

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)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH JUNE 2005

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

		Six months ended 30th June	
		2005	2004
			As re-stated
			(Note 1)
		Unaudited	Unaudited
	Notes	RMB'000	RMB'000
Turnover	2	244,560	204,664
Cost of sales		(47,363)	(44,058)
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)
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)
Profit before taxation		25,780	20,817
Taxation	6	(2,696)	(3,189)
Profit for the period		23,084	17,628

Attributable to:			
Equity holders of the Company		23,217	17,632
Minority Interests		(133)	(4)
		<u>23,084</u>	<u>17,628</u>
Dividends		<u>–</u>	<u>–</u>
Earnings per share for profit attributable to the equity holders of the Company during the period			
– basic	7	<u>RMB5.238cents</u>	<u>RMB3.991cents</u>
– diluted	7	<u>RMB5.226cents</u>	<u>RMB3.920cents</u>

CONSOLIDATED BALANCE SHEET

As at 30th June 2005

		30th June 2005 Unaudited RMB'000	31st December 2004 Audited RMB'000
	<i>Notes</i>		
ASSETS			
Non-current assets			
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
		<u>153,599</u>	<u>147,593</u>
Current assets			
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
		<u>327,230</u>	<u>323,841</u>
Total current assets		<u>327,230</u>	<u>323,841</u>
Total assets		<u>480,829</u>	<u>471,434</u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		47,427	47,424
Share premium		44,729	41,081
Reserves			
Final dividend proposed		–	18,810
Others		229,995	206,737
		<u>322,151</u>	<u>314,052</u>
Minority interests		<u>1,605</u>	<u>1,738</u>
Total shareholders' equity		<u>323,756</u>	<u>315,790</u>

	30th June 2005 Unaudited RMB'000	31st December 2004 Audited RMB'000
	<i>Notes</i>	
Current liabilities		
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
Total current liabilities	157,073	155,644
Total equity and liabilities	480,829	471,434

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:

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

(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:

	Six months ended 30th June	
	2005	2004
	Unaudited	As restated (Note 1(b))
	RMB'000	Unaudited RMB'000
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
	<u>244,560</u>	<u>204,664</u>

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

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

- (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>120</u>	<u>–</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:

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

- 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.
- 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.
- 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 Jun 2005 (for the three months ended 31st Jun 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 Jun 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 Jun 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 Jun 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:

	Six months ended 30th June	
	2005	2004
	Unaudited	Unaudited
	<i>RMB'000</i>	<i>RMB'000</i>
Group's profit attributable to equity holders of the Company	23,217	17,632
	2005	2004
	Number'000	Number'000
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	964	8,132
Weighted average number of shares for diluted earnings per share	444,239	449,848

8. TRADE RECEIVABLES

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

	30th June	31st December
	2005	2004
	Unaudited	Audited
	<i>RMB'000</i>	<i>RMB'000</i>
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
	133,660	115,384
<i>Less: provision for bad and doubtful debts</i>	(56,582)	(47,174)
	77,078	68,210

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:

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

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 and shifted towards distribution-centered model and further enhance the Group’s market share and its profitability and consolidated 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 “eco-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 consolidated 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 performance 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 in technology 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 informatisation 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).

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.

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 results announcement.

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.

“Please also refer to the published version of this announcement in The Standard.”