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This announcement, 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 announcement 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 announcement misleading; and (iii) 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.



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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 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.

Financial highlights for the year ended 31st December, 2004

- Turnover increased by approximately 22% over the same period in 2003 to approximately RMB445,922,000.
- Profit attributable to shareholders decreased by approximately 7% over the same period in 2003 to approximately RMB54,965,000.
- Basic earnings per share decreased by approximately 7.7% over the same period in 2003 to approximately RMB0.12.

The board of directors (the “Board”) of Kingdee International Software Group Company Limited (“Kingdee International” or the “Company”) hereby announces the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st December, 2004, together with the comparative consolidated figures for 2003 are as follows:

	<i>Notes</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Turnover	2	445,922	365,573
Cost of sales		(84,676)	(58,097)
Gross profit		361,246	307,476
Other operating income	3	56,125	50,012
Selling expenses		(228,789)	(192,624)
General and administrative expenses		125,791	(93,816)
Other operating expenses		(1,401)	(1,678)
Profit from operations	4	61,390	69,370
Interest income		1,213	538
Finance expenses	5	(1,219)	(562)
Share of results of associates		(1,852)	(1,121)
Profit before tax		59,532	68,225
Taxation	6	(3,312)	(10,184)
Profit after tax		56,220	58,041
Minority interests		(1,255)	1,089
Net profit attributable to shareholders		<u>54,965</u>	<u>59,130</u>
Dividends	7	<u>18,810</u>	<u>4,691</u>
Earnings per share			
– basic	8	<u>RMB0.12</u>	<u>RMB0.13</u>
– diluted	8	<u>RMB0.12</u>	<u>RMB0.13</u>

Notes:

1. Basis of presentation

These financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”).

These accounting policies are consistent with those used in the previous year except for the implementation of IFRS 3 “Business Combination” (“IFRS 3”) for the year. No adjustment to the comparative figures is required by IFRS 3.

The books and records of the Company and its subsidiaries, except for those subsidiaries established in the PRC (the “PRC subsidiaries”), are maintained in Hong Kong dollars. The books and records of the PRC subsidiaries are maintained in Renminbi (“RMB”). Owing to the fact that the Group principally operates in the PRC and its business activities are principally transacted in RMB, these financial statements are prepared in RMB.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current event and actions, actual results ultimately may differ from those estimates.

These financial statements have been prepared under the historical cost convention except for available-for-sale investments.

2. Turnover

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

	2004 <i>RMB’000</i>	2003 <i>RMB’000</i>
Sales of software	323,811	296,898
Sales of computer and related products	4,284	5,165
Software solution consulting and support services	33,631	39,506
Software implementation services	84,196	24,004
	<u>445,922</u>	<u>365,573</u>

No segment information is presented as the Group operates in one single industry and one single segment. The Group operates within one geographic segment as its revenues are primarily generated in the PRC and its major assets are located in the PRC.

3. Other operating income

	2004 <i>RMB’000</i>	2003 <i>RMB’000</i>
Subsidy income		
VAT refund (<i>Note (a)</i>)	47,048	42,689
Subsidy on development of new products (<i>Note (b)</i>)	1,722	4,317
Subsidy for re-investment (<i>Note (c)</i>)	5,110	1,935
	<u>53,880</u>	<u>48,941</u>
Others	2,245	1,071
	<u>56,125</u>	<u>50,012</u>

- (a) According to the current tax regulations in the PRC, the development and sales of computer software are subject to VAT with an applicable rate of 17%. In September 2000, the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs of the PRC jointly issued a circular regarding the Taxation Policy for Encouraging the Development of the Software and integrated Circuits Industries (Cai Shui Zi [2000] No.25). Pursuant to the Circular, for the period from 24 June 2000 to 31 December 2010, software enterprises which engage in the sale of self-developed software in the PRC are entitled to a preferential taxation treatment which provides for the payment of VAT at the rate of 17% and the refund of any VAT paid for the sales of the software in the PRC which exceeds the VAT rate of 3%.
- (b) The subsidy was granted by the local government authorities and included the portion of deferred subsidy income recognised during the year.
- (c) Amount represented income tax refund for re-investment in a subsidiary by way of capitalisation of dividend.

4. Profit from operations

Profit from operations was arrived at after charging/(crediting) the following:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Research and development costs *		
Amounts incurred	63,476	52,395
Less: amounts capitalised	(40,494)	(40,976)
Add: amortisation of capitalised costs	30,476	14,351
Add: impairment of capitalised costs	334	–
	<u>53,792</u>	<u>25,770</u>
Staff costs (<i>Note 7</i>)	205,690	166,745
Amount charged to research and development costs	(40,494)	(40,976)
	<u>165,196</u>	<u>125,769</u>
Cost of inventories consumed (included in cost of sales)	9,686	11,161
Depreciation of property, plant and equipment	12,496	12,566
Amortisation of software	1,268	1,718
Amortisation of goodwill arising on acquisitions of:		
– subsidiaries *	2,490	2,488
– associates	790	790
Amortisation of negative goodwill *	(23)	(23)
Impairment of goodwill *	1,206	2,576
Trade receivables – impairment charge for bad and doubtful debts	10,187	12,459
Operating lease rentals on premises	21,728	17,997
Loss on disposals of property, plant and equipment	286	1,140
Auditors' remuneration *	1,200	1,180
Charge of lease prepayment*	78	–
Negative goodwill recognised upon dissolution of subsidiaries*	(870)	–

* *Wholly included in general and administrative expenses*

5. Finance expenses, net

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Interest expense on bank loans	1,083	488
Others	136	74
	<u>1,219</u>	<u>562</u>

6. Taxation

Taxation represents PRC income tax charged to:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
The Group		
– Current income tax	5,363	6,341
– Over-provision in previous years	(1,140)	–
– Deferred income tax (<i>Note 20</i>)	(911)	3,843
	<u>3,312</u>	<u>10,184</u>

- (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 year in those jurisdictions (2003: Nil).
- (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 and the subsidiary of the jointly controlled entity 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.

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

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Accounting profit before taxation	<u>59,532</u>	<u>68,225</u>
Tax at the statutory tax rate of 33% (2003: 33%)	19,645	22,514
– Effect of preferential tax rates	(13,692)	(15,692)
– Tax losses not recognised	4,437	4,419
– Expenses not deductible for tax purposes	1,231	2,554
– Effects on change of tax rate	–	2,257
– Income not subject to tax	(4,648)	(4,308)
– Additional deductible allowance for research and development expenses	(2,521)	(1,560)
– Over-provision of income tax in previous years	(1,140)	–
Taxation per accounts	<u>3,312</u>	<u>10,184</u>

7. Dividends

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Final, proposed	<u>18,810</u>	<u>4,691</u>

At the meeting held on 29 March 2005, the Board of Directors recommended a final dividend of RMB0.04 (HK\$0.04) (2003: RMB0.01 (HK\$0.01)) per share for the year ended 31 December 2004. These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2005.

8. Earnings per share

The calculation of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of RMB54,965,000 (2003: RMB59,130,000).

The basic earnings per share are based on the weighted average of 442,640,000 (2003: 440,994,000) ordinary shares in issue during the year. The diluted earnings per share is based on 447,663,000 (2003: 441,362,000) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average of 5,023,000 (2003: 368,000) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

9. Movement on shares issued

	Number of shares <i>'000</i>	Nominal value <i>HK\$'000</i>	Nominal value <i>RMB'000</i>
Share capital as of 1st January, 2004	441,496	44,150	47,237
Add: shares issued (<i>Note</i>)	<u>1,762</u>	<u>176</u>	<u>187</u>
Share capital as of 31st December, 2004	<u>443,258</u>	<u>44,326</u>	<u>47,424</u>

Note: Increase in shares issued was due to the exercise of 1,762,000 options during 1st January to 31st December.

10. Statement of changes in equity

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Reserves <i>RMB'000</i>	Total <i>RMB'000</i>
Balance at 1 January 2003	47,172	37,504	125,619	210,295
Issue of shares	65	872	–	937
Dividend relating to 2002	–	–	(9,357)	(9,357)
Net profit	–	–	59,130	59,130
Translation adjustments	–	–	149	149
Balance at 31 December 2003	<u>47,237</u>	<u>38,376</u>	<u>175,541</u>	<u>261,154</u>
Balance at 1 January 2004	47,237	38,376	175,541	261,154
Issue of shares	187	2,705	–	2,892
Dividend relating to 2003	–	–	(4,691)	(4,691)
Net profit	–	–	54,965	54,965
Translation adjustments	–	–	(268)	(268)
Balance at 31 December 2004	<u>47,424</u>	<u>41,081</u>	<u>225,547</u>	<u>314,052</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Industry Review

The enormous growth potential of the enterprise application software market represents high growth opportunities for the enterprise application software vendors

Upon the access of the PRC into the WTO and the implementation of macro economy control by the Chinese government, Chinese enterprises face more intensive market competition and more enterprises will choose to implement management informatization systems to enhance their own competitiveness. According to the forecasts of IDC, the market size of the PRC packaged software will exceed RMB48 billion in 2008 and application software will account for more than 50% of the packaged software market. (Source: IDC, June 2004 China Parkaged Software 2004-2008 Forecast and Analysis) According to the second countrywide general investigation of the State Statistical Bureau, there are more than 3 million small and medium enterprises in the PRC. Therefore, the small and medium enterprises market will become the most important market of the PRC enterprise application software industry.

Middleware market will enter into a rapid development era

According to the forecasts of IDC, the capacity of the middleware market will reach RMB1.17 billion in 2005, representing a growth of 38.5% when compared with the corresponding period. The compound annual growth rate between 2004 and 2008 will exceed 30%. The middleware market will enter into a rapid development stage.

The business of software outsourcing services in the PRC

According to the forecasts of IDC, the capacity of the PRC software outsourcing service market will reach RMB5.5 billion in 2005, representing a compound growth rate of 44% between 2003 and 2008. The PRC software outsourcing service business is at its initial stage of development and the PRC government strongly encourages the PRC software enterprises to actively expand their international software outsourcing service business.

The Group's competitive edges in the PRC enterprise application software market

The PRC enterprise application software market has been developing for almost 20 years. Domestic and foreign competitors have already tapped into all segments of the PRC enterprise application software market. Facing competitions, the competitive edges of the Group are apparent:

Strong customer base

Following 12 years of development, the Group has accumulated approximately 200,000 customers. These customers not only provide the Group with a stable revenue source for its software after-sales maintenance service, but also represent enormous market potential for the Group's product upgrades and sales of new products resulting from its customers' continuous and further application of management informatization. During the reporting period, more than 30% of the revenue from the Group's enterprise application software derived from product upgrades of its existing customers and the increase in the number of authorized users. The

renowned customers of the Group include: Hong Kong China Merchants Group, Hong Kong China Travel Group, Hong Kong Hantec Group, Olympus Hong Kong, UPS Hong Kong, McDonald China Co., Ltd, China Resources Group, China Vanke Group, China Construction Bank, The People's bank of China, China South Automotive Group, TCL Group, Shanghai Electric Power Group and New Hope Group.

Advantage in offering proactive and prompt services

Kingdee has a sales and service channel covering the Asia-Pacific region and has set up about 40 branches in the major cities of Mainland China. Kingdee has also engaged more than 1000 product and service agents and established its Asia-Pacific headquarter in Hong Kong. An extensive sales and service network is a strong guarantee for the Group's business development.

Develop core technologies under its own intellectual property right

The Group is the only domestic enterprise application software vendor which develops its core technologies under its own intellectual property right. These core technologies include Kingdee Apusic application server which meets J2EE standard and Kingdee BOS System, an open integrated application development platform. The perfect integration of middleware system and application system illustrates the leading technological edges of the Group in the PRC and the Asia-Pacific region.

Business Analysis

The Group is principally engaged in the provision of enterprise application software, middleware and software outsourcing services. At present, more than 95% of the Group's business is conducted in Mainland China.

Analysis of the enterprise application software business

During the reporting period, the Group's leading position in the PRC enterprise application software market was further consolidated and the Group was highly acclaimed by all parties. According to the special research report of IDC, Kingdee was accredited as the first brand of PRC management software (ERM) products. Kingdee was accredited as the best technological partner by SUN and was accredited as the "Best brand in terms of user satisfaction on product quality in the PRC software market" by the People's Daily.

During the reporting period, revenue from enterprise application software and related services accounted for more than 90% of the Group's turnover and has always been an important source of the Group's steady revenue growth, the business will continue to have a rapid growth potential in future. The Group will continue to pursue its competitive strategy of "Product leadership, Partner oriented" and maintain its leading edge in this area.

The market positioning of enterprise application software products

Taking into account the operating scales of the Chinese enterprises and the existing market condition of enterprise application software, the Group categorizes the application of its enterprise customers of different scales into elementary application, small enterprise application, lower-level application, higher-level application and superior application on the basis of their application levels and the complexities of their application.

Targeting at different market segments, the Group provides three kinds of application software, namely Kingdee KIS, Kingdee K/3 and Kingdee EAS. Targeting at the small and medium business market, the Group provides Kingdee KIS and Kingdee K/3 to offer solutions to customers. In the enterprise market, the Group designs Kingdee EAS and Kingdee K/3 to offer higher application solutions to customers. Meanwhile, the Group is gradually implementing IPD (Integrated Product Development), which effectively enhances the Group's product planning capability, design capability and product quality.

Fast-growing enterprise application software business

The Kingdee KIS System, targeting at elementary application and small enterprise application, is the result of ten years of research and development of the Group and the applications of customers. The product is very mature and highly applicable. During the reporting period, the delivery of the packaged product increased by more than 30% and provided a stable operating cashflow for the Group.

Being able to be installed speedily, Kingdee K/3 System may cater for the specific needs of its customers and may help expanding enterprises to resolve the conflict between standardization and customization of information. It is also the first multi-lingual ERP system in the PRC. While satisfying the strong demand from domestic foreign invested foreign enterprises, the product is also well-positioned to tap into the Asia-Pacific market. Kingdee K/3 System includes modules for finance, HR, SCM, and manufacturing. During the reporting period, the sales contracts of Kingdee K/3 System increased by more than 25% when compared with 2003.

The Group's Kingdee EAS products adopt the technology application mode of "Middleware + ERP", which may help the Group's customers to perform integration conveniently, it is independent of technical platform, process driven and open to visualized and customized development, thereby satisfying the customers' major needs. The architecture of Kingdee EAS products is based on the design concept of "integrated management and accommodating needs" and it can completely solve the conflict between the standardization of management software products and the customized need for enterprises' informatization.

Middleware business analysis

Kingdee's middleware Apusic application server 3.0 version was released in 2004, signifying an important breakthrough achieved by Apusic application server in the area of system software manufactured under PRC's own intellectual property right. Apusic V3.0 is the first domestic Java application server manufactured under the PRC's own intellectual property right to obtain the J2EE standard testing certificate. Kingdee is also the first PRC Java middleware manufacturer to obtain the J2EE certificate and the first PRC middleware enterprise to join the JCP Organization. Apart from their technological edges, the middleware products of Kingdee are competitively priced, have excellent performance and come with localized technical services.

During the reporting period, revenue from the middleware business accounted for approximately 1.5% of the Group's revenue, thereby achieving a significant breakthrough. Kingdee APUSIC middleware begins to be applied in areas such as finance and e-government. Kingdee also establishes partnership with many e-government integration manufacturers and actively seeks partners within the industry. Following years of continuous investment, Kingdee middleware begins to enter the rapid development stage.

Analysis of the software outsourcing service business

In order to cater for the industry-specific management needs of its customers and the customized orders for overseas software outsourcing services, the Group restructures its software technology service companies in Shanghai and Beijing which is engaged principally in the business of software outsourcing services. Since the market demand for software outsourcing services continues to grow, the Group will build on its quality and cost advantages to actively and steadily develop its software outsourcing service business and begins to undertake some overseas software outsourcing service orders. During the reporting period, Kingdee International was designated as a pilot enterprise engaging in the “export of PRC software to Europe and the United States” by the Ministry of Science and Technology of the State (Type A software outsourcing enterprise).

Strengthen the promotion of the Group’s brandname, enlarging its strategic partner alliance

During the reporting period, the Group replaced its brand logo and actively promoted the characteristics of its new international brand: innovative, fast and internationalized. We believe that the substantial investment made on brandname promotion lays a solid foundation for the rapid growth of the Group and its profitability in future.

During the reporting period, the Group’s business in Hong Kong grew by 156% when compared with the corresponding period. At the same time, Kingdee began to develop its business and train up local cooperation partners in Taiwan, Singapore and Malaysia.

FINANCIAL PERFORMANCE

Operating Results

The Group’s turnover for the year ended 31 December 2004 was approximately RMB445,922,000, an increase of approximately 22% as compared with 2003 (2003: RMB365,573,000). The increase was mainly attributable to the significant growth of the sales of the Group’s enterprise management software Kingdee K/3 and the provision of service. During the year, the Group’s income from the sales of software amounted to RMB323,811,000, an increase of approximately 9.1% compared with 2003 (2003: RMB296,898,000); Income from the provision of services amounted to RMB117,827,000, an increase of approximately 85.5% over 2003 (2003: RMB63,510,000). During the year, the Group’s cash flow from operating activities was approximately RMB116,686,000, an increase of approximately 10.3% when compared with 2003 (2003: RMB105,817,000).

During the reporting period, the debtors turnover days were 82 days (the average of the debtor balance at the beginning and end of the year divided by total income for the year times 365 days), which was the same as 2003. The Group continued to strengthen the management and recovery of its debtors during the reporting period. Accordingly, the debtors turnover days remained at a reasonable level.

Profit attributable to the Group’s shareholders for the year ended 31 December 2004 was RMB54,965,000, representing a decrease of approximately 7% when compared with 2003 (2003: RMB59,130,000). The earnings per share amounted to RMB0.12 (2003: RMB0.13).

Gross profit

The Group's gross profit increased by approximately 17.5% from RMB307,476,000 for the year 2003 to approximately RMB361,246,000 for the year 2004. During the year, the gross profit margin was approximately 81% (2003: approximately 84.1%). The decrease in gross profit margin was due partly to the fact that the headquarter service cost of approximately RMB7,000,000 during the reporting period was stated as "selling expenses" in prior years and was accounted for under "costs" from 2004.

Selling expenses

Selling expenses for the year 2004 amounted to approximately RMB228,789,000 (2003: RMB192,624,000), representing an increase of approximately 18.8% over the previous year. Selling expenses as a percentage of turnover for the period decreased from 52.7% in year 2003 to 51.3%.

General and administrative expenses

General and administrative expenses for the year 2004 amounted to approximately RMB125,791,000 (2003: RMB93,816,000), representing an increase of approximately 34% over the previous year. During the period, the general and administrative expenses as a percentage of turnover increased to 28.2% as compared to 25.7% for the year 2003. The increase in the general and administrative expenses as a percentage of turnover for the year was mainly because the Group further increased its R&D investment in high-end enterprise management software Kingdee EAS and expenses incurred from the application to be listed in the Main Board by way of Introduction. Among the general and administrative expenses, research and development costs amounted to approximately RMB53,792,000, representing an increase of approximately 108.7% over 2003 (2003: RMB25,770,000). The related expenses incurred from the change of listing from GEM to the Main Board amounted to RMB3,267,000 (2003: nil).

Capital expenditures

As at 31 December 2004, the Group's capital expenditure include: Prepayment of Land Use Right amounted to RMB16,708,000 (2003: nil); Capitalization of R&D expenditure amounted to RMB40,494,000 (2003: RMB40,976,000); Purchase of computer and relevant equipment amounted to RMB12,929,000 (2003: RMB11,502,000).

Financial resources and liquidity

The Group maintained a sound cash flow position. As at 31 December 2004, the Group's cash and cash equivalents were approximately RMB214,719,000 (2003: RMB164,458,000). The Group's current ratio was 2.08 (2003: 2.22). Gearing ratio, expressed as a ratio of bank borrowings to shareholders' equity, was 8% (2003: 8%). During the reporting period, the Group's current ratio decreased when compared with 2003, mainly because of the increase of customers' deposits received by the Group at the end of the reporting period.

The Group intends to finance its daily operations and production with its internal funds and the Group implements stringent control on its financial activities. Unutilized amounts will be placed with banks to generate interest income. When appropriate opportunities arise, the Group will also consider engaging in merger and acquisition activities in order to enhance the Group's competitiveness.

As at 31 December 2004, the Group had outstanding short term bank loan of RMB24,000,000 (2003: RMB20,000,000) and no outstanding long term bank loan.

As at 31 December 2004, the Group was not subject to material currency fluctuation risk, and had not entered into any foreign currency future contracts to hedge against the currency fluctuation.

As at 31 December 2004, the Group had no significant contingent liabilities (2003: nil).

FUTURE PROSPECTS

The development prospect of enterprise application software market is promising

In 2005, the Group will actively explore the small and medium business market, enhance its penetration into the market, increase product delivery and increase the revenue from product authorization licence. The Group aims at gaining 30% market share in the small and medium business market. In the enterprise market, the Group will gradually improve its product modules and strengthen product sales and promotion and increase the sales revenue of Kingdee EAS System to account for more than 20% of the total revenue of the Group's application software, so that the Kingdee EAS will become the new growth driver of the Group.

By implementing the strategy of "Proactive services, Prompt response", the Group intends to enhance customer satisfaction so that the after-sales maintenance service of the enterprise application software may bring a higher profit contribution to the Group. The Group hopes that, more than 60% of the Group's customers will purchase the maintenance service. On the other hand, by providing proactive services, the Group may enhance the management of software implementation projects, guarantee the successful implementation of the projects and add value for customers.

The prospect of the emerging business such as middleware and software outsourcing services is promising

The Group expects that the sales revenue from Kingdee APUSIC middleware will grow by more than 100% in the next two to three years and the business will soon reach economies of scale. It is the Group's objective that the sales revenue from Kingdee APUSIC middleware will account for more than 5% of the Group's total revenue.

The PRC has specific competitive edges in undertaking overseas software outsourcing service orders since its economic development is rapid, its labour cost is low, its software talents are abundant and its project management capability is strengthening. The Group intends to expand its new business of software outsourcing services by different means and hopes to capture ground breaking growth opportunities.

Capitalizing on merger and acquisition opportunities to expand its business

The Group is actively identifying merging and acquisition opportunities. The Group's major merger and acquisition target is fast growing application software business, especially application software business catering for industries which have competitive advantages, such as the real estate industry, the finance industry and the logistics industry. The Group will make good use of the capital market to actively engage in merger and acquisition activities in order to enhance its profitability.

The management believes that the reduction of the Group's profit in 2004 is a temporary issue, and the Group's competitive edges will not be affected accordingly. The software products developed and the services provided by the Group still have enormous room for market development. The Group's business will continue to grow steadily. Meanwhile, the Group will implement total budgeting, improve its cost structure, enhance its profitability and maximize shareholders' value.

FINAL DIVIDENDS

At the Annual General Meeting ('AGM') of the Company to be held on 27th April, 2005 ("Forthcoming AGM"), the Board will recommend a final dividend of HK\$0.04 per share to the shareholders of the Company for the year ended 31st December, 2004 (2003: HK\$0.01 per share). Subject to the approval of shareholders at the forthcoming AGM, the final dividend will be payable on 27th June, 2005 to shareholders whose names appear on the register of members of the Company on 27th April, 2005.

CLOSURE OF REGISTER

The register of members of the Company will be closed from 25th April, 2005 (Monday) to 27th April, 2005 (Wednesday) (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 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 22nd April, 2005 (Friday).

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

As at 31st December, 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")), which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46-5.68 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 6,872,880 5,500,000	Interests of controlled corporation (<i>Note 1</i>) Beneficial owner Other/ Share option (<i>Note 2</i>)	
Aggregate:	154,289,130		34.81%
Luo Ming Xing	1,885,000 1,425,000	Beneficial owner Other/Share Option (<i>Note 2</i>)	
Aggregate:	3,310,000		0.75%
Hugo Shong	5,250,000	Beneficial owner	
Aggregate:	5,250,000		1.18%
Zhao Yong	54,910,750	Beneficial owner	
Aggregate:	54,910,750		12.39%

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 31st December, 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 Securities and Futures Ordinance (the “SFO”)), which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46-5.68 of the GEM Listing Rules

PRE-IPO SHARE OPTION SCHEME

Pursuant to the pre-IPO share option scheme (“Pre-IPO Share Option Scheme”) adopted by the Company on 30th January, 2001, share 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 employees 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 31st December 2004, 475,000 shares options were exercised, 825,000 shares options were canceled and no more options remained outstanding under the Pre-IPO Share Option Scheme.

SHARE OPTION SCHEMES

Pursuant to the share option scheme (the “Old Scheme”) of the Company adopted on 30th January, 2001, 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, 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 pursuant to the Old Scheme.

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 Mr. Xu Shao Chun and Mr. Luo Ming Xing, both being executive directors) 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 Mr. Luo Ming Xing, an executive director) 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, a non-executive Director, 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, an executive Director 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 New Scheme. At the extraordinary general meeting of the Company held on 16th April, 2004, the proposed grant of options to subscribe for a total of 8,000,000 shares to Mr. Xu Shao Chun, pursuant to the New Scheme, was approved by the shareholders of the Company.

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 Mr. Luo Ming Xing, an executive Director) of the Group pursuant to the New Scheme.

At the board meeting of the Company held on 27th December, 2004, options to subscribe for a total of 3,352,000 shares at a subscription price of HK\$2.05 per share were granted to 155 full-time employees (including Mr. Luo Ming Xing, an executive Director) of the Group pursuant to the New Scheme.

Details of the share options as at 31st December 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 lapsed during the reporting period	Options canceled during the reporting period	Options voluntarily given up by the grantees during the reporting period	Options held at 31st December, 2004	Exercise price HK\$	Grant date
Xu Shao Chun	-	8,000,000	-	-	-	4,000,000 ⁽¹⁰⁾	4,000,000	3.18	23/03/2004 ⁽¹⁰⁾
	1,500,000	-	-	-	-	-	1,500,000	1.78	15/05/2002 ⁽⁵⁾
Luo Ming Xing	-	225,000	-	-	-	-	225,000	2.05	27/12/2004 ⁽¹²⁾
	-	900,000	-	-	-	225,000 ⁽¹¹⁾	675,000	2.65	1/06/2004 ⁽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 ⁽⁹⁾	-	-	-	2.69	30/12/2003 ⁽⁹⁾
Continuous contract employees	-	3,127,500	-	-	-	-	3,127,500	2.05	27/12/2004 ⁽¹²⁾
	-	14,080,000	-	1,390,000 ⁽⁸⁾	-	3,257,500 ⁽¹¹⁾	9,432,500	2.65	1/06/2004 ⁽¹¹⁾
	4,740,000 ⁽²⁾	-	34,000	1,382,000 ⁽⁸⁾	-	-	3,324,000	2.05	08/08/2003 ⁽⁸⁾
	7,130,000 ⁽¹⁾	-	855,500	1,723,000 ⁽⁷⁾	-	-	4,551,500	1.39	20/02/2003 ⁽⁷⁾
	3,571,000	-	448,000	1,753,000 ⁽⁵⁾	-	-	1,370,000	1.78	15/05/2002 ⁽⁵⁾
	1,585,000 ⁽⁴⁾	-	250,000	542,500 ⁽⁶⁾	-	-	792,500	1.49	27/09/2001 ⁽⁶⁾

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 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. As at 31st December 2004, 1,753,000 share options were lapsed.
- (6) 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 grant date. As at 31st December 2004, 542,500 share options were lapsed.
- (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. As at 31st December 2004, 1,723,000 share options were lapsed.
- (8) All of these options have a duration of 10 years from the grant date, provided that the options can only be exercised from the date of 8th August 2004. As at 31st December 2004, 1,382,000 share options were lapsed.
- (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. As at 31st December 2004, 1,000,000 share options were lapsed and no more option remained outstanding.
- (10) All of these options have a 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 31st December 2004. The options to subscribe for the remaining 50% shares, i.e. 4,000,000 shares can be exercised after the date of 31st December 2004. As at 31st December 2004, 4,000,000 share options were voluntarily given up by the grantee.
- (11) 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% x Revenue Ratio for the financial year 2004, 25% x (Revenue Ratio for the financial year 2004 + Revenue Ratio for the financial year 2005), 25% x (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.) As at 31st December 2004, 3,482,500 share options were voluntarily given up by the grantees and 1,390,000 share options were lapsed.
- (12) 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% x Revenue Ratio for the financial year 2004, 25% x (Revenue Ratio for the financial year 2004 + Revenue Ratio for the financial year 2005), 25% x (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 27th December, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Interests of Directors in Equity Securities", "Share Option Scheme" and "Pre-IPO Share Option Scheme", none of the Directors or their respective associates (as defined under the GEM Listing Rules) was granted by the Company, or any of its subsidiaries to any rights or options to acquire shares or debentures in the Company during the year ended 31st December, 2004.

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

As at 31st December 2004, as far as the Directors were aware, 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 which would fall to be disclosed to the Company under the provisions of Part XV of the SFO and required to be 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	18.86%
Billion Ocean Limited	58,310,000	Beneficial owner	13.15%
Schroder Investment Management (Singapore) Ltd	30,948,000	Beneficial owner	6.98%

Save as disclosed above, as at 31st December, 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 SHARES

At the 2002 annual general meeting of the Company held on 25 April 2003 ("2002 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 the any of its subsidiaries had purchased, sold or redeemed any of its listed securities during the year ended 31st December 2004.

COMPETING INTEREST

None of the Directors or their respective associates (as defined in the GEM Listing Rules) had an interest in a business, which competes or may compete with the business of the Group.

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 on 10th March, 2004.

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

Mr. Gary Clark Biddle was appointed as an independent non-executive Director and a member of the Audit Committee of the Company with effect from 28th September 2004 by the Board.

Mr. James Ming King was re-designated from an executive Director to a non-executive Director on 30th December 2004 and was no longer qualified as the compliance officer of the Company. In replacement of Mr. James Ming King, Mr. Luo Ming Xing, an executive Director was appointed as the compliance officer on 24th January 2005.

In accordance with Article 116 of the Company's Articles of Association, Mr. Hugo Shong, Non-executive Director and Mr. Wu Cheng, Independent Non-executive Director, would retire by rotation at the forthcoming annual general meeting of the Company ("AGM"), and would offer themselves for re-election as directors of the Company at the forthcoming AGM.

Mr. Gary Clark Biddle, Independent Non-executive Director, would retire in accordance with Article 99 of the Company's Articles of Association, and would offer himself for re-election as a Director at the forthcoming AGM.

SPONSER'S INTEREST

Pursuant to the sponsorship agreement dated 1st February 2001 entered into between the Company and BNP Paribas Peregrine Capital Limited ("Sponsorship Agreement"), BNP Paribas Peregrine Capital Limited received usual sponsorship fees for acting as the Company's retained sponsor for the period from 15th February 2001 to 31st December 2003.

The Sponsorship Agreement ceased with effect from 1st January 2004. The Group has not maintained sponsor since 1st January 2004.

BOARD PRACTICES AND PROCEDURES

The Company has complied throughout the reporting period with the provision on board practices and procedures under the GEM Listing Rules, which was substantially revised with effect from 1 January 2005. Subject to the transitional arrangements, the Company will comply with the revised GEM Listing Rules, in particular, the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules from the financial year commencing on 1 January 2005.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company had 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 nine months ended 31st December 2004. The Company had also made specific enquiry of all the 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

The audit committee of the Company comprises of Mr. Zhao Yong, a non-executive Director, Ms. Yang Zhou Nan, Mr. Wu Cheng and Mr. Gary Clark Biddle, all being the independent non-executive Directors. 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 audit committee had convened five meetings during the year ended 31st December 2004 to review the accounts and reports of the Group and to provide advices and recommendations to the Board.

AUDITORS

PricewaterhouseCoopers was appointed as the auditors of the Company for the year. PricewaterhouseCoopers will retire upon expiry of their appointment, but being eligible, 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.

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

Shenzhen, The People's Republic of China, 29th March 2005

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

This announcement will remain on the "Latest Company Announcement" page of the GEM Website at www.hkgem.com for 7 days from the date of its publication and the website of the Company at www.kingdee.com.