



**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)

**ANNOUNCEMENT OF THE INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 30 JUNE 2008**

**Financial highlights for the six months ended 30 June 2008**

- Turnover increased by approximately 27% over the same period in 2007 to approximately RMB422,366,000
- Profit for the period increased by approximately 34% over the same period in 2007 to approximately RMB53,345,000
- Profit attributable to equity holders of the Company during the period increased by approximately 34% over the same period in 2007 to approximately RMB53,029,000
- Basic earnings per share for profit attributable to the equity holders of the Company during the period increased by approximately 30% over the same period in 2007 to approximately RMB2.840 cents

The board (the “Board”) of directors (the “Directors”) of Kingdee International Software Group Company Limited (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 2008, together with the comparative unaudited consolidated figures for the corresponding period in 2007 are as follows:

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2008

(All amounts in Renminbi thousand unless otherwise stated)

		Six months ended	
		30 June	
	Notes	2008	2007
		Unaudited	Unaudited
Turnover	5	422,366	333,882
Cost of sales	7	<u>(90,619)</u>	<u>(71,118)</u>
Gross profit		331,747	262,764
Selling and marketing expenses	7	(197,706)	(152,739)
Administrative expenses	7	(120,994)	(101,169)
Other income	6	<u>46,443</u>	<u>36,458</u>
Operating profit		59,490	45,314
Finance costs- Net	8	(1,180)	(143)
Share of loss of associates		<u>—</u>	<u>(607)</u>
Profit before income tax		58,310	44,564
Income tax expense	9	<u>(4,965)</u>	<u>(4,767)</u>
Profit for the period		<u><u>53,345</u></u>	<u><u>39,797</u></u>
Attributable to:			
Equity holders of the Company		53,029	39,442
Minority Interest		<u>316</u>	<u>355</u>
		<u><u>53,345</u></u>	<u><u>39,797</u></u>
Earnings per share for profit attributable to the equity holders of the Company			
— basic	10	<u>RMB2.840 cents</u>	<u>RMB2.180 cents</u>
— diluted	10	<u>RMB2.699 cents</u>	<u>RMB2.039 cents</u>
Dividends	11	<u>—</u>	<u>—</u>

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2008

(All amounts in Renminbi thousand unless otherwise stated)

	<i>Notes</i>	<b>30 June 2008 <i>Unaudited</i></b>	<b>31 December 2007 <i>Audited</i></b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	261,705	206,992
Lease prepayments	13	74,425	18,211
Intangible assets		95,786	86,918
Deferred income tax assets		<u>3,981</u>	<u>3,841</u>
Total non-current assets		<u>435,897</u>	<u>315,962</u>
<b>Current assets</b>			
Inventories		4,543	2,313
Trade and other receivables	14	146,451	117,928
Due from customers on implementation contracts		28,569	27,852
Held-to-maturity financial assets	15	75,000	—
Pledged bank deposits		2,406	6,777
Short-term bank deposits		20,305	39,633
Cash and cash equivalents		<u>302,620</u>	<u>392,185</u>
Total current assets		<u>579,894</u>	<u>586,688</u>
<b>Total assets</b>		<u><u>1,015,791</u></u>	<u><u>902,650</u></u>

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (Continued)***As at 30 June 2008**(All amounts in Renminbi thousand unless otherwise stated)*

	<i>Notes</i>	<b>30 June 2008 <i>Unaudited</i></b>	<b>31 December 2007 <i>Audited</i></b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	16	50,822	48,773
Share premium	16	230,364	98,786
Other reserves		321,835	321,835
Retained earnings			
— Proposed final dividend		—	36,470
— Others		<u>154,330</u>	<u>101,666</u>
		757,351	607,530
<b>Minority interest</b>		<u>5,615</u>	<u>5,299</u>
<b>Total equity</b>		<u>762,966</u>	<u>612,829</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	17	145,407	159,106
Current income tax liabilities		5,105	11,227
Borrowings	18	9,500	—
Due to customers on implementation contracts		24,159	44,714
Deferred income		<u>68,654</u>	<u>74,774</u>
<b>Total current liabilities</b>		<u>252,825</u>	<u>289,821</u>
<b>Total equity and liabilities</b>		<u>1,015,791</u>	<u>902,650</u>
<b>Net current assets</b>		<u>327,069</u>	<u>296,867</u>
<b>Total assets less current liabilities</b>		<u>762,966</u>	<u>612,829</u>

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2008*

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

	Notes	<u>Attributable to equity holders of the Company</u>				Minority Interest	Total equity	
		Share capital	Share premium	Other reserves	Retained earnings			
<b>Balance at</b>								
<b>1 January 2007</b>		48,282	75,005	232,080	116,569	471,936	3,040	474,976
Net income recognized directly in equity								
- Currency translation difference		—	—	1,176	—	1,176	—	1,176
Profit for the period		<u>—</u>	<u>—</u>	<u>—</u>	<u>39,442</u>	<u>39,442</u>	<u>355</u>	<u>39,797</u>
<b>Total recognized income for the period ended 30 June 2007</b>		<u>—</u>	<u>—</u>	<u>1,176</u>	<u>39,442</u>	<u>40,618</u>	<u>355</u>	<u>40,973</u>
Employees share option scheme:								
- Value of employee services	16	—	3,711	—	—	3,711	—	3,711
- Proceeds from shares issued	16	321	9,692	—	—	10,013	—	10,013
Share options granted to related parties		—	1,525	—	—	1,525	—	1,525
Dividend relating to 2006	11	<u>—</u>	<u>—</u>	<u>—</u>	<u>(29,150)</u>	<u>(29,150)</u>	<u>—</u>	<u>(29,150)</u>
<b>Balance at 30 June 2007</b>		<u>48,603</u>	<u>89,933</u>	<u>233,256</u>	<u>126,861</u>	<u>498,653</u>	<u>3,395</u>	<u>502,048</u>

	<i>Notes</i>	<u>Attributable to equity holders of the Company</u>				<b>Minority Interest</b>	<b>Total equity</b>	
		<b>Share capital</b>	<b>Share premium</b>	<b>Other reserves</b>	<b>Retained earnings</b>			
<b>Balance at 1 January 2008</b>		48,773	98,786	321,835	138,136	607,530	5,299	612,829
Net income recognized directly in equity								
Profit for the period		<u>—</u>	<u>—</u>	<u>—</u>	<u>53,029</u>	<u>53,029</u>	<u>316</u>	<u>53,345</u>
<b>Total recognized income for the period ended 30 June 2008</b>		<u>—</u>	<u>—</u>	<u>—</u>	<u>53,029</u>	<u>53,029</u>	<u>316</u>	<u>53,345</u>
Employees share option scheme:								
- Value of employee services	16	—	5,368	—	—	5,368	—	5,368
- Proceeds from shares issued	16	49	5,912	—	—	5,961	—	5,961
Issue of shares	16	2,000	121,894	—	—	123,894	—	123,894
Shares issue expenses	16	—	(2,613)	—	—	(2,613)	—	(2,613)
Share options granted to related parties		—	1,017	—	—	1,017	—	1,017
Dividend relating to 2007	11	<u>—</u>	<u>—</u>	<u>—</u>	<u>(36,835)</u>	<u>(36,835)</u>	<u>—</u>	<u>(36,835)</u>
<b>Balance at 30 June 2008</b>		<u>50,822</u>	<u>230,364</u>	<u>321,835</u>	<u>154,330</u>	<u>757,351</u>	<u>5,615</u>	<u>762,966</u>

## CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2008

(All amounts in Renminbi thousand unless otherwise stated)

	Six months ended	
	30 June	
	2008	2007
	Unaudited	Unaudited
<b>Cash flows from operating activities:</b>		
Cash generated from operations	11,648	19,248
Interest paid	—	(143)
Income tax paid	<u>(10,324)</u>	<u>(7,854)</u>
<b>Net cash generated from operating activities</b>	<u>1,324</u>	<u>11,251</u>
<b>Cash flows from investing activities:</b>		
Purchase of property, plant and equipment	(46,576)	(58,867)
Proceeds from sales of property, plant and equipment	45	51
Payments for lease prepayments	(56,409)	—
Additions of intangible assets	(39,059)	(28,186)
Payments for held-to-maturity financial assets	(75,000)	(20,000)
Pledged bank deposits withdrawn	4,371	129
Short-term bank deposits withdrawn/ (placed)	19,328	(4,878)
Interest received	<u>2,537</u>	<u>2,027</u>
<b>Net cash used in investing activities</b>	<u>(190,763)</u>	<u>(109,724)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of shares	127,242	10,013
Proceeds from borrowings	9,500	—
Repayment of borrowings	—	(27,150)
Dividends paid to Company's shareholders	<u>(36,835)</u>	<u>(29,150)</u>
<b>Net cash generated/(used in) from financing activities</b>	<u>99,907</u>	<u>(46,287)</u>
<b>Net decrease in cash and cash equivalents</b>	(89,532)	(144,760)
Cash and cash equivalents at beginning of the period	392,185	358,845
Exchange losses on cash and cash equivalents	<u>(33)</u>	<u>(227)</u>
<b>Cash and cash equivalents at end of the period</b>	<u><u>302,620</u></u>	<u><u>213,858</u></u>

## **Selected notes to the condensed consolidated interim financial information**

### **1. General information**

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 10 September 2008.

### **2. Basis of preparation**

This unaudited condensed consolidated interim financial information for the half-year ended 30 June 2008 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 2007, which have been prepared in accordance with International Financial Reporting Standards.

### **3. Accounting policies**

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group.

- IFRIC - Int 11, 'IFRS 2 — Group and treasury share transactions'
- IFRIC - Int 12, 'Service concession arrangements'
- IFRIC - Int 14, 'IAS 19 — the limit on a defined benefit asset, minimum funding requirements and their interaction'



#### 4. 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.

#### 5. Turnover

Turnover is stated net of applicable value-added tax (“VAT”) and comprises the following:

	Six months ended 30 June	
	2008	2007
	<i>Unaudited</i>	<i>Unaudited</i>
Sales of software	293,227	237,246
Software implementation services	65,205	49,176
Software solution consulting and support services	55,894	37,874
Sales of computer and related products	<u>8,040</u>	<u>9,586</u>
	<u>422,366</u>	<u>333,882</u>

#### 6. Other income

	Six months ended 30 June	
	2008	2007
	<i>Unaudited</i>	<i>Unaudited</i>
Subsidy income		
VAT refund (a)	40,716	29,210
Tax refund for re-investments	—	3,706
Others	<u>312</u>	<u>1,320</u>
	<u>41,028</u>	<u>34,236</u>
Interest income	2,537	2,027
Others	<u>2,878</u>	<u>195</u>
	<u>46,443</u>	<u>36,458</u>

- (a) According to the current tax regulations in the PRC, 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%.

7. **Expenses by nature**

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

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2008</b>	<b>2007</b>
	<i>Unaudited</i>	<i>Unaudited</i>
Research and development costs		
Amounts incurred	52,831	49,922
Less: amounts capitalised	(36,973)	(28,044)
Add: amortisation of capitalised costs	<u>27,664</u>	<u>21,060</u>
	<u>43,522</u>	<u>42,938</u>
Employee benefit expense	231,707	193,352
Less: amount included in research and development costs	<u>(44,445)</u>	<u>(41,793)</u>
	<u>187,262</u>	<u>151,559</u>
Cost of inventories consumed	19,352	18,099
Depreciation of property, plant and equipment	6,963	6,005
Amortisation of computer software	901	2,191
Charge of lease prepayments	195	194
Impairment of receivables	7,729	6,088
Loss on disposals of property, plant and equipment	<u>17</u>	<u>28</u>

8. **Finance costs — Net**

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2008</b>	<b>2007</b>
	<i>Unaudited</i>	<i>Unaudited</i>
Interest expense on bank borrowings	—	143
Net foreign exchange loss	<u>1,180</u>	<u>—</u>
	<u>1,180</u>	<u>143</u>

## 9. Income tax expense

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2008</b>	<b>2007</b>
	<i>Unaudited</i>	<i>Unaudited</i>
PRC income tax		
- Current income tax	4,825	3,694
- Deferred income tax	<u>140</u>	<u>1,073</u>
	<u><u>4,965</u></u>	<u><u>4,767</u></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 25%, 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.

## 10. 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.

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2008</b>	<b>2007</b>
	<i>Unaudited</i>	<i>Unaudited</i>
Profit attributable to equity holders of the Company	<u>53,029</u>	<u>39,442</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,867,369</u>	<u>1,809,108</u>
Basic earnings per share	<u><u>RMB2.840 cents</u></u>	<u><u>RMB2.180 cents</u></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.

	<b>Six months ended</b>	
	<b>30 June</b>	
	<b>2008</b>	<b>2007</b>
	<i>Unaudited</i>	<i>Unaudited</i>
Profit attributable to equity holders of the Company	<u>53,029</u>	<u>39,442</u>
Weighted average number of ordinary shares in issue (thousands)	1,867,369	1,809,108
Adjustments for — share options (thousands)	<u>97,043</u>	<u>125,196</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>1,964,412</u>	<u>1,934,304</u>
Diluted earnings per share	<u>RMB2.699 cents</u>	<u>RMB2.039 cents</u>

The comparative information of the basic and diluted earnings per share, weighted average number of ordinary shares and number of share options for the six-month period ended 30 June 2007 have been adjusted for the subdivision of the Company's shares on the basis of every one existing share of HK\$0.1 each into four new shares of HK\$0.025 each on 8 May 2008.

## 11. Dividends

2007 and 2006 final dividends of RMB36,835,000 (HK\$40,688,000) (RMB0.02 per share (HK\$0.02125 per share)) and RMB29,150,000 (HK\$29,447,000) (RMB0.016 per share (HK\$0.01625 per share)) were paid in June 2008 and June 2007 respectively. The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2008 (the six months ended 30 June 2007: Nil).

## 12. Property, plant and equipment

	<b>2008</b> <i>Unaudited</i>	<b>2007</b> <i>Audited</i>
Opening net book amount at 1 January	206,992	99,358
Additions	61,738	121,941
Disposals	(62)	(757)
Depreciation	<u>(6,963)</u>	<u>(13,550)</u>
Closing net book amount at 30 June/ 31 December	<u><u>261,705</u></u>	<u><u>206,992</u></u>

During the period, there was a construction cost of RMB 52,335,000 for Kingdee Shanghai R&D center and Shenzhen R&D building.

## 13. Lease prepayments

In April 2008, the Group entered into a Land-use Rights Transfer Agreement with Beijing Shun'ao Investment Centre (the owner) in respect of the Land-use Rights of the Land located at Mapo Area, Shunyi District, Beijing, the PRC. The consideration of the transaction was RMB70,511,809.95. Under the terms, the Group paid a sum of RMB56,409,447.96, representing 80% of the consideration in May. Please refer to our circular dated 24 April 2008 for the details.

## 14. Trade and other receivables

	<b>30 June</b> <b>2008</b> <i>Unaudited</i>	<b>31 December</b> <b>2007</b> <i>Audited</i>
Trade receivables (a)	163,370	149,489
Less: provision of receivables (b)	<u>(93,931)</u>	<u>(86,202)</u>
Trade receivables - net	69,439	63,287
Notes receivable	2,290	2,456
Advance to employees (c)	5,224	5,450
Prepayments	4,923	5,942
VAT recoverable (d)	59,997	27,930
Re-investment refund receivable	—	3,993
Others	<u>4,578</u>	<u>8,870</u>
	<u><u>146,451</u></u>	<u><u>117,928</u></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 2008</b>	<b>31 December 2007</b>
	<i>Unaudited</i>	<i>Audited</i>
0-180 days	51,113	58,852
181- 360 days	28,834	16,356
Over 360 days	<u>83,423</u>	<u>74,281</u>
	<u>163,370</u>	<u>149,489</u>

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

	<b>2008</b>	<b>2007</b>
	<i>Unaudited</i>	<i>Audited</i>
At 1 January	(86,202)	(77,084)
Provision for impairment	(7,729)	(16,621)
Written off as uncollectible	<u>—</u>	<u>7,503</u>
At 30 June/31 December	<u>(93,931)</u>	<u>(86,202)</u>

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

- (d) In July 2008, the Group received recoverable VAT amounting to about RMB33,434,000.

#### 15. Held-to-maturity financial assets

The Company signed financial product agreements with two banks amounting to RMB75,000,000. It included RMB25,000,000 with a period of half year from 15 April 2008 to 15 October 2008 and RMB50,000,000 with a period of one year from 24 January 2008 to 24 January 2009. According to the agreements, the financial products are redeemable.

## 16. Share capital and share premium

	Number of issued shares ( <i>thousands</i> )	Ordinary shares	Share premium	Total
<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	<u>—</u>	<u>—</u>	<u>1,525</u>	<u>1,525</u>
<b>At 30 June 2007</b>	<u>454,885</u>	<u>48,603</u>	<u>89,933</u>	<u>138,536</u>
<b>At 1 January 2008</b>	456,612	48,773	98,786	147,559
Subdivision of shares	<u>1,369,836</u>	<u>—</u>	<u>—</u>	<u>—</u>
<b>At 1 January 2008 — subdivided (a)</b>	<u>1,826,448</u>	<u>48,773</u>	<u>98,786</u>	<u>147,559</u>
Employees share option scheme:				
- Value of services provided	—	—	5,368	5,368
- Exercise of share options	13,344	49	5,912	5,961
Issue of shares (b)	80,000	2,000	121,894	123,894
Shares issue expenses (b)	—	—	(2,613)	(2,613)
Share options granted to related parties	<u>—</u>	<u>—</u>	<u>1,017</u>	<u>1,017</u>
<b>At 30 June 2008</b>	<u>1,919,792</u>	<u>50,822</u>	<u>230,364</u>	<u>281,186</u>

*Note:*

- (a) On 8 May 2008, the shareholder of the Company approved at the extraordinary general meeting (the “EGM”) of the Company in the form of an ordinary resolution 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. After the subdivision of shares, the total authorized number of ordinary shares is 4,000 million shares (2007: 1,000 million shares) with a par value of HK\$0.025 per share (2007: HK\$0.1 per share). All issued shares are fully paid and ranked pari passu in all respects.
- (b) Billion Ocean Limited, a substantial shareholder of the Company, has placed a total of 20,000,000 placing shares to not less than six placees at the placing price of HK\$6.90 per placing shares. Completion of the placing took place on 15 April 2008. On 23 April, 2008, the Company issued 20,000,000 new shares under the general mandate, which were subscribed by Billion Ocean Limited. The net proceeds was HK\$135,089,580 (approximately RMB121,281,000) and the net placing price was approximately HK\$6.74 (approximately RMB6.05) per Share.

17. **Trade and other payables**

	<b>30 June 2008</b>	<b>31 December 2007</b>
	<i>Unaudited</i>	<i>Audited</i>
Trade payables (a)	35,754	32,412
Salary and staff welfare payable	7,053	21,245
Customers' deposits	69,515	55,034
VAT and business tax payable	19,505	27,392
Accrued expenses	7,247	17,188
Others	<u>6,333</u>	<u>5,835</u>
	<u>145,407</u>	<u>159,106</u>

(a) As at 30 June 2008, the ageing analysis of trade payables is as follows:

	<b>30 June 2008</b>	<b>31 December 2007</b>
	<i>Unaudited</i>	<i>Audited</i>
0-180 days	34,947	30,767
181- 360 days	466	972
Over 360 days	<u>341</u>	<u>673</u>
	<u>35,754</u>	<u>32,412</u>

18. **Borrowings**

The Group received an interest free bank loan of RMB9,500,000 with period from 14 March 2008 to 14 March 2009.



19. **Commitments — Group**

*Capital commitments*

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

	<b>30 June 2008</b>	<b>31 December 2007</b>
	<i>Unaudited</i>	<i>Audited</i>
Property, plant and equipment	<u>140,015</u>	<u>55,417</u>

*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 2008</b>	<b>31 December 2007</b>
	<i>Unaudited</i>	<i>Audited</i>
Not later than one year	5,646	13,387
Later than one year and not later than five years	<u>28,842</u>	<u>14,944</u>
	<u>34,488</u>	<u>28,331</u>

20. **Related party transactions**

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

During the reporting period, as government macroeconomic austerity measures continued, many Chinese enterprises started to look at factors that could drive sustainable growth of their business. They placed more emphasis on internal management to survive and achieve growth in hard time by boosting efficiency and lowering cost. More corporations turned to managing with information technology, which has proven to be an effective means for optimizing workflows, enhancing efficiency and lowering costs. This trend braced strong growth of the enterprise software industry in China.

Having a clear grasp of the industry trend, the Group mapped out development strategy for the next three years in the reporting period, creating roadmaps for its different businesses, namely enterprise management software, middleware and online management services (SaaS). It started to transform from a product provider into a service provider positioned as an “enterprise management expert” and actively promoted a “Chinese management model in age of globalization”. These efforts were well recognized by the market and customers.

1. Only Chinese enterprise to win “China’s Best After-sale Service Award” presented by the China Information Industry Association and China Association of Trade in Services (June 2008)
2. Chairman of the Group Mr. Xu Shaochun won the “Shenzhen Mayor Award for Innovative Technology” presented by the Shenzhen Municipal Government (June 2008)
3. Only Chinese enterprise to win the IBM Global WebSphere Beacon Award - Finalist from IBM (April 2008)
4. “The Third Capital Outstanding Application Software Supplier in China” Award from Capital magazine, Hong Kong (May 2008)

#### 1. **Enterprise Management Software**

Guided by the objectives of business transformation and building a management expert image, the Group laid down an operational plan for its enterprise management software business aiming for achieving business goal of one breakthrough (in channel expansion) and two emphases (develop the high-end market and service business).

## 1) *Small and Medium Enterprise Market*

Channel expansion is an effective method to realize rapid growth in sales of mid-end to low-end software products as well as extend market coverage. Continuing the success in transforming to the distribution model of Kingdee KIS products in 2007, the Group stepped up effort in transforming K/3 product to distribution model in the period under review, resulting in a 48% year-on-year increase in overall distribution income.

To realize channel expansion, the Group has begun to manage the nationwide market by gridding in addition to stepping up recruitment and deployment of distributors to expand network coverage. It also forged a strong execution partner regime to enhance product delivery ability and support penetration of high-end markets by its direct branches.

To realize channel breakthrough and satisfy demand of business partners for batch delivery, the Group launched Kingdee K/3 V11.0, added new systems and special functions such as MTO (Make-To-Order), lean production, portal and mobile commerce and strengthened the quality and ease-of-use of products. These efforts were recognized by both business partners and customers. The Group continued to enhance R&D of Kingdee KIS, the product under full-scale distribution. The Group launched KIS mini version 8.0 and KIS standard version 8.0 and added functions to support new accounting standards and Window Vista, as well as optimized user-friendly applications for small enterprises to meet their need for upgrade commanded by fast business growth. It gave small enterprises convenience in adopting IT and protecting their IT investment.

## 2) *High-end Market Operation*

The Group continued to expand the Kingdee EAS operation and establish its reputation and management expert image in the high-end ERP product market during the review period with the aim of boosting its competitiveness against overseas manufacturers, while serving as a role model for small and medium enterprises. The Group also set up a department to take care of major government customers such as the State-owned Assets Supervision and Administration Commission of the State Council and government divisions. This arrangement allowed the Group to fully realize the strengths of Kingdee EAS in corporate management and control, and also boosted competitiveness of the Group in the government department and large state-owned enterprise business sector. During the reporting period, revenue from EAS software product increased by 72% over last year.

During the reporting period, EAS products secured model clients in the real estate industry represented by China Vanke Co., Ltd, in the steel industry represented by Ying Kou Steel Corporation, in the government financial sector represented by Nanjing Public Security Bureau, in the tobacco industry represented by Anhui China Tobacco Industry Corporation and the port industry represented by Ying Kou Port Co., Ltd. It also won contracts from large enterprises and groups such as Chengdu QuanU Furniture (Group) Co., Ltd, Zhongsheng (Dalian) Group Co., Limited, Guangdong Province Changda Highway Engineering Limited, Guangdong Haid Group Co., Limited and Hangzhou Public Transport Corporations.

To support the operation of EAS, the Group strengthened its R&D center in Beijing to pool together high-end application consultants and R&D talents. Facilitated by its innovative “multi-R&D bases” management model, it launched Kingdee EAS V5.4 which application value was highly recognized by its customers. The product boasts its enhanced performance, integration ability and functionality when applied in scale.

### 3) *Service Operations*

Through grooming the market and enlarging market share, the business was able to create more sustainable income sources. During the reporting period, service income grew by 39% year-on-year.

During the period, the Group continued to optimize its service support systems to realize all-rounded service provision via call center, the Internet, and on-site and remote means to deliver diverse and all-rounded services to customers. It also introduced new services and products, including dedicated services and distribution of service products and product packages. By pushing for standardization of operation, it helped to enhance customer satisfaction and lower cost, as well as increase the proportion of purchase of maintenance service by long-time customers.

The Group set up a consultation department during the period for the consolidation of internal and external expert resources to render management advice, IT deployment planning and application assessment services to high-end customers, and also to lead the development of value-added services of the Group. The department has a professional team with members having professional expertise and extensive experience in execution, thus is capable of providing a wide range of consultation services to customers, including corporate management and control, operational management, human resources, IT planning and workflow optimization, etc. The Group has secured specific service projects from customers including

Perfect (China) Limited, Xinjiang Daming Mining Group Limited, Guangdong Hotor Electrical Appliance Co., Ltd, Hong Kong Golden Hans Chain Restaurant Management Co., Ltd, Wuhan Heavy Duty Machine Tool Group Co., Ltd and Dalian TADERCN Limited, etc., which have strengthened its image as a management expert. With the new business added to its service offerings, the Group has an extended and more stable enterprise management software production chain with higher added-value helping it lower operational risk.

In addition, the Group implemented a charging system based on manpower working days and definite consultation fees during the period, which has given structure to its service business chain and raised the quality and efficiency of product delivery, thus realizing the full value of its services.

To support the service operation, Kingdee launched the first K/3 service product package during the period. The package comprised tools for data cleaning, performance diagnosis, maintenance tool set and online service platform interface, providing partners and customers access to highly efficient localized service and enhancing integration and standardization of services and products.

## **2. Middleware Business**

This segment continued to adhere to the long-term development strategy emphasizing “product leadership, partner oriented” during the period. It launched the next generation enterprise integration middleware product Apusic ESB integrating seamlessly with the Apusic Java EE application server and Apusic message middleware to provide a SOA foundation structure. The product has enhanced the ability of the Group to provide SOA service and grow in line with the expanding functions and applications of middleware products.

The segment made notable progress in channel construction during the period particularly in cooperation with independent software vendors. It signed cooperative agreements with various independent software vendors regarding bundling of Kingdee middleware products with their software products.

During the period, the Group expanded its middleware business in the e-government sector. It was awarded the first project of the National “Four Databases and Twelve Operation Systems,” — national e-government infrastructure information database project. It also successfully concluded two Olympic projects, namely the operational organization and scheduling system project for Beijing Public Transport Holdings, Ltd. and the application system project for the Beijing Tourism Bureau.

### 3. Online Management Service (SaaS)

Rapid development of the Internet and e-commerce has commanded more and more enterprises to adopt new management approaches that link internal management with external up and downstream operations, using the Internet to enhance their competitiveness in the e-commerce era. Out of the Internet tide, the brand new Software as a Service (“SaaS”) model was born. Under SaaS concept, software suppliers deploy application software online for customers to use via the Internet. Customers are charged based on the service content they purchased and duration of usage, freeing them from having to hire IT technician service and spending on expensive hardware. SaaS can allow enterprise to reap the benefit of a network system at low cost, realizing internal synergy and synergy with suppliers upstream and customers downstream.

The [www.youshang.com](http://www.youshang.com) website of Kingdee, in partnership with IBM strategically and technologically, has launched SaaS to serve the needs of 42 million SMEs in China for the online management and e-commerce, providing them with one-stop service that facilitates online internal management and e-commerce activities of SMEs. The online accounting and supply chain service available on [www.youshang.com](http://www.youshang.com) are supported by a multi-lingual interface, promising enterprise management timely access to critical business information that can facilitate fast and accurate response and decision making. The platform can also support multi-users and multi-location access at the same time, thus matches the need of business with multi-point operations in the Internet era. As at the end of June 2008, the online management services that [www.youshang.com](http://www.youshang.com) were used by many industries, including electronic technology, consultation service, trading, investment, logistics, property agency, etc. in the Asia-Pacific region and Hong Kong, Taiwan and China. Currently, it has 23,100 registered users.

The web-based management service platform was recognized and supported by government departments and had passed stringent assessments of the Accounting Society of China under the Ministry of Finance. It has set the security and technological benchmarks for enterprise application of SaaS management services and established Kingdee as a pioneer and leader in the area. The accounting service on [www.youshang.com](http://www.youshang.com) also received the “SaaS Product Innovation Award” from CCW, making it the only SaaS service product in the financial category in China to be given the accreditation.

#### **4. Human Capital and Innovative Culture**

To ensure effective implementation of its strategies, the Group has drawn up a three-year human resources strategic plan with the goal of “expanding its senior executive team and nurturing a pool of experts in corporate management”, pledging to step up grooming and recruitment of high caliber personnel. It will also create an “open and equal corporate culture” with the customer at the core and emphasis on building a working atmosphere that encourages “innovation, win-win, harmony and happiness” and stimulating the potential of each individual employee.

During the reporting period, the Group saw the completion of Kingdee Software Park in Shanghai and acquired a plot of land of approximately 140,000 sq. m. in Shunyi District, Beijing for building another software park in Beijing. Consequently, the Group will have permanent bases in Shenzhen, Shanghai and Beijing, the three major talent pools in the country, which will allow it to attract and retain high-end application consultants, technical professionals and management experts.

In the past 15 years, the Group has insisted on innovation worthy of intellectual property rights. It has thus accumulated many patents, copyrights and trademarks. The “Kingdee” trademark is recognized as a “Famous Trademark in Guangdong” and “Chinese Well-known Mark” and Kingdee ERP products are among products wearing the “Famous China Brands” honor. The intellectual property rights owned by the Group have become its invaluable intangible asset and competitive advantage.

#### **5. Social Responsibility**

The Group has been keen on fulfilling its responsibility as a corporate citizen. After the disastrous earthquake hit Wenchuan in Sichuan province on 12 May 2008, the Group immediately donated RMB1,200,000 to the affected areas and its employees raised donations amounting to RMB610,000 for the victims as well as raising funds through charitable sale. Chairman of the Group, Mr. Xu Shaochun, personally donated RMB1,000,000 to set up a “Kingdee Education Aid Fund for Mao Xian” to support poor primary and secondary school children and award their dedicated teachers. All the branch organizations of the Group in the country gave help to their colleagues and partners in Sichuan through the difficult time. The Group also set up a free service hotline to provide quality service to customers in the earthquake-stricken areas.

## **FINANCIAL PERFORMANCE**

### **Consolidated Results of Operation**

For the six months ended 30 June 2008, the Group made turnover amounting to approximately RMB422,366,000, representing an increase of 27% against the same period last year (for the six months ended 30 June 2007: RMB333,882,000). Continuing from 2007, the Group maintained strong turnover growth thanks to stable growth in demand for enterprise application software and its proven effective business development strategy.

During the reporting period, the Group realized revenue from software sales of approximately RMB293,227,000, representing an increase of 24% against the same period of 2007 (for the six months ended 30 June 2007: RMB237,246,000). Software distribution sales brought revenue of approximately RMB111,421,000, representing an increase of 48% against the same period of 2007 (for the six months ended 30 June 2007: RMB75,483,000) and service revenue amounted to approximately RMB121,099,000, representing an increase of 39% against the same period of 2007 (for the six months ended 30 June 2007: RMB87,050,000).

During the reporting period, the Group reaped enhanced profit and saw net profit margin grew steadily. As at 30 June 2008, profit for the period was approximately RMB53,345,000, representing an increase of approximately 34% against the same period of 2007 (for the six months ended 30 June 2007: RMB39,797,000). Basic earnings per share were RMB2.840 cents (for the six months ended 30 June 2007: RMB2.180 cents).

### **Gross Profit**

Gross profit of the Group increased from approximately RMB262,764,000 for the six months ended 30 June 2007 to approximately RMB331,747,000 for the six months ended 30 June 2008, representing an increase of approximately 26%. Gross profit margin during the reporting period was approximately 79% (for the six months ended 30 June 2007: 79%).

### **Selling and Marketing Expenses and Administrative Expenses**

For the six months ended 30 June 2008, selling and marketing expenses of the Group totaled approximately RMB197,706,000, representing an increase of approximately 29% over corresponding period last year (for the six months ended 30 June 2007: RMB152,739,000). Administrative expenses was approximately RMB120,994,000, representing an increase of approximately 20% when compared with the corresponding period last year (for the six months ended 30 June 2007:



RMB101,169,000). During the reporting period, the percentage of selling and marketing expenses to total turnover increased from 46% in the corresponding period last year to 47%, whereas the percentage of administrative expenses to total turnover dropped from 30% in the corresponding period last year to approximately 29%. The increase in selling and marketing expenses in line with turnover growth also reflected the increased wages and remunerations matching CPI upward trend in the country, general elevation of labor cost, increased investment in advertising and sales and marketing, and the rising outsourcing fees with increasing outsourcing of projects, followed by the forging executive partnership.

### **Financial Resources and Liquidity**

The Group was in a healthy cash position. As at 30 June 2008, the Group had cash and cash equivalents plus deposits amounting to approximately RMB325,331,000 (31 December 2007: RMB438,595,000). Investment in financial assets amounted to RMB75,000,000 (31 December 2007: nil). Current ratio (current assets over current liabilities) was approximately 2.29 (31 December 2007: 2.02) and gearing ratio (bank loans over shareholders' fund) was approximately 1% (31 December 2007: 2%). As at July 2008, the Group received value-added tax rebate of RMB33,434,000, which should have been received before 30 June. This item was not reflected in the cash flow statement for the period (for the six months ended 30 June 2007: tax rebate was received in June).

As at 30 June 2008, the Group had a bank loan amounted to RMB9,500,000 (31 December 2007: RMB10,000,000).

As at 30 June 2008, 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 30 June 2008, the Group did not have any material contingent liabilities (31 December 2007: nil).

### **PROSPECT**

From the experiences of mature markets in Europe and the U.S., the survival of an enterprise hinges much on whether it could fully exploit its innate strengths. This need is what drives the adoption of IT by enterprises. That is the reason that despite the uncertain domestic and international economic situations, we remain confident of the management software, middleware and online management service market in China.

In the second half year, the Group will continue to push forward its three-year strategy and devote efforts into implementing the operating plan for the year. To grow its management software business, it will strive to boost its image as an enterprise management expert, expand network coverage and market share, and increase the proportion of value-added service revenue and maintenance service. On the middleware business front, it will seek to project an infrastructure platform expert image, actively expand the government and large enterprise application market and strengthen its unique core advantage in ERP + middleware. For the online management service market, it will position itself as an online management service expert, grow the number of registered users and provide online management service to a great number of small enterprises, with the aim of promoting software service development and creating remarkable software services that promise good value for money.

At the same time, the Group will continue to implement sound financial strategy to ensure it has sufficient cash reserves. It will also follow closely macroeconomic trends, maintain a positive yet cautious attitude in tackling adversity and focus on pursuing mergers and acquisitions and business consolidation.

#### **PURCHASE, SALE OR REDEMPTION OF SHARES**

In the reporting period, one of the Company's substantial shareholders, Billion Ocean Limited has placed a total of 20,000,000 placing shares before the Subdivision of Shares to not less than six places at the placing price of HK\$6.90 per placing shares. Completion of the placing took place on 15 April 2008.

Except the above, none of the Company or any of its subsidiaries had purchased, sold or redeemed any of its securities during the reporting period ended 30 June 2008.

#### **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.

## **CHANGE OF DIRECTORS**

Mr. Charles Po-shun Wu (“Mr. Wu”) has resigned as a non-executive director of the Company with effect from 10 September 2008 for the reason that he is busy with his business engagements. The Company invites Mr. Wu to continue to serve as an observer of the Board with effect from 10 September 2008.

## **CORPORATE GOVERNANCE**

The Company has been dedicating to establish rules and procedures of good 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 six months ended 30 June 2008.

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**

The audit committee has reviewed the Group’s unaudited consolidated results for the six months ended 30 June 2008. The audit committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

## **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 the Model Code. The Directors have complied with such code of conduct throughout the accounting period covered by this interim report.

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

Shenzhen, The People's Republic of China, 10 September 2008

*As at the date hereof, the executive Directors are Mr. Xu Shao Chun (chairman of the Company), Mr. Ho Ching Hua (Chief Executive Officer) and Mr. Chen Deng Kun; the non-executive Directors is Mr. James Ming King; 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 report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*