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 2007

Financial highlights for the year ended 31 December 2007

－ Turnover increased by approximately 25% over 2006 to approximately RMB766,874,000.

－ Profit attributable to equity holders of the Company increased by approximately 40% over 2006 to approximately RMB136,476,000.

－ Basic earnings per share increased by approximately 36% over 2006 to approximately RMB0.30.

－ The Board of Directors recommended a final dividend of HK$0.085 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 2007, together with the comparative audited consolidated figures for 2006 are as follows:

Consolidated income statement

	Note	Year ended 31 December 2007 RMB'000	2006 RMB'000
Turnover	3	766,874	611,443
Cost of sales	5	(159,699)	(121,195)
Gross profit		607,175	490,248
Selling and marketing expenses	5	(327,981)	(279,175)
Administrative expenses	5	(224,502)	(180,679)
Other income	4	96,898	76,559
Operating profit		151,590	106,953
Finance costs - net	6	(904)	(149)
Share of loss of associates		(607)	(2,010)
Profit before income tax		150,079	104,794
Income tax expense	7	(11,344)	(7,463)
Profit for the year		138,735	97,331
Attributable to:			
Equity holders of the Company		136,476	97,377
Minority interest		2,259	(46)
		138,735	97,331
Earnings per share for profit attributable to the equity holders of the Company during the year			
- basic	8	RMB 0.30	RMB 0.22
- diluted	8	RMB 0.28	RMB 0.21
Dividends		36,470	29,150

Consolidated balance sheet

	Note	As at 31 December 2007 RMB'000	2006 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		206,992	99,358
Lease prepayments		18,211	18,367
Intangible assets		86,918	88,936
Investments in associates		-	607
Deferred income tax assets		3,841	3,533
Available-for-sale financial assets		-	66
		315,962	210,867
Current assets			
Inventories		2,313	3,659
Trade and other receivables	9	117,928	112,973
Due from customers on implementation contracts		27,852	8,650
Pledged bank deposits		6,777	6,793
Short-term bank deposits		39,633	24,633
Cash and cash equivalents		392,185	358,845
		586,688	515,553
Total assets		902,650	726,420
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		48,773	48,282
Share premium		98,786	75,005
Other reserves		321,835	232,080
Retained earnings			
- Proposed final dividend		36,470	29,150
- Others		101,666	87,419
		607,530	471,936
Minority interest in equity		5,299	3,040
Total equity		612,829	474,976
LIABILITIES			
Current liabilities			
Trade and other payables	10	159,106	123,012
Current income tax liabilities		11,227	7,645
Borrowings		-	37,150
Due to customers on implementation contracts		44,714	23,221
Deferred income		74,774	60,416
		289,821	251,444
Total equity and liabilities		902,650	726,420
Net current assets		296,867	264,109
Total assets less current liabilities		612,829	474,976

Consolidated statement of changes in equity

	Attributable to equity holders of the Company						
	Share capital	**Share premium**	**Other reserves**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2006	47,460	51,192	174,679	99,600	372,931	2,836	375,767
Net expense recognised directly in equity							
- Currency translation difference	-	-	(2,164)	-	(2,164)	-	(2,164)
Profit for the year	-	-	-	97,377	97,377	(46)	97,331
Total recognised income and expense for 2006	-	-	(2,164)	97,377	95,213	(46)	95,167
Capitalisation of retained earnings of a subsidiary	-	-	50,000	(50,000)	-	-	-
Employees share option scheme:	-	-					
- value of employee services	-	6,448	-	-	6,448	-	6,448
- proceeds from shares issued	822	14,973	-	-	15,795	-	15,795
Share options granted to related parties	-	2,392	-	-	2,392	-	2,392
Capital contributed by minority shareholder	-	-	-	-	-	250	250
Appropriation to reserve funds	-	-	9,565	(9,565)	-	-	-
Dividend relating to 2005	-	-	-	(20,843)	(20,843)	-	(20,843)
Balance at 31 December 2006	48,282	75,005	232,080	116,569	471,936	3,040	474,976
Balance at 1 January 2007	48,282	75,005	232,080	116,569	471,936	3,040	474,976
Net income recognised directly in equity							
- Currency translation difference	-	-	3,996	-	3,996	-	3,996
Profit for the year	-	-	-	136,476	136,476	2,259	138,735
Total recognised income and expense for 2007	-	-	3,996	136,476	140,472	2,259	142,731
Capitalisation of retained earnings of a subsidiary	-	-	65,000	(65,000)	-	-	-
Employees share option scheme:							
- value of employee services	-	10,968	-	-	10,968	-	10,968
- proceeds from shares issued	491	10,333	-	-	10,824	-	10,824
Share options granted to related parties	-	2,480	-	-	2,480	-	2,480
Appropriation to reserve funds	-	-	20,759	(20,759)	-	-	-
Dividend relating to 2006	-	-	-	(29,150)	(29,150)	-	(29,150)
Balance at 31 December 2007	48,773	98,786	321,835	138,136	607,530	5,299	612,829

Consolidated cash flow statement

	Year ended 31 December	
	2007	**2006**
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	277,246	217,030
Interest paid	(140)	(70)
Income tax paid	(8,391)	(6,836)
Net cash generated from operating activities	268,715	210,124
Cash flows from investing activities		
Purchase of property, plant and equipment	(108,965)	(53,431)
Proceeds from disposal of PPE	404	393
Payments for lease prepayments	(235)	(2,584)
Addition of intangible assets	(59,221)	(55,753)
Pledged bank deposits withdrawn/(placed)	16	(1,793)
Short-term bank deposits (placed)/withdrawn	(15,000)	14,936
Interest received	3,835	2,951
Net cash used in investing activities	(179,166)	(95,281)
Cash flows from financing activities		
Proceeds from issuance of shares	10,824	15,795
Proceeds from borrowings	-	57,150
Repayments of borrowings	(37,150)	(50,000)
Dividends paid to the Company's shareholders	(29,150)	(20,843)
Net cash (used in)/generated from financing activities	(55,476)	2,102
Net increase in cash and cash equivalents	34,073	116,945
Cash and cash equivalents at beginning of year	358,845	242,053
Exchange losses on cash and cash equivalents	(733)	(153)
Cash and cash equivalents at end of year	392,185	358,845

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, amendment and interpretations effective in 2007

IFRS 7, “Financial instruments: Disclosures”, and the complementary amendment to IAS 1, “Presentation of financial statements – Capital disclosures”, introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group’s financial instruments, or the disclosures relating to taxation and trade and other payables.

IFRIC - Int 8, “Scope of IFRS 2”, 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 in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Group’s financial statements.

IFRIC - Int 10, “Interim financial reporting and impairment”, prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group’s financial statements.

Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group’s operations:

- IFRIC - Int 7, “Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies”; and
- IFRIC – Int 9, “Re-assessment of embedded derivatives”.

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

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- IAS 1 (revised 2007), "Presentation of Financial Statements" (effective from 1 January 2009). The revised standard requires presentational changes and further disclosures in the financial statements but does not change the recognition and measurement of specific transactions. The Group will apply this standard from 1 January 2009, but it is not expected to result in substantial impact on the Group's financial statements.

- IAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 January 2009 but is expected not to have any impact on the Group's financial statements.

- IFRS 8, "Operating segments" (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The impact is still being assessed in detail by management.

- IFRIC - Int 11, "IFRS 2 – Group and treasury share transactions" (effective from 1 March 2007). IFRIC - Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. The Group will apply IFRIC-Int11 from 1 January 2008 but it is not expected to have any impact on the Group's financial statements.

- IAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply IAS 27 (Revised) from 1 January 2010.

- IFRS 3 (Revised) “Business Combination” (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are ‘capable of being conducted’ rather than ‘are conducted and managed’. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other IFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net identifiable assets. The Group will apply IFRS 3 (Revised) from 1 January 2010.

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

The following interpretations to existing standards have been published and are mandatory for the Group’s accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group’s operations:

- IFRIC - Int 12, “service concession arrangements” (effective from 1 January 2008). IFRIC - Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC - Int 12 is not relevant to the Group’s operations because none of the Group’s companies provide for public sector services.

- IFRIC - Int 13, “Customer loyalty programmes” (effective from 1 July 2008). IFRIC - Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC - Int 13 is not relevant to the Group’s operations because none of the Group’s companies operate any loyalty programmes.

- IFRIC - Int 14, “IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction” (effective from 1 January 2008). IFRIC - Int 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. IFRIC-Int 14 is not relevant to the Group’s operations because none of the Group’s companies have any defined benefit asset.

- IAS 32 and IAS 1 Amendments “Puttable Financial Instruments and Obligations Arising on Liquidation” (effective from 1 January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The Group will apply IAS 32 and IAS 1 Amendments from 1 January 2009, but it is not expected to have any impact on the Group’s financial statements.

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:

	2007	**2006**
	RMB'000	RMB'000
Sales of software	520,197	413,114
Software implementation services	153,833	125,390
Software solution consulting, maintenance and supporting services	80,423	60,754
Sales of hardware and related products	12,421	12,185
	766,874	611,443

4 Other income

	2007	**2006**
	RMB'000	RMB'000
Subsidy income		
VAT refund (Note(a))	79,495	61,558
Subsidy for research and development projects	2,426	2,454
Tax refund for re-investments (Note(b))	3,993	5,329
Others	4,507	3,905
	90,421	73,246
Interest income	5,136	2,951
Others	1,341	362
	96,898	76,559

(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 sales of self-developed software in the PRC and pay VAT at a rate of 17% are entitled to a preferential taxation treatment that there will be VAT refund for the sales of the software in the PRC to the extent that the effective VAT rate does not exceed 3% of the sales amounts.

(b) Amount represents 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:

	2007	2006
	RMB'000	RMB'000
Research and development costs		
Amounts incurred	99,672	80,209
Less: amounts capitalised	(58,721)	(53,356)
Add: amortisation of capitalised costs	45,412	43,005
	86,363	69,858
Employee benefit expenses	383,099	301,328
Less: amount included in research and development costs	(82,653)	(63,697)
	300,446	237,631
Cost of inventories consumed	27,361	25,882
Depreciation	13,550	10,509
Amortisation of computer software	2,309	1,349
Charge of lease prepayments	391	463
Impairment of goodwill	14,018	9,338
Impairment of receivables	16,621	24,076
Impairment of available-for-sale financial assets	66	-
Loss on disposals of PPE	353	238
Auditors' remuneration	1,750	1,600
Advertising costs	41,911	38,001
Sales promotion costs	38,140	31,799
Share options granted to related parties	2,480	2,392
Professional service costs	11,766	12,413
Traveling costs	25,953	22,613
Rental and utilities	31,373	26,173
Outsourcing services	32,570	17,834
Others	64,761	48,880
Total cost of sales, selling and marketing expenses and administrative expenses	712,182	581,049

6 Finance costs - net

	2007	2006
	RMB'000	RMB'000
Interest expense on bank borrowings	140	70
Net foreign exchange loss	764	79
	904	149

7 Income tax expense

	2007	2006
	RMB'000	RMB'000
PRC income tax		
- Current income tax	10,239	8,451
- Under-provision/(Over-provision) in previous year	1,413	(2,551)
- Deferred income tax	(308)	1,563
	11,344	7,463

(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. On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the PRC (the "New CIT Law"), which is effective from 1 January 2008. Under New CIT Law, these companies are subject to EIT at a rate of 25%, starting from 1 January 2008.

(c) According to some circulars issued by related tax authorities in the PRC, subsidiaries of the Group which are qualified as national important software enterprises but are not in their tax holiday period are entitled to a preferential tax rate of 10%.

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

	2007	2006
	RMB'000	RMB'000
Profit before tax	150,079	104,794
Tax at the statutory tax rate of 33% (2006: 33%)	49,525	34,582
– Effect of preferential tax rates	(34,518)	(24,103)
– Tax losses not recognised	2,412	6,464
– Expenses not deductible for tax purposes	3,937	2,693
– Income not subject to tax	(6,441)	(5,594)
– Additional deductible allowance for research and development expenses	(4,984)	(4,028)
– Under-provision/(Over-provision) of income tax in previous year	1,413	(2,551)
	11,344	7,463

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.

	2007	**2006**
Profit attributable to equity holders of the Company (RMB'000)	136,476	97,377
Weighted average number of ordinary shares in issue (thousands)	454,628	447,867
Basic earnings per share (RMB per share)	0.30	0.22

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average 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 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.

	2007	**2006**
Profit attributable to equity holders of the Company (RMB'000)	136,476	97,377
Weighted average number of ordinary shares in issue (thousands)	454,628	447,867
Adjustments for – share options (thousands)	32,879	8,555
Weighted average number of ordinary shares for diluted earnings per share (thousands)	487,507	456,422
Diluted earnings per share (RMB per share)	0.28	0.21

9 Trade and other receivables

	Group	
	2007	**2006**
	RMB'000	RMB'000
Trade receivables (Note(a))	149,489	143,329
Less: provision for impairment of receivables (Note(b))	(86,202)	(77,084)
Trade receivables – net	63,287	66,245
Notes receivable	2,456	1,828
Advances to employees (Note(c))	5,450	5,803
Prepayments	5,942	4,561
VAT recoverable	27,930	20,358
Re-investment refund receivable	3,993	3,706
Others	8,870	10,472
	117,928	112,973

The fair values of trade and other receivables approximate their carrying amounts.

The carrying amounts of the Group's trade and other receivables are mainly denominated in RMB.

(a) Sales of the Group are generally made with no credit term. The ageing analysis of trade receivables is as follows:

	2007	**2006**
	RMB'000	RMB'000
0 - 180 days	58,852	66,859
181 - 360 days	16,356	13,548
Over 360 days	74,281	62,922
	149,489	143,329

All trade receivables have past due and have been considered for impairment.

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

	2007	**2006**
	RMB'000	RMB'000
At 1 January	(77,084)	(65,658)
Provision for impairment	(16,621)	(24,076)
Written off as uncollectible	7,503	12,650
At 31 December	(86,202)	(77,084)

The provision for impaired receivables has been included administrative expenses. The other classes within trade and other receivables do not contain significant impaired assets. The Group does not hold any collaterals as security.

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

10 Trade and other payables

	Group	
	2007	**2006**
	RMB'000	RMB'000
Trade payables (Note(a))	32,412	21,578
Salary and staff welfare payable	21,245	14,408
Customers' deposits	55,034	44,006
VAT and business tax payable	27,392	22,289
Accrued expenses	17,188	12,383
Others	5,835	8,348
	159,106	123,012

The fair values of trade and other payables approximate their carrying amounts.

The carrying amounts of the Group's trade and other payables are mainly denominated in RMB.

(a) At 31 December 2007, the ageing analysis of the trade payables is as follows:

	2007	**2006**
	RMB'000	RMB'000
0 - 180 days	30,767	20,648
181 - 360 days	972	86
Over 360 days	673	844
	32,412	21,578

11 Commitments - Group

(a) Capital commitments

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

	2007	**2006**
	RMB'000	RMB'000
Capital commitments	55,417	98,102

(b) Operating lease commitments

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

	2007	**2006**
	RMB'000	RMB'000
Not later than one year	13,387	15,510
Later than one year and not later than five years	14,944	17,615
	28,331	33,125

FINAL DIVIDENDS

At the Annual General Meeting ('AGM') of the Company to be held on 8 May 2008 ("Forthcoming AGM"), the board of Directors (the "Board") will recommend a final dividend of HK$0.085 per share (HK$0.02125 per Subdivided Share (as defined below), subject to the share subdivision becoming effective) to the shareholders of the Company for the year ended 31 December 2007 (2006: HK$0.065 per share).

The Company has on its announcement dated 31 March 2008 disclosed the Board's proposal that each of the existing issued and unissued shares of par value of HK$0.1 each in the share capital of the Company be subdivided into four shares of par value of HK$0.025 each ("Subdivided Shares"). Such share subdivision will become effective upon (i) the passing of an ordinary resolution by the shareholders of the Company at the extraordinary general meeting of the Company to be held on 8 May 2008; and (ii) the listing sub-committee of The Stock Exchange of Hong Kong Limited granting the approval for the listing of, and permission to deal in, the Subdivided Shares of the Company. Subject to such share subdivision becoming effective and the approval of shareholders at the Forthcoming AGM, each Subdivided Share will be entitled to HK$0.02125 for the year ended 31 December 2007.

Subject to the approval of shareholders at the Forthcoming AGM, the final dividend will be payable on 26 June 2008 to shareholders whose names appear on the register of members of the Company on 8 May 2008.

CLOSURE OF REGISTER

The register of members of the Company will be closed from Wednesday, 7 May 2008 to Thursday, 8 May 2008 (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, 6 May 2008.

CHANGE OF DIRECTORS

Mr. HO Ching Hua was appointed as executive Director of the Company with effect from 30 March 2007 by the Board. Mr. Ho, an executive Director, would retire in accordance with Article 99 of the Company's Articles of Association, and would offer himself for re-election as a Director at the Forthcoming AGM.

Mr. Zhao Yong resigned from directorship as a non-executive director of the Company with effect from 12 September 2007.

Mr. Charles Po-Shun Wu was appointed as non-executive Director of the Company with effect from 31 March 2008 by the Board. Mr. Charles Po-Shun Wu, a non-executive director, would retire in accordance with Article 99 of the Company's Articles of Association and would offer himself for re-election as a non-executive Director at the Forthcoming AGM.

Mr. Hugo Shong had tendered his resignation as a non-executive director of the Company with effect from the conclusion of the Board Meeting on 31 March 2008 due to his personal reason.

In accordance with Article 116 of the Company's Articles of Association, Mr. James Ming King, a non-executive Director, Ms. Yang Zhou Nan and Mr. Gary Clark Biddle, the independent non-executive Directors, would retire by rotation, and would offer themselves for re-election as directors of the Company at the Forthcoming AGM.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

1. Enterprise Management Software

(1) Industry Overview

Though having been developing for many years until now, the enterprise management software market in China is still in infancy stage when compared with markets in Europe or the US. The penetration rate of the management software is still relatively low among SMEs. Software service income makes up only a small portion of software vendors' total income. Such are evidences of the development of the software industry which is still taking its shape.

The enterprise management software market in China had grown steadily in the past three years. In 2007, thanks to the thriving economy and government's efforts in pushing for informatization and industrialization, it reached a turning point and moved from steady development into fast growth. More and more enterprises instrumental to the prosperity of the economy are set up or have grown in scale, translating into a strong demand for management software to improve internal management and lower cost. The industry leaders' successful adoption of locally developed software has boosted recognition and enterprises' confidence in China management software at large.

(2) Market Position

During the reporting period, thanks for the excellent performance, strong brand influence and high quality products, the Group continued to maintain market leadership:

1. Biggest share in SME management software market in China (November 2007, IDC)
2. Named China Top Brand by General Administration of Quality Supervision, Inspection and Quarantine of the PRC (September 2007)
3. Made 2 times "500 Most Valuable Brands in China" of World Brand Lab (August 2006 and June 2007)
4. Named 2 times "Asia's Top 200 SME" by Forbes Asia (October 2006 and October 2007)
5. Received "Independent Innovative Software Enterprise and Product in China" award in an independent and innovative software report published by 21 Century Business Herald (June 2007)

(3) Business Review

During the reporting period, the Group continued to optimize its products and pursued technological innovation. Integrating ERP-based platform middleware, BOS and ERP, Kingdee continued to develop products according to clients' needs. It boosted the global standing of its products and earned the recognition of a number of world-renowned companies. It obtained various certificates including the IBM SOA and Microsoft's Windows Vista Logo certificates for Kingdee EAS and K/3 respectively.

During the reporting period, Kingdee EAS achieved breakthroughs in terms of management model, workflow optimization and specific functions. Its group control management model was highly recognized by the market, which braced rapid growth in sales . The Group landed more than 100 contracts with customers including South Champ Ltd., Perfect (China) Commodity Ltd., Shenzhen Zhongjin Lingnan Nonfemet Co., Ltd., China Merchants Securities Co., Ltd., China Mobile Group Guangdong Company Limited (Shenzhen branch), etc. Embedded with outstanding manufacturing and HR modules, Kingdee K/3 has enhanced its integration, application and standardization. The KIS Professional Edition improved its functions and supports for the new accounting standards in China, thus was welcomed by the market.

During the reporting period, the Group continued to execute its distribution strategy and started to see initial success. Its "partner success protection plan" (PSPP) allows business partners to simplify, standardize and systematize complicated business procedures, thus help its business partners enhance their capabilities and transform from performing sales functions into strong delivery channels. Through the innovative distribution model, KIS achieved breakthrough growth. The Group's Call Center extended coverage to the entire country at the end of the year and shortened response time to customers' requests at lower cost, which reflected the value of the service.

2. Middleware

During the reporting period, the Group launched a Web-based development framework called OperaMasks which targets individual independent software vendors (ISV) and system integrators, who have extensive needs for this technology to enhance efficiency of J2EEWeb development. Among only a few cornerstone platform manufacturers owning proprietary core technologies, Kingdee succeeded in entering the middleware market monopolized by foreign companies and meeting the needs of domestic partners in relation to infrastructure software platform.

During the reporting period, the Group's proprietary middleware technology earned it a place in Gartner's list of 19 major global manufacturers capable of providing next generation SOA service. It is the only Chinese software enterprise on the accreditation list. The Group also demonstrated its capability in e-government application. It won tenders in influential projects such as the super integrated application system - phase I of the country all-important Golden-Macro-Economic Project (Macroeconomic Information Management System) and the core project of the State Bureau for Letters and Calls (National Letters and Calls Information System).

3. Online Management Service and e-Business

During the reporting period, the Group announced its advance into one-stop e-business entailing the offer of e-business applications on the Internet through integrating online management services with e-commerce. This offer removed the barrier between internal management of an enterprise and its external markets, between different enterprises, and between internal management of up and down stream operations in the enterprise, and smoothened the transition process in business communication collaboration, realizing sharing of information and integration of resources. The Group's online management and e-business platform Youshang.com officially commenced operation. It collaborated with various e-business service partners to build a high quality enterprise value service chain, hence a reliable enterprise e-business community. With an established customer base, a solid technological foundation and the support of IBM, Kingdee is leading the one-stop e-business in China. Although still at the budding stage in China, the online software business (SaaS) has very bright prospects given a broad potential customer base of over 42 million small-to-medium enterprises in the country.

4. International Business

During the reporting period, the Group continued to explore overseas markets. It signed an agreement with a cooperative partner to set up a joint venture Kingdee Southeast Asia Software Group Co., Ltd., with the aim of expanding markets in the Asia Pacific region, particularly in Southeast Asia and for its management software products. The Group also continued to secure new customers in Hong Kong, Macau, Singapore, Malaysia and Indonesia and build an international customer base represented by anchor clients such as Singapore Pan Sun Hardware Pte Ltd.

5. Strategic Cooperation and Business Development

(1) Global Strategic Alliance

During the reporting period, IBM and Lehman Brothers jointly acquired 7.7% stake in the Group and became the Group's strategic investors and second largest shareholder. At the same time, the Group established global strategic alliance with IBM to work together on various aspects such as Service-Oriented Architecture (SOA), marketing and sales, consultation and application services and SaaS, etc. During the reporting period, the two parties implemented cooperation plans including establishment of the Kingdee SOA innovation center, research and development and strategy deployment of the Kingdee one-stop e-business system, expansion of high-end customer base, consultation and implementation of projects, detailed research by technological experts and implementation of high-end market activities. All these cooperative plans made satisfactory progress.

(2) Business Development

The Group continued to pursue appropriate merger and acquisition opportunities of software vendors to achieve vertical and horizontal expansion. During the reporting period, the Group entered into the government financial service business through acquiring Beijing Hungvision Technology Development Co., Ltd. and started providing innovative management models and technological platforms to aid the government's financial reform and information infrastructure construction. This has raised the Group's influence in the government administration software sector in China.

6. Staff Development and Social Responsibility

The Group has always been emphasizing on nurturing talents and supporting career development of employees. During the reporting period, the Group stepped up professional training for its managers and continued to promote its "dual-path career development" system and optimize the "Kingdee Staff Capability model". It also organized training camp for the Group's potential managers. All these efforts have allowed the Group to groom a pool of capable backbone staff to meet its future development needs.

Financial Review

For the year ended 31 December 2007, the Group's turnover amounted to RMB766,874,000, representing an increase of 25% against 2006 (2006: RMB611,443,000). This was mainly attributable to strong growth of demand for enterprise application software from Chinese enterprises as well as effective implementation of the Group's operation strategies.

During the year, the Group realized revenue from software of RMB520,197,000, representing an increase of 26% against 2006 (2006: RMB413,114,000), and service revenue of RMB234,256,000, representing an increase of 26% against 2006 (2006: RMB186,144,000). During the year, the Group's cash flow generated from operating activities was RMB268,715,000, representing an increase of 28% over that of 2006 (2006: RMB210,124,000).

During the reporting period, the debtor turnover days was 70 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) (2006: 81 days). During the reporting period, the Group made efforts to manage and recover receivables and hence maintained account receivables turnover at a reasonable level.

For the year ended 31 December 2007, profit attributable to equity holders of the Company was RMB136, 476, 000, representing an increase of 40% against 2006 (2006:RMB97,377,000). During the year, net profit margin was 18% (2006: 16%) and basic earnings per share were RMB0.30 (2006: RMB0.22). The improvement of net profit was attributed to the Group's appropriate control over the costs and expenses while maintaining growth in revenue, reflecting the Group's achievement in economies of scale.

Gross Profit

Gross profit of the Group increased by approximately 24% from RMB490,248,000 for the year 2006 to RMB607,175,000 for 2007. Gross profit margin for the year was stable at approximately 79% (2006: approximately 80%).

Selling and Marketing Expenses

Selling and marketing expenses for the year was approximately RMB327, 981, 000 (2006: RMB279,175,000), representing an increase of 17% against last year. Selling and marketing expenses accounted for a comparable 43% of turnover, compared to 46% in 2006. The lower proportion was owed to effective control on expenses and effect of economies of scale.

Administrative Expenses

Administrative expenses for 2007 amounted to RMB224, 502, 000 (2006: RMB180,679,000), representing an increase of approximately 24%. During the period, administrative expenses accounted for a comparable 29% of the turnover, compared to 30% in 2006. This was mainly due to the increase of investment in EAS, K/3 manufacturing and new business such as online and mobile commerce. The cost of R&D was approximately RMB86, 363, 000, representing an increase of 24% as compared with 2006 (2006: RMB69,858,000). Other administrative expenses were effectively controlled.

Capital Expenditure

For the year ended 31 December 2007, the Group's major capital expenditure included construction cost of the Shanghai and Shenzhen Research Centers of RMB105, 802, 000 (2006: RMB36,935,000), R&D capitalized expenses of RMB58, 721, 000 (2006: RMB53,356,000), and purchase of computer and related equipment in the amount of RMB7, 085, 000 (2006: RMB11,214,000).

Financial Resources and Liquidity

The Group was in a healthy cash flow position. As at 31 December 2007, the Group had cash and cash equivalents plus deposits amounting to approximately RMB438, 595, 000 (2006: RMB390,271,000). Current ratio was 2.02 (2006: 2.05) and gearing ratio (defined as the ratio of bank borrowings to shareholder equity) was approximately 0% (2006: 8%).

As at 31 December 2007, the Group did not have any short-term bank loan (2006: RMB37,150,000). As at 31 December 2007, the Group did not have any long-term bank loan.

As at 31 December 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 exchange rate fluctuation.

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

Future Prospects

China is playing a more important role and enjoying steadily increasing prominence in the international market. The country is expected to experience rapid economic growth. To cope with their expansion, the Chinese enterprises will speed up informatization and enterprise management software will become a necessity. Enterprise management software and e-business service markets are expected to grow at increasing speed in the next three years.

The Group, boasting mastery of comprehensive product technologies and extensive management experience, has strong capabilities to meet market needs. In 2008, the Group will focus on sales channel expansion to increase the proportion of income from distribution, maintain rapid growth of EAS and increase the proportion of income from service business. It will work hard on boosting the reputation of its high-end products, the image of management experts and software service provider. The Group will also increase effort in undertaking mergers and acquisitions and aiding industry consolidation, all for achieving its strategic goal effectively.

The Group is a leading and rapidly growing software enterprise in China. Upholding its core value of customer first, continual innovation, integrity and responsibility, the Group will continue to improve its management model, facilitate the development of e-business and help customers to succeed. It strives to become a leader in the global enterprise management software and e-business service market.

PURCHASE, SALE OR REDEMPTION OF SHARES

At the 2006 annual general meeting of the Company held on 26 April 2007, 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 2007.

CORPORATE GOVERNANCE

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 2007.

In order to comply provisions A.2.1 in respect of the requirement for the segregation of the roles of the chairman of the Board (the "Chairman") and chief executive officer (“CEO”) of the Code; and to enhance corporate governance level and play better roles of the Chairman and CEO, since 1 January 2007, Mr. Xu Shao Chun and Mr. Ho Ching Hua performed the roles of the Chairman and CEO respectively. Mr. Xu Shao Chun remained as the chief software architect of the Group as well. Accordingly, the roles of the Chairman and CEO have been segregated.

The Board has set up four specialized committees, namely the Audit Committee, Remuneration Committee, Nomination Committee and Strategy Committee to oversee particular aspects of the Company’s affairs. The terms of reference of these committees are set out in the Board Rules. These committees mainly consist of the independent non-executive Directors and non-executive Directors.

Audit Committee

During the financial year ended 31 December 2007, the Audit Committee has held two meetings. The Audit Committee has reviewed the Company’s annual financial report for the year ended 31 December 2006 and the Company’s interim financial statements of 2007.

The Audit Committee has reviewed the Company’s annual financial report for the year ended 31 December 2007.

External Auditors

PricewaterhouseCoopers was appointed as the external auditors of the Company for the year of 2007.

A resolution for re-appointment of PricewaterhouseCoopers as the auditors 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 2007 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, partners, 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, 31 March, 2008

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 and Mr. Charles Po-Shun Wu; 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.