



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: 8133)

INTERIM REPORT
FOR THE SIX MONTHS ENDED 30 JUNE 2004

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss however arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Kingdee International Software Group Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”) for the purpose of giving information with regard to Kingdee International Software Group Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Financial highlights for the six months ended 30th June, 2004

- Turnover increased by approximately 28.45% over the corresponding period in 2003 to approximately RMB202,615,000.
- Net profit attributable to shareholders increased by approximately 26.41% over the corresponding period in 2003 to approximately RMB18,360,000.
- Basic earnings per share increased by approximately 26.05% over the corresponding period in 2003 to approximately RMB4.152 cents.

The board of directors (the “Board”) 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 three months and six months ended 30th June, 2004, together with the comparative unaudited consolidated figures for the corresponding period of 2003 as follows:

	<i>Notes</i>	Three months ended 30th June,		Six months ended 30th June,	
		2004 Unaudited RMB'000	2003 Unaudited RMB'000	2004 Unaudited RMB'000	2003 Unaudited RMB'000
Turnover	2	114,397	88,307	202,615	157,738
Cost of sales		(9,784)	(12,973)	(25,303)	(22,786)
Gross profit		104,613	75,334	177,312	134,952
Other operating income	3	18,817	14,173	27,527	23,292
Sells expenses		(71,589)	(45,262)	(118,133)	(82,131)
General and administrative expenses		(36,361)	(33,247)	(63,588)	(60,316)
Other operating expenses		416	(580)	(206)	(256)
Profit from operation		15,896	10,418	22,912	15,541
Finance (expense) income, net	4	(33)	(22)	38	(63)
Share of results of an associate		(355)	(509)	(1,405)	(596)
Profit before tax	5	15,508	9,887	21,545	14,882
Taxation	6	(3,249)	(419)	(3,189)	(986)
Profit after tax		12,259	9,468	18,356	13,896
Minority interests		2	335	4	628
Net profit attributable to shareholders		<u>12,261</u>	<u>9,803</u>	<u>18,360</u>	<u>14,524</u>
Dividends		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Earnings per share					
– Basic	7	<u>RMB2.773</u>	<u>RMB2.223</u>	<u>RMB4.152</u>	<u>RMB3.294</u>
– Diluted	7	<u>RMB2.762</u>	<u>RMB2.224</u>	<u>RMB4.123</u>	<u>RMB3.295</u>

CONSOLIDATED BALANCE SHEET

		30th June, 2004	31st December, 2003
	<i>Notes</i>	Unaudited	Unaudited
		<i>RMB'000</i>	<i>RMB'000</i>
ASSETS			
Non-current assets			
Investment in associates		2,857	4,261
Available-for-sale investments		285	335
Property, plant and equipment		46,070	44,044
Intangible asset		79,253	74,263
Deferred tax assets		2,146	2,928
		<hr/>	<hr/>
Total non-current assets		130,611	125,831
		<hr/>	<hr/>
Current assets			
Inventories		3,157	2,743
Trade receivables	8	76,234	47,220
Bills receivables		–	824
Other receivables and prepayments		51,160	30,308
Amounts due from related parties		694	694
Cash and bank balances		140,429	164,458
		<hr/>	<hr/>
Total current assets		271,674	246,247
		<hr/>	<hr/>
Total assets		402,285	372,078
		<hr/>	<hr/>
EQUITY AND LIABILITIES			
Shareholder's equity			
Share capital		47,394	47,237
Share premium		40,667	38,376
Reserves		188,827	175,541
		<hr/>	<hr/>
Total shareholder's equity	9	276,888	261,154
		<hr/>	<hr/>
Minority interests		62	67
		<hr/>	<hr/>
Current liabilities			
Trade payables	10	3,059	3,095
Borrowings		24,000	20,000
Deferred income		23,261	26,414
Taxes payable		13,634	17,268
Provisions		5,731	5,897
Customer's deposits		21,152	10,610
Due to customers on implementation contracts		16,518	10,980
Salary and staff welfare payable		6,329	5,988
Accruals and other payables		11,651	10,605
		<hr/>	<hr/>
Total current liabilities		125,335	110,857
		<hr/>	<hr/>
Total liabilities		125,335	110,857
		<hr/>	<hr/>
Total equity and liabilities		402,285	372,078
		<hr/>	<hr/>

CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th June, 2004 unaudited RMB'000	Six months ended 30th June, 2003 unaudited RMB'000
<i>Notes</i>		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Profit	18,360	14,524
Adjustments for:		
Provision for doubtful debts	6,587	6,621
Depreciation of fixed assets	7,699	5,461
Loss on disposal of fixed assets	–	15
Amortisation of intangible asset	15,871	7,418
Share of associates' operating result	1,405	596
Interest income on bank deposits	(577)	(258)
Interest expense on bank loans	438	289
Subsidiaries liquidation loss	–	–
Provisions of support service	(166)	103
Minority interests	(4)	(628)
Provisions of income tax	3,189	986
	52,802	35,127
Operating profit before working capital changes	52,802	35,127
Prepayments and other current assets	(10,508)	(7,900)
Amount due from related parties	–	(1,096)
Inventories	(414)	(99)
Accounts receivable	(35,601)	(2,105)
Deferred income	(3,153)	559
Salary and staff welfare payable	341	(1,419)
Customers' deposit	10,542	(2,625)
Accruals and other payables	889	(9,178)
Taxes payable (other than EIT)	(852)	(338)
Due to customers on implementation contracts	5,538	–
	19,584	10,926
Cash generated from operating activities	19,584	10,926
Interest paid	(438)	(289)
Mainland China income tax paid	(5,172)	(5,661)
	13,974	4,976
Net cash from operating activities	13,974	4,976

<i>Notes</i>	Six months ended 30th June, 2004 unaudited RMB'000	Six months ended 30th June, 2003 unaudited RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(9,725)	(9,651)
Acquisition of subsidiaries, net of cash acquired	225	–
Payment for intangible assets other than goodwill	(20,863)	–
Prepayment for purchase of card use rights	(9,517)	–
Interest received	577	258
Net cash used in investing activities	<u>(39,753)</u>	<u>(9,393)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from execution of share option	2,446	–
Proceeds from new bank loans	24,000	20,000
Repayment of bank loans	(20,000)	(26,134)
Dividends paid	(4,696)	(9,347)
Net cash from financing activities	<u>1,750</u>	<u>(15,481)</u>
Net increase in cash and cash equivalents	(24,029)	(19,898)
Cash and cash equivalents at beginning of reporting period	<u>164,458</u>	<u>131,426</u>
Cash and cash equivalents at end of reporting period	<u><u>140,429</u></u>	<u><u>111,528</u></u>

Notes:

1. Basis of presentation

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.

2. Turnover

Turnover comprises the following:

	Three months ended 30th June,		Six months ended 30th June,	
	2004	2003	2004	2003
	unaudited RMB'000	unaudited RMB'000	unaudited RMB'000	unaudited RMB'000
Sales of software	90,670	70,233	162,504	126,760
Sales of hardware and related products	505	840	539	1,244
Solution consulting and support service	15,330	11,082	25,792	18,737
Software implementation services	7,892	6,152	13,780	10,997
	<u>114,397</u>	<u>88,307</u>	<u>202,615</u>	<u>157,738</u>

3. Other operating income

	Three months ended 30th June,		Six months ended 30th June,	
	2004	2003	2004	2003
	unaudited RMB'000	unaudited RMB'000	unaudited RMB'000	unaudited RMB'000
VAT refund (<i>Note (a)</i>)	11,793	8,903	19,718	16,475
Subsidy for re-investment (<i>Note (b)</i>)	5,110	2,154	5,110	2,154
Others	1,914	3,116	2,699	4,663
	<u>18,817</u>	<u>14,173</u>	<u>27,527</u>	<u>23,292</u>

(a) Pursuant to the document Cai Shui Zi [2000] issued jointly by Ministry of Finance, State Administration of Taxation and General Administration of Customs, for subsidiaries engaging in the development and distribution of software, sales of software are subject to VAT at the rate of 17% and VAT paid exceeding 3% of the sales of software will be refunded.

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

4. Finance (expense) income, net

	Three months ended 30th June,		Six months ended 30th June,	
	2004	2003	2004	2003
	unaudited RMB'000	unaudited RMB'000	unaudited RMB'000	unaudited RMB'000
Interest income	493	147	577	258
Less: Interest expense on bank loans	(419)	(137)	(438)	(289)
Other	(107)	(32)	(101)	(32)
	<u>(33)</u>	<u>(22)</u>	<u>38</u>	<u>(63)</u>

5. Consolidated profit (loss) before taxation

Consolidated profit (loss) before taxation was arrived at after charging (crediting) the following:

	Six months ended 30th June, 2004 unaudited RMB'000	Six months ended 30th June, 2003 unaudited RMB'000
Research and development costs:		
Amounts incurred	26,565	26,039
Less: development costs capitalised	(20,518)	–
Add: amortisation of capitalised development costs	13,894	4,479
	<u>19,941</u>	<u>30,518</u>
Cost of raw materials consumed	3,945	3,342
Staff costs:		
– salaries, wages and other benefits	95,234	69,873
– contribution to retirement scheme	5,052	2,911
	<u>100,286</u>	<u>72,784</u>
Depreciation of fixed assets	7,699	5,461
Amortisation of goodwill	1,234	500
Amortisation of other intangible asset	743	2,939
Provision for doubtful debts	6,587	6,621
Operating lease rentals on premises	<u>9,106</u>	<u>7,977</u>

6. Taxation

Taxation represents PRC income tax charged to:

	Three months ended 30th June,		Six months ended 30th June,	
	2004	2003	2004	2003
	unaudited	unaudited	unaudited	unaudited
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The Group				
– current income tax	2,197	530	2,407	335
– deferred income tax	1,052	(111)	782	651
	<u>3,249</u>	<u>419</u>	<u>3,189</u>	<u>986</u>

- (a) As the Group had no income assessable for profit tax in the Cayman Islands or in Hong Kong for the three months ended 31st March, 2004 (the three months ended 31st March, 2003: Nil), no provision had been made for profit tax for both 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 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 year 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 relevant year.

7. Earnings per share

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of RMB18,360,000 (2003: RMB14,524,000).

The basic earnings per share is based on the weighted average of 442,209,000 (2003: 440,887,000) ordinary shares in issue during the year. The diluted earnings per share is based on 445,342,000 (2003: 440,849,000) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 3,133,000 (2003: (38,000)) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

8. Trade receivables

The aging analysis of trade receivables is as follows

	30th June, 2004	31st December, 2003
	unaudited	unaudited
	<i>RMB'000</i>	<i>RMB'000</i>
Within 180 days	63,583	40,734
Over 180 days but within 360 days	29,121	22,563
Over 360 days	27,105	20,910
	<hr/>	<hr/>
	119,809	84,207
<i>Less: provision for doubtful debts</i>	<i>(43,575)</i>	<i>(36,987)</i>
	<hr/>	<hr/>
	76,234	47,220
	<hr/>	<hr/>

9. Statement of changes in equity

Statement of changes in equity of the Group for the three and six months ended 30th June, 2004 is as follows:

	Share capital unaudited <i>RMB'000</i>	Share premium unaudited <i>RMB'000</i>	Reserves unaudited <i>RMB'000</i>	Total unaudited <i>RMB'000</i>
Balance at 1st April, 2003	47,172	37,504	130,342	215,018
Net Profit	–	–	9,803	9,803
Translation adjustment	–	–	(2)	(2)
Final dividends for 2002	–	–	(9,347)	(9,347)
Balance at 30th June, 2003	<u>47,172</u>	<u>37,504</u>	<u>130,796</u>	<u>215,472</u>
Balance at 1st April, 2004	47,312	39,410	181,662	268,384
Net Profit	–	–	12,261	12,261
Translation adjustment	–	–	(400)	(400)
Option exercise	82	1,257	–	1,339
Final dividends for 2003	–	–	(4,696)	(4,696)
Balance at 30th June, 2004	<u>47,394</u>	<u>40,667</u>	<u>188,827</u>	<u>276,888</u>
Balance at 1st January, 2003	47,172	37,504	125,619	210,295
Net Profit	–	–	14,524	14,524
Final dividends for 2002	–	–	(9,347)	(9,347)
Balance at 30th June, 2003	<u>47,172</u>	<u>37,504</u>	<u>130,796</u>	<u>215,472</u>
Balance at 1st January, 2004	47,237	38,376	175,541	261,154
Net Profit	–	–	18,360	18,360
Translation adjustment	–	–	(378)	(378)
Option exercise	157	2,291	–	2,448
Final dividends for 2003	–	–	(4,696)	(4,696)
Balance at 30th June, 2004	<u>47,394</u>	<u>40,667</u>	<u>188,827</u>	<u>276,888</u>

10. Trade payables

The aging analysis of trade payables is as follow:

	30th June, 2004 unaudited <i>RMB'000</i>	31st December, 2003 unaudited <i>RMB'000</i>
Within 180 days	2,211	2,059
Over 180 days but within 360 days	271	337
Over 360 days	577	699
	<u>3,059</u>	<u>3,095</u>

11. Contingent liabilities

The Group had no significant contingent liabilities as of 30th June, 2004 (30th June, 2003: Nil).

12. Commitments

Operating lease commitments

As of 30th June, 2004, total minimum future lease payments under non-cancelable operating leases in respect of buildings are as follows:

	30th June, 2004 unaudited RMB'000	31st December, 2003 unaudited RMB'000
Payable:		
Within one year	14,013	11,657
Over one year and within five years	8,672	6,890
	<hr/>	<hr/>
	22,685	18,547
	<hr/>	<hr/>

13. Subsequent events

No material events subsequent to the end of the interim period that have not been reflected in the financial statements for the reporting period.

INTERIM DIVIDEND

The Board did not recommend the payment of an interim dividend for the six months ended 30th June, 2004 (the six months ended 30th June, 2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The PRC enterprise application software market continued to grow fast during the first half year of 2004. Changes in the external market environment intensified the competitions among Chinese enterprises, which have thus become more aware of investment strategy, operation efficiency, customer management and cost control. The value of application software to enterprise is gradually recognized by customers. Several enterprises which succeeded in implementing the application software management system are able to enhance their competitive edges and become the role model for other enterprises. In response to the rapid growth of the Chinese application software industry, both the domestic and international software suppliers further penetrated into the Chinese market. On the one hand, the competition stimulated the market growth, increased the market size and encouraged the upgrade of software products and service quality. Besides, it foretold the market consolidation and acquisition and merger activities in the industry in the coming future.

During the Reporting Period, Kingdee International Software Group Company Limited, as the leading supplier of enterprise management software and e-commerce application solutions, one of the fastest growing independent software suppliers in the global software market and the leading supplier in the software industry in China, continued to pursue its development strategy of "Product Leadership, Partners Oriented, Prompt Response and Capacity Oriented". In 2004, in response to the changes in market environment and customers' needs, Kingdee International suggested four reforming measures: "Customer-oriented, Competition-led, Matrix Management and Execution Culture". Based on the core

ideas of the four reforming measures, Kingdee International enhanced customers' confidence and loyalty towards the Company and further arouse the brand awareness by sharing successful cases of strategic customers and industry segment. Kingdee International also increased its competitiveness within the industry with segmented market sales and positioned itself with "Speedy Installation, Implementation, Application and Effectiveness" to meet growing informatization demand of the Chinese enterprises with integrated and comprehensive solutions. Kingdee International also managed to shorten the implementation period by improving project management, and in turn increasing the overall sales of its services. In order to match up to the leading international enterprise application software suppliers, Kingdee International strengthened the management of customers' needs and optimized its product functions, further enhancing the quality of its products. It also developed multilingual version of its products on a large scale in order to further satisfy the management needs of the fast-growing international enterprises. Implementing matrix management and strengthening the execution capability of the Company. It also focused on enhancing the quality and speed of its response to customers' needs and improves the quality of customer services.

The enhancement in product quality and service standard contributed to increasing customer satisfaction to the Company. Kingdee K/3 ERP was accredited as the "Top Brand for Product Quality of Customer Satisfactory in China Software Market" by Market Information Centre of People's Daily Press, showing that Kingdee K/3 ERP is recognized in the domestic market. The Ministry of Information Industry of the State Council and the CFIP jointly presented Kingdee International the title "The Most Competitive Chinese Software Enterprise in 2003" to show their recognition of Kingdee's products, technology and services. Kingdee International was selected by the Ministry of Science and Technology as the "Pilot Enterprise of COSEP (Type A of Outsourcing Software)". This not only represented the State's recognition of Kingdee International's development potential in the international outsourcing market, but also provided a strong platform for the long-term development in Kingdee International's software outsourcing business. Funds and specific assistance will be offered to Kingdee International from relevant government departments like the Ministry of Science and Technology.

Review of Major Events during the Reporting Period:

1. While continuing to consolidate its leading position in the small and medium enterprise market, Kingdee has successfully penetrated the market of large and medium enterprises and specific industries.
 - Entering into contracts with Vitop Group, Shuicheng Metal Group, Kingsway Brewery, Yahua Seeds Company, White Dove Group, Bailu Chemical Fibre Group, Economic Times and TOM Outdoor Media Group.
 - Entering into contracts with key pharmaceutical enterprise Shandong Xinhua Phase II, demonstrating the extensive application of Kingdee K/3 ERP in large-scale enterprise and Kingdee's leading position in facilitating informatization in the pharmaceutical industry.
 - Entering into contracts with one of the top five cigarette suppliers of the State, Hangzhou Cigarette Factory on its phase III project, proving the maturity of the tobacco version of Kingdee EAS and its increasing competitiveness in the tobacco industry.

2. Kingdee International continued to strengthen its competitive edges, enhance the functions and quality of the products and consolidate its application platform.
 - Kingdee International continues to improve its K/3 V10.0 products. The Company officially announced that it would develop Kingdee K/3 BOS (business operating system), a software platform based on MDA, on its own, epitomizing the leading position of Kingdee International's capability in technological development in the industry.
 - Apusic, Kingdee International's middleware product, officially obtained the Certificate of J2EE Application Server from Sun Microsystems, and became the first Java middleware product in China to obtain J2EE Certificate. It signifies that Kingdee Apusic Application Server product fully complies with international standards and regulations. At the same time, Shenzhen Kingdee Middleware Company Limited, a subsidiary of Kingdee International, officially became the first Chinese member of Java Community Process (JCP), the organization responsible for developing Java technology standards. From now on, Kingdee will participate in the development of Java international standards.
 - The CMM Level 4 Certification has been completed. Kingdee International has started working on the improvement of its software according to the requirements of CMM Level 5, strengthen its research and development capabilities and implement quality control measures.

3. Kingdee International proactively formed partnerships and alliances. Significant progresses have been made especially in the establishment of implementation and service alliances. A strong cooperative partnership has been established in the Asia Pacific region.
 - Continued to implement the strategy "Partners Oriented". Sales from partners grow by 42% as compared with the same period last year. A series of activities related to the "Consultation Conference on the Three Major Difficulties encountered in Management Informatization" were jointly organized with IBM, Intel, Atos Origin, Alliance PKV Management Consultants Ltd and General Consulting International, signifying that a partnership eco-chain was gradually established.
 - The Asia Pacific headquarter was established in Hong Kong and a new enterprise logo was released. The Company endeavours to develop its partnership and sales network in the Asia Pacific region.
 - In order to tap into the software outsourcing market of North America, Kingdee International established a liaison office in New York, USA. In addition, business partnership has been established with various consultation companies, system integration companies and software companies in North America.

During the Reporting Period, in order to eliminate some unstable and unhealthy factors in the operation of the macro economy, the government of the PRC has implemented regulatory measures in some industries with over-investment. Therefore, the demand for enterprise application software from a few industries affected by the regulatory measures has been adversely affected to a certain extent. However, Kingdee International has been actively coping with the ever-changing market and managed to achieve excellent results in the Reporting Period by improving the quality of the products, expediting the execution capability and putting emphasis on more competitive industries.

Prospect

The economy of China will continue to grow steadily in the second half of the year. To enhance competitiveness, Chinese enterprises will invest more heavily on informatization infrastructure and the market of enterprise application software will expand at a faster pace. Kingdee International will endeavour to achieve better results and improve shareholders' return in the second half of the year by further reforming, implementing a series of measures to optimize its organization and workflow and expediting the development of advanced products. The major reform measures are as follows:

1. To establish the Product Management Department and Product Innovation Committee in order to achieve breakthroughs in the development of customer-oriented products and to strengthen its investment capability, so as to further enhance the competitiveness of the products.
2. To further strengthen the appraisal and incentive system of staff, enhance the vitality and competitiveness of the organisations, optimize and integrate the departments and functions, coordinate resources and to focus more on key products and the core business.
3. In the small-medium enterprise market and growing large enterprise market, Kingdee International will launch six software for quick applications, including quick finance application, quick supply chain application (industrial), quick supply chain application (commercial), quick manufacturing application (foundations), quick manufacturing application and quick HR.
4. To strengthen the flow of customer servicing, improve the quality of services, adopt the policy of "Speedy Installation, Implementation, Application and Effectiveness" efficiently, ensure better and faster project execution, and to create better values for the customers.

When talking about the reforms, Xu Shao Chun, the chief executive officer of Kingdee International emphasized, "Love, integrity and innovation are our commitment to the customers, the society, the staff and the shareholders. The Kingdee culture emphasizes on innovation and fast software execution. It incorporates ideas from the international arenas. After integrating its resources, the staff of Kingdee International will work together and endeavour to brighten up the Kingdee culture in the future."

FINANCIAL PERFORMANCE

Consolidated results of operations

The Group's turnover for the six months ended 30th June, 2004 was approximately RMB202,615,000 representing an increase of approximately 28.45% when compared to the corresponding period in 2003 (for the six months ended 30th June, 2003: RMB157,738,000). The increase was mainly attributable to the rapid sales growth of Kingdee K/3 ERP products. During the reporting period, the Group realized sales of software of RMB162,504,000, representing an increase of approximately 28.2% compared with the corresponding period in 2003 (for the six months ended 30th June, 2003: RMB126,760,000); the Group realized service income of RMB39,572,000, representing an increase of approximately 33.09% compared with the corresponding period in 2003 (for the six months ended 30th June, 2003: RMB29,734,000). Profit attributable to shareholders of the Group for the reporting period was approximately RMB18,360,000, representing an increase of approximately 26.41% compared to the corresponding period in 2003 (for the six months ended 30th June, 2003: RMB14,524,000). The basic earning per share was RMB4.152 cents (for the six months ended 30th June, 2003: RMB3.294 cents).

Gross profit

The Group's gross profit increased by approximately 31.28% from RMB134,952,000 for the corresponding period of 2003 to approximately RMB177,162,000 for the six months ended 30th June, 2004. During the reporting period, a gross profit margin was approximately 87.51% (the six months ended 30th June, 2003: approximately 85.56%).

Selling expenses and general and administrative expenses

Selling expenses for the six months ended 30th June, 2004, amounted to approximately RMB118,133,000, representing an increase of approximately 43.83% over the corresponding period of 2003; general and administrative expenses for the six months ended 30th June, 2004 amounted to approximately RMB63,748,000, representing an increase of approximately 5.69% over the corresponding period in 2003. Selling expenses as a percentage of turnover for the period increased from 52.07% in 2003 to 58.35% in 2004; general and administrative expenses as a percentage of turnover for the period decreased from 38.24% in 2003 to 31.49% in 2004. The increase in selling expenses as a percentage of turnover for the reporting period was mainly contributed by affording competitive salaries to experienced sales consultants and service consultants, and by the increase of expenditure in market promotion.

Financial resources and liquidity

The Group maintained a sound cash flow position. As at 30th June, 2004, cash and cash equivalents amounted to RMB140,429,000, representing a current ratio of 2.2 (as at 31st December, 2003: 2.7). Gearing ratio, expressed as a ratio of total liability and minority interests to shareholders' equity, was 0.45 (as at 31st December, 2003: 0.42). The management considers the Group maintains a healthy financial position.

The Group intends to finance its daily operations and product development with internal funds and the Group implements stringent controls on treasury activities. Unused amounts will be placed in banks to earn interest income.

As at 30th June, 2004, the Group's short-term bank loan balance amounted to RMB24,000,000 (as at 31st December, 2003: RMB20,000,000).

As at 30th June, 2004, the Group was not subject to material foreign exchange rate fluctuation exposure, and had not entered into any foreign currency futures contract to hedge against foreign currency fluctuations.

The Group had no significant contingent liabilities as at 30th June, 2004 (as at 31st December, 2003: nil).

Employees

Employees of the Group are remunerated according to their performance and work experience. The Group has maintained a bonus incentive scheme to reward well performed staffs. Throughout the year, the Group enforced its staff training to raise the competitiveness of the staffs; this helps staffs to succeed, and thus helps customers to succeed.

On 1st June, 2004, the Group granted a total of 14,980,000 options to 178 employees (including one of executive directors, Mr. Luo Ming Xing). It is the eighth time option distribution since the listing. This time, options were granted to the senior management team and major technical staff, who worked in the subsidiaries of the Group, and to sales and technical talents such as returned students from overseas.

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

As at 30th June, 2004, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations) within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules, were as follows:

LONG POSITIONS IN SHARES/UNDERLYING SHARES OF THE COMPANY

Name of Directors	Number of Shares/ underlying shares (where appropriate)	Capacity	Percentage of issued share capital
Xu Shao Chun	141,916,250	Interests of controlled corporation (<i>Note 1</i>)	
	6,562,880	Beneficial owner	
	9,500,000	Other/Share option (<i>Note 2</i>)	
<i>Aggregate:</i>	<i>157,979,130</i>		<i>35.67%</i>
Luo Ming Xing	1,855,000	Beneficial owner	
	1,425,000	Other/Share Option (<i>Note 2</i>)	
<i>Aggregate:</i>	<i>3,280,000</i>		<i>0.74%</i>
James Ming King	1,000,000	Other/Share Option (<i>Note 2</i>)	
<i>Aggregate:</i>	<i>1,000,000</i>		<i>0.23%</i>
Hugo Shong	5,250,000	Beneficial owner	
<i>Aggregate:</i>	<i>5,250,000</i>		<i>1.19%</i>
Zhao Yong	57,850,750	Beneficial owner	
<i>Aggregate:</i>	<i>57,850,750</i>		<i>13.06%</i>

Notes:

1. Of the 141,916,250 shares, 83,606,250 shares were held through Oriental Gold Limited and 58,310,000 shares were held through Billion Ocean Limited.
2. Details of the share options are set out in the paragraph headed "Share Option Schemes".

Save as disclosed in this paragraph, as at 30th June, 2004, none of the Directors and chief executive had any the interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations) within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.40 of the GEM Listing Rules.

PRE-IPO SHARE OPTION SCHEME

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 30th January, 2001, options to subscribe for total 1,300,000 shares of HK\$0.10 each of the Company at a subscription price of HK\$1.03 per share were granted to the former and current employee of Company.

All of these options have a duration of 10 years from the date on which dealings in the shares commenced on GEM (i.e. 15th February, 2001) (“listing date”), provided that the options can only be exercised in respect of up to 25%, 50% and 75% of the underlying shares within 12 months, 24 months and 36 months respectively from the listing date.

As at 30th June, 2004, 475,000 shares option was exercised, 825,000 shares option was canceled and no more option remained outstanding under the Pre-IPO Share Option Scheme.

SHARE OPTION SCHEMES

Pursuant to the share option scheme of the Company adopted on 30th January, 2001 (the “Old Scheme”), full-time employees of any member of the Group (including any executive directors of any member of the Group) may be granted options to subscribe for shares of HK\$0.10 each of the Company.

At the board meeting of the Company held on 27th September, 2001, pursuant to the implementation rules for share option scheme approved under the Old Scheme, options to subscribe for a total of 1,720,000 shares at a subscription price equal to HK\$1.49 per share were granted to 33 full-time employees of the Group and its subsidiaries.

The Old Scheme was terminated and replaced by a new share option scheme (the “New Scheme”) by an ordinary resolution passed at the extraordinary general meeting of the Company held on 26th April, 2002. The existing options under the Old Scheme will continue to be valid and exercisable in accordance with its provisions.

At the board meeting of the Company held on 15th May, 2002, options to subscribe for a total of 5,620,000 shares at a subscription price of HK\$1.78 per share were granted to 22 full-time employees (including executive directors, Mr. Xu Shao Chun and Mr. Luo Ming Xing) of the Group pursuant to the New Scheme.

At the board meeting of the Company held on 20th February, 2003, options to subscribe for a total of 7,530,000 shares at a subscription price of HK\$1.39 per share were granted to 76 full-time employees (including executive directors, Mr. Luo Ming Xing) of the Group pursuant to the New Scheme.

At the board meeting of the Company held on 8th August, 2003, options to subscribe for a total of 4,740,000 shares at a subscription price of HK\$2.05 per share were granted to 2,370 full-time employees of the Group pursuant to the New Scheme.

At the board meeting of the Company held on 30th December, 2003, options to subscribe for a total of 1,000,000 shares at a subscription price of HK\$2.69 per share were granted to Mr. James Ming King, executive director of the Company, pursuant to the New Scheme.

At the board meeting of the Company held on 23rd March, 2004, the Board recommended and resolved with the approval of the Directors (including independent non-executive Directors but excluding Mr. Xu Shao Chun who was required to abstain from voting under the Articles of Association of the Company), to grant options to subscribe for 8,000,000 Shares to Mr. Xu Shao Chun under the Share Option Scheme. At the extraordinary general meeting of the Company held on 16th April, 2004, options to subscribe for a total of 8,000,000 shares at a subscription price of HK\$3.18 per share were granted to Mr. Xu Shao Chun, executive director of the Company, pursuant to the New Scheme.

At the board meeting of the Company held on 1st June, 2004, options to subscribe for a total of 14,980,000 shares at a subscription price of HK\$2.65 per share were granted to 178 full-time employees (including the executive director, Mr. Luo Ming Xing) of the Group pursuant to the New Scheme.

Details of the share options as at 30th June, 2004 which had been granted under the Old Scheme and the New Scheme were as follows:

	Options held at 1st January, 2004	Options granted during the reporting period ⁽¹⁾	Options exercised during the reporting period	Options held at 30th June, 2004	Exercise price HK\$	Grant date
Xu Shao Chun	–	8,000,000	–	8,000,000	3.18	16/04/2004 ⁽¹⁰⁾
	1,500,000	–	–	1,500,000	1.78	15/05/2002 ⁽³⁾
Luo Ming Xing	–	900,000	–	900,000	2.65	01/06/2004 ⁽¹¹⁾
	400,000 ⁽¹⁾	–	100,000	300,000	1.39	20/02/2003 ⁽⁷⁾
	300,000	–	75,000	225,000	1.78	15/05/2002 ⁽⁵⁾
James Ming King	1,000,000 ⁽³⁾	–	–	1,000,000	2.69	30/12/2003 ⁽⁹⁾
Continuous contract employees	–	14,080,000	–	1,000,000	2.65	01/06/2004 ⁽¹¹⁾
	4,740,000 ⁽²⁾	–	–	4,740,000	2.05	08/08/2003 ⁽⁸⁾
	7,130,000 ⁽¹⁾	–	585,500	6,544,500	1.39	20/02/2003 ⁽⁵⁾
	3,571,000	–	386,500	3,184,500	1.78	15/05/2002 ⁽³⁾
	1,585,000 ⁽⁴⁾	–	210,000	1,375,000	1.49	27/09/2001 ⁽⁴⁾

Note:

- (1) At the date immediate before the options were granted (i.e. 19th February, 2003), the closing price of the share was HK\$1.36.
- (2) At the date immediate before the options were granted (i.e. 7th August, 2003), the closing price of the share was HK\$2.00.
- (3) At the date immediate before the options were granted (i.e. 29th December, 2003), the closing price of the share was HK\$2.675.
- (4) The share options were granted in pursuant to the Old Scheme.
- (5) All of these options have a duration of 10 years from the grant date, provided that the options can only be exercised in respect of up to 25%, 50% and 75% of the underlying shares within 12 months, 24 months and 36 months respectively from the date of 15th May, 2003.
- (6) These options have duration of 10 years from the grant date, provided that the options can only be exercised in respect of up to 25%, 50% and 75% of the underlying shares within 12 months, 24 months and 36 months respectively from the grant date.
- (7) All of these options have a duration of 10 years from the grant date, provided that the options can only be exercised in respect of up to 25%, 50% and 75% of the underlying shares within 12 months, 24 months and 36 months respectively from the date of 20th February, 2004.
- (8) All of these options have duration of 10 years from the grant date, provided that the options can only be exercised from the date of 8th August, 2004.

- (9) All of these options have a duration of 10 years from the grant date, provided that the options can only be exercised in respect of up to 25%, 50% and 75% of the underlying shares within 12 months, 24 months and 36 months respectively from the date of 30th December, 2004.
- (10) All of these options have duration of 10 years from the grant date, provided that the options can only be exercised no more than 50% of the underlying shares from the grant day to the date of 30th December, 2004. While the options can totally be exercised after the date of 30th December, 2004.
- (11) All of these options have a duration of 10 years from the date of grant, provided that the options can only be exercised up to 25%* Revenue Ratio for the financial year 2004, 25%* (Revenue Ratio for the financial year 2004+ Revenue Ratio for the financial year 2005), 25%* (Revenue Ratio for the financial year 2004+ Revenue Ratio for the financial year 2005+ Revenue Ratio for the financial year 2006) of the underlying shares within 12 months, 24 months and 36 months respectively from the date of 1st June, 2005. (Note: Revenue Ratio shall equal to the actual revenue of the Group divided by the estimated revenue of the Group as determined by the Board for a particular financial year.)

Rule 23.08 of the GEM Listing Rules stipulate that listed issuers are encouraged to disclose in their interim reports the value of options granted to participants set out in (1) to (5) of Rule 23.07 during the period. The Directors consider it inappropriate to value the options under all the schemes of the Company on the assumption that a number of factors crucial for the valuation cannot be determined. Such factors include the exercise period, the date of exercise and the conditions, such as performance targets, if any, that an option is subject to. Accordingly, any valuation of the options based on various speculative assumptions would not be meaningful but would be misleading to the shareholders.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES

Save as disclosed in the sections headed "Interests of Directors in Equity Securities", "Share Option Scheme" and "Pre-IPO Share Option Scheme", at no time during the year ended 30th June, 2004 was the Company, or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in the Company.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June, 2004, the following persons (other than the directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

LONG POSITIONS IN SHARES/UNDERLYING SHARES OF THE COMPANY

Name	Number of Shares/underlying shares (where appropriate)	Capacity	Percentage of issued share capital
Oriental Gold Limited	83,606,250	Beneficial owner	18.88%
Billion Ocean Limited	58,310,000	Beneficial owner	13.17%

Save as disclosed above, as at 30th June, 2004, the directors were not aware of any other person (other than the directors and chief executive of the Company) who had an interest and short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

At the annual general meeting of the Company held on 16th April, 2004 (“AGM”), an ordinary resolution was passed to grant a general mandate to the directors of the Company 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 the any of its subsidiaries had purchased, sold or redeemed any of its listed securities for the nine months ended 30th June, 2004.

CHANGE OF DIRECTORS

Mr. Xu Wen Hui resigned from his office as an executive director, compliance officer, authorized representative and member of the Audit Committee of the Company at the board meeting held on 10th March, 2004.

In view of the above, the Board had appointed Mr. James Ming King as compliance officer, Mr. Luo Ming Xing as authorized representative, Mr. Zhao Yong as member of the Audit Committee of the Company at the Board meeting held on 10th March, 2004.

Ms. Yang Zhou Nan, Independent Non-executive Director, retired by rotation in accordance with Article 116 of the Articles of Association of the Company, and was re-elected at the AGM on 16th April, 2004.

Mr. Yeung Kwok An, Independent Non-executive Director, and Mr. James Ming King, Executive Director, retired in accordance with Article 99 of the Articles of Association of the Company, and were re-elected at the AGM on 16th April, 2004.

COMPETING INTEREST

None of the directors had an interest in a business, which competes or may compete with the business of the Group.

BOARD PRACTICES AND PROCEDURES

During the six months ended 30th June, 2004, the Company was in compliance with Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 30th June, 2004. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

AUDIT COMMITTEE AND ITS DUTIES

As at 30th June, 2004, the audit committee of the Company comprises of Mr. Zhao Yong, a non-executive director, Ms. Yang Zhou Nan and Mr. Wu Cheng, both is being the independent non-executive director of the Company. Ms. Yang Zhou Nan is the chairman of the audit committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The meetings of the audit committee for the year 2004 were convened and held on 12th August, 2004 to review the accounts and reports of the Group for the six months ended 30th June, 2004 and to provide financial advices and recommendations to the Board.

On behalf of the Board
Kingdee International Software Group Company Limited
Xu Shao Chun
Chairman

Shenzhen, The People's Republic of China, 13th August, 2004

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