

# Kingdee

Kingdee International Software Group Company Limited  
金蝶國際軟件集團有限公司

Stock Code: 268

**Product leadership**  
**Proactive services**

**Partner oriented**  
**Prompt response**

Interim report 2006





**KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED**  
**金蝶國際軟件集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 268)**

**INTERIM REPORT**  
**FOR THE SIX MONTHS ENDED 30TH JUNE 2006**

**Financial highlights for the six months ended 30th June 2006**

- Turnover increased by approximately 17% over the same period in 2005 to approximately RMB286,690,000
- Profit for the period increased by approximately 33% over the same period in 2005 to approximately RMB30,615,000
- Profit attributable to equity holders of the Company during the period increased by approximately 31% over the same period in 2005 to approximately RMB30,335,000
- Basic earnings per share for profit attributable to the equity holders of the Company during the period increased by approximately 30% over the same period in 2005 to approximately RMB6.803 cents

The board (the “Board”) of directors (the “Directors”) of Kingdee International Software Group Company Limited (“Kingdee International” or the “Company”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June 2006, together with the comparative unaudited consolidated figures for the corresponding periods in 2005 are as follows:

### CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30th June 2006

(All amounts in Renminbi thousand unless otherwise stated)

	Notes	Six months ended 30th June	
		2006	2005
		Unaudited	As re-stated (Note 2(b)) Unaudited
Turnover	7	286,690	244,560
Cost of sales		(57,271)	(47,363)
Gross profit		229,419	197,197
Selling and marketing expenses		(136,839)	(122,830)
Administrative expenses		(89,536)	(72,298)
Other income	8	30,483	24,807
Operating profit	9	33,527	26,876
Finance costs	10	(78)	(580)
Share of loss of associates		(53)	(516)
Profit before income tax		33,396	25,780
Income tax expense	11	(2,781)	(2,696)
Profit for the period		<u>30,615</u>	<u>23,084</u>
Attributable to:			
Equity holders of the Company		30,335	23,217
Minority Interest		280	(133)
		<u>30,615</u>	<u>23,084</u>
Earnings per share for profit attributable to the equity holders of the Company			
– basic	12	<u>RMB6.803 cents</u>	<u>RMB5.238 cents</u>
– diluted	12	<u>RMB6.739 cents</u>	<u>RMB5.226 cents</u>
Dividends	13	<u>–</u>	<u>–</u>

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30th June 2006

(All amounts in Renminbi thousand unless otherwise stated)

		<b>30th June 2006 Unaudited</b>	<b>31st December 2005 Audited</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		73,938	53,367
Lease prepayments		16,079	16,246
Intangible assets		90,127	84,869
Investment in associates		2,563	2,617
Deferred income tax assets		5,793	5,096
Available-for-sale financial assets		66	66
		<hr/>	<hr/>
Total non-current assets		188,566	162,261
<b>Current assets</b>			
Inventories		4,472	3,960
Trade and other receivables	4	122,780	103,783
Due from customers on implementation contracts		10,592	7,731
Pledged bank deposits		5,000	5,000
Short-term bank deposits		47,692	39,569
Cash and cash equivalents		188,677	242,053
		<hr/>	<hr/>
Total current assets		379,213	402,096
		<hr/>	<hr/>
<b>Total assets</b>		<b>567,779</b>	<b>564,357</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	5	109,014	98,652
Other reserves		174,641	174,679
Retained earnings		109,092	99,600
		<hr/>	<hr/>
		392,747	372,931
<b>Minority interest</b>		<b>3,116</b>	<b>2,836</b>
		<hr/>	<hr/>
<b>Total equity</b>		<b>395,863</b>	<b>375,767</b>
		<hr/>	<hr/>

	<i>Notes</i>	<b>30th June 2006 Unaudited</b>	<b>31st December 2005 Audited</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	6	89,209	87,327
Current income tax liabilities		5,928	8,581
Borrowings		20,000	30,000
Due to customers on implementation contracts		13,504	14,297
Deferred income		42,922	44,848
Provisions		353	3,537
<b>Total current liabilities</b>		<u>171,916</u>	<u>188,590</u>
<b>Total equity and liabilities</b>		<u>567,779</u>	<u>564,357</u>
<b>Net current assets</b>		<u>207,297</u>	<u>213,506</u>
<b>Total assets less current liabilities</b>		<u>395,863</u>	<u>375,767</u>

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2006

(All amounts in Renminbi thousand unless otherwise stated)

	Notes	Attributable to equity holders of the Company			Minority Interest	Total
		Share capital	Other reserves	Retained earnings		
<b>Balance at 31st December 2004</b>		92,440	137,225	84,387	1,738	315,790
Profit for the period		–	–	23,217	(133)	23,084
Dividend relating to 2004	13	–	–	(18,794)	–	(18,794)
Employees share option scheme:						
– Value of services provided	5	3,614	–	–	–	3,614
– Exercise of share options	5	37	–	–	–	37
Translation adjustments		–	25	–	–	25
<b>Balance as at 30th June 2005</b>		<u>96,091</u>	<u>137,250</u>	<u>88,810</u>	<u>1,605</u>	<u>323,756</u>
<b>At 31st December 2005</b>		98,652	174,679	99,600	2,836	375,767
Profit for the period		–	–	30,335	280	30,615
Dividend relating to 2005	13	–	–	(20,843)	–	(20,843)
Employees share option scheme:						
– Value of services provided	5	2,087	–	–	–	2,087
– Exercise of share options	5	8,275	–	–	–	8,275
Translation adjustments		–	(38)	–	–	(38)
<b>Balance as at 30th June 2006</b>		<u>109,014</u>	<u>174,641</u>	<u>109,092</u>	<u>3,116</u>	<u>395,863</u>

## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30th June 2006

(All amounts in Renminbi thousand unless otherwise stated)

		Six months ended 30th June	
	Note	2006	2005
		Unaudited	Unaudited
<b>Cash flows from operating activities:</b>			
Cash generated from operations	14	35,776	40,642
Interest paid		(78)	(511)
Income tax paid		(6,131)	(3,667)
		<hr/>	<hr/>
<b>Net cash generated from operating activities</b>		29,567	36,464
		<hr/>	<hr/>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment		(26,057)	(9,008)
Investment in an associate		–	(100)
Payments for intangible assets other than goodwill		(27,188)	(21,870)
Proceeds from sale of property, plant and equipment		111	259
Short-term bank deposits placed		(8,122)	–
Interest received		919	760
		<hr/>	<hr/>
<b>Net cash used in investing activities</b>		(60,337)	(29,959)
		<hr/>	<hr/>
<b>Cash flows from financing activities:</b>			
Proceeds from issue of shares		8,275	37
Proceeds from borrowings		20,000	31,000
Repayment of borrowings		(30,000)	(24,000)
Dividends paid to Company's shareholders		(20,843)	(18,794)
		<hr/>	<hr/>
<b>Net cash (used in)/generated from financing activities</b>		(22,568)	(11,757)
		<hr/>	<hr/>
<b>Net decrease in cash and cash equivalents</b>		(53,338)	(5,252)
Cash and cash equivalents at beginning of the period		242,053	214,719
Exchange losses on cash and cash equivalents		(38)	25
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of the period</b>		188,677	209,492
		<hr/>	<hr/>

## SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

*(All amounts in Renminbi thousand unless otherwise stated)*

### 1. General information

Kingdee International Software Group Company Limited (the “Company”) was incorporated in the Cayman Islands in 1999 as an exempted company with limited liability. The address of its office is 4th Level, Zone B, Block W1, Hi-Tech Industrial Park, Shennan Highway, Nanshan District, Shenzhen, Guangdong Province, the People’s Republic of China (the “PRC”).

The Company is an investment holding company. The principal activities of its subsidiaries are developing, manufacturing and selling of software products and provision of software-related technical services in the PRC.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These condensed consolidated interim financial statements are presented in thousands of Renminbi (RMB’000), unless otherwise stated. These condensed consolidated interim financial statements have been approved for issue by the Board of Directors on 14th September 2006.

### 2. Basis of preparation

#### *(a) Basis of preparation*

This unaudited condensed consolidated interim financial information for the half-year ended 30th June 2006 has been prepared in accordance with IAS 34, “Interim financial reporting”. The unaudited condensed consolidated interim financial report should be read in conjunction with the annual financial statements for the year ended 31st December 2005.

#### *(b) Comparative figures*

The following comparative figures for the six months ended 30th June 2005 have been reclassified:

- Interest income of RMB760,000 was reclassified to other income;
- Finance cost – others of RMB88,000 was reclassified to administrative expenses;
- Other operating expenses of RMB319,000 was reclassified to administrative expenses;
- Administrative expenses of RMB1,151,000 was reclassified to selling and marketing expenses.

### 3. Accounting Policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31st December 2005. As described in the annual financial statements for the year ended 31st December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31st December 2006:

- amendment to IAS 19, “Actuarial gains and losses, group plans and disclosures”, effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Group;



- amendment to IAS 39, amendment to “The fair value option”, effective for annual periods beginning on or after 1st January 2006. This amendment does not have any impact on the classification and valuation of the Group’s financial instruments classified as at fair value through profit or loss prior to 1st January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;
- amendment to IAS 21, amendment to “Net investment in a foreign operation”, effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Group;
- amendment to IAS 39, amendment to “Cash flow hedge accounting of forecast intragroup transactions”, effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Group;
- amendment to IAS 39 and IFRS 4, amendment to “Financial guarantee contracts”, effective for annual periods beginning on or after 1st January 2006. This amendment is not relevant for the Group;
- IFRS 6, “Exploration for and evaluation of mineral resources”, effective for annual periods beginning on or after 1st January 2006. This standard is not relevant for the Group;
- IFRIC 4, “Determining whether an arrangement contains a lease”, effective for annual periods beginning on or after 1st January 2006. The Group has reviewed its contracts and some of them are required to be accounted for as leases in accordance with IAS 17, “Leases”. However, these leases are operating leases, and their reclassification has had no impact on the expense recognised in respect of them;
- IFRIC 5, “Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds”, effective for annual periods beginning on or after 1st January 2006. This interpretation is not relevant for the Group; and
- IFRIC 6, “Liabilities arising from participating in a specific market – waste electrical and electronic equipment”, effective for annual periods beginning on or after 1st December 2005. This interpretation is not relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRIC 7, “Applying the Restatement Approach under IAS 29”, effective for annual periods beginning on or after 1st March 2006. The management does not expect the interpretation to be relevant for the Group;
- IFRIC 8, “Scope of IFRS 2”, effective for annual periods beginning on or after 1st May 2006. Management is currently assessing the impact of IFRIC 8 on the Group’s operations;
- IFRIC 9, “Reassessment of Embedded Derivatives”, effective for annual periods beginning on or after 1st June 2006. The management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assess if embedded derivative should be separated using principles consistent with IFRIC 9; and
- IFRS 7, “Financial instruments: Disclosures”, effective for annual periods beginning on or after 1st January 2007. IAS 1, “Amendments to capital disclosures”, effective for annual periods beginning on or after 1st January 2007. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment to IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1st January 2007.

#### 4. Trade and other receivables

	<b>30th June 2006 Unaudited</b>	<b>31st December 2005 Audited</b>
Trade receivables (a)	161,400	129,762
Less: provision for impairment (b)	(81,170)	(65,658)
	<hr/>	<hr/>
Trade receivables – net	80,230	64,104
Notes receivable	100	794
Advance to employees (c)	5,019	3,885
Deposits	4,790	5,483
VAT recoverable	26,424	22,208
Others	6,217	7,309
	<hr/>	<hr/>
	<b>122,780</b>	<b>103,783</b>
	<hr/>	<hr/>

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

	<b>30th June 2006 Unaudited</b>	<b>31st December 2005 Audited</b>
Within 180 days	66,135	59,602
Over 180 days but within 360 days	49,124	22,301
Over 360 days	46,141	47,859
	<hr/>	<hr/>
	<b>161,400</b>	<b>129,762</b>
	<hr/>	<hr/>

- (b) The Group has recognised a loss of RMB15,512,000 (year ended 31st December 2005: RMB9,408,000) for the impairment of its trade receivables during the period ended 30th June 2006. The loss has been included in administrative expenses in the income statement.
- (c) The amounts advanced to employees are interest free, unsecured and repayable within twelve months from the balance sheet date.

#### 5. Share Capital

	<b>Number of shares (thousands)</b>	<b>Book value of shares</b>	<b>Share premium</b>	<b>Total</b>
<b>Balance at 31st December 2004</b>	443,259	47,424	45,016	92,440
Employees share option scheme:				
– Value of services provided	–	–	3,614	3,614
– Exercise of share options	26	3	34	37
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance as at 30th June 2005</b>	<b>443,285</b>	<b>47,427</b>	<b>48,664</b>	<b>96,091</b>
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31st December 2005</b>	443,597	47,460	51,192	98,652
Employees share option scheme:				
– Value of services provided	–	–	2,087	2,087
– Exercise of share options	4,811	500	7,775	8,275
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Balance as at 30th June 2006</b>	<b>448,408</b>	<b>47,960</b>	<b>61,054</b>	<b>109,014</b>
	<hr/>	<hr/>	<hr/>	<hr/>

The authorized number of ordinary shares is 1,000,000,000 shares (2005: 1,000,000,000 shares) with a par value of HK\$0.1 per share (2005: HK\$0.1 per share). All issued shares are fully paid and ranked pari passu in all respects.

## 6. Trade and other payables

	<b>30th June 2006 Unaudited</b>	<b>31st December 2005 Audited</b>
Trade payables	9,829	10,991
Salary and staff welfare payable	6,597	10,682
Customers' deposits	44,182	35,341
VAT and business tax payable	14,350	16,926
Others	14,251	13,387
	<u>89,209</u>	<u>87,327</u>

As at 30th June 2006, the ageing analysis of trade payables is as follows:

	<b>30th June 2006 Unaudited</b>	<b>31st December 2005 Audited</b>
Within 180 days	8,838	9,512
Over 180 days but within 360 days	185	554
Over 360 days	806	925
	<u>9,829</u>	<u>10,991</u>

## 7. Turnover

Turnover is stated net of applicable value-added tax ("VAT") in the People's Republic of China (the "PRC") and comprises the following:

	<b>Six months ended 30th June</b>	
	<b>2006 Unaudited</b>	<b>2005 Unaudited</b>
Sales of software	213,167	197,668
Software implementation services	39,747	22,859
Software solution consulting and support services	27,619	21,375
Sales of computer and related products	6,157	2,658
	<u>286,690</u>	<u>244,560</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.

## 8. Other income

	Six months ended 30th June	
	2006	2005
	Unaudited	As re-stated (Note 2(b)) Unaudited
Subsidy income		
VAT refund (a)	26,441	23,508
Subsidy on development of new products (b)	936	143
Subsidy for re-investment (c)	1,624	–
	<hr/>	<hr/>
Interest income	29,001	23,651
Others	919	760
	<hr/>	<hr/>
	<b>30,483</b>	<b>24,807</b>
	<hr/>	<hr/>

- (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 (the “Circular”) regarding the Taxation Policy for Encouraging the Development of the Software and integrated Circuits Industries (Cai Shui Zi [2000] No.25). Pursuant to the Circular, for the period from 24th June 2000 to 31st December 2010, software enterprises which engage in the sale of self-developed software in the PRC are entitled to a preferential taxation treatment which provides for the payment of VAT at the rate of 17% and the refund of any VAT paid for the sales of the software in the PRC which exceeds the VAT rate of 3%.
- (b) Amounts represented various subsidies granted by and received from local government/authorities for research and development projects.
- (c) Amount represented income tax refund for re-investment in a subsidiary by way of capitalisation of dividend.

## 9. Expenses by nature

Expenses included in cost of sales, selling and marketing expenses and administrative expenses are analysed as follows:

	<b>Six months ended 30th June</b>	
	<b>2006</b>	<b>2005</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Research and development costs		
Amounts incurred	39,382	28,512
Less: amounts capitalised	(26,923)	(21,870)
Add: amortisation of capitalised costs	<u>21,898</u>	<u>16,271</u>
	<i>(a)</i> <u>34,357</u>	<u>22,913</u>
Employee benefit expense	149,510	127,286
Less: amount capitalized in development costs	<u>(26,923)</u>	<u>(21,870)</u>
	<i>(b)</i> <u>122,587</u>	<u>105,416</u>
Cost of inventories consumed	<i>(c)</i> 9,274	7,062
Depreciation of property, plant and equipment	<i>(a)</i> 5,346	4,480
Amortisation of computer software	<i>(a)</i> 31	265
Charge of lease prepayments	<i>(a)</i> 167	120
Impairment of goodwill	<i>(a)</i> –	1,591
Impairment of receivables	<i>(a)</i> 15,512	9,408
Loss on disposals of property, plant and equipment	<i>(a)</i> 29	59
Professional service costs	<i>(a)</i> 4,764	6,953
Advertising costs	<i>(d)</i> 17,191	15,705
Sales promotion costs	<i>(d)</i> 8,972	8,962
Travelling	<i>(d)</i> 6,929	5,727
Rental and utilities	<i>(e)</i> <u>14,308</u>	<u>13,322</u>

- (a) Included in administrative expenses
- (b) Included in cost of sales, administrative expenses and selling and marketing expenses
- (c) Included in cost of sales
- (d) Included in selling and marketing expenses
- (e) Included in administrative expenses and selling and marketing expenses

## 10. Finance costs

	Six months ended 30th June	
	2006	2005
	Unaudited	As re-stated (Note 2(b)) Unaudited
Interest expense on bank borrowings:	78	511
Net foreign exchange gains	—	69
	<u>78</u>	<u>580</u>

## 11. Income tax expense

	Six months ended 30th June	
	2006	2005
	Unaudited	Unaudited
PRC income tax		
– Current income tax	4,957	3,600
– Over-provision in previous year	(1,479)	(1072)
– Deferred income tax	(697)	168
	<u>2,781</u>	<u>2,696</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.
- (b) Majority of the subsidiaries and associates of the Group are established in the PRC and subject to Enterprise Income Tax (“EIT”) at a rate of 33%, unless preferential rates are applicable in the cities where the subsidiaries are located.
- (c) Certain subsidiaries and associates of the Group are foreign investment enterprises and are entitled to full exemption from EIT for two years and a 50% reduction in the next three years thereafter starting from the first profit making year after offsetting prior years’ losses.
- (d) According to the document “Guo Fa [2000] No.18” issued by the State Council, those subsidiaries recognised as important software enterprises but are not in their tax holiday period are entitled to a preferential tax rate of 10% in the relevant year.

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

	<b>Six months ended 30th June</b>	
	<b>2006</b>	<b>2005</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Profit before tax	<u>33,396</u>	<u>25,780</u>
Tax at the statutory tax rate of 33% (2005: 33%)	11,021	8,507
– Effect of preferential tax rates	(7,681)	(5,929)
– Tax losses not recognised	3,346	3,386
– Expenses not deductible for tax purposes	2,323	1,798
– Income not subject to tax	(2,780)	(2,596)
– Additional deductible allowance for research and development expenses	(1,969)	(1,398)
– Over-provision of income tax in previous year	<u>(1,479)</u>	<u>(1,072)</u>
Tax expense	<u>2,781</u>	<u>2,696</u>

## 12. Earnings per share

### *Basic*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	<b>Six months ended 30th June</b>	
	<b>2006</b>	<b>2005</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Profit attributable to equity holders of the Company	<u>30,335</u>	<u>23,217</u>
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	<u>445,881</u>	<u>443,275</u>
Basic earnings per share ( <i>RMB per share</i> )	<u>6.803 cents</u>	<u>5.238 cents</u>

### *Diluted*

Diluted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	<b>Six months ended 30th June</b>	
	<b>2006</b>	<b>2005</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Profit attributable to equity holders of the Company	<u>30,335</u>	<u>23,217</u>
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	445,881	443,275
Adjustments – share options ( <i>thousands</i> )	<u>4,258</u>	<u>964</u>
Weighted average number of ordinary shares for diluted earnings per share ( <i>thousands</i> )	<u>450,139</u>	<u>444,239</u>
Diluted earnings per share ( <i>RMB per share</i> )	<u>6.739 cents</u>	<u>5.226 cents</u>

### 13. Dividends

The Board did not recommend the payment of an interim dividend for the six months ended 30th June 2006 (the six months ended 30th June 2005: Nil).

A 2005 final dividend of 4.5 cents (2004 final: 4 cents) per ordinary share, totalling RMB20,843,000 was paid in June 2006 (six months ended 2005:RMB18,794,000).

### 14. Notes to consolidated cash flow statements

*Cash generated from operations*

	<b>Six months ended 30th June</b>	
	<b>2006</b>	<b>2005</b>
	<b>Unaudited</b>	<b>Unaudited</b>
<b>Profit for the period</b>	30,335	23,217
Adjustments for:		
Income tax expenses	2,781	2,696
Depreciation of property, plant and equipment	5,346	6,190
Loss on disposals of property, plant and equipment	29	59
Share of results of associates	53	516
Charge of lease prepayments	167	60
Amortisation of intangible assets	21,930	16,524
Impairment of goodwill	–	1,196
Interest income	(919)	(760)
Interest expense	78	511
Share option expenses		
– granted to directors and employees	2,087	3,614
– granted to business partners	–	–
Minority interest	<u>280</u>	<u>(133)</u>
	62,167	53,690
<b>Changes in working capital</b>		
Inventories	(512)	106
Trade and other receivables	(18,997)	(9,150)
Provision	(3,184)	(1,976)
Deferred income	(1,926)	(908)
Trade and other payables	1,882	(3,641)
Due from/to customers on implementation contracts	<u>(3,654)</u>	<u>2,521</u>
<b>Cash generated from operations</b>	<u>35,776</u>	<u>40,642</u>



## 15. Contingent liabilities

The Group had no significant contingent liabilities as of 30th June 2006 (30th June 2005: nil).

## 16. Commitments – Group

### *Capital commitments*

The Group had capital expenditure contracted for but not recognised in the accounts as follows:

	<b>30th June 2006 Unaudited</b>	<b>31st December 2005 Audited</b>
Capital commitments	<u>27,738</u>	<u>21,476</u>

### *Operating lease commitments*

The Group had total minimum future lease payments under non-cancellable operating leases in respect of buildings as follows:

	<b>30th June 2006 Unaudited</b>	<b>31st December 2005 Audited</b>
Payable		
– Not later than one year	13,308	14,286
– Later than one year and not later than five years	<u>4,740</u>	<u>7,590</u>
	<u>18,048</u>	<u>21,876</u>

The Company had no other significant commitment as at the end of the period.

## 17. Related party transactions

Shenzhen Kingdee Software Accessories Co., Ltd. (“Kingdee Accessories”), the minority shareholder of certain subsidiaries, is held by employee of unions and employee representatives of the Group. In June 2006, the Group pledged short-term bank deposits of RMB5,000,000 to a bank as a security for the short-term bank loans granted to Kingdee Accessories. The Group has no other significant transactions entered into with Kingdee Accessories during the period.

## 18. Subsequent events

The Group and the Company had no significant subsequent events as at the end of the period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### ***BUSINESS REVIEW***

During the first half of the year, the market demand for ERP from PRC large enterprises continued to grow at a fast pace, while the demand from SME has witnessed steady growth. Although overseas ERP manufacturers are stepping up their efforts to capture the PRC market, local manufacturers' competitive edges are still evident and continue to strengthen. As a leading provider of enterprise management software and e-business solutions in the Asia Pacific region, the Group will adhere to its long term development strategy of "Product leadership, Partner oriented, Proactive services, Prompt response" to provide better personalized services to customers. In the first half of the year, the Group's result recorded robust and steady growth in the new competitive environment.

Review of major events during the reporting period:

#### **I. Products and Research and Development**

During the reporting period, the Group announced its "Personalized market strategy" which promoted the "personalized ERP", and witnessed substantial progress in its product research and development.

1. **As regards high-end products, the Group launched Kingdee EAS V5.1.** The newly released EAS V5.1 is a further improved product on the basis of the original EAS V5.0. It optimizes the group financial, group HR, BOS platforms and human resource management system, completes the development of standard supply chain, achieves breakthroughs in capital management and budget management, and provides mobile commerce application, synergy platform and integration platform modules. These together have resulted in the realization of the core management principle of "Integrated Management and On-demand Business".
2. **As regards medium-end products, the Group successfully released its personalized ERP product – K/3 V10.3.** In line with its "Complete Application and On-demand Business" principle, Kingdee K/3 V10.3 achieved breakthroughs in meticulous cost management, mobile application management, HR management and solutions for manufacturing industry. It further enhanced the K/3 BOS platform and overall product performance, and realized the configuration of module, function, invoice, workflow, statement, language, integrated applications and application environment. These together have enabled the satisfaction of client demand for personalized management.
3. **During the reporting period, the Group launched Kingdee KIS V8.1.** The product further improved the performance of the professional version of Kingdee KIS which targets at small enterprises. This version is characterized by easier installation, faster speed, stabler performance and easier maintenance.
4. **During the reporting period, the Group launched the professional mobile commerce product – iFly2.0 and ERP mobile commerce value-added service module,** to provide enterprises with information services anytime anywhere. Meanwhile, the Group signed a mobile commerce strategic alliance agreement with Guangdong Mobile Communication Company Ltd, pursuant to which both parties join hands in exploring the mobile commerce market by collaborating in product research and development, market promotion, and expanding and maintaining clientele.

5. During the reporting period, Kingdee Middleware launched Apusic Studio and successfully concluded contracts with large authorities such as Ministry of Supervision of PRC (中華人民共和國監察部), the General Administration of Quality Supervision, Inspection and Quarantine (國家質檢總局), and the Government of Hainan (海南省政府).

## II. Sales and Distribution

During the reporting period, the Group proactively promoted the sales of high-end products, continued to step up marketing efforts on medium and low-end products, increased its market shares and strengthened its cooperation with partners.

1. *Sales of the Group's high-end products and cross-sector application products achieved groundbreaking growth*

As regards high-end products, all the functions of Kingdee EAS were examined and recognized by clients such as Nanjing Jinling, (南京金陵) Yingkou Port Bureau (營口港務局), Guangdong Wen's Group (廣東溫氏集團), Zhejiang Materials (浙江物產) and Ningxia Coal Industry Group (寧煤集團). During the reporting period, the Group entered into contracts with corporate clients such as China Vanke (萬科企業股份有限公司), China South Locomotive and Rolling Stock Industry (Group) Corporation (中國南車集團), Beijing Air Catering Company Ltd. (北京航空食品有限公司), Shanghai Airlines Co., Ltd. (上海航空股份有限公司), Shanghai Tunnel Engineering Co., Ltd. (上海隧道工程股份有限公司), Hopson Development Holdings Limited (合生創展集團), Want Want Group (旺旺集團), Guangzhou Automobile Group Co., Ltd. (廣州汽車集團), and Minmentals Yingkou Medium Plate Co., Ltd. (五礦營口中板有限責任公司) to help them to enhance management efficiency. As regards medium-end products, Kingdee K/3 satisfied the personalized need of its clients by making use of BOS, maintained its growth momentum and helped consolidate the Group's leading position in the SME ERP market.

2. *The Group continued to focus on SME market and actively developed channel partnership*

Through implementation of the personalized ERP value-added partner plan, the Group established a new partner cooperation eco-chain on the basis of BOS platform. The number of channel partners increased to more than 1200. During the reporting period, all sales of Kingdee KIS were through distributors. In particular, after the release of KIS professional version 8.1, the Group successfully launched a large-scale client experience campaign and attracted numerous clients to use the product free of charge. This will have a favourable impact on the result of the second half of the year.

3. *The Group's international business developing at a fast pace*

During the reporting period, the Group's international business continued to grow rapidly, and contracts were entered into with renowned clients such as FedEx Express, Hong Kong Kowloon Engineering Limited, Noble Grain Pte Ltd, Johnson Electric, Colombini, Takebishi Electric Sales Shanghai Limited, etc..

#### 4. *The Group strengthened cooperation with strategic partners*

During the reporting period, the Group strengthened its cooperation with IBM, and set up the “Kingdee-IBM ERP Collaborative Lab”. With the rapid configuration of the entire product line of Kingdee and the deployment of IBM’s high performance ancillary facilities, the Group presented to its clients the achievement in future informatization projects. In addition, the Group improved and developed the Group’s enterprise “HR Consultation + eHR software” total solution in collaboration with domestic leading HR Consultancy such as Zuoyou Consultant and maintained its leading position in the PRC’s HR software market.

### **III. Customer Service**

During the reporting period, the Group continued to further improve its CSSP (Customer Service Support Platform), completed the construction of a personalized service platform and set up Kingdee’s online customer service centre. Such initiatives were launched to provide the Group’s enormous clientele with personalized online services, enhance service efficiency and reduce service cost.

### **IV. Corporate Finance and Merger and Acquisition**

During the reporting period, the Group successfully acquired Godline, an active ERP provider in the Pearl River Delta region, in order to further enhance its personalized ERP products and services. The Group will continue to actively identify quality targets for merger and acquisition to increase market share and explore new channels to generate profit through mergers and acquisitions.

### **V. Award received by the Group**

During the reporting period, the Group was named PRC’s “independent innovative enterprise” by numerous world-wide reputable organizations such as “21st Century Business Herald”, China International Software & Information Service Fair and IDC, in recognition of its independent innovative contribution to the PRC software enterprises.

### ***FUTURE PROSPECTS***

The Group will implement the strategy of “Product leadership, Partner oriented, Proactive services, Prompt response”, focusing on product platforms, sector-specific solutions and personalized services, and will endeavour to resolve the conflict between product standardization and personalized demand of individual clients, so as to provide personalized ERP for PRC enterprises, enhance the management’s innovative capability, enable all the PRC enterprises to realize personalized management and continue to consolidate Kingdee’s leading position in the SME ERP market in the PRC and the Asia Pacific region. Meanwhile, the Group will further enhance its fundamental management, encourage its staff to be innovative and create an “innovative, win-win, harmonious and happy” working environment, so that the Group will be an ideal place for IT elite to work in.

## **FINANCIAL PERFORMANCE**

### **Consolidated results of operations**

For the six months ended 30th June 2006, turnover amounted to approximately RMB286,690,000, representing an increase of approximately 17% over the corresponding period in 2005 (For the six months ended 30th June 2005: RMB244,560,000). The Group's profitability was further enhanced and its profit margin increased. As at 30th June 2006, profit for the period of the Group was approximately RMB30,615,000, representing a growth of approximately 33% from the corresponding period last year (For the six months ended 30th June 2005: RMB23,084,000). Earnings per share were RMB6.803cents (For the six months ended 30th June 2005: RMB5.238 cents).

### **Gross profit**

Gross profit of the Group increased by approximately 16% from RMB197,197,000 for the six months ended 30th June 2005 to approximately RMB229,419,000 for the six months ended 30th June 2006.

### **Selling and marketing expenses and administrative expenses**

For the six months ended 30th June 2006, the Group's selling and marketing expenses amounted to approximately RMB136,839,000, representing an increase of approximately 11% from the corresponding period last year (For the six months ended 30th June 2005: RMB122,830,000). Administrative expenses were approximately RMB89,536,000, representing an increase of approximately 24% over the corresponding period last year (For the six months ended 30th June 2005: RMB72,298,000). During the reporting period, selling and marketing expenses as a percentage of turnover decreased from 50% for the corresponding period last year to approximately 48%. Administrative expenses as a percentage of turnover increased from approximately 30% for the corresponding period last year to 31%.

### **Financial resources and liquidity**

The Group had a strong cash flow position. As at 30th June 2006, the Group had cash and cash equivalents amounting to approximately RMB188,677,000. Current ratio (defined as the ratio of current assets to current liabilities) was approximately 2.2 (As at 31st December 2005: 2.1). Liability ratio (defined as the ratio of bank borrowings to shareholder equity) was approximately 5.0% (As at 31st December 2005: 8.0%)

As at 30th June 2006, the Group's short-term bank loan balance amounted to RMB20,000,000 (As at 31st December 2005: RMB30,000,000).

As at 30th June 2006, the Group was not subject to any material exchange rate exposure, and had not entered into any foreign exchange futures contract to hedge against any fluctuation in exchange rates.

As at 30th June 2006, the Group did not have any material contingent liabilities (As at 31st December 2005: Nil).

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

As at 30th June 2006, 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 of Hong Kong Limited (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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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 4,962,880 10,400,000	Interests of controlled corporation ( <i>Note 1</i> ) Beneficial owner Other/Share option ( <i>Note 2</i> )	
<i>Aggregate:</i>	<i>157,279,130</i>		<i>35.08%</i>
Chen Deng Kun	2,452,000	Other/Share option ( <i>Note 2</i> )	
<i>Aggregate:</i>	<i>2,452,000</i>		<i>0.55%</i>
Hugo Shong	5,250,000	Beneficial owner	
<i>Aggregate:</i>	<i>5,250,000</i>		<i>1.17%</i>
Zhao Yong	50,010,750	Beneficial owner	
<i>Aggregate:</i>	<i>50,010,750</i>		<i>11.15%</i>

#### 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 "Outstanding Share Options".

Save as disclosed in this paragraph, as at 30th June 2006, 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.

## **OUTSTANDING SHARE OPTIONS**

Outstanding share options under the 2001 Scheme, 2002 Scheme and 2005 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 747,500 share options were exercised, 717,500 were cancelled and 255,000 remained outstanding as at 30th June 2006.

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 6,548,124 share options were exercised, 20,274,000 were cancelled and 21,640,376 remained outstanding as at 30th June 2006.

As at 30th June 2006, 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 (“2005 Scheme”). As at 30th June 2006, the Company has granted 36,200,000 share options, of which no share option was exercised and cancelled pursuant to the 2005 scheme.

As at 30th June 2006, details of the outstanding options are as follows:

	Options held at 1st January 2006	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 30th June 2006	Exercise price HK\$	Grant date
Xu Shao Chun	-	1,900,000	-	-	-	1,900,000	2.625	22/06/2006 (13)
	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	-	1,900,000	-	-	-	1,900,000	2.63	04/05/2006 (12)
	125,000	-	-	-	-	125,000	2.05	27/12/2004 (6)
	375,000	-	-	-	-	375,000	2.65	01/06/2004 (5)
	2,000	-	-	-	-	2,000	2.05	08/08/2003 (3)
	50,000	-	-	-	-	50,000	1.39	20/02/2003 (2)
Continuous contract employees	-	4,150,000	-	-	-	4,150,000	2.61	28/04/2006 (11)
	-	12,900,000	-	-	-	12,900,000	2.61	28/04/2006 (10)
	-	5,550,000	-	-	-	5,550,000	2.61	28/04/2006 (9)
	-	1,000,000	-	-	-	1,000,000	2.325	15/02/2006 (8)
	2,600,000	-	1,437,500	75,000	-	1,087,500	2.05	27/12/2004 (6)
	7,800,000	-	136,124	562,500	-	7,101,376	2.65	01/06/2004 (5)
	2,670,000	-	106,000	186,000	-	2,378,000	2.05	08/08/2003 (3)
	3,773,500	-	1,994,500	192,500	-	1,586,500	1.39	20/02/2003 (2)
	1,120,000	-	695,000	150,000	-	275,000	1.78	15/05/2002 (2)
	647,500	-	362,500	30,000	-	255,000	1.49	27/09/2001 (1)
Project China Limited	-	4,400,000	-	-	-	4,400,000	2.625	22/06/2006 (14)
Business partners	-	4,400,000	-	-	-	4,400,000	2.625	22/06/2006 (14)
	240,000	-	80,000	-	-	160,000	1.55	21/04/2005 (7)
<b>Total</b>	<b>27,903,000</b>	<b>36,200,000</b>	<b>4,811,624</b>	<b>1,196,000</b>	<b>-</b>	<b>58,095,376</b>		

*Notes:*

- (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 8th August 2004.



- (4) 2002 Scheme – all of these options have a duration of 10 years from 23rd March 2004, provided that the options may not be exercised in respect of more than 50% of the options prior to 31st 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.

For the purpose of Note (5) above, “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.
- (8) 2005 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.
- (9) 2005 Scheme – all of these options have a duration of 10 years from the date of grant, provided that the option can be exercised upon the following conditions:
- (i) the Company shall maintain the stable and continual increase of net profit yearly from the financial year of 2006 (net profit of current year/net profit of last year > 1), and the compound annual growth rate shall be more than 15%; and
  - (ii) the net profit of the Company exceeds that of major competitor.
- (10) 2005 Scheme – all of these options have a duration of 10 years from the date of grant, provided that the option can be exercised within 12 and 24 months from the date of announcement of the annual report cannot be more than 50% and 100% respectively upon the following conditions:
- (i) the Company shall maintain the stable and continual increase of net profits yearly from the financial year of 2006 (net profit of current year/net profit of last year > 1), and the compound annual growth rate shall be not less than 15%; and
  - (ii) the net profit of the Company exceeds that of major competitor.

- (11) 2005 Scheme – all of these options have a duration of 10 years from the date of grant, provided that the option can be exercised upon the following conditions:
- (i) the branches shall maintain the stable and continual increase of net profits yearly from the financial year of 2006 (net profit of current year/net profit of last year > 1), and the compound annual growth rate shall be not less than the certain percentage (10%, 15% and 20% respectively according to the business scale of the branch); and
  - (ii) the net profit of the Company exceeds that of major competitor.
- (12) 2005 Scheme – all of these options have a duration of 10 years from the date of grant, provided that the option can be exercised within 12 and 24 months from the date of announcement of the annual report cannot be more than 50% and 100% respectively upon the following conditions:
- (i) the Company shall maintain the stable and continual increase of net profits yearly till the financial year of 2006 (net profit of current year/net profit of last year > 1), and the compound annual growth rate shall be not less than 15%; and
  - (ii) the net profit of the Company exceeds that of major competitor.
- (13) 2005 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.
- (14) 2005 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.

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

As at 30th June 2006, 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**

<b>Name</b>	<b>Number of shares/underlying shares (where appropriate)</b>	<b>Capacity</b>	<b>Percentage of issued share capital</b>
Oriental Gold Limited	83,606,250	Beneficial owner	18.65%
Billion Ocean Limited	58,310,000	Beneficial owner	13.00%

Save as disclosed above, as at 30th June 2006, 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**

None of the Company or the any of its subsidiaries had purchased, sold or redeemed any of its listed securities during the period ended 30th June 2006.

## **COMPETING INTEREST**

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

## **CORPORATE GOVERNANCE**

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

### **Corporate Governance Practice**

The Company has complied with all the code provisions of "Code on Corporate Governance Practices" (the "Code"), as set out in Appendix 14 of the Listing Rules during the period ended 30th June 2006, except with deviation from Code A.2.1 in respect of the requirement for the segregation of the roles of the chairman and chief executive officer ("CEO").

With respect to the deviation, Code A.2.1 provides that the roles of chairman and CEO should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

During the period under review, Xu Shao Chun was the chairman and CEO of the Company. The Board considers that although Xu Shao Chun is both the chairman and CEO, he is able to differentiate his responsibilities under each role and act accordingly. In addition, Xu Shao Chun is proficient in knowledge in relation to information technology ("IT") and the fast and myriad changes in the business that he could lead the Company to react swiftly to any market change, make timely decision in this fast-moving IT industry and ensure sustainable development of the Company. The arrangement under which the roles of chairman and CEO are performed by the same individual has been considered to be beneficial to the Company at the present stage as it helps to maintain the continuity of the Company's policies and the stability of the Company's operations, as well as to enhance the efficiency of the Company's management. Notwithstanding the above, the Board will review the current organisation structure from time to time and will make appropriate changes when necessary.

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

## **BOARD COMMITTEES**

The Board has set up four specialised committees, namely the audit committee, remuneration committee, nomination committee and strategic committee. The terms of reference of these committees are set out in the Board Rules. These committees are mainly consisted of the independent non-executive Directors and non-executive Directors.

During the period ended 30th June 2006, the remuneration committee has approved the Incentive Fund Scheme (the “Scheme”) of the Company. The purpose of the Scheme is to realize long-term incentive to the management and core technical staff and maintain a long and stable development of the Company. According to the implementary terms of the Scheme for the year of 2006, the Company has granted options to the senior management and core technical staff. For more details, please refer to the section “Outstanding Share Options”.

The audit committee has reviewed the Group’s unaudited consolidated results for the six months ended 30th June 2006.

## **INTERNAL CONTROL**

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

During the period ended 30th June 2006, the Company has enhanced the internal controls through setting up the Three Standardization Systems (management systemized, business standardized and employee professionalized), such as taking ulterior steps to consummate and amend the rules and ordinances regarding the internal audit, budget management, investment operation, capital management, cost controlling and logistic management, enhancing diathesis of the present employees through hiring professionals, carrying out the internal management ordinances strictly and improving the working efficiency of employees through defining relevant responsibilities of all subsidiaries, branches and department, making the business settlement flows standard, having internal control inspection from time to time and encouraging and penalising the relevant employees.

With respect to procedures and internal controls for the handling and dissemination of price-sensitive information, the Company is aware of its obligations under the Listing Rules and the overriding principle that information which is expected to be price-sensitive should be announced immediately. The Company has always complied with the “Guide on disclosure of price-sensitive information” issued by the Stock Exchange.

## **CORPORATE COMMUNICATION**

The Company has a policy of open communication and fair disclosure. Disclosure is a key means to enhance the Company’s corporate governance standards.

- The Company maintains a website on which comprehensive information about the Company is available.
- The Company provides its shareholders and other stakeholders with the information necessary for them to form their own judgment and to provide feedback.
- The Company understands that full and frank disclosure does not only increase transparency of the Company, but is also essential for building market confidence.

## **ADOPTION OF CODE OF CONDUCT REGARDING DIRECTOR'S SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding Directors' securities transaction on terms no less exacting than the required standard set out in Appendix 10 "Model Code for Securities Transactions by Directors of Listed Companies" under the Listing Rules. The Directors have complied with such code of conduct throughout the accounting period covered by this interim report.

## **APPRECIATION**

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

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

Shenzhen, The People's Republic of China, 14th September 2006

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

*The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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.*