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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

Financial highlights for the year ended 31 December 2006

– Turnover increased by approximately 16% over 2005 to approximately RMB611,443,000
– Profit attributable to equity holders of the Company increased by approximately 35% over 2005 to approximately RMB97,377,000
– Basic earnings per share increased by approximately 38% over 2005 to approximately RMB0.22
– The Board of Directors recommended a final dividend of HK$0.065 per share

The board (the "Board") of directors (the "Directors") of Kingdee International Software Group Company Limited ("Kingdee International" or the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006, together with the comparative audited consolidated figures for 2005 are as follows:

All amounts in Renminbi thousands unless otherwise stated

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	Note	**2006**	**2005**
Turnover	*3*	611,443	529,343
Cost of sales	*5*	(121,195)	(103,846)
Gross profit		490,248	425,497
Selling and marketing expenses	*5*	(279,175)	(256,134)
Administrative expenses	*5*	(180,679)	(150,340)
Other income	*4*	76,559	61,097
Operating profit		106,953	80,120
Finance costs – net	*6*	(149)	(388)
Share of (loss)/profit of associate		(2,010)	108
Profit before income tax		104,794	79,840
Income tax expense	*7*	(7,463)	(6,552)
Profit for the year		97,331	73,288
Attributable to:			
Equity holders of the Company		97,377	72,290
Minority interest		(46)	998
		97,331	73,288
Earnings per share for profit attributable to the equity holders of the Company during the year			
– basic	*8*	RMB0.22	RMB0.16
– diluted	*8*	RMB0.21	RMB0.16
Dividends	*11*	29,150	20,843

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2006	2005
ASSETS			
Non-current assets			
Property, plant and equipment		99,358	53,367
Lease prepayments		18,367	16,246
Intangible assets		88,936	84,869
Investments in associate		607	2,617
Deferred income tax assets		3,533	5,096
Available-for-sale financial assets		66	66
		210,867	162,261
Current assets			
Inventories		3,659	3,960
Trade and other receivables	*9*	112,973	103,783
Due from customers on implementation contracts		8,650	7,731
Pledged bank deposits		6,793	5,000
Short-term bank deposits		24,633	39,569
Cash and cash equivalents		358,845	242,053
		515,553	402,096
Total assets		726,420	564,357
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		123,287	98,652
Other reserves		232,080	174,679
Retained earnings			
– Proposed final dividend		29,150	20,843
– Others		87,419	78,757
		471,936	372,931
Minority interest in equity		3,040	2,836
Total equity		474,976	375,767
LIABILITIES			
Current liabilities			
Trade and other payables	*10*	123,012	87,327
Current income tax liabilities		7,645	8,581
Borrowings		37,150	30,000
Due to customers on implementation contracts		23,221	14,297
Deferred income		60,416	44,848
Provisions		–	3,537
		251,444	188,590
Total equity and liabilities		726,420	564,357
Net current assets		264,109	213,506
Total assets less current liabilities		474,976	375,767

Notes:

1. **Basis of preparation**

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to or have no significant impact on the Group's operations:

- IAS 19 (Amendment), Actuarial Gains and Losses, Group Plans and Disclosures;
- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IAS 39 (Amendment), The Fair Value Option;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

Standards, amendments and interpretations that are not yet effective and have not been early adopted by the Group

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

- IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. The Group will apply IFRIC 8 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements;
- IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply IFRIC 10 from 1 January 2007, but it is not expected to have any impact on the Group's financial statements; and
- IFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007). IAS 1, Amendments to capital disclosures (effective for annual periods beginning on or after 1 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 of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from 1 January 2007.

Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). IFRIC 7 provides guidance on how to apply requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, IFRIC 7 is not relevant to the Group's operations; and

- IFRIC 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have changed the terms of their contracts, IFRIC 9 is not relevant to the Group's operations.

2. Segment information

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

3. Turnover

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

	2006	**2005**
Sales of software	413,114	377,105
Software implementation service	125,390	102,441
Software solution consulting and support service	60,754	44,696
Sales of computer and related products	12,185	5,101
	611,443	529,343

4. Other income

	2006	**2005**
Subsidy income		
VAT refund *(Note (a))*	61,558	51,802
Subsidy for research and development projects	2,454	4,144
Tax refund for re-investments *(Note (b))*	5,329	–
Others	3,905	2,306
	73,246	58,252
Interest income	2,951	1,330
Gain on disposal of equity interest in a subsidiary	–	1,285
Others	362	230
	76,559	61,097

(a) According to the current tax regulations in the PRC, the development and sales of computer software are subject to VAT with an applicable rate of 17%. In September 2000, the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs of the PRC jointly issued a circular regarding the Taxation Policy for Encouraging the Development of the Software and Integrated Circuits Industries (Cai Shui Zi [2000] No.25). Pursuant to the Circular, for the period from 24 June 2000 to 31 December 2010, software enterprises which engage in the sale of self-developed software in the PRC are entitled to a preferential taxation treatment which provides for the payment of VAT at the rate of 17% and the refund of any VAT paid for the sale of the software in the PRC which exceeds the VAT rate of 3%.

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

5. Expenses by nature

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

	2006	2005
Research and development costs	69,858	50,476
Employee benefit expense (excluded amount included in research and development costs)	237,631	217,553
Cost of inventories consumed	25,882	18,217
Depreciation	10,509	11,660
Impairment of receivables	24,076	19,560
Advertising costs	38,001	35,221
Sales promotion costs	31,799	25,282
Traveling costs	22,613	17,149
Rental and utilities	26,173	21,656

6. Finance costs

	2006	2005
Interest expense on bank borrowings	70	517
Net foreign exchange loss/(gains)	79	(129)
	149	388

7. Income tax expense

	2006	2005
PRC income tax		
– Current income tax	8,451	8,881
– Over-provision in previous year	(2,551)	(1,072)
– Deferred income tax	1,563	(1,257)
	7,463	6,552

(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 years in those jurisdictions.

(b) Majority of the subsidiaries and associates of the Group is established in the PRC and subject to Enterprise Income Tax ("EIT") at a rate of 33%, unless preferential rates are applicable in the cities where 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 following 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 year.

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

	2006	2005
Profit before tax	104,794	79,840
Tax at the statutory tax rate of 33% (2005: 33%)	34,582	26,347
– Effect of preferential tax rates	(24,103)	(18,363)
– Tax losses not recognised	6,464	6,532
– Expenses not deductible for tax purposes	2,693	1,086
– Income not subject to tax	(5,594)	(5,087)
– Additional deductible allowance for research and development expenses	(4,028)	(2,891)
– Over-provision of income tax in previous year	(2,551)	(1,072)
	7,463	6,552

8. Earnings per share

(a) 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 year.

	2006	**2005**
Profit attributable to equity holders of the Company	97,377	72,290
Weighted average number of ordinary shares in issue (thousands)	447,867	443,596
Basic earnings per share (RMB per share)	0.22	0.16

(b) 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 just one category of dilutive potential ordinary shares: share options. For the share options, a calculation is made in order 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.

	2006	**2005**
Profit attributable to equity holders of the Company	97,377	72,290
Weighted average number of ordinary shares in issue (thousands)	447,867	443,596
Adjustments for – share options (thousands)	8,555	1,055
Weighted average number of ordinary shares for diluted earnings per share (thousands)	456,422	444,651
Diluted earnings per share (RMB per share)	0.21	0.16

9. Trade and other receivables

	2006	**2005**
Trade receivables *(Note (a))*	143,329	129,762
Less: provision of receivables *(Note (b))*	(77,084)	(65,658)
Trade receivables – net	66,245	64,104
Notes receivable	1,828	794
Advances to employees *(Note (c))*	5,803	3,885
Prepayments	4,561	5,483
VAT recoverable	20,358	22,208
Re-investment refund receivable	3,706	–
Others	10,472	7,309
	112,973	103,783

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

	2006	**2005**
0-180 days	66,859	59,602
181-360 days	13,548	22,301
Over 360 days	62,922	47,859
	143,329	129,762

(b) Movement on the provision for impairment of trade receivables are as follows:

	2006	2005
At 1 January	(65,658)	(47,174)
Provision for impairment	(24,076)	(19,560)
Write off as uncollectible	12,650	1,076
At 31 December	(77,084)	(65,658)

(c) The amount advanced to employees are interest free, unsecured and repayable on demand.

The Group factored receivable balances amounting to RMB10,010,000 (2005:Nil) to a bank for loans totaling RMB7,150,000 (2005: Nil). The transaction has been accounted for as a collateralized borrowing.

10. Trade and other payables

	2006	2005
Trade payables *(Note (a))*	21,578	10,991
Salary and staff welfare payable	14,408	10,682
Customers' deposits	44,006	35,341
VAT and business tax payable	22,289	16,926
Accrued expenses	12,383	6,346
Other	8,348	7,041
	123,012	87,327

(a) At 31 December 2006, the ageing analysis of the trade payables is as follows:

	2006	2005
Within 180 days	20,648	9,512
181 – 360 days	86	554
Over 360 days	844	925
	21,578	10,991

11. Dividends

The dividends paid in 2006 and 2005 were RMB20,843,000 (HK$20,036,000) (RMB0.047 per share (HK$0.045 per share)) and RMB18,810,000 (HK$17,734,000) (RMB0.04 per share (HK$0.04 per share)) respectively. A dividend in respect of the year ended 31 December 2006 of RMB0.064 per share (HK$0.065 per share), amounting to a total dividend of RMB29,150,000 (HK$29,447,000), is to be proposed at the Annual General Meeting on 26 April 2007. Subject to the approval of shareholders at the forthcoming Annual General Meeting, 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. These financial statements do not reflect this dividend payable.

12. Commitments

Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2006	2005
Property, plant and equipment	98,102	21,476

Operating lease commitments – group company as lessee

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

	2006	2005
Not later than one year	15,510	14,286
Later than one year and no later than five years	17,615	7,590
	33,125	21,876

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.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

1. The Enterprise Management Software and Middleware Market

(1) The Market for Enterprise Management Software

During the reporting period, the market of enterprise management software, including enterprise resource planning (ERP), supply chain management (SCM), customer relationship management (CRM), human resources (HR), etc., grew further on the back of the rapid growth of the Chinese economy and the imperative demand of enterprises to enhance their management competitiveness. This, coupled with the promotion of enterprise management software by the government and software developers caused customers to become more aware of, and practical about, enterprise management software and particularly concerned about whether enterprise management software could fulfill their personalized need. Personalized need includes both industry-specific need and enterprise-specific need. The development of enterprise management software has evolved from the standardization stage in the past to the present personalization stage, characterized by the platformization of products, the development of industry-specific solutions and the personalization of services.

With the growing trend for personalization, customer demand for informatized management has become more certain and robust with soaring requirements for software products and services, resulting in the market's further turn to branded manufacturers with core technology, strong service capability and an extensive customer base.

According to the IDC report entitled "China Enterprise Application Solutions 2006-2010 Forecast and Analysis", the five-year compounded annual growth rate of enterprise application solutions from 2006 to 2010 will be 18.75% and the market value will reach USD4.139 billion in 2010. Among this, the five-year compound annual growth rate of enterprise resource management software from 2006 to 2010 will be 17.27% and the market value w ill reach USD1.894 billion in 2010.

(2) The Middleware Market

Personalized need arising from enterprise management and the platformization trend of software products further highlights the value of application server middleware. As a basic software platform supporting enterprise management software, application server middleware enables enterprise management software to be deployed flexibly and implemented rapidly to better serve the personalized needs of enterprises. Whether a software manufacturer has its own independent middleware technology has become an important consideration for corporate customers in choosing enterprise management software. According to the "2005-2006 Market Research Report on China Application Server Middleware" released by CCW Research, Kingdee, with its leading technology, captured the largest share in the application server middleware market in China among all the domestic manufacturers.

2. The Group's Market Position

During the reporting period, leveraging on its industry – leading application server middleware technology, Kingdee Apusic and the business foundation software platform technology based on Service Oriented Architecture (SOA) – Kingdee BOS, the Group launched the "Personalized ERP Plan" to provide distinctive "Middleware + ERP" solutions that catered to the personalization trend and offered customers platformized products, industry-specific solutions and personalized services, making it an award-winning leader in personalized management software.

(1) No. 1 market share of China application server middleware market among all the domestic manufacturers – CCW Research, "2005-2006 Market Research Report on China Application Server Middleware"

(2) No. 1 brand of personalized management software, Ranked first in overall satisfaction among personalized management software users – CCW Research, "2006 China IT User Satisfaction Research"

(3) Ranked first in maturity among business foundation platform products – CCW Research, November 2006

(4) Launched an application server middleware product that is the fourth in the world and the first in China to have passed Java EE 5.0 certification – SUN, December 2006

BUSINESS REVIEW

During the reporting period, the Group's business continued to grow steadily. Recognized by a large number of large-scale enterprise groups, Kingdee EAS achieved a breakthrough in the high-end market, which had the effect of acting as a demonstration for a wide range of small and medium sized enterprises. Kingdee K/3 continued to growth steadily and maintained its leading position in the small and medium sized enterprise market. Kingdee KIS products have been distributed solely through distribution channels to further increase its coverage in the low-end market. Apusic Application Server, Kingdee's middleware, continued to win the preference of customers from government departments and large-scale enterprises, and achieved ground-breaking development. As new business areas for the Group, the mobile commerce and Internet business achieved significant development. Customer service business grew rapidly and became an important source of growth as shown in the Group's results.

1. Products and Research and Development

During the reporting period, the Group made substantial progress in its products and in research and development.

(1) Enterprise Management Software

(i) EAS was further improved and succeeded in assisting enterprises to solve the core problem of group control and management.

During the reporting period, the Group launched Kingdee EAS V5.1 and V5.2, featuring further enhancements in group finance and BOS capability, and new breakthroughs in budget management, capital management, supply chain management and human resource management capabilities. The software effectively assisted a large number of large-scale enterprise customers to solve the core problem of group control and management. While rapidly satisfying customers' existing personalized needs, the software also constructs a management information platform that is essential for their future business expansion.

(ii) The continued upgrade of K/3 products has enabled the Group to maintain its leading position in the small and medium sized enterprise markets.

During the reporting period, the Group launched K/3's one important upgraded version, V10.3. This version features the in-depth application of the best management practices for a large number of customers, further optimizing standard management procedures. It also includes advanced enterprise planning models along with cost management and HR management solutions for the manufacturing industry. It represents a more comprehensive and advanced version of the K/3 solution. In addition, it further improves the functions and user-friendliness of the BOS software foundation platform, enabling customers and cooperative partners to satisfy their personalized needs through platform configuration in order to further strengthen the predominance of K/3 products in satisfying personalized needs of customers with low maintenance costs. During the reporting period, the Group acquired Godline and completed its product integration, which further strengthened the functions of the K/3 manufacturing module and facilitated an upgrade for Godline's existing customers.

(iii) KIS served the needs of small enterprises more effectively to enable small enterprises to enjoy informatization services at low cost.

During the reporting period, the Group launched KIS V8.1 and the professional version V9.0, which targeted to satisfy the requirements of small enterprises for management software – "compact, easy to learn, user-friendly and low cost". The new version embodies "simplifying management" as its core design principle. It focuses on enhancing the adaptability of small enterprises, assisting them to flexibly use financial applications for business and further reduce the difficulty and cost of application and maintenance.

(2) Middleware

During the reporting period, the Group launched the Apusic 5.0 Application Server, a ground-breaking middleware product that is the fourth in the world and the first in China to have passed Java EE 5.0 (the next generation enterprise development standard) certification. The Group also launched Apusic MQ message middleware and the Apusic Studio, a series of integrated development environment products. These, together with the Apusic Application Server became a featherweight enterprise infrastructure software platform, providing operational support for e-government, e-commerce and large-scale industrial and enterprise application.

(3) Mobile Commerce and Internet Business

During the reporting period, the Group tapped into the mobile commerce and Internet business and launched mobile ERP products. The new products embody "Business Anywhere, Management Anywhere" as their core value and complement the development trend of the mobile and Internet markets to provide enterprises with informatization services anywhere and any time.

2. Sales and Distribution

"During the reporting period, leveraging on its 40 direct subsidiaries in the Mainland and Hong Kong, the Group expanded its direct sales business on a gradual basis and further widened its network of cooperative partners through the "Personalized ERP Value-Added Partner Scheme"."

(1) Direct sales was highly effective in securing benchmark customers in various industries and has achieved steady growth.

During the reporting period, EAS products achieved a breakthrough in growth due to recognition by a number of large-scale group enterprises. Contracts in relation to EAS were entered into with large-scale group customers such as China Vanke Co., Ltd, China South Locomotive and Rolling Stock Industry (Group) Corporation, China Huadian Corporation, Shanghai Airlines Co., Ltd, Want Want Group, Zhejiang Communications Investment Group, Hopson Development Holdings Limited, Guangzhou Automobile Group Co., Ltd, Dalian Port Corporation Limited and Lutianhua Group. The contracts with these large-scale enterprise groups made a strong impression on a wide range of small and medium sized enterprises and helped the Group to further consolidate its leading position in the small and medium sized enterprise market.

During the reporting period, K/3 maintained its leading position in the small and medium sized enterprise market and successfully established its presence in the machinery, electrical appliance, vehicle parts and equipment and transport industries. It also secured a large number of benchmark customers in various industries, such as Truly Semiconductors Ltd., Fuji Xerox High Technology (Shenzhen) Co., Ltd, Mitsubishi Electric Dalian Industrial Products Co., Ltd, US Tenneco (Asia Pacific), Shenzhen Lianchuang Industry Co., Ltd, Sahm Heavy Duty Machine Co., Ltd and Karl Mayer Textile Machinery Ltd. These customers also had a strong and positive effect in demonstrating the strength and benefits of K/3 for a wide range of small and medium sized enterprises.

During the reporting period, the middleware business achieved ground-breaking development and contracts were entered into with large government authorities such as the General Administration of Quality Supervision, Inspection and Quarantine and the

Ministry of Supervision, and renowned enterprises such as Lutianhua Group and Ningxia Coal Group.

During the reporting period, the Group established strategic cooperation with several subsidiaries of China Mobile to jointly promote enterprise mobile application products. Customers of the Group's mobile business products include distinguished enterprises such as Hunan AvaDairy Company Limited, Shenzhen Lianchuang Industry Co., Ltd and Shanghai Siyuan Electric Co., Ltd.

(2) The distribution business grew steadily, and the number of consultation partners and value-added development partners rose, further increasing market coverage.
During the reporting period, the Group continued to implement its distribution strategy of "Partner Oriented". While assisting existing partners to enhance their capabilities, the Group also continued to step up the recruitment of partners and enlarge its distribution network to cover municipalities so as to get closer to its customers and ensure prompt response in terms of sales and service delivery. At the end of 2006, the Group had approximately 1,200 distribution partners. With the establishment of the partner grading system, KIS was distributed solely by distribution channels, enabling a further increase in market coverage.

During the reporting period, the Group continued to strengthen cooperation with consulting firms, setting up the "Kingdee&IBM Cooperative Lab for ERP" and forming strategic alliances with more than 10 renowned domestic consulting firms to provide services in a number of professional areas such as finance, IT planning and HR. These measures contributed significantly to the Group's exploration of the high-end market and the provision of value-added services to its customers.

During the reporting period, the Group accelerated the construction of a software industry eco-chain to cater to the trend of personalization, leveraged on its leading business foundation software platform – Kingdee BOS – to step up the recruitment of value-added development partners, and successfully launched solutions specifically designed for the pharmaceutical distribution, pharmaceutical manufacturing, chemical, food, property management and foreign trade sectors so as to satisfy the personalized needs of its customers.

(3) International business continued to grow at a rapid pace.
During the reporting period, the Group's international business continued to grow at a rapid pace and contracts were entered into with a number of renowned international enterprises which are global bellwethers in the logistics, electrical machinery and machinery industries, including FedEx and Noble Group.

During the reporting period, the Group successfully tapped into the markets of Association of Southeast Asian Nations such as Singapore, Indonesia and Malaysia with its distribution model. The Group established cooperative partner relationships with numerous local IT companies and entered into contracts with a number of local customers engaged in the manufacturing business.

3. Customer Service
During the reporting period, the Group's service business experienced rapid growth. Leveraging on its large customer base and adhering to its service principle of "Proactive Services, Prompt Response", the Group focused on promoting sales to existing customers, setting up a Kingdee online customer service center and a call center with the aim of providing personalized services for a wider range of customers at a lower cost and higher speed, and succeeded in raising the satisfaction level of its customers. The Group also established a project management platform and effectively monitored implementation procedures, shortened the implementation cycle, lowered implementation costs and promoted the sharing of implementation cases and experience. In addition, the Group began to step up

the exploration of the training and education markets and set up ERP laboratories with 83 colleges and universities so as to strengthen the training and development of ERP talent and the education of Kingdee's potential users in future.

4. **Organization and Culture**
During the reporting period, the Group continued to strengthen its organization capabilities, further optimized its organization structure, implemented matrix management in the product department and seven major segments, with the view to ensuring quicker response of the product research and development department to market trends and faster delivery of products by distributors. The Group continued to uphold the principle of "Enable staff's success", attract high caliber talent and strengthen the training of internal professional and management staff. The Group also continued to optimize its control and management system and promote the "business standardized, management systemized and employee professionalized" so as to lay a solid foundation for the Group's sustainable, rapid and steady development.

FINANCIAL REVIEW

For the year ended 31 December 2006, the Group's turnover amounted to RMB611,443,000, representing an increase of 16% over 2005 (2005: RMB529,343,000). This was mainly attributable to steady growth of demand for enterprise application software from Chinese enterprises as well as the proper implementation of the Group's operation strategies.

During the year, the Group realised revenue of software of RMB413,114,000, representing an increase of 10% over 2005 (2005: RMB377,105,000), and service revenue of RMB186,144,000, representing an increase of 27% over 2005 (2005: RMB147,137,000). During the year, the Group's cash flow generated from operating activities was RMB210,124,000, representing an increase of 50% over 2005 (2005: RMB140,523,000).

During the reporting period, the debtor turnover days was 81 days (the average of the debtor balance at the beginning and the end of the year divided by the total revenue of the year times 365 days), (2005: 85 days). During the reporting period, the Group made efforts to manage and recover the receivables and hence maintained the account receivables turnover at a reasonable level.

For the year ended 31 December 2006, the profit attributable to equity holders of the Company was RMB97,377,000, representing an increase of 35% over 2005 (2005: RMB72,290,000). During the year, the net profit margin was 16% (2005: 14%) and the basic earnings per share was RMB0.22 (2005: RMB0.16). The improvement of net profit was attributed to the Group's appropriate control over the costs and expenses while maintaining a growth in revenue, reflecting the Group's achievement in economies of scale.

Gross profit

The gross profit of the Group increased by approximately 15% from RMB425,497,000 for the year 2005 to RMB490,248,000 for the year 2006. During the period, the gross profit margin was approximately 80% (2005: 80%).

Selling and marketing expenses

The selling and marketing expenses for the year 2006 was approximately RMB279,175,000 (2005: RMB256,134,000), representing an increase of 9% over last year. The selling and marketing expenses accounted for 46% of the turnover while the percentage for 2005 was 48%. The reduction in proportion of selling and marketing expenses was mainly due to the fact that there were appropriate controls over spending on advertisement. In addition, with the transformation to distribution sales model, the Group stressed on strict control over the number of direct sales staff and improvement of staff capabilities, and thus the salary of sales staff increased at a slower pace.

Administrative expenses

Administrative expenses for 2006 amounted to RMB180,679,000 (2005: RMB150,340,000), representing an increase of approximately 20%. During the period, administrative expenses accounted for 30% of the turnover while the percentage for 2005 was 28%. This was mainly due to the increase of investment in EAS, K/3 manufacturing and new business such as internet and mobile commerce. The cost of R&D was approximately RMB69,858,000, representing an increase of 38% as compared with 2005 (2005: RMB50,476,000). Other administrative expenses were effectively controlled.

Capital expenditure
For the year ended 31 December 2006, the Group's major capital expenditure included the construction cost for Shanghai and Shenzhen Research Centers of RMB36,935,000 (2005: RMB12,271,000), the R&D capitalised expenses of RMB53,356,000 (2005: RMB39,128,000), and the purchase of computer and related equipments of RMB11,214,000 (2005: RMB8,530,000).

Financial resources and liquidity
The Group possessed a healthy cash flow position. As at 31 December 2006, the Group had cash and cash equivalents amounting to approximately RMB358,845,000 (2005: RMB242,053,000). Current ratio was 2.05 (2005: 2.13) and gearing ratio (defined as the ratio of bank borrowings to shareholder equity) was approximately 8% (2005: 8%).

As at 31 December 2006, the Group's short-term bank loan amounted to RMB37,150,000 (2005: RMB30,000,000). As at 31 December 2006, the Group did not have any long-term bank loan.

As at 31 December 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.

As at 31 December 2006, the Group did not have any material contingent liabilities (2005: nil).

Future Prospects
As the Chinese economy maintains its rapid growth in future, an increasing number of distinguished Chinese enterprises will select and use the Group's enterprise management software solution. The Chinese management model derived from the working experience with these outstanding enterprises will provide product differentiation and a stronger competitive edge for domestic software manufacturers over overseas competitors. In addition, the trend towards personalization by corporate customers represents a higher entry barrier for software manufacturers, but with its competitive edge in "Middleware + ERP" core technology and services, the Group will gain more development opportunities.

The Group is fully confident of the development prospects of the enterprise management software and middleware market and the expansion of its new mobile and Internet business. The Group will continue to implement the "Personalized ERP Plan", so as to further consolidate its leading position in the personalized management software market. The Group endeavors to become the No. 1 company in the small and medium sized enterprise ERP market in Asia Pacific, the brand that ranks first in China enterprise application software market and the leader in China middleware software market.

In 2007, the Group will further increase its investment in the research and development of enterprise management software and middleware products, construct a value-added development partner eco-chain, tap into the mobile commerce and the Internet application markets and provide personalized products and services to a wider range of customers. This will add value to customers' businesses and continue to strengthen the Group's competitive edge in product differentiation. Leveraging on its large customer base, the Group will step up sales promotions to existing customers and increase customer service income on an ongoing basis. The Group will also explore the training and education market by focusing on customer training and certification. In addition, the Group will leverage on its product and technological strength to actively seek overseas cooperation partners, complete the localization of its products and services and accelerate the expansion of its international business. While strengthening its corporate governance structure and its investor relationships, the Group will continue to pursue appropriate merger and acquisition opportunities that are in line with its business development strategies.

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.

CORPORATE GOVERNANCE

Further improving the management, enhancing the transparency and accountability within the Group, and maintaining a good, solid and sensible framework of corporate governance has been and remained one of the Group's top priorities.

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 throughout the financial year ended 31 December 2006, except with deviation from code provision A.2.1 in respect of the requirement for the segregation of the roles of the chairman and chief executive officer ("CEO") (but such provision has been complied with since 1 January 2007).

During the financial year ended 31 December 2006, Mr. Xu Shao Chun was the chairman of the board of directors (the "Board") and CEO of the Company. Mr. Ho Ching-hua was appointed on 9 December 2006 by the Board to serve as CEO of the Company with effect from 1 January 2007. Since 1 January 2007, Mr. Xu Shao Chun remained as the Chairman of the Board (the "Chairman") as well as the chief software architect of the Group. Accordingly, the roles of the chairman and CEO were performed by Mr. Xu Shao Chun and Mr. Ho Ching-hua respectively with effect from 1 January 2007.

With respect to the compliance with Part A of the Code, the Company has carried out the following corporate governance practices:

The Company has held eight Board meetings during the financial year ended 31 December 2006. The directors have been consulted to advice the agenda of the Board meeting. Sufficient notice of the Board meeting has been given to the Directors. Minutes of the Board and the Board Committees are recorded in sufficient details and kept by the Board secretaries for inspection at any reasonable time on reasonable notice by any Director. Non-executive Directors of the Company has been appointed for a specific term, subject to re-election. The Company has established a nomination committee with specific written terms of reference. Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company. Most of the Directors have satisfactory attendance rates at both Board meetings and Committee meetings, details of which are set out in the attendance form as shown below. All Directors are entitled to have access to the minutes and other relevant documents.

With respect to the compliance with Part B of the Code, the Company has established a remuneration committee with specific written terms of reference.

With respect to the compliance with Part C of the Code, management has provided sufficient explanation and information to the Board as will enable the Board to make an informed assessment of financial and other information put before the Board for approval. The Company has announced the interim report of 2006 on 14 September 2006.

With respect to the compliance with Part D of the Code, when the Board delegates aspects of its management and administration functions to management, it has given clear directions as to the powers of management, in particular, with respect to the circumstance where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The Company has set up four committees.

With respect to the compliance with Part E of the Code, the procedures for demanding a poll by the shareholders were incorporated in every circular issued during the financial year ended 31 December 2006.

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

Audit Committee
The Audit Committee would hold its meetings on a regular basis before the Company announced its interim and annual financial statements. The Audit Committee has held two meetings during the year of 2006.

The Audit Committee has reviewed the Company's annual financial report for the year ended 31 December 2006.

External Auditor
PricewaterhouseCoopers was appointed as the external auditor of the Company for the year of 2006.

A resolution for re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the forthcoming AGM.

OTHER INFORMATION

The figures set out in the annual results announcement of the Group for the year ended 31 December 2006 have been agreed by the Company's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements and consequently no assurance has been expressed by PricewaterhouseCoopers on the announcement.

APPRECIATION

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

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

Shenzhen, the PRC, 30 March 2007

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

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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

"Please also refer to the published version of this announcement in The Standard."