

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 31 December 2006.

Principal Activities and Geographical Analysis of Operations

The Group is a leading provider of enterprise management software and e-business application solution in the Asia-Pacific region. As an independent software provider, the Group is one of the fastest growing companies in global software market. It is also a leading provider in China's software industry. The Group is principally engaged in the development and sales of enterprise management software, e-commerce application software and providing middleware for the e-commerce and e-services platforms for enterprises or government departments. The Group also provides management consultation, implementation and technical support services in relation to software products to customers around the world.

The total revenue and profit attributable to the equity holders of the Company for the year ended 31 December 2006 were RMB611,443,000 and RMB97,377,000 respectively. Among which, approximately 68% was derived from the sales of software, approximately 30% was derived from the service income and 2% from sales of computer hardware and related products respectively. For details, please refer to the consolidated income statement set out on page 41.

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 31 December 2006, the group had around 40 branches and nationwide sales agents and 1,200 distributors offering products and after-sale services to the customers of the Group.

Results and Appropriations

The results for the year ended 31 December 2006 are set out in the consolidated income statement on page 41 and the appropriation is set out in Note 19 to the financial statements.

Distributable reserves

As at 31 December 2006, the profit attributable to equity holders of the Company is dealt within the financial statements of the Company to the extent of RMB66,154,000 (2005: RMB53,941,000).

Final Dividends

At the Annual General Meeting ('AGM') of the Company to be held on 26 April 2007 ("Forthcoming AGM"), the Board will recommend a final dividend of HK\$0.065 per share to the shareholders of the Company for the year ended 31 December 2006 (2005: HK\$0.045 per share). Subject to the approval of shareholders at the Forthcoming AGM, the final dividend will be payable on 26 June 2007 to shareholders whose names appear on the register of members of the Company on 26 April 2007.

Closure of Register

The register of members of the Company will be closed from Wednesday, 25 April 2007 to Thursday, 26 April 2007 (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 Tuesday, 24 April 2007.

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 31 December 2006 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 31 December 2006 are set out in the consolidated statement of changes in equity on page 42.

Fixed Assets

Details of the movements in the fixed assets of the Group for the year ended 31 December 2006 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 31 December 2006.

Share Capital and Options

- **Share Capital**

Details of the movements in share capital of the Company for the year ended 31 December 2006 are set out in Note 17 to the financial statements.

- **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 31 December 2006.

- **Outstanding Share Option**

The Company adopted a Share Option Scheme ("Share Option Scheme") on 11 July 2005. Under the rules of the Share Option Scheme, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes must not in aggregate exceed the Scheme Limit, which was 10% of the Shares in issue as at the date of approval of the Share Option Scheme. The Share Option Scheme is for a term of 10 years.

The purpose of the Share Option Scheme is to allow more flexibility in providing additional incentives or rewards to eligible participants for their contribution to the Group and/or to recruit and retain high-caliber employees and attract human resources that are valuable to the Group.

Pursuant to the Share Option Scheme, the Company was authorized to grant options to subscribe for up to 44,328,540 Shares, representing 10% of the total number of Shares in issue at the date of approval of the Share Option Scheme.

The subscription price for shares of the Company under the Scheme will be highest of (i) the closing price of the shares of the Company on the granting date, (ii) a price being the average of the closing prices of the shares of the Company for the five business days immediately preceding the granting date, and (iii) the nominal value of a share of the Company.

Outstanding share options under the 2001 Scheme, 2002 Scheme and Share Option Scheme

Pursuant to the share option scheme of the Company adopted on 30 January 2001 ("2001 Scheme"), an aggregate of 1,720,000 share options were granted, of which 797,500 share options were exercised, 717,500 were cancelled and 205,000 remained outstanding as at 31 December 2006.

Pursuant to the share option scheme of the Company adopted on 26 April 2002 ("2002 Scheme"), an aggregate of 48,462,500 share options were granted, of which 9,695,220 share options were exercised, 20,149,000 were cancelled and 18,618,280 remained outstanding as at 31 December 2006.

Both of the 2001 Scheme and 2002 Scheme were terminated by the Company. In the extraordinary general meeting of the Company convened on 11 July 2005, the Company adopted the Share Option Scheme. As at 31 December 2006, the Company has granted 37,800,000 shares options pursuant to the Share Option Scheme, in which no share has been exercised or cancelled.

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As at 31 December 2006, details of the outstanding options are as follows:

	Options held at 1 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 31 December 2006	Exercise price HK\$	Grant date
Xu Shao Chun	-	1,900,000	-	-	-	1,900,000	2.625	22/06/2006(9)
	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(9)
	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	-	37,500	-	-	12,500	1.39	20/02/2003(2)
Continuous contract employees	-	1,600,000	-	-	-	1,600,000	2.895	18/07/2006(11)
	-	4,150,000	-	-	-	4,150,000	2.61	28/04/2006(9)
	-	12,900,000	-	-	-	12,900,000	2.61	28/04/2006(9)
	-	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	-	1,769,000	75,000	-	756,000	2.05	27/12/2004(6)
	7,800,000	-	1,648,220	562,500	-	5,589,280	2.65	1/06/2004(5)
	2,670,000	-	790,000	186,000	-	1,694,000	2.05	08/08/2003(3)
	3,773,500	-	2,094,500	192,500	-	1,486,500	1.39	20/02/2003(2)
	1,120,000	-	970,000	25,000	-	125,000	1.78	15/05/2002(2)
	647,500	-	412,500	30,000	-	205,000	1.49	27/09/2001(1)
Project China Limited	-	4,400,000	-	-	-	4,400,000	2.625	22/06/2006(10)
Business partners	-	4,400,000	-	-	-	4,400,000	2.625	22/06/2006(10)
	240,000	-	160,000	-	-	80,000	1.55	21/04/2005(7)
Total	27,903,000	37,800,000	8,008,720	1,071,000	-	56,623,280		

Notes:

- (1) 2001 Scheme. All of these options have 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 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 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 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 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 ended 31 December 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 ended 31 December 2004 and 2005 ended 31 December 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 ended 31 December 2004, 2005 ended 31 December 2005, 2006 ended 31 December 2005 and 2006 ended 31 December 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 ended 31 December 2004, 2005 ended 31 December 2005, 2006 ended 31 December 2006 and 2007 ended 31 December 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 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 duration of 5 years from the date of grant and the options can be exercised from the date of grant.
- (8) Share Option Scheme. All of these options have 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) Share Option Scheme. All of these options have duration of 10 years from the date of grant, and the options can be exercised upon the conditions.
- (10) Share Option Scheme. All of these options have 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.
- (11) Share Option Scheme. All of these options have 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 30%, 60% of the options within 12 months and 24 months respectively from 1 year after the date of grant.

Report of Directors

Directors and Service Contracts of Directors

The compositions of the Board for the financial year ended 31 December 2006 was as follows:

Executive Directors and Managing Directors

Mr. Xu Shao Chun
Mr. Chen Deng Kun

Non-executive Directors

Mr. Zhao Yong
Mr. Hugo Shong
Mr. James Ming King

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. Hugo Shong, non-executive Director, and Mr. Yeung Kwok On, Mr. Wu Cheng, 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. 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 1 January 2000, which had been renewed for another three years on 1 January 2004, and had been renewed for another three years on 1 January 2007, unless and until being terminated by either party with no less than three months' prior written notice.

Mr. Chen Deng Kun had entered into a letter of appointment and acceptance as an executive director with the Company for a term of two years.

Each of Mr. Zhao Yong, Mr. Hugo Shong and Mr. James Ming King had entered into a letter of appointment and acceptance as a non-executive Director 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 as an independent non-executive Director 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 31 December 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 ("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)	
	4,962,880	Beneficial owner	
	10,400,000	Other/ Share option (Note 2)	
Aggregate:	157,279,130		34.83%
Chen Deng Kun	2,287,500	Other/ Share Option (Note 2)	
Aggregate:	2,287,500		0.51%
Zhao Yong	50,010,750	Beneficial owner	
Aggregate:	50,010,750		11.07%

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 Capital and Options".

Save as disclosed in this paragraph, as at 31 December 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.

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 31 December 2006.

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

As at 31 December 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

Name	Number of Shares/ underlying shares (where appropriate)	Capacity	Percentage of issued share capital
Oriental Gold Limited	83,606,250	Beneficial owner	18.51%
Billion Ocean Limited	58,310,000	Beneficial owner	12.91%

Save as disclosed above, as at 31 December 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.

Public Float

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

Purchase, Sale or Redemption of Shares

At the 2005 annual general meeting of the Company held on 28 April 2006, 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 as at the date of passing the resolution.

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

Connected Transactions

During the year ended 31 December 2006, details of connected transactions which needs to be disclosed are set out in Note 35 to the financial statements.

Major Customers and Suppliers

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

Sales

- | | |
|-----------------------------------|-------|
| – the largest customer | 0.57% |
| – five largest customers combined | 2.34% |

Purchases

- | | |
|-----------------------------------|--------|
| – the largest supplier | 14.93% |
| – five largest suppliers combined | 47.83% |

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. HO Ching-hua was appointed as Executive Director of the Company with effective from 30 March 2007 by the Board.

In accordance with Article 116 of the Company's Articles of Association, Mr. Hugo Shong, an non-executive Director, Mr. Yeung Kwok On and Mr. Wu Cheng, the Independent Non-executive Directors, would retire by rotation, and would offer themselves for re-election as directors of the Company at the Forthcoming AGM.

Mr. Ho Ching-hua, an 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.

Sponsor's Interest

Pursuant to the compliance advisor agreement dated 15 June 2005 entered into between the Company and DBS Asia Capital Limited, DBS Asia Capital Limited received usual compliance advisor fees for acting as the Company's compliance advisor for the period from 20 July 2005 to 30 April 2007.