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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

Financial highlights for the year ended 31 December 2005

– Turnover increased by approximately 19% over 2004 to approximately RMB529,343,000.

– Profit attributable to equity holders of the Company increased by approximately 40% over 2004 to approximately RMB72,290,000.

– Basic earnings per share increased by approximately 33% over 2004 to approximately RMB0.16.

– The Board of Directors recommended a final dividend of HK$0.045 per share.

The board (the "Board") of directors (the "Directors") of Kingdee International Software Group Company Limited ("Kingdee International" or the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005, together with the comparative consolidated figures for 2004 are as follows:

All amounts in Renminbi thousand unless otherwise stated

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2005	2004 Restated
Turnover	*3*	529,343	445,922
Cost of sales	*5*	(103,846)	(84,676)
Gross profit		425,497	361,246
Selling and marketing expenses	*5*	(256,134)	(228,789)
Administrative expenses	*5*	(150,340)	(130,568)
Other income	*4*	61,097	57,338
Operating profit		80,120	59,227
Finance costs	*6*	(388)	(1,080)
Share of (loss)/profit of associates		108	(1,852)
Profit before income tax		79,840	56,295
Income tax expense	*7*	(6,552)	(3,312)
Profit for the year		73,288	52,983
Attributable to:			
Equity holders of the Company		72,290	51,728
Minority interest		998	1,255
Earnings per share for profit attributable to the equity holders of the Company			
– basic	*9*	RMB0.16	RMB0.12
– diluted	*9*	RMB0.16	RMB0.12
Dividends		20,843	18,810

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2005	2004 Restated
ASSETS			
Non-current assets			
Property, plant and equipment		53,367	45,454
Lease prepayments		16,246	16,630
Intangible assets		84,869	79,006
Investment in associates		2,617	2,409
Deferred income tax assets		5,096	3,839
Available-for-sale financial assets		66	255
		162,261	147,593
Current assets			
Inventories		3,960	3,741
Trade and other receivables	*10*	103,783	98,097
Due from customers on implementation contracts		7,731	7,284
Pledged bank deposit		5,000	–
Short-term bank deposits		39,569	–
Cash and cash equivalents		242,053	214,719
		402,096	323,841
Total assets		564,357	471,434
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		98,652	92,440
Other reserves		174,679	137,225
Retained earnings			
Final dividend proposed		20,843	18,810
Others		78,757	65,577
		372,931	314,052
Minority interests		2,836	1,738
Total equity		375,767	315,790
LIABILITIES			
Current liabilities			
Trade and other payables	*11*	87,327	75,113
Current income tax liabilities		8,581	4,876
Borrowings		30,000	24,000
Due to customers on implementation contracts		14,297	16,332
Deferred income		44,848	31,632
Provisions		3,537	3,691
		188,590	155,644
Total equity and liabilities		564,357	471,434
Net current assets		213,506	168,197
Total assets less current liabilities		375,767	315,790

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company			Minority interest	Total
	Share capital	**Other reserves**	**Retained earnings**		
Balance at 1 January 2004, as previously reported as equity	85,613	87,493	88,048	–	261,154
Balance at 1 January 2004, as previously separately reported as minority interest	–	–	–	67	67
Opening adjustment for the adoption of IFRS 2	698	–	(698)	–	–
Balance at 1 January 2004, as restated	**86,311**	**87,493**	**87,350**	**67**	**261,221**
Profit for the year	–	–	51,728	1,255	52,983
Dividend relating to 2003	–	–	(4,691)	–	(4,691)
Capitalization of retained earnings of a subsidiary	–	50,000	(50,000)	–	–
Employees shares option scheme					
– Value of services provided	3,237	–	–	–	3,237
– Exercise of share options	2,892	–	–	–	2,892
Capital contributed by minority shareholder	–	–	–	200	200
Minority interest arising on business combination	–	–	–	216	216
Translation adjustment	–	(268)	–	–	(268)
Balance at 31 December 2004, as restated	**92,440**	**137,225**	**84,387**	**1,738**	**315,790**
Balance at 31 December 2004, as previously reported as equity	88,505	137,225	88,322	–	314,052
Balance at 31 December 2004, as previously separately reported as minority interest	–	–	–	1,738	1,738
Opening adjustment for the adoption of IFRS 2	3,935	–	(3,935)	–	–
Balance at 31 December 2004, as restated	**92,440**	**137,225**	**84,387**	**1,738**	**315,790**

Derecognition of negative goodwill	–	–	46	–	46
Balance at 1 January 2005, as restated	**92,440**	**137,225**	**84,433**	**1,738**	**315,836**
Profit for the year	–	–	72,290	998	73,288
Dividend relating to 2004	–	–	(18,810)	–	(18,810)
Capitalization of retained earnings of a subsidiary	–	25,000	(25,000)	–	–
Employees shares option scheme	–	–	–	–	–
– Value of services provided	5,589	–	–	–	5,589
– Exercise of share options	511	–	–	–	511
Share options granted to business partners	112	–	–	–	112
Capital contributed by minority shareholder	–	–	–	100	100
Appropriation to reserve fund	–	13,313	(13,313)	–	–
Translation adjustment	–	(859)	–	–	(859)
Balance at 31 December 2005	**98,652**	**174,679**	**99,600**	**2,836**	**375,767**

Notes:

1. **Basis of preparation**

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

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.

The adoption of IFRS 3. IAS36 and IAS38 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:

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.

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

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

2. 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.

3. 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

4. Other income

	2005	**2004**
Subsidy income		
VAT refund	51,802	47,048
Subsidy on development of new products	4,144	1,222
Subsidies for re-investment	–	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

5. Expenses by nature

Expenses included in cost of sales, selling and marketing expenses and administrative expenses included:

	2005	**2004**
Research and development costs	50,476	53,792
Employee benefit expense (exclude amount capitalised in development costs)	223,782	194,359
Cost of inventories consumed	18,217	12,253
Depreciation of property, plant and equipment	11,660	12,496
Impairment of receivables	18,484	10,187
Advertising costs	35,221	40,401
Sales promotion costs	25,282	17,652
Rental and utilities	21,656	21,728

6. Finance costs

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

7. Income tax 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	(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.

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

	2005	**2004**
Profit before income 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

8. 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).

9. 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.

	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

10. Trade and other receivables

	Note	**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
Others		7,309	8,428
		103,783	98,097

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

	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.

11. Trade and other payables

	2005	**2004**
Trade payables	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
Other	13,387	11,784
	87,327	75,113

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

	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

Final Dividends

At the Annual General Meeting ("AGM") of the Company to be held on 28 April 2006 ("AGM"), the Board will recommend a final dividend of HK$0.045 per share to the shareholders of the Company for the year ended 31 December 2005 (2004: HK$0.04 per share). Subject to the approval of shareholders at the forthcoming AGM, the final dividend will be payable on 28 June 2006 to shareholders whose names appear on the register of members of the Company on 28 April 2006.

Closure of Register

The register of members of the Company will be closed from 27 April 2006 (Thursday) to 28 April 2006 (Friday) (both days inclusive), and during which no transfer of shares will be affected. In order to qualify the shareholders of the Company to attend, act and vote at the forthcoming AGM and to qualify the entitlement of the final dividends, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 26 April 2006 (Wednesday).

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRIAL OVERVIEW

1. **The market of application software and middleware**

   Application software market

   According to IDC, the revenue generated from packaged software in China amounted to RMB 27,221,700,000 in 2005, in which application solutions accounted for approximately 50%, amounting to RMB14,590,600,000. According to the forecast of IDC, China's packaged software market will grow at a CAGR of 24.3% from 2003 to 2008, reaching approximately RMB25,833,400,000 by 2008.

   In China's application software market, the SME market shows the fastest growth and the strongest market potential. According to statistics, as at the end of 2004, SMEs accounted for 99.6% of the total number of enterprises in the PRC and the turnover of SMEs accounted for 58.5% of the GDP. However, among the over 10 million SMEs, less than 10% has adopted higher-end computer system applications, far lower than the average of 60% in the overseas and mature market. This represents a huge potential for SME application software market, the Group's key target market.

   Middleware market

   The middleware market in China is an emerging market. According to IDC's forecast in 2003, China middleware market would grow at a CAGR of 35.2% from 2002 to 2007, reaching approximately RMB 2,043,100,000.

2. **The Group's market position**

   Leveraging on the extensive marketing, servicing and partnership network and the huge customers base, the Group, as shown in the researches of independent evaluation organizations, maintained its leading market position in 2005:

   – Ranked No. 1 in terms of market share of SMEs (IDC "Enterprise Applications Tracker in the Asian-Pacific region for the second half of 2004" (2004下半年亞太區軟體跟蹤重點) and "Enterprise Applications Tracker in the Asian-Pacific region for the first half of 2005" (2005上半年亞太區軟體跟蹤重點))

   – Ranked first in terms of mentioning frequency among the ERP software providers (AMT Research Institute "Rating of China's management software and its providers in 2005" (AMT研究院《中國管理軟件與實施商2005年度評選》)

   – The first-choice brand of ERP software product in China's IT industry and the leading software provider in terms of number of SME users in 2005 (China Computer User Association in January 2006)

BUSINESS REVIEW

During the reporting period, the market demand for ERP in China continued to grow. On the one hand, the SME application software market remained robust, as a result of an increasing number of SMEs becoming aware of the importance and necessity of informatization in strengthening internal management and hence their commitment to devoting more resources in this respect. On the other hand, the requirement for enterprise management software from enterprises which have already achieved a certain scale of operations and standard of management continued to rise, as such enterprises saw the need for enterprise management software to meet the changing needs of business management.

During the reporting period, in response to the diversified market demand, the Group was committed to differentiating itself by innovative products and services and reinforcing its distribution channels under the corporate development strategy of "Product leadership, Partner oriented, Proactive services, Prompt response". While furthering its efforts in consolidating the SME market, the Group was also committed to increasing its market share of accounting and human resources management software application market. Every business segment maintained a stable growth.

1. Products and research and development

During the reporting period, the Group continued to invest substantially in the research and development of ERP and middleware. The Group launched various upgraded versions for ERP products and according to the research of independent evaluation institutions, the Group's products maintained the leading market position in 2005.

– Ranked the first in application satisfaction of ERP software industry, overall users satisfaction of HR software, users satisfaction of business infrastructure software platform, satisfaction of application servers' services (CCW Research "Research on IT users' satisfaction in China in 2005").

– Innovative product for 2005 – BOS integrated platform (China Computer User Association in January 2006).

2005 was a year with significant development in enterprise informatization application. Supported and propelled by the strong IT capability, enterprises were capable of restructuring its mode of management. As the management capability of enterprises in China differed, the extent of informatization also varied. Kingdee's highly competitive products offered a full coverage of low, medium and high-end products.

Launched Kingdee KIS professional version and Kingdee K/3 10.2 version to further consolidate its low to mid-end ERP market

During the reporting period, the Group launched two updated versions – Kingdee KIS professional and Kingdee K/3 10.2. Kingdee KIS professional version further strengthened the market position in the low-end market and allowed the flexibility in business operation and accounting application. By launching Kingdee's new K/3 version, the Group has also consolidated its market position in the mid-end market, assisting enterprises in the integration of production, accounting, logistics, human resources and knowledge management and reducing the subsequent maintenance costs. Kingdee KIS and Kingdee K/3 can be smoothly upgraded to higher end products, minimizing the SME's subsequent investment in informatization and increasing the rate of investment return.

Improved Kingdee EAS to enter into the high-end ERP market of group accounting and human resources

During the reporting period, the Group launched a fundamental software platform – Kingdee BOS and a high-end ERP product – Kingdee EAS 5.0 version. As Kingdee BOS can solve the conflict between ERP standard product and customer's diversified demand, and satisfy enterprises' customized requirements for higher efficiency and lower costs and risks. A renowned independent research institute in China, CCW Research, has mentioned Kingdee BOS as the sign of the third technology reform in China's management software. EAS based on Kingdee BOS platform is China's first management software package of "middleware + ERP", it can satisfy corporate users' requirements on integrated management and prompt responses, given its outstanding performance in terms of its applicability, openness, adaptability, extendibility, compatibility, succession and lower costs. During the reporting period, Kingdee EAS 5.0 helped the Group to achieve breakthrough in the application of group accounting management and human resources management. The product, after gaining the accreditations from Jinling Hotel Nanjing (南京金陵飯店), Yingkou Port Group Co., Ltd. (營口港務集團有限公司) Shanghai ChengTou Corporation (上海市城市建設投資開發總公司), has become a major product for market promotion.

Formed strong alliance for entering into the mobile commerce and internet market
During the reporting period, to explore the enormous market potential of mobile commerce and meet the emerging requirements on mobile management from corporate managers, the Group launched the first mobile commerce product with China Mobile. The product has manifested the technology essences of "management software + internet + mobile communications" and extended the ERP application from desktop to mobile terminals, allowing enterprises to manage the business at any time and at any place.

Filled up the gap of domestic-produced middleware market and applied middleware to various e-government projects
During the reporting period, the Group launched Kingdee Apusic application server 4.1. Kingdee Apusic is the first in the Mainland China and the eleventh in the world that has passed the J2EE1.4 international standard accreditation. Kingdee Apusic has been applied in various major projects, such as the industrial and commercial system of Liaoning Industry and Commerce Bureau (遼寧省工商局工商系統), the emergency system for homeless of Ministry of Civil Affairs (國家民政部流浪者救助系統), the system under General Administration of Quality Supervision, Inspection and Quarantine (國家質檢檢驗檢疫系統), the paper examination system for higher education of the Education Department (教育部高考閱卷系統) and the training system of PBOC (人民銀行培訓系統).

2. Sales and distribution
During the reporting period, on the basis of the 40 direct sales branches in the Mainland and Hong Kong, the Group substantially expanded its distribution channels, with over 200 newly-added distribution partners, thereby further consolidating the distribution network.

Direct sales grew stably
During the reporting period, notwithstanding that Kingdee KIS were wholly sold through distribution channels, the Group still achieved a stable growth in direct sales, with more than 16,000 ERP newly-signed contracts, including Wuhan Tobacco Group Co., Ltd. (武漢煙草(集團)有限公司), Guangdong Wen's Group Co. Ltd. (廣東溫氏食品集團有限公司), Shanghai Target Media Co., Ltd (上海聚眾目標傳媒有限公司), Inner Mongolia Mengniu Dairy (Group) Co., Ltd. (內蒙古蒙牛乳業(集團)有限公司) and Jia Zhao Ye Properties (Shenzhen) Co., Ltd (佳兆業房地產(深圳)有限公司).

The Group also expanded its application software market in the Asian-Pacific region and in the international market by satisfying the requirements of international customers with its multi-lingual, price advantage products and its prompt and proactive services. The Group has entered into contracts with Pan-West, the largest golf products retailer in Asia, Fruit of the loom, a US company with 150 years history of development and Hong Kong Productivity Council, for assisting them to apply Kingdee K/3 ERP.

Substantially increased number of distribution partners and made initial achievements after changing distribution mode
The Group always pays attention to explore business opportunities with partners and to provide values to customers, with a view to ensuring the persistent rise in values and wealth creation capability of its partners while acquiring higher market share, saving the distribution costs and enhancing the profitability.

– During the reporting period, the Group further expanded its distribution channel network and recruited 200 distribution partners with its "low investment with high returns" program and its nationwide product promotion. The Group's distribution partners not only distribute software products but also provide after-sales services and support to customers. The Group continued to perfect its distribution channel management and help partners to increase capability of management and promotion through project cooperation, training and marketing activities. From 2005 onwards, Kingdee KIS products have been distributed solely through distribution channels and the volume of packages sold was 40% more than that of the corresponding period in 2004. From 2001 onwards, partners' contribution to Kingdee's turnover kept on rising, from accounting for 16% of the Group's turnover in 2002 to 22% in 2005.

– During the reporting period, with its proprietary Kingdee BOS platform, the Group established a customer partner laboratory and strived to establish value-added partnership which is capable of tailoring the products in response to the customers' requirements. As at the end of 2005, the Group has formed partnership with 30 K/3 value-added partners and has successfully developed 20 products for various industries on the basis of K/3 BOS products. The Group has also entered into cooperation agreements with leading proprietary software providers for the development of EAS BOS and shifting their research and development of the next generation products to EAS BOS platform.

– During the reporting period, the Group maintained close cooperation with global IT vendors, such as IBM, CITRIX and HYPERION in areas of technology and market development. Since the Group's participation in IBM's Independent Software Vendors Advantage Agreement (IAA), the relationship between the Group and IBM was reinforced. Under the plan, IBM provided assistance for allowing the Group's software product to be used in its software and offered Kingdee support in technology, marketing and sales. The Group uses IBM's DB2 and eServer databank as Kingdee EAS's major infrastructure platform and promotes IBM products through the distribution channel of Kingdee.

3. Customer services

The Group's major source of revenue is generated from new clients' license purchase and existing clients' upgrade, additional purchase of license and providing services. During the reporting period, the Group, adhering to the strategy of "Proactive service, Prompt responses", enhanced the standardization of services and perfected the service management with a view to improving customers' service quality and enhancing the satisfaction and loyalty of existing customers. The revenue from the product upgrade and additional license purchase from existing customers accounted for 47% of the total revenue.

During the reporting period, the Group has, by accumulating years of experience, launched five major services that cover the whole ERP application process, comprising training, management consultation, system implementation, operation maintenance and IT system services, to satisfy customers' diversified requirements.

During the reporting period, the Group has, based on customers' different requirements on products and services, classified customers into different categories. It helped the Group to develop and promote its services that are in line with the existing and potential service requirements of our customers. Meanwhile, through perfecting the customer service support platform, amending and revising "Regulation on customer services behaviour" and "Standard of workflow of customer services", centralizing the management of customers information and service procedure, the Group is capable of ensuring the standard of service procedure and manners, resulting in higher customers' satisfaction.

To further improve staff's awareness of providing better customer services, during the reporting period, the Group worked with a top international consultancy company to undertake a research to study the degree of satisfaction of our customers, and the results of which will be one of the evaluation criteria for each level of managers of the Group.

4. Corporate culture and social responsibility

During the reporting period, the Group, adhering the core human resources strategy of "Enable staff's success" and reinforcing the core corporate culture of "love, trust and innovation", implemented a dual career development ladder to satisfy the requirements on staff training and development. The Group has systemically formulated an individual development plan for the staff with the objective of allowing them to have both material and spiritual satisfaction.

The Group is proud to take an initiative in promoting community services. The Group, in addition to enable customers' and staff's success, actively participates in community services in rewarding the society. Over the past four years, the Group has contributed a total of RMB843 million to the society by donating software, and establishing education subsidy funds and other community funds. The Group will continue to contribute to the society and support the development of charity and social welfare works under its core values of "love, trust and innovation".

FINANCIAL REVIEW

For the year ended 31 December 2005, the Group's turnover amounted to RMB529,343,000, representing an increase of 19% over 2004 (2004: RMB445,922,000). This was mainly attributable to strong demand for enterprise application software from Chinese enterprises and manufacturers, as well as the edges of the Group's products and the success of its strategy in distribution and customer services.

During the year, the Group realized revenue of software of RMB377,105,000, representing an increase of 16% over 2004 (2004: RMB323,811,000), and service revenue of RMB147,137,000, representing an increase of 25% over 2004 (2004: RMB117,827,000). During the year, the Group's net cash flow generated from operating activities was RMB140,523,000, representing an increase of 20% over 2004 (2004: RMB116,686,000).

During the reporting year, the debtor turnover days was 85 days (the average of the debtor balance at the beginning and the end of the year divided by the total revenue of the year times 365 days), (2004: 82 days). During the reporting year, the Group paid efforts in managing and recovering the receivables and hence maintaining the account receivables turnover at a reasonable level.

For the year ended 31 December 2005, the profit attributable to shareholders was RMB72,290,000, representing an increase of 40% over 2004 (2004: RMB51,728,000). During the year, the net profit margin was 14% (2004: 12%) and the earnings per share was RMB0.16 (2004: RMB0.12). The improvement of net profit was attributed to the Group's appropriate control over the costs and expenses while maintaining a growth in revenue, reflecting the Group's achievement in economies of scale.

Gross profit

Gross profit of the Group increased by approximately 18 % from RMB361,246,000 for the year 2004 to RMB425,497,000 for the year 2005. During the year, the gross profit margin was approximately 80% (2004: 81%). The decrease of gross profit margin was mainly attributed to the increasing turnover from EAS and software implementation service. Involvement of more service requires more manpower, which results in the increase of staff cost.

Selling expenses

The selling expenses for the year 2005 was approximately RMB256,134,000 (2004: RMB228,789,000), representing an increase of 12% over last year. The selling expenses accounted for 48% of the turnover while the percentage for 2004 was 51%. The reduction in proportion of selling expenses was mainly due to the fact that the spending on advertisement in 2004 reached a certain scale and there was no need to invest more in 2005. In addition, the salary of sales staff increased at a slower pace during the year after implementing the distribution strategy.

General and administrative expenses

The general and administrative expenses for 2005 amounted to RMB150,340,000 (2004: RMB130,568,000), representing an increase of approximately 15%. During the period, the general and administrative expenses accounted for 28% of the turnover while the percentage for 2004 was 29%. Although there were option expenses pursuant to the international accounting standard and the expenses in relation to the listing on the Main Board, the most significant part, research and development expenses were reduced. It was due to the fact that the products of the Group are relatively mature. In addition, the Group restructured R&D staff, perfected R&D management system, and improved the management of cost control, so as to enhance the overall efficiency. The option expenses amounted to RMB5,589,000 (2004: RMB3,237,000) while the fee of listing was RMB5,055,000 (2004: RMB3,131,000). Among the general and administration expenses, the cost of R&D was approximately RMB50,476,000, representing a slight decrease of 6% as compared with 2004 (2004: RMB53,792,000).

Capital expenditure

For the year ended 31 December 2005, the Group's major capital expenditure included the construction cost for Shanghai Research Center of RMB12,271,000 (2004: RMB917,000), the R&D capitalized expenses of RMB39,128,000 (2004: RMB40,494,000), and the purchase of computer and related equipments of RMB8,530,000 (2004: RMB12,929,000).

Financial resources and liquidity

The Group possessed a healthy cash flow position. As at 31 December 2005, the Group had cash and cash equivalents amounting to approximately RMB242,053,000 (2004: RMB214,719,000). Current ratio was 2.13 (2004: 2.08) and gearing ratio (defined as the ratio of bank borrowings to shareholder equity) was approximately 8% (2004: 8%).

The Group intends to satisfy the daily operating and product requirements by internally generated funds and any unemployed funds will be deposited in banks for interest. If opportunity arises, the Group will consider project investment and acquisition to enhance the Group's competitiveness.

As at 31 December 2005, the Group's short-term bank loan amounted to RMB30,000,000 (2004: RMB24,000,000). As at 31 December 2005, the Group did not have any long-term bank loan.

As at 31 December 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.

As at 31 December 2005, the Group did not have any material contingent liabilities (2004: nil).

Future Prospect

In the "Eleventh Five-year Plan", the Chinese government has placed software industry as a core industry. It is expected that in the coming five years, the informatization of enterprises will continue to gain momentum in line with economic growth of China. As a leading software provider in China, the Group will, in the coming five years, adhere to the development strategy of "Product leadership, Partner oriented, Proactive services, Prompt response", and, in line with its "Blue ocean strategy", the Group will implement the "Customized ERP plan" for undertaking innovative reform in product promotion, distribution channels and organizational structure, with a view to fostering competitive edges and creating values.

2006 will mark the starting point of the Group's next five-year strategy. The Group will continue to strengthen human resources development and build up a team of professional and innovative staff; increase the investment in research and development; initiate the "Customized ERP plan"; optimize the performance management of subsidiaries and improve the profit margin of direct sales. Leveraging on the BOS platform, the Group will cooperate with more value-added partners to increase market share. More effort will be put to enhance the relationship with, and services to, our existing customers. The Group will also consolidate its leading position in the SME's ERP market, the market for financial and human resources management softwares for large enterprises and the middleware software market in China.

Product and research

With respect to the segmentation of China's ERP market, the Group will continue to commit resources in the research and development of products for providing customers with customized ERP products and applications. In terms of the high-end market, Kingdee EAS will achieve breakthrough in group accounting management, human resources management and synergy management. With respect to the mid-end market, the Group will reinforce its competitive edge in Kingdee K/3 and further acquire the market share with the focus on achieving breakthrough in manufacturing and human resources management. For the low-end market, the Group will speed up the pace of upgrading Kingdee KIS and diversifying the products for catering the management requirements of small enterprises in a more efficient and comprehensive manner. In view of the robust demand in mobile commerce, the Group will pay more efforts in developing mobile commerce internet products, making all of the Group's products compatible with mobile commerce. In addition, the Group will commit further resources to its proprietary middleware - Kingdee Apusic and Kingdee BOS, in order to reinforce the Group's competitive edge in product differentiation.

Sales and distribution

The Group will optimize the performance management of its subsidiaries for improving the profit margin of direct sales. Leveraging on Kingdee's proprietary BOS platform, the Group will pay more efforts in increasing value-added partnership. The Group intends to enlarge the number of partners in municipal markets to form a network comprising more than 1,200 partners. It would help to improve the productivity of partners and capture more market share.

Customer services

The Group will improve the service of Call Center to realize the segmentation management of customers and the better allocation of resources. The Group will develop closer relationship with and provide better services to our existing customers. Besides, the Group will also strive to enlarge the customer base for paid services, service migration, service upgrade and renewal, with a view to generating more income from existing customers.

Corporate finance and investment

The Group will maintain an impeccable relationship with long-term investors, improve the shareholders' base, identify appropriate investment and acquisition opportunities in various ERP, mobile commerce and ASP companies and recruit talents for consolidating the Group's leading position.

Purchase, Sale or Redemption of Shares

At the 2004 annual general meeting of the Company held on 27 April 2005 ("2004 AGM"), an ordinary resolution was passed to grant a general mandate to the Directors to exercise the powers of the Company to purchase Shares up to a maximum of 10% of the issued share capital of the Company.

None of the Company or any of its subsidiaries had purchased, sold or redeemed any of its listed securities during the year ended 31 December 2005.

Connected Transactions

During the year ended 31 December 2005, there was no transaction which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

Sponsor's Interest

Pursuant to the compliance advisor agreement dated 15 June 2005 entered into between the Company and DBS Asia Capital Limited, DBS Asia Capital Limited received usual compliance advisor fees for acting as the Company's compliance advisor for the period from 20 July 2005 to 31 December 2006.

CORPORATE GOVERNANCE

Maintaining a good, solid and sensible framework of corporate governance has been and remains one of the Company's top priorities.

The Company has complied with the Stock Exchange's "Code on Corporate Governance Practices and Corporate Governance Report" (the "Code"), which replaced the Code of Best Practice Appendix 14 of the Listing Rules with effect from 1 January 2005, throughout the year ended 31 December 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 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.

To ensure strict adherence to the Code, the Company has perfected the Board structure and standardized the rules of procedure of board of directors (the "Board Rules").

Board Committees

The Board has set up four specialized committees, namely the Audit Committee, Remuneration Committee, Nomination Committee and Strategic Committee to oversee particular aspects of the Company's affairs. Major terms of these committees are set out in the Board Rules. The committees are mainly served mostly by the independent non-executive Directors and non-executive Directors.

The attendance of individual Directors at Board and Board Committee meeting are as follows:

	Attendance / Number of Meetings					
	Board		Board Committees			
Directors during the year	**Board**	**INED**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Strategic Committee**
Executive Directors						
Mr. Xu Shao Chun	12/12	N/A	N/A	N/A	N/A	1/1
Mr. Chen Deng Kun (appointed on 4 November 2005)	1/12	N/A	N/A	N/A	N/A	1/1
Mr. Luo Ming Xing (resigned on 15 September 2005)	7/12	N/A	–	1/1	–	–
Non-executive Directors						
Mr. Zhao Yong	11/12	N/A	3/3	N/A	N/A	1/1
Mr. Hugo Shong	6/12	N/A	N/A	N/A	1/1	N/A
Mr. James Ming King	11/12	N/A	N/A	N/A	N/A	1/1
Independent Non-executive Directors("INED")						
Ms. Yang Zhou Nan	9/12	1/1	3/3	1/1	N/A	N/A
Mr. Wu Cheng	8/12	1/1	3/3	N/A	N/A	1/1
Mr. Yeung Kwok On	10/12	1/1	N/A	1/1	1/1	N/A
Mr. Gary Clark Biddle	7/12	1/1	3/3	N/A	1/1	N/A

Audit Committee

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. The members of the Audit Committee are Ms. Yang Zhou Nan, Mr. Zhao Yong, Mr. Wu Cheng and Mr. Gary Clark Biddle. Ms. Yang Zhou Nan is the chairman of the Audit Committee. In particular, the Board Rules set out the scope of official duties of the Audit Committee, which include making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditors, and resignation or dismissal of the auditors, reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, reviewing financial information of the Company, reviewing the financial report system and internal control procedures, in order to check the Company's financial statements and the procedures which the auditors audited independently and accounting policy, and supervise the Company's financial reporting system and internal control procedures. The Audit Committee would hold its meetings on a regular basis before the Company announced its interim and annual financial statements. The Audit Committee has held three meetings during the year of 2005.

The Audit Committee has reviewed the Company's unaudited annual financial statements for the year ended 31 December 2005.

Remuneration Committee

The Remuneration Committee of the Company ("Remuneration Committee") comprises two independent non-executive Directors and one executive Director. The Committee has adopted the terms of reference which are in line with the Code. The members of the Remuneration Committee are Mr. Yeung Kwok On, Ms. Yang Zhou Nan and Mr. Chen Deng Kun. Mr. Yeung Kwok On is the chairman of the Remuneration Committee. The Remuneration Committee held its first meeting on 11 April 2005, for determining responsibilities of the Remuneration Committee members and establishing the system of wages of different levels of staff and approving the administration and supervisory personnel's wages in 2005. The Remuneration Committee held one meeting during the year of 2005.

Nomination Committee

The Nomination Committee of the Company ("Nomination Committee") comprises two independent non-executive Directors and one non-executive Director. The members of the Nomination Committee are Mr. Yeung Kwok On, Mr. Hugo Shong and Mr. Gary Clark Biddle. The Committee has adopted the terms of reference, which are in line with the Code.

In considering the appointment of Directors, the Nomination Committee applies the criteria set out in the Listing Rules and the Board Rules, notably the ability of potential appointees to contribute to the Board.

The Nomination Committee held its first meeting on 12 December 2005, in which the Nomination Committee provided constructive suggestions for the appointment of the new Chief Financial Officer of the Company, and reviewing and examining the competence of two candidates. The Nomination Committee held one meeting during the year of 2005.

At the Forthcoming AGM, four Directors will retire by rotation and present themselves for re-election by shareholders of the Company. The independence of those who are Independent non-executive Directors will be reviewed by the Nomination Committee.

Strategic Committee

The Strategic Committee of the Company ("Strategic Committee") comprises two executive Directors, two non-executive Directors and one independent non-executive Director. The members of the Strategic Committee are Mr. Xu Shao Chun, Mr. James Ming King, Mr. Zhao Yong, Mr. Wu Cheng and Mr. Chen Deng Kun. Mr. Xu Shao Chun is the chairman of the Strategic Committee. The Committee has adopted the terms of reference, which are in line with the Code.

In late December of 2005, the Strategic Committee held its first meeting to discuss and establish the Company's development strategies of 2006 in the areas of products, R&D, marketing, distribution, etc., and examine and assess the performance and execution of the Company's strategies in 2005. The Strategic Committee held one meeting during the year of 2005.

Internal Control

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

The Company has taken many steps to enhance the internal controls of the Company, such as having internal control inspection, setting up a receipt mechanism, strengthening the management of the contracts, and so on.

One month before the board meetings were held, the Board secretaries had informed the Board members, Senior Management, the Securities Department and the Financial Department of the Company not to deal in any of the securities of the Company during the period commencing one month immediately preceding the earlier of the date of the board meetings for the approval of the quarterly, interim and annual results according to the Listing Rules.

The Company has an Internal Audit Department which plays a major role in monitoring the internal governance of the Company. The major tasks of the Internal Audit Department are reviewing the financial condition and management of the Company and conducting comprehensive audits of the practices, procedures, expenditure and internal controls of all branches and subsidiaries of the Company on a regular basis. During 2005, the Internal Audit Department issued reports to the Senior Management covering various operational and financial units of the Company and also conducted reviews of major projects and contracts as well as areas of concern identified by the Management.

With respect to procedures and internal controls for handling and dissemination of price-sensitive information, the Company is aware of its obligations under the Listing Rules and the overriding principle that information which is expected to be price-sensitive should be announced immediately.

The Company has always complied with the "Guide on disclosure of price-sensitive information" issued by the Stock Exchange.

Communication

The Company has a policy of open communication and fair disclosure. Disclosure is a key means to enhance our corporate governance standards. The Company provides its shareholders and other stakeholders with the information necessary for them to form their own judgment and to provide feedback. The Company understand that full and frank disclosure does not only increase transparency of the Company, but also essential for building market confidence.

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 annual report.

External Auditors

PricewaterhouseCoopers was appointed as the external auditors of the Company for the year. During the year, the external auditors (which for these purposes include any entity under common control, ownership or management with the external auditors or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally) provided the following audit and permissible non-audit services to the Company:

	2005	**2004**
	RMB'000	*RMB'000*
Audit		
– annual audit	1,230	1,200
– other	1,000	–
Permissible non-audit services		
– Due diligence and accounting advisory services relating to business developments	100	–

PricewaterhouseCoopers will retire upon expiry of their appointment, but if eligible, they will offer themselves for re-appointment. A resolution for re-appointment of PricewaterhouseCoopers as the auditors of the Company will be proposed at the Forthcoming AGM.

Improving Corporate Governance

This year, evolving corporate governance practices and, most notably, the issue of the Code, have led to a significant review and revision of the Company's corporate governance practices and the manner in which we report on these. This has been reflected in the issue of the Board Rules and in corporate governance report of the Annual Report.

We will continue to review and, where appropriate, improve those practices in light of continuing experience, regulatory changes, international trends and developments and the views of our shareholders.

Appreciation

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

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

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

As at the date hereof, the executive Directors are Mr. Xu Shao Chun (Chairman of the Company) and Mr. Chen Deng Kun; 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."