



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)

STRATEGIC ALLIANCE WITH IBM JOINT INVESTMENT BY IBM AND LEHMAN BROTHERS AND RESUMPTION OF TRADING

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

The Board is pleased to announce that the Company entered into the MOU with IBM on 30 May 2007, pursuant to which the Company and IBM intend to establish a global alliance.

The Board was informed that together with the formation of this alliance, IBM and Lehman Brothers have agreed to jointly invest in the Company by acquiring 35,000,000 existing Shares from the Vendor, representing approximately 7.7% of the issued share capital of the Company, at a total consideration of approximately HK\$132 million. Following completion of the Joint Investment, each of IBM and Lehman Brothers will become a shareholder of approximately 3.85% of the issued share capital of the Company.

Simultaneously, IBM and Lehman Brothers have also entered into the Investor Rights Agreement with the Company and the Shareholders Agreement with Mr Xu and the Key Executives.

The Board considers that the alliance with IBM is an important development of the Group's business which may affect the shareholders of the Company and the public in assessing the position of the Group. The information about the alliance is therefore of a price sensitive nature. At the request of the Company, trading in the Shares has been suspended with effect from 10:00 a.m. on 28 May 2007 pending the release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 4 June 2007.

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

ALLIANCE WITH IBM

The Board is pleased to announce that the Company entered into the MOU with IBM on 30 May 2007. Pursuant to the MOU, the Company and IBM intend to establish a global alliance.

In particular, the Company and IBM will cooperate in the following fields:

Globalization/Service Oriented Architecture (SOA)

IBM intends to assist the Company in re-engineering its products to be better suited for the global market. IBM also intends to assist the Company in optimizing the technical architecture of the Company's EAS and BOS to meet the criteria of SOA.

Marketing/Sales/Channels/Customers

IBM and the Company will cooperate in their sales channels starting with China domestic market with the intent to expand globally. Areas include joint marketing and sales activities.

Consulting services/Application Management Services (AMS)

IBM intends to offer consulting services to clients of the Company's EAS solutions. IBM intends to assist the Company in improving its service management structure, process and methodology.

Network Delivered Business Services

IBM and the Company have agreed to cooperate in developing a network delivered business services model which may include SaaS (Software As A Service) business model and platform.

The MOU did not specify any fee to be paid to IBM.

As a result of the MOU, IBM and the Company will continue to finalise the details to implement the objectives described above.

The alliance would enable the Company and IBM to complement each other with their respective strengths, and enable the Company to grasp the opportunity of software service development and individualization, enhance corporate governance and expedite the process for globalization. Accordingly, the alliance would enhance the competitiveness of the Company and IBM in the China market as well as in the international market.

JOINT INVESTMENT BY IBM AND LEHMAN BROTHERS

The Board was informed that on 30 May 2007, IBM, Lehman Brothers and the Vendor entered into the Share Purchase Agreement, pursuant to which IBM and Lehman Brothers agreed to acquire 35,000,000 existing Shares from the Vendor, representing approximately 7.7% of the issued share capital of the Company, at a total consideration of approximately HK\$132 million (being HK\$3.7885 per Sale Share). Following completion of the Joint Investment, each of IBM and Lehman Brothers will become a shareholder of approximately 3.85% of the issued share capital of the Company.

The Board was also informed that on the same day, IBM and Lehman Brothers entered into the Shareholders Agreement with Mr Xu and the Key Executives for the purpose of regulating their rights and obligations as between themselves as shareholders of the Company.

The principal terms of the Shareholders Agreement include the following:

Mr Xu's Lock-up: Mr Xu agrees not to dispose of any of his Shares for a period of 12 months commencing from completion of the Joint Investment, subject to the right to sell up to 5% of his aggregate holding in the Company during such period.

Rights of First Refusal: Each Investor is granted a right of first refusal, pro rata to the number of Shares then held by it, over any Shares to be sold by Mr Xu or either of the Key Executives.

Co-sale Rights: Each Investor who does not exercise its right of first refusal to purchase any Shares offered for sale by Mr Xu and/or the Key Executives has a right of co-sale to participate in such sale on a pro rata basis based on the number of Sale Shares then held by such Investor.

Simultaneously, in consideration of the expected benefits to be brought to the Company by the Investors' interest in the Company, the Company has also entered into the Investor Rights Agreement with IBM and Lehman Brothers on 30 May 2007. It is expected that IBM and Lehman Brothers' interest in the Company will raise the Company's profile in the industry and in the professional investor community. In addition, in light of the Investors acquiring a 7.7% stake in the Company, the Board considered it fair and reasonable and in the interests of the Company to maintain a stable shareholder base by affording the Investors a degree of investor rights as requested by and agreed upon with the Investors. The Vendor did not participate in the negotiation in the Investor Rights Agreement.

The major terms of the Investor Rights Agreement are as follows:

Investors' lock-up: Each Investor will not, for a period of 12 months commencing from completion of the Joint Investment, transfer or otherwise dispose of any Shares so that the number of Shares held by that Investor would be reduced to less than 72% of the number of Sale Shares purchased by that Investor. This lock-up undertaking shall cease to apply if the Investors' nominated non-executive Director is not elected at the first annual general meeting of the Company following completion of the Joint Investment.

Nomination of Director: Subject to the Investors in aggregate maintaining a shareholding percentage of not less than or equal to 80% of the total number of Sale Shares, the Investors shall have the right to nominate one non-executive member to the Board, and the Company shall procure such nominee, who shall be reasonably acceptable to the Board, to be appointed to the Board and the Company shall also recommend the nominee of the Investors to the Board for election or re-election at the annual general meetings of the Company.

Co-sale rights: If the Company proposes to issue any new Shares to a potential purchaser or assists in the sale of any Shares by any shareholder of the Company, other than employees of the Group, each Investor shall have a right to sell its Shares ("Co-sale Shares") to the potential purchaser on a pro rata basis (i.e. to the extent of its percentage holding in the Company at the relevant time multiplied by the total number of Shares to be issued or sold).

In case of a proposed new issue by the Company where the Investors purport to exercise their co-sale right, the possibility of the potential purchaser not agreeing to purchase the Co-sale Shares from the Investors is, in the opinion of the Board, very remote. If the potential purchaser does not agree, acting reasonably, to purchase such Co-sale Shares of its own accord, the Company may nevertheless proceed with the new

issue without committing a breach of co-sale rights provisions under the Investor Rights Agreement and the proposed issue of new shares by the Company will not be affected. Under the above circumstances, the Board considers that the co-sale right is fair and reasonable.

The Directors confirm that to the best of their knowledge, information and belief, and having made all reasonable enquiries, each of IBM and Lehman Brothers is a third party independent of the Company and its connected persons. As at the date of this announcement, neither IBM nor Lehman Brothers holds any Shares.

In the event that any Investor becomes a connected person of the Company, the Company will comply with the requirements under Chapter 14A of the Listing Rules, if applicable. Under the Investor Rights Agreement, in the event that any regulatory authority, including the Stock Exchange, determines that any of the provisions in the Investor Rights Agreement do not comply with any applicable provisions of the Listing Rules, the Investors and the Company have agreed to negotiate in good faith to amend the terms of the Investor Rights Agreement as may be necessary to comply with such regulatory requirements. Notwithstanding the aforementioned, the Company is aware of its obligations to comply with the Listing Rules at all times.

Except that the Shareholders Agreement and the Investor Rights Agreement are conditional upon completion of the Share Purchase Agreement, each of the agreements in this announcement is not inter-conditional.

SUSPENSION AND RESUMPTION OF TRADING

The Board considers that the alliance with IBM is an important development of the Group's business which may affect the shareholders of the Company and the public in assessing the position of the Group. The information about the alliance is therefore of a price sensitive nature. At the request of the Company, trading in the Shares has been suspended with effect from 10:00 a.m. on 28 May 2007 pending release of this announcement. An application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 4 June 2007.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

"Board"	the board of Directors
"BOS"	the platform developed by the Group, based on Model Driven Architecture
"Company"	Kingdee International Software Group Company Limited (金蝶國際軟件集團有限公司), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Stock Exchange
"Directors"	the directors of the Company
"EAS"	the third generation ERP products of the Group
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"IBM"	IBM WTC Asia Investments LLC
"Investor Rights Agreement"	the investor rights agreement dated 30 May 2007 entered into between the Company and the Investors
"Investors"	collectively, Lehman Brothers and IBM, and each an "Investor"
"Joint Investment"	the acquisition of the Sale Shares by the Investors from the Vendor
"Key Executives"	Mr Ho Ching-hua and Mr Chen Deng Kun, the Chief Executive Officer and the Chief Financial Officer of the Company as at the date of this announcement
"Lehman Brothers"	Lehman Brothers Asia Holdings Limited
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"MOU"	the memorandum of understanding dated 30 May 2007 entered into between IBM and the Company
"Mr Xu"	Mr Xu Shao Chun, the founder, executive Director, Chairman and controlling shareholder of the Company
"Sale Shares"	35,000,000 Shares, representing approximately 7.7% of the issued share capital of the Company as at the date of this announcement
"Share Purchase Agreement"	the share purchase agreement dated 30 May 2007 entered into between the Investors and the Vendor in respect of the Joint Investment
"Share(s)"	ordinary share(s) of HK\$0.10 each in the Company
"Shareholders Agreement"	the shareholders agreement dated 30 May 2007 entered into between the Investors, Mr Xu and the Key Executives
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendor"	Mr Zhao Yong, a non-executive Director who is interested in 50,010,750 Shares, representing approximately 11.02% of the issued share capital of the Company as at the date of this announcement
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent

By order of the Board
Xu Shao Chun
Chairman

Shenzhen, the People's Republic of China,
1 June 2007

As at the date of this announcement, the Board comprises Mr Xu Shao Chun, Mr Ho Ching-hua, Mr Chen Deng Kun as executive Directors, Mr James Ming King, Mr Zhao Yong and Mr Hugo Shong as non-executive Directors and Ms Yang Zhou Nan, Mr Wu Cheng, Mr Yeung Kwok On and Mr Gary Clark Biddle as independent non-executive Directors.