



# Leader of Personalized ERP 個性化ERP領導者

interim report 2007  
二零零七年中期報告

## Kingdee

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

Stock Code: 268



**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 30 JUNE 2007**

**Financial highlights for the six months ended 30 June 2007**

- Turnover increased by approximately 16% over the same period in 2006 to approximately RMB333,882,000
- Profit for the period increased by approximately 30% over the same period in 2006 to approximately RMB39,797,000
- Profit attributable to equity holders of the Company during the period increased by approximately 30% over the same period in 2006 to approximately RMB39,442,000
- Basic earnings per share for profit attributable to the equity holders of the Company during the period increased by approximately 28% over the same period in 2006 to approximately RMB8.721 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 30 June 2007, together with the comparative figures for the corresponding periods in 2006 are as follows:

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2007

(All amounts in Renminbi thousand unless otherwise stated)

	Notes	<b>30 June 2007 Unaudited</b>	<b>31 December 2006 Audited</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	4	159,387	99,358
Lease prepayments		18,173	18,367
Intangible assets		94,671	88,936
Investment in associates		–	607
Deferred income tax assets		2,460	3,533
Available-for-sale financial assets		66	66
<b>Total non-current assets</b>		<u>274,757</u>	<u>210,867</u>
<b>Current assets</b>			
Inventories		5,377	3,659
Trade and other receivables	5	121,296	112,973
Due from customers on implementation contracts		13,835	8,650
Held-to-maturity financial assets	6	20,000	–
Pledged bank deposits		6,664	6,793
Short-term bank deposits		29,511	24,633
Cash and cash equivalents		213,858	358,845
<b>Total current assets</b>		<u>410,541</u>	<u>515,553</u>
<b>Total assets</b>		<u>685,298</u>	<u>726,420</u>

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (Continued)***As at 30 June 2007**(All amounts in Renminbi thousand unless otherwise stated)*

		<b>30 June 2007 Unaudited</b>	<b>31 December 2006 Audited</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	7	138,536	123,287
Other reserves		233,256	232,080
Retained earnings			
– Proposed final dividend		–	29,150
– Others		126,861	87,419
		<hr/>	<hr/>
		498,653	471,936
<b>Minority interest</b>		<hr/>	<hr/>
		3,395	3,040
<b>Total equity</b>		<hr/>	<hr/>
		502,048	474,976
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	8	98,277	123,012
Current income tax liabilities		3,485	7,645
Borrowings		10,000	37,150
Due to customers on implementation contracts		22,466	23,221
Deferred income		49,022	60,416
		<hr/>	<hr/>
<b>Total current liabilities</b>		183,250	251,444
<b>Total equity and liabilities</b>		<hr/>	<hr/>
		685,298	726,420
<b>Net current assets</b>		<hr/>	<hr/>
		227,291	264,109
<b>Total assets less current liabilities</b>		<hr/>	<hr/>
		502,048	474,976

**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT***For the six months ended 30 June 2007**(All amounts in Renminbi thousand unless otherwise stated)*

		<b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2007</b>	<b>2006</b>
		<b>Unaudited</b>	<b>Unaudited</b>
Turnover	9	333,882	286,690
Cost of sales		<u>(71,118)</u>	<u>(57,271)</u>
Gross profit		262,764	229,419
Selling and marketing expenses		(152,739)	(136,839)
Administrative expenses		(101,169)	(89,536)
Other income	10	<u>36,458</u>	<u>30,483</u>
Operating profit	11	45,314	33,527
Finance costs	12	(143)	(78)
Share of loss of associates		<u>(607)</u>	<u>(53)</u>
Profit before income tax		44,564	33,396
Income tax expense	13	<u>(4,767)</u>	<u>(2,781)</u>
Profit for the period		<u><b>39,797</b></u>	<u><b>30,615</b></u>
Attributable to:			
Equity holders of the Company		39,442	30,335
Minority Interest		<u>355</u>	<u>280</u>
		<u><b>39,797</b></u>	<u><b>30,615</b></u>
Earnings per share for profit attributable to the equity holders of the Company			
– basic	14	<u>RMB8.721 cents</u>	<u>RMB6.803 cents</u>
– diluted	14	<u>RMB8.156 cents</u>	<u>RMB6.739 cents</u>
Dividends	15	<u>–</u>	<u>–</u>

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2007*

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

	Notes	Attributable to equity holders of the Company			Minority Interest	Total equity	
		Share capital	Other reserves	Retained earnings			Total
<b>Balance at 1 January 2006</b>		98,652	174,679	99,600	372,931	2,836	375,767
Profit for the period		–	–	30,335	30,335	280	30,615
Employees share option scheme:							
– Value of employee services	7	2,087	–	–	2,087	–	2,087
– Proceeds from shares issued	7	8,275	–	–	8,275	–	8,275
Dividend relating to 2005	15	–	–	(20,843)	(20,843)	–	(20,843)
Currency translation difference		–	(38)	–	(38)	–	(38)
<b>Balance at 30 June 2006</b>		<u>109,014</u>	<u>174,641</u>	<u>109,092</u>	<u>392,747</u>	<u>3,116</u>	<u>395,863</u>
<b>Balance at 1 January 2007</b>		123,287	232,080	116,569	471,936	3,040	474,976
Profit for the period		–	–	39,442	39,442	355	39,797
Employees share option scheme:							
– Value of employee services	7	3,711	–	–	3,711	–	3,711
– Proceeds from shares issued	7	10,013	–	–	10,013	–	10,013
Share options granted to related parties		1,525	–	–	1,525	–	1,525
Dividend relating to 2006	15	–	–	(29,150)	(29,150)	–	(29,150)
Currency translation difference		–	1,176	–	1,176	–	1,176
<b>Balance at 30 June 2007</b>		<u>138,536</u>	<u>233,256</u>	<u>126,861</u>	<u>498,653</u>	<u>3,395</u>	<u>502,048</u>

## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2007

(All amounts in Renminbi thousand unless otherwise stated)

		Six months ended 30 June	
	Notes	2007 Unaudited	2006 Unaudited
<b>Cash flows from operating activities:</b>			
Cash generated from operations	16	19,248	35,776
Interest paid		(143)	(78)
Income tax paid		(7,854)	(6,131)
<b>Net cash generated from operating activities</b>		<b>11,251</b>	<b>29,567</b>
<b>Cash flows from investing activities:</b>			
Purchase of property, plant and equipment		(58,867)	(26,057)
Proceeds from sales of property, plant and equipment	16	51	111
Additions of intangible assets		(28,186)	(27,188)
Payments for held-to-maturity financial assets		(20,000)	–
Pledged bank deposits		129	–
Short-term bank deposits placed		(4,878)	(8,122)
Interest received		2,027	919
<b>Net cash used in investing activities</b>		<b>(109,724)</b>	<b>(60,337)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of shares		10,013	8,275
Proceeds from borrowings		–	20,000
Repayment of borrowings		(27,150)	(30,000)
Dividends paid to Company's shareholders		(29,150)	(20,843)
<b>Net cash used in financing activities</b>		<b>(46,287)</b>	<b>(22,568)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(144,760)</b>	<b>(53,338)</b>
Cash and cash equivalents at beginning of the period		358,845	242,053
Exchange losses on cash and cash equivalents		(227)	(38)
<b>Cash and cash equivalents at end of the period</b>		<b>213,858</b>	<b>188,677</b>

## SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 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 12 September 2007.

### 2. Basis of preparation

This unaudited condensed consolidated interim financial information for the half-year ended 30 June 2007 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 31 December 2006.

### 3. Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, as described in the annual financial statements for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2007. Unless otherwise specified, they are not relevant to the Group’s operations or have no material impact on the financial statements of the Group:

- IFRIC-Int 7, “Applying the Restatement Approach under IAS 29”.
- IFRIC-Int 8, “Scope of IFRS 2”.
- IFRIC-Int 9, “Reassessment of Embedded Derivatives”.
- IFRIC-Int 10, “Interim Financial Reporting and Impairment”. This interpretation is applicable to the Group but there is no material impact on this interim financial information of the Group.
- IFRS 7, “Financial instruments: Disclosures” and Amendment to IAS 1, “Capital Disclosures”. The Group applies IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007, but they have no material impact on this interim financial information of the Group.

The following new/revised standards and interpretations to existing standards have been issued but are not effective for 2007 and have not been early adopted:

- IFRIC-Int 11, “IFRS 2 – Group and Treasury Share Transactions”. The management does not expect the interpretation to be relevant to the Group.



- IFRIC-Int 12, “Service Concession Arrangements”. The management does not expect the interpretation to be relevant to the Group.
- IFRIC-Int 13, “Customer Loyalty Programmes”. The management does not expect the interpretation to be relevant to the Group.
- IFRIC-Int 14, “IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”. The management does not expect the interpretation to be relevant to the Group.
- IFRS 8, “Operating Segments”, effective for annual periods beginning on or after 1 January 2009. The management does not expect the interpretation has material impact on the financial statements of the Group.
- IAS 23 (Revised), “Borrowing Costs”. The management does not expect the interpretation to be relevant to the Group.

#### 4. Property, plant and equipment

During the period, there was a construction cost of RMB60,000,000 for Kingdee Shanghai R&D center and Shenzhen R&D building.

#### 5. Trade and other receivables

	<b>30 June 2007 Unaudited</b>	<b>31 December 2006 Audited</b>
Trade receivables (a)	154,145	143,329
Less: provision of receivables (b)	<u>(83,172)</u>	<u>(77,084)</u>
Trade receivables – net	70,973	66,245
Notes receivable	441	1,828
Advance to employees (c)	5,127	5,803
Prepayments	4,109	4,561
VAT recoverable	28,325	20,358
Re-investment refund receivable	–	3,706
Others	<u>12,321</u>	<u>10,472</u>
	<u><b>121,296</b></u>	<u><b>112,973</b></u>

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

	<b>30 June 2007 Unaudited</b>	<b>31 December 2006 Audited</b>
0–180 days	68,998	66,859
181–360 days	17,581	13,548
Over 360 days	<u>67,566</u>	<u>62,922</u>
	<u><b>154,145</b></u>	<u><b>143,329</b></u>

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

	<b>2007</b> <b>Unaudited</b>	<b>2006</b> <b>Unaudited</b>
At 1 January	(77,084)	(65,658)
Provision for impairment	(6,088)	(15,512)
At 30 June	<u>(83,172)</u>	<u>(81,170)</u>

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

## 6. Held-to-maturity financial assets

The Company signed an financial product agreement with a bank, amounting to RMB20,000,000 with a period of half year from 28 May 2007 to 28 December 2007.

## 7. Share capital

	<b>Number of issued shares (thousands)</b>	<b>Ordinary shares</b>	<b>Share premium</b>	<b>Total</b>
<b>At 1 January 2006</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
Share options granted to related parties	–	–	–	–
<b>At 30 June 2006</b>	<u>448,408</u>	<u>47,960</u>	<u>61,054</u>	<u>109,014</u>
<b>At 1 January 2007</b>	451,606	48,282	75,005	123,287
Employees share option scheme:				
– Value of services provided	–	–	3,711	3,711
– Exercise of share options	3,279	321	9,692	10,013
Share options granted to related parties	–	–	1,525	1,525
<b>At 30 June 2007</b>	<u>454,885</u>	<u>48,603</u>	<u>89,933</u>	<u>138,536</u>

The total authorized number of ordinary shares is 1,000 million shares (2006: 1,000 million shares) with a par value of HK\$0.1 per share (2006: HK\$0.1 per share). All issued shares are fully paid and ranked pari passu in all respects.

## 8. Trade and other payables

	<b>30 June 2007</b> <b>Unaudited</b>	<b>31 December 2006</b> <b>Audited</b>
Trade payables (a)	19,178	21,578
Salary and staff welfare payable	6,908	14,408
Customers' deposits	39,116	44,006
VAT and business tax payable	17,226	22,289
Accrued expenses	4,627	12,383
Others	11,222	8,348
	<u>98,277</u>	<u>123,012</u>

(a) As at 30 June 2007, the ageing analysis of trade payables is as follows:

	<b>30 June 2007 Unaudited</b>	<b>31 December 2006 Audited</b>
0 – 180 days	17,229	20,648
181 – 360 days	1,323	86
Over 360 days	626	844
	<u>19,178</u>	<u>21,578</u>

## 9. 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 30 June</b>	
	<b>2007 Unaudited</b>	<b>2006 Unaudited</b>
Sales of software	237,246	213,167
Software implementation services	49,176	39,747
Software solution consulting and support services	37,874	27,619
Sales of computer and related products	9,586	6,157
	<u>333,882</u>	<u>286,690</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.

## 10. Other income

	<b>Six months ended 30 June</b>	
	<b>2007 Unaudited</b>	<b>2006 Unaudited</b>
Subsidy income		
VAT refund (a)	32,916	26,441
Others	1,320	2,560
	<u>34,236</u>	<u>29,001</u>
Interest income	2,027	919
Others	195	563
	<u>36,458</u>	<u>30,483</u>

- (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 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 sales of the software in the PRC which exceeds the VAT rate of 3%.

## 11. Expenses by nature

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

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Research and development costs		
Amounts incurred	49,922	39,382
Less: amounts capitalised	(28,044)	(26,923)
Add: amortisation of capitalised costs	21,060	21,898
	<u>42,938</u>	<u>34,357</u>
	(a)	
Employee benefit expense	189,641	149,510
Less: amount capitalized in development costs	(28,044)	(26,923)
	<u>161,597</u>	<u>122,587</u>
	(b)	
Cost of inventories consumed	(c) 18,099	9,274
Depreciation of property, plant and equipment	(e) 6,005	5,346
Amortisation of computer software	(a) 2,191	32
Charge of lease prepayments	(a) 194	167
Impairment of receivables	(a) 6,088	15,512
Loss on disposals of property, plant and equipment	(a) 28	29
Professional service costs	(a) 5,241	4,764
Advertising costs	(d) 17,084	17,191
Sales promotion costs	(d) 17,370	14,616
Travelling	(e) 8,177	6,929
Rental and utilities	(e) 15,940	14,308

- (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

## 12. Finance costs

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Interest expense on bank borrowings	<u>143</u>	<u>78</u>

## 13. Income tax expense

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Unaudited</b>
PRC income tax		
– Current income tax	3,694	4,957
– Over-provision in previous year	–	(1,479)
– Deferred income tax	<u>1,073</u>	<u>(697)</u>
	<u>4,767</u>	<u>2,781</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 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Profit before tax	<u>44,564</u>	<u>33,396</u>
Tax at the statutory tax rate of 33% (2006: 33%)	14,706	11,021
– Effect of preferential tax rates	(10,250)	(7,681)
– Tax losses not recognised	4,134	3,346
– Expenses not deductible for tax purposes	1,010	2,323
– Income not subject to tax	(2,422)	(2,780)
– Additional deductible allowance for research and development expenses	(2,411)	(1,969)
– Over-provision of income tax in previous year	<u>–</u>	<u>(1,479)</u>
	<u>4,767</u>	<u>2,781</u>

#### 14. 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 period.

	Six months ended 30 June	
	2007	2006
	Unaudited	Unaudited
Profit attributable to equity holders of the Company	<u>39,442</u>	<u>30,335</u>
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	<u>452,277</u>	<u>445,881</u>
Basic earnings per share ( <i>RMB per share</i> )	<u>8.721 cents</u>	<u>6.803 cents</u>

(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 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.

	Six months ended 30 June	
	2007	2006
	Unaudited	Unaudited
Profit attributable to equity holders of the Company	<u>39,442</u>	<u>30,335</u>
Weighted average number of ordinary shares in issue ( <i>thousands</i> )	452,277	445,881
Adjustments for – share options ( <i>thousands</i> )	<u>31,299</u>	<u>4,258</u>
Weighted average number of ordinary shares for diluted earnings per share ( <i>thousands</i> )	<u>483,576</u>	<u>450,139</u>
Diluted earnings per share ( <i>RMB per share</i> )	<u>8.156 cents</u>	<u>6.739 cents</u>

#### 15. Dividends

2006 and 2005 final dividends of RMB29,150,000 (HK\$29,447,000) (RMB0.064 per share (HK\$0.065 per share)) and RMB20,843,000 (HK\$20,036,000) (RMB0.047 per share (HK\$0.045 per share)) were paid in June 2007 and June 2006 respectively. The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2007 (the six months ended 30 June 2006: Nil).

## 16. Cash generated from operations

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Unaudited</b>
<b>Profit before tax</b>	44,564	33,396
Adjustments for:		
Depreciation	6,005	5,346
Loss on disposals of property, plant and equipment	28	29
Share of loss/(profit) from associates	607	53
Charge of lease prepayments	194	167
Amortisation on intangible assets	23,251	21,930
Interest income	(2,027)	(919)
Interest expense	143	78
Share option expenses		
– granted to directors and employees	3,711	2,087
– granted to related parties	1,525	–
	<hr/>	<hr/>
<b>Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)</b>	78,001	62,167
Inventories	(1,718)	(512)
Trade and other receivables	(8,323)	(18,997)
Provision	–	(3,184)
Deferred income	(11,394)	(1,926)
Trade and other payables	(31,378)	1,882
Due from/to customers on implementation contracts	(5,940)	(3,654)
	<hr/>	<hr/>
<b>Cash generated from operations</b>	<hr/> <b>19,248</b>	<hr/> <b>35,776</b>

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	<b>Six months ended 30 June</b>	
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Unaudited</b>
Net book amount	79	140
Loss on disposals of property, plant and equipment	(28)	(29)
	<hr/>	<hr/>
Proceeds from disposals of property, plant and equipment	<hr/> <b>51</b>	<hr/> <b>111</b>

## 17. Contingent liabilities

The Group had no significant contingent liabilities as of 30 June 2007 (30 June 2006: nil).

## 18. Commitments-Group

### *Capital commitments*

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

	<b>30 June</b>	<b>31 December</b>
	<b>2007</b>	<b>2006</b>
	<b>Unaudited</b>	<b>Audited</b>
Property, plant and equipment	74,843	98,102
	<hr/>	<hr/>

*Operating lease commitments-group company as lessee*

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

	<b>30 June 2007 Unaudited</b>	<b>31 December 2006 Audited</b>
Not later than one year	15,974	15,510
Later than one year and not later than five years	16,217	17,615
	<u>32,191</u>	<u>33,125</u>

**19. Related party transactions**

The Group has no significant transactions with related parties during the period.

**20. 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 reporting period, the enterprise management software and middleware market in China continued to grow steadily. Chinese enterprises showed increasing recognition of the value of ERP service. The Group's entire business continued to grow: Kingdee EAS gained further recognition from numerous group enterprise clients and saw rapid growth in the high-end market; Kingdee K/3 grew steadily, enabling the Group to maintain its leading position in the small and medium enterprise management software market; Kingdee KIS entered a rapid growth stage after the complete transformation of the distribution model, and succeeded in further expanding its coverage and influence in the low-end market; Kingdee Apusic middleware received high acclaim from the industry, stimulating the sales of EAS; Kingdee's customer service income grew rapidly and accounted for a larger share of the Group's turnover.

**I. Enterprise management software**

In view of the rapid growth of China's economy and the gradual maturing and influence of the "Chinese management model" in the globalization age, Kingdee's research institute took the lead in researching the "Chinese management model" and integrating such a model with "Personalized ERP products", giving Kingdee a competitive edge in product differentiation and enabling Kingdee's products to win recognition from an increasing number of enterprise clients.

1. *During the reporting period, Kingdee EAS released V5.2, which is the first to obtain IBM SOA (Service-oriented architecture) standard certification. EAS products received recognition from a large number of group enterprise clients.*

During the reporting period, the Group released Kingdee EAS V5.2. EAS V5.2 provides systems on synergy management, financial accounting, budget management, capital management, human resource management, inventory management, sales and distribution management and supply management, offering a comprehensive group



financial management solution and a comprehensive application solution for group human resource management. This helps to fulfill the needs of large and medium group enterprises in the financial management and human resource management areas. Kingdee EAS V5.2 successfully passed IBM's stringent test on SOA, and became China's first ERP product that is "IBM SOA Specialty Certified". Kingdee EAS was granted the right to use the trademark "Ready for IBM SOA Specialty", indicating that Kingdee EAS fully complies with the compatibility and integration standards formulated by IBM. Its plug & play function is compatible with other application system integrations that meet SOA standard, and is conducive to clients' implementation of central management and integration of IT resources.

During the reporting period, sales income from Kingdee EAS products continued to grow rapidly, and contracts were entered into with large enterprise clients with substantial influence in their own industries, such as Shenzhen Zhongjin Lingnan Nonfermet Co., Ltd. (深圳市中金嶺南有色金屬股份有限公司), Credit Orienwise Group Ltd.(中科智擔保集團股份有限公司), Sichuan Coal & Charcoal Industry Group Co., Ltd (四川省煤炭產業集團有限責任公司), KWG Property Holding Limited (合景泰富地產控股有限公司), China Merchants Securities Co., Ltd. (招商證券股份有限公司), Henan Yichuan Power Industrial Group Company Limited (河南伊川電力集團總公司). Through these model clients, Kingdee successfully secured other similar group clients within the industries for its EAS products. For example, half of the top 10 real estate enterprises in China are the Group's clients. Meanwhile, these model clients become the benchmarks of a large number of small and medium enterprises and proactively set an example for small and medium enterprises working on informatization.

2. *During the reporting period, K/3 released V10.4, which first obtained Microsoft's Windows Vista certificate, enabling Kingdee to maintain its leading position in the small and medium enterprise market.*

During the reporting period, the Group released Kingdee K/3 V10.4, which strengthens a series of solutions on cost management, group finance, lean production and strategic human resources, shortens working cycles and strengthens process tracking and real time supervision. Kingdee K/3 V10.4 becomes the first ERP product in China that has formally passed Microsoft's "Certified for Windows Vista" test and has been certified, demonstrating that Kingdee K/3 products meet the requirements in four core areas, namely "reliability", "safety", "compatibility with Windows Vista" and the "installation and removal of future operating systems".

During the reporting period, Kingdee successfully entered into contracts with several thousands of clients in relation to its K/3 products. These clients include Shanghai Jinjiang International Group (上海錦江國際集團), Towona Mobile TV Media Group Co., Ltd (Xiamen) (世通華納移動電視傳媒有限公司(廈門)), Essence Securities Co., Ltd.(安信證券股份有限公司), Kungfu Catering Management Co., Ltd.(廣州市真功夫餐飲管理有限公司), Macau CTS Hotel Management (International) Ltd 澳門中旅(國際)酒店管理有限公司, Fuchs Food Co., Ltd. (福克斯食品有限公司). The distribution proportion of K/3 also increased significantly. The partners' sales and servicing capability regarding K/3 was strengthened remarkably. Meanwhile, the position of the Group's international business continued to be strengthened in the Asia Pacific market and markets in Singapore, Indonesia and Malaysia were steadily explored through the launch of multi-language versions of K/3.

3. *During the reporting period, Kingdee KIS released V9.1 (professional version). KIS products began to enter a rapid growth stage after the complete transformation of the distribution model.*

During the reporting period, the Group launched Kingdee KIS V9.1 (professional version), and implemented online registration and certification. KIS V9.1 (professional version) puts much emphasis on product innovation. Functions such as management report, automatic back-up and user authorization are added. Visibility, data security, monitoring and control and timeliness of the reports are improved, thereby effectively enhancing management efficiency.

During the reporting period, sales of KIS grew at a faster pace, which was mainly attributable to the improved efficiency of channel partners. The Group continued to adhere to its channel strategy of “Product leadership, Partner oriented” and focused on helping partners to improve capability, strengthen internal management of channels and expand channel network, resulting in the rapid growth in the number of active distribution channel partners and an increase in market coverage and penetration rate.

## **II. Middleware**

During the reporting period, the Group released Kingdee Apusic SOA, a middleware solution. The application framework of Kingdee Apusic SOA allows users to display its own business components in a standardized service format, without being limited by technical architecture and platform. Meanwhile, it also allows users to assemble such services freely, enabling the setting up of application systems that are more customized and integration friendly. According to the global application infrastructure software report for the second quarter of 2007 released by Gartner, an international authoritative IT research and consulting company, the Group was named as one of the world’s 19 leading manufacturers that are most capable of providing the next generation SOA services, and among those software manufacturers, only four come from Asia.

During the reporting period, Kingdee won the tender from the project of “Golden Macroeconomic Project” (the State macroeconomic management information system), a large key application system of the State, for the provision of middleware. This is the first time local middleware software is applied in “Twelve gold”, the State core information system of China. In addition, Kingdee successfully entered into contracts with clients such as Shenzhen Municipal Archives Bureau (深圳檔案局), Shanghai Organization Department (上海組織部), Army recruiting office (上海徵兵辦), Zhejiang Bureau of Institutional Affairs (浙江省機關事務局) and Shenzhen Standard Research Institute (深圳市標準研究院), and applied Apusic in EAS projects such as Shenzhen Zhongjin Lingnan Nonfemet Co., Ltd. (深圳市中金嶺南有色金屬股份有限公司), Credit Orientwise Group Ltd. (中科智擔保集團股份有限公司), KWG Property Holding Limited (合景泰富地產控股有限公司), Henan Yichuan Power Industrial Group Company Limited (河南伊川電力集團總公司), SITC Logistics Co., Ltd. (海豐物流有限公司), Guangdong Power Engineering Corporation (廣東火電工程總公司).

### **III. Customer services**

During the reporting period, the Group's customer service business continued to grow rapidly. Leveraging on its large customer base and adhering to its service philosophy of "Proactive services, Prompt response", the Group further strengthened the service capability of its call center, effectively reduced service cost, improved service standard, strengthened marketing initiatives targeting existing clients and increased customer satisfaction by providing clients with faster and customized services.

### **IV. Global strategic cooperation**

During the reporting period, IBM and Lehman Brothers invested a total of approximately HK\$132,000,000 to acquire approximately 7.7% of Kingdee International's shares and became the Group's important strategic investors. Meanwhile, Kingdee established global strategic cooperative partner relationship with IBM, and will engage in comprehensive and long term cooperation with IBM on various aspects such as globalization and SOA, marketing/sales/channels/customers, consultation and application management services (AMS) and Software as a service (SaaS). Kingdee and IBM have also set up a management committee responsible for implementing the aforementioned cooperation plans and monitoring the progress of such plans.

### **V. Awards of the enterprise**

During the reporting period, the Group received a series of awards, which further enhanced the Group's public recognition and reputation.

1. Kingdee continued to maintain the "largest share in the medium and small business market in China" – "IDC Enterprise application software market tracker – second half of 2006", April 2007;
2. Kingdee Apusic middleware was listed in "2006 Chinese software charts" and was rated "Top 10 innovative technology of the year" – "Programmer" magazine and IT technology community CSDN, March 2007;
3. Kingdee was rated the "preferred brand of the information industry of China in 2007" – China Computer User Association, January 2007;
4. Kingdee was one of the "Top 500 brands in China with the highest value" and was ranked 175 – World Brand Laboratory and World Executive Network Weekly, June 2007;
5. Kingdee received China's independent innovative software enterprise award and China's independent innovative software product award – "21st Century Business Herald", "China's independent innovative software report", June 2007.

## **FINANCIAL PERFORMANCE**

### **Consolidated results of operations**

For the six months ended 30 June 2007, turnover amounted to approximately RMB333,882,000, representing an increase of approximately 16% over the corresponding period in 2006 (for the six months ended 30 June 2006: RMB286,690,000). The Group's profitability was further enhanced and its profit margin increased. As at 30 June 2007, profit for the period of the Group was approximately RMB39,797,000, representing a growth of approximately 30% from the corresponding period last year (for the six months ended 30 June 2006: RMB30,615,000). Earnings per share were RMB8.721cents (for the six months ended 30 June 2006: RMB6.803 cents).

### **Gross profit**

Gross profit of the Group increased by approximately 15% from RMB229,419,000 for the six months ended 30 June 2006 to approximately RMB262,764,000 for the six months ended 30 June 2007.

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

For the six months ended 30 June 2007, the Group's selling and marketing expenses amounted to approximately RMB152,739,000, representing an increase of approximately 12% from the corresponding period last year (for the six months ended 30 June 2006: RMB136,839,000). Administrative expenses were approximately RMB101,169,000, representing an increase of approximately 13% over the corresponding period last year (for the six months ended 30 June 2006: RMB89,536,000). During the reporting period, selling and marketing expenses as a percentage of turnover decreased from 48% for the corresponding period last year to approximately 46%. Administrative expenses as a percentage of turnover decreased from approximately 31% for the corresponding period last year to 30%.

### **Financial resources and liquidity**

The Group had a strong cash flow position. As at 30 June 2007, the Group had cash and cash equivalents amounting to approximately RMB213,858,000. Current ratio (defined as the ratio of current assets to current liabilities) was approximately 2.24 (as at 31 December 2006: 2.05). Liability ratio (defined as the ratio of bank borrowings to shareholder equity) was approximately 2% (as at 31 December 2006: 8%).

As at 30 June 2006, the Group's short-term bank loan balance amounted to RMB10,000,000 (as at 31 December 2006: RMB37,150,000).

As at 30 June 2007, 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 30 June 2007, the Group did not have any material contingent liabilities (as at 31 December 2006: Nil).

## Prospect

Looking forward, the Group will continue to promote “Personalized ERP” Plan, and maintain a steady investment in research and development, step up the research of “Chinese management model” as well as product innovation, and to provide enterprises with more personalized products and solutions. Meanwhile, the Group will further implement the channel strategy of “Product leadership, Partner oriented”. It will continue to expand KIS’s distribution market coverage and improve partners’ sales and service capability with regard to medium and high-end products. The Group will also strengthen branches’ capability in the sales of high-end products and sales in relation to large clients, so as to stimulate the rapid growth of high-end products.

The Group will step up implementation of the strategic cooperation agreement signed with IBM, integrate the strength of both parties, and improve both parties’ competitiveness in the China and global market. Meanwhile, by cooperating with IBM, the Group will enter the e-business market and set up the complete e-business model “ERP+middleware+SaaS”, which enables enterprises to implement one-stop e-business that covers areas ranging from internal management to external business.

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

As at 30 June 2007, 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”), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong limited (“Stock Exchange”) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (“Model Code”), 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)	
<i>Aggregate:</i>	<i>157,279,130</i>		<i>34.58%</i>
Chen Deng Kun	96,500	Beneficial owner	
	2,710,154	Other/Share option (Note 2)	
<i>Aggregate:</i>	<i>2,806,654</i>		<i>0.62%</i>
Zhao Yong	15,010,750	Beneficial owner	
<i>Aggregate:</i>	<i>15,010,750</i>		<i>3.3%</i>

Name of Directors	Number of shares/ underlying shares (where appropriate)	Capacity	Percentage of issued share capital
Yeung Kwok On	100,000	Other/Share option ( <i>Note 2</i> )	
	<i>Aggregate:</i>		<i>100,000</i>
			<i>0.02%</i>
James Ming King	100,000	Other/Share option ( <i>Note 2</i> )	
	<i>Aggregate:</i>		<i>100,000</i>
			<i>0.02%</i>
Yang Zhou Nan	100,000	Other/Share option ( <i>Note 2</i> )	
	<i>Aggregate:</i>		<i>100,000</i>
			<i>0.02%</i>
Wu Cheng	100,000	Other/Share option ( <i>Note 2</i> )	
	<i>Aggregate:</i>		<i>100,000</i>
			<i>0.02%</i>
Gary Clark Biddle	100,000	Other/Share option ( <i>Note 2</i> )	
	<i>Aggregate:</i>		<i>100,000</i>
			<i>0.02%</i>

*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 “Outstanding Share Options”.

Save as disclosed in this paragraph, as at 30 June 2007, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of Company and its associated corporations (within the meaning of Part XV of the SFO), which as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## **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 30 January 2001, an aggregate of 1,720,000 share options were granted, of which 937,500 share options were exercised, 717,500 were cancelled and 65,000 remained outstanding as at 30 June 2007.

Pursuant to the share option scheme (“2002 Scheme”) of the Company adopted on 26 April 2002, an aggregate of 48,462,500 share options were granted, of which 12,584,097 share options were exercised, 20,395,046 were cancelled and 15,483,357 remained outstanding as at 30 June 2007.

As at 30 June 2005, both of the 2001 Scheme and 2002 Scheme have been terminated by the Company. In the extraordinary general meeting of the Company convened on 11 July 2005, the Company adopted a new share option scheme (“2005 Scheme”). As at 30 June 2007, the Company has granted 47,140,000 share options, of which 250,000 share options were exercised, 850,000 were cancelled and 46,040,000 remained outstanding as at 30 June 2007.

As at 30 June 2007, details of the outstanding options are as follows:

	Options held at 1 January 2007	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 30 June 2007	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	-	680,000	-	-	-	680,000	7.23	08/06/2007 (11)
	1,900,000	-	-	-	-	1,900,000	2.63	04/05/2006 (9)
	375,000	-	244,846	-	-	130,154	2.65	01/06/2004 (5)
	12,500	-	12,500	-	-	-	1.39	20/02/2003 (2)
Ho Ching Hua	-	4,400,000	-	-	-	4,400,000	3.74	23/01/2007 (11)
Non-executive directors	-	500,000	-	-	-	500,000	7.23	08/06/2007 (8)
Continuous contract employees	-	3,760,000	-	-	-	3,760,000	6.83	05/06/2007 (11)
	1,600,000	-	-	-	-	1,600,000	2.895	18/07/2006 (10)
	4,150,000	-	-	550,000	-	3,600,000	2.61	28/04/2006 (9)
	12,900,000	-	-	-	-	12,900,000	2.61	28/04/2006 (9)
	5,550,000	-	-	300,000	-	5,250,000	2.61	28/04/2006 (9)
	1,000,000	-	250,000	-	-	750,000	2.325	15/02/2006 (8)
	756,000	-	298,500	35,000	-	422,500	2.05	27/12/2004 (6)
	5,589,280	-	815,531	61,046	-	4,712,703	2.65	01/06/2004 (5)
	1,694,000	-	582,000	-	-	1,112,000	2.05	08/08/2003 (3)
	1,486,500	-	830,500	50,000	-	606,000	1.39	20/02/2003 (2)
	125,000	-	25,000	100,000	-	-	1.78	15/05/2002 (2)
	205,000	-	140,000	-	-	65,000	1.49	27/09/2001 (1)
Project China Limited	4,400,000	-	-	-	-	4,400,000	2.625	22/06/2006 (8)
Business partners	4,400,000	-	-	-	-	4,400,000	2.625	22/06/2006 (10)
	80,000	-	80,000	-	-	-	1.55	21/04/2005 (7)
<b>Total</b>	<b>56,623,280</b>	<b>9,340,000</b>	<b>3,278,877</b>	<b>1,096,046</b>	<b>-</b>	<b>61,588,357</b>		

*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 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 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 31 December 2004 and 31 December 2005 respectively;
  - (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 ended 31 December 2004, 31 December 2005 and 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 ended 31 December 2004, 31 December 2006 and 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) 2005 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) 2005 Scheme. All of these options have duration of 10 years from the date of grant, and the options can be exercised subject to certain conditions.
- (10) 2005 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.
- (11) 2005 Scheme. All of these options have duration of 10 years from the date of grant, and the options can be exercised subject to certain conditions of each grant.



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

As at 30 June 2007, 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 as 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	18.38%
Billion Ocean Limited	58,310,000	Beneficial owner	12.82%

Save as disclosed above, as at 30 June 2007, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or 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 any of its subsidiaries had purchased, sold or redeemed any of its securities during the period ended 30 June 2007.

### **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.

### **INTRODUCTION OF STRATEGIC INVESTORS**

The Company entered into the Memorandum of Understanding with IBM on 30 May 2007, pursuant to which the Company and IBM intended to establish a global alliance. On the same day, IBM and Lehman Brothers have agreed to jointly invest in the Company by acquiring 35,000,000 Shares, representing approximately 7.7% of the issued share capital of the Company, from the Vendor 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.

### **CHANGE OF DIRECTORS**

Mr. Ho Ching-hua was appointed as an executive director of the Company with effective from 30 March 2007 by the Board.

Mr. Zhao Yong was at retirement age and would like to resign from his office as a non-executive director of the Company. His resignation was approved at the Broad meeting held on 12 September 2007.

## **CORPORATE GOVERNANCE**

Maintaining a good, solid and sensible framework of corporate governance has been and remains one of the Company's top priorities. Save as disclosed below, the Company has complied with all the code provisions of "Code on Corporate Governance Practices" (the "Code"), as set out in Appendix 14 to the Listing Rules during the period ended 30 June 2007.

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. 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, and Mr. Ho Ching-hua was appointed to be the CEO of the Company. Accordingly, the division of responsibilities between the chairman and CEO has already established and set out clearly in writing.

## **REMUNERATION COMMITTEE**

During the period ended 30 June 2007, the remuneration committee has offered 2007 Option Incentive Proposal (the "Proposal") of the Company to the Board according to the long-term Incentive and Share Option Scheme, the proposal was discussed and approved by the Board. The purpose of the Proposal is to realize long-term incentive to the management and core technical staff and maintain a long and stable development of the Company. The Company has granted 3.76 million options to the senior management and core technical staff. For more details, please refer to the section headed "Outstanding Share Options" in this report.

## **AUDIT COMMITTEE**

The audit committee has reviewed the Group's unaudited consolidated results for the six months ended 30 June 2007.

## **INTERNAL CONTROL**

The Board places great importance on internal control and risk management and responsible for periodically assessing the execution of strategic goal and the continuing improvement of the management system and optimization of the process structure.

During the period ended 30 June 2007, the Company has continued to enhance the internal controls through the Three Standardization Systems (management systemized, business standardized and employee professionalized), such as rules and ordinances regarding the Product sales management in marketing system, After-sales service management, Customer operation management and the Company's internal rules such as Employment management, Cost and expense control, etc.

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.

#### **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, business partners, 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, 12 September 2007



# Kingdee

Kingdee International Software Group  
Company Limited

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