

REPORT OF DIRECTORS

The directors of the Company ("Directors") are pleased to present to the shareholders their report together with the audited financial statements of Kingdee International Software Group Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December 2005 ("reporting period").

Principal Activities and Geographical Analysis of Operations

Kingdee International Software Group Company Limited is a leading provider of enterprise management software and e-commerce application solution in the Asian-Pacific region. As an independent software provider, it is one of the fastest growing companies in global software market, as well as the leading provider in China's software industry. The Group is engaged in the development and marketing of enterprise management software and e-commerce application software, and providing middleware for the e-commerce and e-government platforms for enterprises or government departments. The Group also provides management consultation, implementation and technical support services in relation to software products to our customers around the world.

The total revenue and profit attributable to the shareholders of the Company for the year ended 31st December 2005 were RMB529,343,000 and RMB72,290,000 respectively. Among which, approximately 71% was derived from the sales of software, approximately 28% was derived from the service income and 1% from sales of computer hardware and related products respectively. For details, please refer to the consolidated income statement set out on page 44.

During the reporting period, the sales and distribution network of the Group continued to expand, covering most of the provinces, autonomous regions and centrally administered municipalities in the PRC. As at 31st December 2005, the Company had around 40 branches and nationwide sales agents and distributors offering products and after-sale services to the customers of the Company.

Results and Appropriations

The results for the year ended 31st December 2005 are set out in the consolidated income statement on page 44 and the appropriation is set out in Note 19 to the financial statements.

Distributable reserves

As at 31st December 2005, the Company had distributable reserves amounted to RMB53,941,000 (2004: RMB44,676,000).

Final Dividends

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

Closure of Register

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

Material Investment and Acquisition

During the reporting period, the Group has no significant investment and acquisition activities.

Bank Borrowings

Details of the bank borrowings of the Group as at 31st December 2005 are set out in notes 21 to the financial statements.

Reserves

Details of movements in the reserves of the Group and the Company for the year ended 31st December 2005 are set out in the consolidated statement of changes in equity on page 48.

Fixed Assets

Details of the movements in the fixed assets of the Group for the year ended 31st December 2005 are set out in note 6 to the financial statements.

Interests of the Directors in Contracts

No Directors had any direct or indirect material interests in any contracts of significance to the business of the Group to which the Company or any of its subsidiaries or fellow subsidiaries was a party at the end of the year or at any time during the year ended 31st December 2005.

Share Capital and Options

- *Share Capital*
Details of the movements in share capital of the Company for the year ended 31st December 2005 are set out in note 16 to the financial statements.
The Company has no pre-emptive rights exist in the jurisdiction in the Cayman Islands.
- *Purchase, Sale or Redemption of Shares*
Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year ended 31st December 2005.

- *Outstanding Share Option*

Outstanding share options under the 2001 Scheme and 2002 Scheme

Pursuant to the share option scheme ("2001 Scheme") of the Company adopted on 30th January 2001, an aggregate of 1,720,000 share options were granted, of which 385,000 share options were exercised 687,500 were cancelled and 647,500 remained outstanding as at 31st December 2005.

Pursuant to the share option scheme ("2002 Scheme") of the Company adopted on 26th April 2002, an aggregate of 48,462,500 share options were granted, of which 2,099,000 share options were exercised 19,108,000 were cancelled and 27,255,500 remained outstanding as at 31st December 2005.

As at 31st December 2005, both of the 2001 Scheme and 2002 Scheme have been terminated by the Company. In the extraordinary general meeting of the Company convened on 11th July 2005, the Company adopted a new share option scheme. As at 31st December 2005, the Company has not granted options pursuant to this new share option scheme.

As at 31st December 2005, details of the outstanding options are as follows:

	Options held at 1st January 2005	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options canceled during the reporting period	Options held at 31st December 2005	Exercise price HK\$	Grant date
Xu Shao Chun	–	3,000,000	–	–	–	3,000,000	1.55	21/04/2005(7)
	4,000,000	–	–	–	–	4,000,000	3.18	23/03/2004(4)
	1,500,000	–	–	–	–	1,500,000	1.78	15/05/2002(2)
Chen Deng Kun	125,000	–	–	–	–	125,000	2.05	27/12/2004(6)
	375,000	–	–	–	–	375,000	2.65	1/06/2004(5)
	2,000	–	–	–	–	2,000	2.05	08/08/2003(3)
	50,000	–	–	–	–	50,000	1.39	20/02/2003(2)
Continuous contract employees	3,227,500	–	–	627,500	–	2,600,000	2.05	27/12/2004(6)
	9,732,500	–	–	1,932,500	–	7,800,000	2.65	1/06/2004(5)
	3,322,000	–	2,000	650,000	–	2,670,000	2.05	08/08/2003(3)
	4,801,500	–	305,500	722,500	–	3,773,500	1.39	20/02/2003(2)
	1,595,000	–	30,000	445,000	–	1,120,000	1.78	15/05/2002(2)
	792,500	–	–	145,000	–	647,500	1.49	27/09/2001(1)
Business partners	–	240,000	–	–	–	240,000	1.55	21/04/2005(7)
Total	29,523,000	3,240,000	337,500	4,522,500	–	27,903,000		

Note:

- (1) 2001 Scheme. All of these options have a duration of 10 years from the date of grant, provided that the options may not be exercised in respect of more than 25%, 50% and 75% of the options within 12 months, 24 months and 36 months respectively from the date of grant.
- (2) 2002 Scheme. All of these options have a duration of 10 years from the date of grant, provided that the options may not be exercised within 12 months from the date of grant and that the options may not be exercised in respect of more than 25%, 50% and 75% of the options within 12 months, 24 months and 36 months respectively from 1 year after the date of grant.
- (3) 2002 Scheme. All of these options have a duration of 10 years from the date of grant, provided that the options can only be exercised from the date of 8 August 2004.
- (4) 2002 Scheme. All of these options have a duration of 10 years from 23 March 2004, provided that the options may not be exercised in respect of more than 50% of the options prior to the date of 31 December 2004.
- (5) 2002 Scheme. All of these options have a duration of 10 years from the date of grant, provided that
 - (i) the options cannot be exercised within 1 year from the date of grant;
 - (ii) the number of options that can be exercised within the 2 years from the date of grant cannot be more than 25% of the revenue ratio for the financial year of 2004;
 - (iii) the number of options that can be exercised within the 3 years from the date of grant cannot be more than 25% of the aggregate revenue ratios for the financial years of 2004 and 2005;
 - (iv) the number of options that can be exercised within the 4 years from the date of grant cannot be more than 25% of the aggregate revenue ratios for the financial years of 2004, 2005 and 2006; and
 - (v) the number of options that can be exercised after 4 years from the date of grant cannot be more than 25% of the aggregate revenue ratios for the financial years of 2004, 2005, 2006 and 2007.

“Revenue Ratio” shall equal to the actual revenue of the Group divided by the estimated revenue of the Group as determined by the Board for a particular financial year.
- (6) 2002 Scheme. All of these options have a duration of 10 years from the date of grant and the options can be exercised from the date of grant.
- (7) 2002 Scheme. All of these options have a duration of 5 years from the date of grant and the options can be exercised from the date of grant.

Directors and Service Contracts of Directors

The composition of the Board for the financial year ended 31st December 2005 and up to the date of this report were as follows:

Executive Directors and Managing Directors

Mr. Xu Shao Chun

Mr. Chen Deng Kun

(appointed on 4th November 2005)

Mr. Luo Ming Xing

(resigned on 15th September 2005)

Non-executive Directors

Mr. James Ming King

Mr. Zhao Yong

Mr. Hugo Shong

Independent Non-executive Directors

Ms. Yang Zhou Nan

Mr. Wu Cheng

Mr. Yeung Kwok On

Mr. Gary Clark Biddle

In accordance with Article 116 of the Company's Articles of Association, Mr. Xu Shao Chun, executive Director, Mr. Zhao Yong, non-executive Director and Ms. Yang Zhou Nan, independent non-executive Director, would retire by rotation at the Forthcoming AGM, and would offer themselves for re-election as directors of the Company at the Forthcoming AGM.

Mr. Chen Deng Kun, 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.

Mr. Xu Shao Chun had entered into a service contract with the Company in relation to his appointment as an executive Director. The service contract was for an initial term of three years commencing on 1st January 2000 and had been renewed for another three years on 1st January 2004, unless and until being terminated by either party with no less than three months' prior written notice.

Each of Mr. James Ming King, Mr. Zhao Yong and Mr. Hugo Shong had entered into a letter of appointment and acceptance with the Company respectively, for a term of two years.

Each of Ms. Yang Zhou Nan, Mr. Wu Cheng, Mr. Yeung Kwok On and Mr. Gary Clark Biddle had entered into a letter of appointment and acceptance with the Company respectively, for a term of two years.

Save as aforesaid, no Director had entered into any service contract with the Company.

The Company has received a written confirmation from each independent non-executive Director of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The Company considers all of the independent non-executive Directors are independent.

Directors' and chief executive's interests or short positions in the shares, underlying shares or debentures

As at 31st December 2005, 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 ("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 the 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 (Note 1)	
	8,462,880	Beneficial owner	
	8,500,000	Other/ Share option (Note 2)	
Aggregate:	158,879,130		35.68%
Chen Deng Kun	552,000	Other/ Share Option (Note 2)	
Aggregate:	552,000		0.012%
Hugo Shong	5,250,000	Beneficial owner	
Aggregate:	5,250,000		1.18%
Zhao Yong	50,010,750	Beneficial owner	
Aggregate:	50,010,750		11.23%

Notes:

- 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.
- Details of the share options are set out in the paragraph headed "Share Capital and Options".

Save as disclosed in this paragraph, as at 31st December 2005, none of the Directors and chief executive of the Company had any 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), 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 the Listing Rules.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section headed "Share Capital and Options" above, none of the Directors or their respective associates (as defined under the 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, 2005.

Substantial shareholders' and other persons' interests and short positions in the shares, underlying shares and debentures

As at 31st December 2005, 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	18.78%
Billion Ocean Limited	58,310,000	Beneficial owner	13.10%

Save as disclosed above, as at 31st December, 2005, 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.

Public Float

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based in the information that is publicly available to the Company and within the knowledge of the Directors.

Purchase, Sale or Redemption of Shares

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

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

Competing Interest

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

Connected Transactions

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

Major Customers and Suppliers

The percentages of sales and purchases for the year attributable to the Group's major customers and supplies are as follows:

Sales

- | | |
|-----------------------------------|-------|
| – the largest customer | 0.68% |
| – five largest customers combined | 2.62% |

Purchases

- | | |
|-----------------------------------|--------|
| – the largest supplier | 19.67% |
| – five largest suppliers combined | 55.19% |

None of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

Change of Directors

Mr. Luo Ming Xing resigned from his office as an executive Director, compliance officer and authorized representative at the board meeting on 15th September, 2005.

In view of the above, the Board appointed Mr. Chen Deng Kun as an executive Director and authorized representative of the Company on 4th November, 2005.

Save as disclosed in the section headed "Directors and Service Contracts of Directors" above, there was no other change of Directors, during the year ended 31st December, 2005.

Sponsor's Interest

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