005, the Group pledged short-term bank deposits of RMB5,000,000 to a bank as a security for the short-term bank loans granted to Kingdee Accessories. The Group has no other significant transactions entered into with Kingdee Accessories during the year.

36. Contingent liabilities

Save as disclosed in Note 35, the Group and the Company had no significant contingent liability as at the end of the year.

37. Ultimate holding company

The directors regard the Company has no ultimate holding company.