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 2008

Financial highlights for the year ended 31 December 2008

- Turnover increased by approximately 14% over 2007 to approximately RMB875,300,000.
- Profit attributable to equity holders of the Company increased by approximately 33% over 2007 to approximately RMB181,546,000.
- Basic earnings per share increased by approximately 28% over 2007 to approximately RMB0.0958.
- The Board of Directors recommended a final dividend of HK$0.022 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 2008, together with the comparative audited consolidated figures for 2007 are as follows:

Consolidated income statement

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Turnover	3	875,300	766,874
Cost of sales	5	(184,455)	(159,699)
Gross profit		690,845	607,175
Selling and marketing expenses	5	(428,466)	(327,981)
Administrative expenses	5	(226,930)	(224,502)
Other gain, net	4	147,624	91,762
Operating profit		183,073	146,454
Finance income	6	6,315	5,136
Finance costs	6	(97)	(904)
Finance costs - net	6	6,218	4,232
Share of loss of associates		-	(607)
Profit before income tax		189,291	150,079
Income tax expense	7	(4,264)	(11,344)
Profit for the year		185,027	138,735
Attributable to:			
Equity holders of the Company	8	181,546	136,476
Minority interest		3,481	2,259
		185,027	138,735
Earnings per share for profit attributable to the equity holders of the Company during the year			
- basic	8	RMB 0.0958	RMB 0.0750
- diluted	8	RMB 0.0906	RMB 0.0700
Dividends	9	37,213	36,470

Consolidated balance sheet

	Note	As at 31 December 2008	2007
ASSETS		RMB'000	RMB'000
Non-current assets			
Leasehold land and land use right		84,951	18,211
Property, plant and equipment		328,760	206,992
Intangible assets		115,458	86,918
Investment properties	10	53,903	-
Investments in associates		-	-
Deferred income tax assets		5,749	3,841
		588,821	315,962
Current assets			
Inventories		2,773	2,313
Trade and other receivables	11	136,875	117,928
Due from customers on implementation contracts		57,827	27,852
Pledged bank deposits		2,213	6,777
Short-term bank deposits		95,247	39,633
Cash and cash equivalents		423,640	392,185
		718,575	586,688
Total assets		1,307,396	902,650
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	12	50,923	48,773
Share premium	12	241,194	98,786
Other reserves		343,160	321,835
Retained earnings			
- Proposed final dividend		37,213	36,470
- Others		224,674	101,666
		897,164	607,530
Minority interest in equity		8,780	5,299
Total equity		905,944	612,829
LIABILITIES			
Current liabilities			
Trade and other payables	13	263,091	159,106
Current income tax liabilities		7,071	11,227
Borrowings	14	9,500	-
Due to customers on implementation contracts		41,900	44,714
Deferred income		79,890	74,774
		401,452	289,821
Total equity and liabilities		1,307,396	902,650
Net current assets		317,123	296,867
Total assets less current liabilities		905,944	612,829

Consolidated statement of changes in equity

	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interest RMB'000	Total equity RMB'000
		Attributable to equity holders of the Company						
Balance at 1 January 2007		48,282	75,005	232,080	116,569	471,936	3,040	474,976
Profit for the year		-	-	-	136,476	136,476	2,259	138,735
Capitalisation of retained earnings of a subsidiary		-	-	65,000	(65,000)	-	-	-
Employees share option scheme:								
- value of employee services	12	-	10,968	-	-	10,968	-	10,968
- proceeds from shares issued	12	491	10,333	-	-	10,824	-	10,824
Share options granted to related parties	12	-	2,480	-	-	2,480	-	2,480
Appropriation to reserve funds		-	-	20,759	(20,759)	-	-	-
Dividend relating to 2006	9	-	-	-	(29,150)	(29,150)	-	(29,150)
Currency translation difference		-	-	3,996	-	3,996	-	3,996
Balance at 31 December 2007		48,773	98,786	321,835	138,136	607,530	5,299	612,829
Balance at 1 January 2008		48,773	98,786	321,835	138,136	607,530	5,299	612,829
Profit for the year		-	-	-	181,546	181,546	3,481	185,027
Employees share option scheme:								
- value of employee services	12	-	16,100	-	-	16,100	-	16,100
- proceeds from shares issued	12	397	8,661	-	-	9,058	-	9,058
Issue of shares		1,796	119,482	-	-	121,278	-	121,278
Repurchase of own shares	12	(43)	(1,835)	43	(43)	(1,878)	-	(1,878)
Appropriation to reserve funds		-	-	21,282	(21,282)	-	-	-
Dividend relating to 2007	9	-	-	-	(36,470)	(36,470)	-	(36,470)
Balance at 31 December 2008		50,923	241,194	343,160	261,887	897,164	8,780	905,944

Consolidated cash flow statement

	Note	Year ended 31 December 2008	2007
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations		297,537	277,246
Interest paid		(312)	(140)
Income tax paid		(11,550)	(8,391)
Net cash generated from operating activities		285,675	268,715
Cash flows from investing activities			
Purchase of property, plant and equipment ("PPE")		(161,800)	(108,965)
Proceeds from sales of PPE		6,657	404
Payments for land use right		(70,512)	(235)
Addition of intangible assets		(85,318)	(59,221)
Pledged bank deposits withdrawn		4,564	16
Short-term bank deposits placed		(55,614)	(15,000)
Interest received		6,315	3,835
Net cash used in investing activities		(355,708)	(179,166)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	12	121,278	-
Proceeds from exercised options	12	9,058	10,824
Repurchase of own shares	12	(1,878)	-
Proceeds from borrowings		9,500	-
Repayments of borrowings		-	(37,150)
Dividends paid to the Company's shareholders		(36,470)	(29,150)
Net cash generated /(used in) from financing activities		101,488	(55,476)
Net increase in cash and cash equivalents		31,455	34,073
Cash and cash equivalents at beginning of year		392,185	358,845
Exchange losses on cash and cash equivalents		-	(733)
Cash and cash equivalents at end of year		423,640	392,185

Notes:

1 Basis of preparation

The consolidated financial statements of the company have been prepared in accordance with International Financial Reporting Standards (''IFRS''). They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are carried at fair value.

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.

Amendments and interpretations effective in 2008

- The IAS39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to IFRS7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

- IFRIC - Int 11, 'IFRS 2 – Group and treasury share transactions, '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. This interpretation does not have an impact on the Group's financial statements.

- IFRIC - Int 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements, as the Group has a pension deficit and is not subject to any minimum funding requirements.

Interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

- IFRIC – Int 12, 'Service Concession arrangements'

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:

	2008	**2007**
	RMB'000	RMB'000
Sales of software	555,254	520,197
Software implementation services	198,806	153,833
Software solution consulting and support services	108,761	80,423
Sales of computer and related products	12,479	12,421
	875,300	766,874

4 Other gains – net

	2008	**2007**
	RMB'000	RMB'000
VAT refund (Note(a))	89,548	79,495
Government Grant	12,708	2,426
Tax refund for re-investments in a subsidiary	-	3,993
Fair value gain on investment properties (Note 10)	38,662	-
Others	6,706	5,848
	147,624	91,762

(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.

5 Expenses by nature

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

	2008	2007
	RMB'000	RMB'000
Research and development costs		
Amounts incurred	116,041	99,672
Less: development costs capitalised	(80,318)	(58,721)
Add: amortisation of charge	55,248	45,412
	90,971	86,363
Employee benefit expenses	490,262	385,579
Less: amount included in development costs	(91,928)	(82,653)
	398,334	302,926
Cost of inventories consumed	18,625	27,361
Depreciation	18,500	13,550
Amortisation of computer software	1,530	2,309
Amortisation charge of leasehold land and land use right	1,801	391
Impairment of goodwill	-	14,018
Impairment of receivables (Note 11)	793	16,621
Impairment of available-for-sale financial assets	-	66
Loss on disposals of PPE	1,605	353
Auditors' remuneration	1,600	1,750
Advertising costs	54,875	41,911
Sales promotion costs	50,320	38,140
Professional service costs	12,766	11,766
Traveling costs	30,587	25,953
Rental and utilities	38,332	31,373
Outsourcing services	41,810	32,570
Others	77,402	64,761
Total cost of sales, selling and marketing expenses and administrative expenses	839,851	712,182

6 Finance costs - net

	2008	2007
	RMB'000	RMB'000
Interest income	6,315	5,136
Bank charge	(312)	(140)
Net foreign exchange gains/(loss)	215	(764)
	6,218	4,232

7 Income tax expense

	2008	2007
	RMB'000	RMB'000
PRC income tax		
- Current income tax	7,075	10,239
- (Over-provision) /under-provision in previous year	(903)	1,413
- Deferred income tax	(1,908)	(308)
	4,264	11,344

(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) Pursuant to the relevant income tax law of the PRC, before the effective of the Corporate Income Tax Law of the People's Republic of China (hereinafter "the new CIT Law") the subsidiaries of the Group established in the PRC are subject to income tax at a rate of 33% unless preferential rates are applicable in the cities where the subsidiaries are located.

Effective from 1 January 2008, the subsidiaries of the Group determined and paid the corporate income tax in accordance with the new CIT Law as approved by the National People's Congress on 16 March 2007. According to the new CIT Law and the relevant regulations, the new corporate income tax rate applicable to the subsidiaries of the Group is 25% unless preferential rates are applicable in the cities where the subsidiaries are located.

(c) According to Cai Shui Zi [2000] No.25 issued by related tax authorities in the PRC, subsidiaries of the Group which are qualified as national important software enterprises which are not in their tax holiday period. They are entitled to a preferential enterprise income tax rate of 10%.

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

	2008	2007
	RMB'000	RMB'000
Profit before tax	189,291	150,079
Tax at the statutory tax rate of 25% (2007: 33%)	47,323	49,525
– Effect of preferential tax rates	(33,061)	(34,518)
– Tax losses not recognised	1,971	2,412
– Expenses not deductible for tax purposes	1,195	3,937
– Income not subject to tax	(10,302)	(6,441)
– Additional deductible allowance for research and development expenses	(1,959)	(4,984)
– Under-provision/(over-provision) of income tax in previous year	(903)	1,413
	4,264	11,344

8 Earnings per share

As described in Note 12 (b), the Company undertook a share subdivision during 2008. The calculation of the 2007 and 2008 earning per share had been restated/computed as if the ordinary share had always been subdivided to a par value of HK$ 0.025 each as at the beginning of 1 January 2007.

(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.

	2008	**2007** Restated
Profit attributable to equity holders of the Company (RMB'000)	181,546	136,476
Weighted average number of ordinary shares in issue (thousands)	1,894,201	1,818,512
Basic earnings per share (RMB per share)	0.0958	0.0750

(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.

	2008	**2007** Restated
Profit attributable to equity holders of the Company (RMB'000)	181,546	136,476
Weighted average number of ordinary shares in issue (thousands)	1,894,201	1,818,512
Adjustments for – share options (thousands)	109,468	131,516
Weighted average number of ordinary shares for diluted earnings per share (thousands)	2,003,669	1,950,028
Diluted earnings per share (RMB per share)	0.0906	0.0700

9 Dividends

The directors recommend the payment of a final dividend of RMB 0.019 (HK$ 0.022) per ordinary share, totally RMB 37,213,000(HK$ 42,288,000) Such dividend is to be approved by the shareholders at the Annual General Meeting on 12 May, 2009. These financial statements do not reflect this dividend payable.

	2008	**2007**
	RMB'000	RMB'000
Proposed final dividend of RMB 0.019 (2007: RMB 0.020) per ordinary share	37,213	36,470

10 Investment Properties

	2008	**2007**
	RMB'000	RMB'000
At 1 January	-	-
Transfer from PPE	13,270	-
Transfer from leasehold land and land use right	1,971	-
Fair value gains (Note 4)	38,662	-
At 31 December	53,903	-

The investment properties are valued annually on 31 December at fair value, comprising market value by an independent, professionally qualified valuer from the PRC.

The Group's interests in investment properties at their net book values are analysed as follows:

	2008	**2007**
	RMB'000	RMB'000
In the PRC, held on:		
Leases of over 50 years	53,903	-

The investment properties represent the first and second floors of Block 2 in the Group's research and development center located in Shanghai.

11 Trade and other receivables

	2008	2007
	RMB'000	RMB'000
Trade receivables (Note(a))	126,277	149,489
Less: provision for impairment of receivables (Note(b))	(81,662)	(86,202)
Trade receivables – net	44,615	63,287
Notes receivable	3,169	2,456
Advances to employees (Note(c))	7,229	5,450
Amount due from a director (Note(d))	124	812
Prepayments	39,855	5,942
VAT recoverable	29,807	27,930
Re-investment refund receivable	-	3,993
Amounts due from subsidiaries (Note(e))	-	-
Other Receivables	12,076	8,058
	136,875	117,928

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.

The credit quality of financial assets that are neither past due nor impaired can be assessed by making reference to historical information about counterparty default rates.

(a) Sales are generally made without prescribed credit terms in the sales contracts but customers usually take 1 to 3 months to settle the receivables. The ageing analysis of trade receivables is as follows:

	2008	2007
	RMB'000	RMB'000
0 - 180 days	18,415	58,852
181 - 360 days	19,214	16,356
Over 360 days	88,648	74,281
	126,277	149,489

All trade receivables were past due as at 31 December 2008 and they had been considered for impairment.

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

	2008	2007
	RMB'000	RMB'000
At 1 January	(86,202)	(77,084)
Provision for impairment (Note 5)	(793)	(16,621)
Written off as uncollectible	5,333	7,503
At 31 December	(81,662)	(86,202)

The provision for impaired receivables has been included in administrative expenses. The other classes within trade and other receivables balance do not contain any significant impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The Group does not hold any collaterals as security.

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

(d) Amounts due from a director:

Name of key management	**Amount**	**Maximum outstanding during the year**	**Term**	**Interest rate**
	RMB'000	RMB'000		
2008				
Mr. Xu Shao Chun	124	1,816	Repayable on demand	0%
2007				
Mr. Xu Shao Chun	812	812	Repayable on demand	0%

The amount due from a director is advance for business activities.

(e) Amounts due from subsidiaries are unsecured, interest free and repayable on demand.

12 Share capital and premium

	Number of issued shares (thousands)	**Ordinary shares**	**Share premium**	**Total**
		RMB'000	RMB'000	RMB'000
At 1 January 2007	*451,606*	48,282	75,005	123,287
Employee share option scheme				
– Value of services provided	-	-	10,968	10,968
– Exercise of share options	*5,006*	491	10,333	10,824
Share options granted to related parties	-	-	2,480	2,480
At 31 December 2007	*456,612*	48,773	98,786	147,559
Issue of shares (a)	*20,000*	1,796	119,482	121,278
Share sub-division(b)	*1,429,836*	-	-	-
Employee share option scheme				
– Value of services provided	-	-	16,100	16,100
– Exercise of share options	*17,575*	397	8,661	9,058
Repurchase of own shares (c)	*(1,958)*	(43)	(1,835)	(1,878)
At 31 December 2008	*1,922,065*	50,923	241,194	292,117

(a) On 15 April 2008, the issue share capital of the Company increased by approximately RMB 1,796,000 by issuing 20,000,000 ordinary shares at a price of HK$ 6.90 per share through a placing and subscription agreement. These shares rank pari passu with the existing shares.

(b) On 9 May 2008, every one of the then existing issued and unissued shares of HK$ 0.10 each in the capital of the Company was subdivided into four shares of HK$ 0.025 each (the "Subdivided Shares") and the Subdivided Shares shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions contained in the Articles of Association of the Company.

The total number of ordinary shares of the authorised share capital after this sub-division is 4,000 million shares (2007: 1,000 million shares) with a par value of per share HK$ 0.025 (2007: HK$ 0.1 per share).

(c) During the year, 1,958,000 shares were repurchased by the Company on the Hong Kong Stock Exchange at an aggregate consideration of approximately RMB 1,878,000 before expenses and they were cancelled during the year. The nominal value of these shares of 0.025 was credited to capital redemption reserve. The nominal value of these shares of approximately RMB 43,000 and the premium on purchase of approximately RMB 1,835,000 were paid out of the Company's retained earnings and share premium account, respectively.

13 Trade and other payables

	2008	**2007**
	RMB'000	RMB'000
Trade payables (Note(a))	19,626	20,097
Salary and staff welfare payable	24,869	21,245
Advance from customers	112,303	55,034
VAT and business tax payable	26,091	27,392
Accrued expenses	22,168	17,188
Construction fee payable	30,108	12,315
Leasehold land and land use right fee payable	14,102	-
Others	13,824	5,835
	263,091	159,106

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 2008, the ageing analysis of the trade payables is as follows:

	2008	**2007**
	RMB'000	RMB'000
Within 180 days	18,960	18,452
181 - 360 days	288	972
Over 360 days	378	673
	19,626	20,097

14 Borrowings

	2008	2007
Unsecured bank borrowings wholly due within 1 year	9,500	-

The effective interest rate of the borrowing at 31 December 2008 was 4.51%. The fair values of current borrowings approximates their carrying amount.

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates at the balance sheet dates are within 3 months.

15 Commitments

(a) Capital commitments

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

	2008	**2007**
	RMB'000	RMB'000
Contracted but not provided for		
- Property, plant and equipment	64,429	55,417
- Lease Prepayment	14,102	-
	78,531	55,417

(b) Operating lease commitments

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

	2008	**2007**
	RMB'000	RMB'000
Not later than one year	11,918	13,387
Later than one year and not later than five years	10,209	14,944
	22,127	28,331

CLOSURE OF REGISTER

The register of members of the Company will be closed from Thursday, 7 May 2009 to Tuesday, 12 May 2009 (both days inclusive), and during which no transfer of shares will be registered. In order to qualify the shareholders of the Company to attend, act and vote at the Annual General Meeting ('AGM') of the Company to be held on 12 May 2009 ("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 Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 6 May 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

I. Enterprise Management Software

1. Industry Overview

Backed by the determination and efforts of the PRC in reforming its economy in the past 30 years, the competitiveness of Chinese enterprise management have been growing continuously, and enterprise management software industry has been a key contributor. In the second half of 2008, as the global financial crisis spread, the Chinese economy and in turn Chinese enterprises were affected differently. Some export companies have been pushed to the verge of collapse because of the difficult operational environment and tight capital supply. Other enterprises that have not experienced great operational difficulties are not sure how to respond in the crisis and have started to lose confidence. Nevertheless some other enterprises, which have strong innovative technology and innovative management capabilities, not only were unaffected, but have been able to actually speed up growth in the adverse business environment. Although the growth of enterprise management software industry has started to slow since the second half of 2008, demand for enterprise management upgrade and transformation continues, the trend of growth of the overall enterprise management software industry has not been altered.

2. Market Position

During the reporting period, the Group executed its service transformation strategy to cover the needs of customers throughout the entire lifecycle of their business, building its enterprise management expert image and promoting the “China management model”. Such efforts, which were widely recognized by the community, have helped to consolidate the Group’s leading presence in the enterprise management software market and brought a number of awards, including:

(1) 2008 “Shenzhen Mayor’s Quality Award” from the Shenzhen Municipal Government (December 2008)
(2) 2008 “Extraordinary Contribution for Management Award” from Sino Foreign Management (November 2008)
(3) Named the third time among “Asia’s Top 200 SME” by Forbes Asia (September 2008)
(4) IBM Websphere Beacon Award Finalist from IBM (April 2008)
(5) Chairman of the Group Mr. Xu Shaochun won the “Shenzhen Mayor Award for Innovative Technology” presented by the Shenzhen Municipal Government (June 2008)
(6) Chairman of the Group Mr. Xu Shaochun named among the “30 Economy People Influencing Shenzhen during the 30 years reform and opening-up” jointly by Shenzhen General Chamber of Commerce and other organizations (December 2008)

3. Business Review

During the reporting period, the Group embarked on a service transformation strategy and made a number of achievements. It made a breakthrough in channel expansion and focused on the high-end market and service business, resulting in rapid growth of income from distribution income, high-end product and services.

(1) Enlarged channel coverage and share in SME market

During the period under review, the Group continued to enlarge its distribution coverage so as to increase its share in the SME market. It kept expanding the nationwide network of distribution partners and accredited and nurtured many implementation partners. It also actively forged partnership in key sectors, such as building a strategic alliance with the China Mobile Shanxi branch to facilitate informatization of SMEs. Income of the distribution segment for 2008 increased by 19% year-on-year, reflecting stronger ability and productivity of its partners.

(2) Stepped up development of large enterprise and industry markets and strengthened management expert image

During the reporting period, riding on the outstanding corporate management capabilities of EAS product, the Group was able to expand the large enterprise segment including state owned enterprises and industry market. Sales of EAS products continued to grow rapidly, generating an income 43% higher year-on-year. EAS solutions made major breakthroughs in various industries including general construction, construction of port, transportation, furniture manufacturing, energy and mining, properties and financial services, etc. Contracts were signed with customers of strategic importance including Guangzhou Port Group, Chengdu QuanU Furniture (Group) Co., Ltd., Guangdong Province Changda Highway Engineering Limited, Shanxi Province Local Power (Group) Corporation, China Orient Asset Management Corporation and Shanghai Lujiazui (Group) Limited etc.

In the reporting period, the Group seized the opportunities bred by the government financial reform and government effort to boost domestic demand to develop the government financial management market. It launched Kingdee GAS 3.0 which is a solution platform to meet the needs of government and public service departments in financial reform and management. The Group signed a number of project contracts including one for a central government owned enterprise safe production emergency platform and the central government owned enterprise performance assessment and management system with the Stated-Owned Assets Supervision and Administration Commission of the State Council, and the taxation bureau of Gansu Province, etc.

(3) Pushed forward with service transformation aiming to boost customer loyalty and sustainable income

During the reporting period, the Group pushed ahead in business transformation with strategies tailored to meet the needs of customers during the entire lifecycle of their businesses and operations. It has put out innovative service products and set up service systems covering aspects including consultation, implementation, maintenance, and training, etc. This move has allowed the Group to lay down initial service standards and parameters for its professional services and optimize its call center services, online services, remote and on-site services, to support customers and provide them with diverse and customized value-added services. As a result, the Group was able to boost customer satisfaction and receive contracts in steadily increasing numbers. The Group’s newly established consultation department had provided management and IT consultation services to around 20 enterprises including Perfect (China) Limited, Xinjiang Daming Mining Group Limited and Hong Kong Golden Hans so far, which has greatly enhanced its management expert image. During the year, service income grew by 31% year-on-year, accounting for 35% of the total income of the Group, 4% more year-on-year.

II. Middleware

During the reporting period, the middleware business of the Group continued to hold the leading position in local application server middleware market. It also launched the next generation enterprise integration middleware product Apusic ESB, which reinforced the leadership of the Group in the SOA service sector. The Group also made continuous effort to expand the distribution channel network and market share of the segment. It has been appointed by China Telecom System Integration LLC Xinjiang Branch, Guangzhou Lianyi Information Technology Co., Ltd. and Beijing E-motion Technology Co., Ltd. as their provincial agents and signed cooperative agreements with various industry independent software vendors regarding bundling Kingdee middleware products with their software products.

During the year, the Group secured contracts for its middleware business in the e-Agriculture Project, e-Quality project and the national e-government infrastructure information database project of the National "Four Databases and Twelve Operation Systems". It also completed two Olympic projects – an operational organization and scheduling system project for Beijing Pubic Transport Holdings, Ltd. and an application system project for the Beijing Tourism Bureau, and other key provincial level projects including Safety Guangdong and E-government internet of Hunan Province.

III. Online Management Service and e-Business

During the year, the youshang.com of Kingdee, in SaaS strategic and technological partnership with IBM, launched online management and e-commerce services for China SMEs. youshang.com also established strategic cooperative relationship with partners such as IDC, Intel, ICBC, Guangdong Telecom, the China Association of Small and Medium Enterprises and China Accountancy Industry Association to offer e-commerce service solutions in the areas of marketing, service and technological collaboration to SMEs on an open platform. The youshang.com also won the tender for a "provincial SME public service platform" project from the Department of Information Industry of Guangdong Province and continued to receive funding and support from the government to grow its operations. Youshang online management service passed the stringent assessment of the Accounting Society of China and, as such, has laid down the security and technological benchmarks for application of SaaS management services by enterprises and established Kingdee as a pioneer and leader in the area. Youshang online accounting service received the "SaaS Product Innovation Award" from CCW, making it the only SaaS service product in the financial category in China to earn the honor. As at the end of the reporting period, the online management services provided on youshang.com were applied in many industries, including electronic technology, consultation service, trading, investment, logistics, property agency, etc. in the Asia-Pacific region and Hong Kong, Taiwan and China. The youshang.com boosted an annual accumulated Page View exceeding 10,000,000 and more than 1,800,000 visits and has over 100,000 registered users.

IV. International Business

During the year, despite impact from the global financial crisis, the Group achieved rapid growth for its business in Hong Kong and became one of the largest software and service providers in the city. It forged a loyal customer base comprising foreign enterprises, local traders and multinational manufacturers, and large enterprises under the State-owned Assets Supervision and Administration Commission of the State Council. The Group also actively expanded markets in Singapore, Malaysia and Thailand to develop and enhance its capabilities in internationalized implementation services.

V. Strategic Cooperation and Business Development

1. Global Strategic Alliance

The Group stepped up cooperation with IBM during the year. In addition to working together in the area of SaaS servicing, the partnership also set up a SOA Innovation Center to nurture SOA software architects and develop the EAS WebSphere Adaptor prototype to optimize the SOA structure of next generation ERP products. As for its high-end consultation service, the Group combined strengths with IBM and, together with IBM's management consultation team, provided software and implementation support to companies such as Beijing Jingya Group.

2. Business Development

The Group always emphasizes on whole process application of different industries. The Group has been active in acquiring software suppliers and establishing strategic partnership with industry IT enterprises focusing on different industries. During the period under review, the Group completed the negotiation regarding the acquisition of Shenzhen Sunsoft Technology Co,. Ltd., the most active software vendor for retail chains in Guangdong.

Also, the Group acquired the rights to use an approximately 140,000 sq. m. plot of land from the Beijing Shunyi District Government at approximately RMB 70,000,000. The Group plans to invest in building a software park in Beijing in the next few years to take advantage of the geographical merits of the capital city to attract high caliber software and management talents who can help the Group to expand markets in Northern China.

VI. Social Responsibility

The Group has been steadfast in operating its business with integrity and fulfilling its social responsibility. After the disastrous earthquake hit Wenchuan in Sichuan province on 12 May 2008, the Group and its staff raised donations totaling over RMB 1,800,000 for the region. Chairman of the Group, Mr. Xu Shaochun, personally donated RMB 1,000,000 to set up a "Kingdee Education Aid Fund for Mao Xian" to subsidize poor primary and secondary school students and dedicated teachers.

During the year, the Group sponsored the council comprising the Chinese Society for Management Modernization, the China Europe International Business School, the Guanghua School of Management of Beijing University, the School of Economics and Management of Tsinghua University, the School of Business of Remin University, the Antai College of Economics & Management of Shanghai Jiao Tong University and the School of Management of the Graduate University of Chinese Academy of Sciences to organize the first "China Outstanding Management Model Award". The aim of the award is to encourage innovation in management among Chinese enterprises, facilitate modernization of enterprise management in China and promote the China management model to the world.

Financial Review

For the year ended 31 December 2008, the Group's turnover amounted to RMB 875,300,000, representing an increase of 14% against 2007 (2007: RMB 766,874,000). The revenue growth was stable but lower than that of last year. This was because with the China economy affected by the global financial crisis in the second half of the year, the traditional peak season for sales, the slowdown in revenue dragged down income growth of the Group for the entire year.

During the year, the Group realized revenue from software of RMB 555,254,000, representing an increase of 7% against 2007 (2007: RMB 520,197,000), and service revenue of RMB 307,567,000, representing an increase of 31% against 2007 (2007: RMB 234,256,000). During the year, the Group's cash flow generated from operating activities was RMB 285,675,000, representing an increase of 6% over that of 2007 (2007: RMB 268,715,000).

During the reporting period, the debtor turnover days was 57 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) (2007: 70 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 2008, profit attributable to equity holders of the Company was RMB 181,546,000, representing an increase of 33% against 2007 (2007:RMB 136,476,000). During the year, net profit margin was 21% (2007: 18%) and basic earnings per share were RMB 0.0958 (2007: RMB 0.075).

Gross Profit

Gross profit of the Group increased by approximately 14% from RMB 607,175,000 for the year 2007 to RMB 690,845,000 for 2008. Gross profit margin for the year was stable at approximately 79% (2007: approximately 79%).

Selling and Marketing Expenses

Selling and marketing expenses for the year was approximately RMB 428,466,000 (2007: RMB 327,981,000), representing an increase of 31% against last year. Selling and marketing expenses accounted for a comparable 49% of turnover, compared to 43% in 2007. The higher proportion was attributable to the Group's execution of the aggressive strategy made at beginning of the year.

Administrative Expenses

Administrative expenses for 2008 amounted to RMB 226,930,000 (2007: RMB 224,502,000), representing an increase of approximately 1%. During the period, administrative expenses accounted for a comparable 26% of the turnover, compared to 29% in 2007. This was because the cost of R&D was approximately RMB 90,971,000, representing an increase of only 5% as compared with 2007 (2007: RMB 86,363,000) while other administrative expenses were effectively controlled.

Capital Expenditure

For the year ended 31 December 2008, the Group's major capital expenditure mainly included cost of leasehold land and land use right of RMB 70,512,000 (2007: RMB 235,000), construction cost of the Shanghai and Shenzhen Research Centers of RMB 132,430,000 (2007: RMB 53,437,000), R&D capitalized expenses of RMB 80,318,000 (2007: RMB 58,721,000), and purchase of computer and related equipment in the amount of RMB 17,099,000 (2007: RMB 7,085,000).

Financial Resources and Liquidity

The Group was in a healthy cash flow position. As at 31 December 2008, the Group had cash and cash equivalents plus deposits amounting to approximately RMB 521,100,000 (2007: RMB 438,595,000). Current ratio was 1.80 (2007: 2.02) and gearing ratio (defined as the ratio of bank borrowings to shareholder equity) was approximately 1% (2007: 0%).

As at 31 December 2008, the Group's short-term bank loan amounted to RMB 9,500,000 (2007: nil). As at 31 December 2008, the Group did not have any long-term bank loan (2007: nil).

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

Future Prospects

Amid the global financial and economic crisis, the Group will continue to operate their businesses with prudence in the first half of 2009. The management of Kingdee firmly believes confidence and shrewd management will make the difference for an enterprise in challenging times. The business environment has prompted more large enterprises to choose local enterprise management software solutions that have higher performance to price ratio and many SMEs have come to realize the importance of boosting their management competitiveness in helping them overcome external crisis. These phenomena have presented to the Group opportunities and product demand. In the larger environment, the Chinese Government has not only continued to support the development of the local software industry, but has also launched financial and monetary policies to stimulate domestic demand, assisted SMEs to transform or upgrade their businesses and encouraged enterprises to adopt relevant information technologies to improve management and enhance competitiveness. In the country's plan to invigorate the electronics and information industry, the government offers tax benefits, encourages enterprises to use locally-developed software, provides financial subsidies for industry development, supports industry integration and mergers and acquisitions, etc. to foster development of software enterprises.

In 2009, the Group will uphold the strategic direction of stepping up service transformation, expanding distribution channels, responding promptly to market, building up management expert image, expanding profit and saving costs, as well as ensuring steady growth. It will also continue to strengthen services to meet the needs of customers throughout their business lifecycle and explore the value of strategic and industry customers. Furthermore, it will strive to enlarge its marketing and sales service channel network, expand income from the distribution and service segments, speed up product and service innovation, reinforce its management expert image and provide customers with better value added services. To maintain profitability, it will also push on with improving risk management, internal control, and cost management and to improve its cost structure. Capitalizing on the opportunities presented by the economic crisis, the Group will actively identify and pursue merger and acquisition of industry software vendors and small to medium size software enterprises to consolidate its market leadership. In addition, the Group will continue to fulfill its social responsibility, assist Chinese enterprises in improving their capabilities, drive the embrace of the China management model and help more Chinese enterprises cope more effectively in the current economic downturn.

CHANGE OF DIRECTORS

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 personal concerns.

Mr. Charles Po-Shun Wu had been appointed as non-executive director of the Company with effect from 31 March 2008. Mr. Wu had tendered his resignation as a non-executive director of the Company with effect from the conclusion of the Board Meeting on 10 September 2008 due to the reason of his business engagements.

Mr. Ho Ching Hua has tendered his resignation as the Chief Executive Officer due to his health and family reasons, and has been re-designated from an executive director to a non-executive director, and appointed as the Chief Strategy Consultant of the Strategy Committee of the Board with effect from the conclusion of the Board Meeting on 31 December 2008.

In accordance with Article 116 of the Company's Articles of Association, Mr. Ho Ching Hua, a non-executive Director, Mr. Wu Cheng and Mr. Yeung Kwok On, 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.

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 2008.

Provisions A.2.1 requires for the segregation of the roles of Chairman of the Board (the "Chairman") and Chief Executive Officer (“CEO”) of the Code. On 31 December 2008, Mr. Ho Ching Hua has tendered his resignation as the Chief Executive Officer due to his health and family reasons. Mr. Xu Shao Chun has been appointed as the Chief Executive Officer on the same day. Therefore, since 31 December 2008, Mr. Xu Shao Chun has been performing both roles of the Chairman and CEO. The Board considers that Mr. Xu Shao Chun has the experience of performing as the chairman and CEO before. He is able to differentiate his responsibilities under each role and act accordingly. Mr. Xu Shao Chun is proficient in IT knowledge and is able to manage the fast and myriad changes in the business. Facing the enormous challenges under the current financial crisis and economic environment, he can lead the Company to react swiftly and make timely decision in this fast-moving IT industry and ensure sustainable development of the Company. Notwithstanding the above, the Board will review the current organization structure from time to time and will make appropriate changes when necessary.

AUDIT COMMITTEE

During the financial year ended 31 December 2008, the Audit Committee has held three meetings.

a) The Audit Committee has reviewed the Company’s annual financial report and Internal Control Report for the year ended 31 December 2007 approved by the Board.

b) The Audit Committee has reviewed the Company’s interim financial statements of 2008 and Internal Control Report, approved by the Board.

c) The Audit Committee has communicated with the auditor of the 2008 annual audit work and audit plans.

The Audit Committee has reviewed the Company’s annual financial report for the year ended 31 December 2008.

EXTERNAL AUDITORS

PricewaterhouseCoopers was appointed as the external auditors of the Company for the year of 2008.

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

AUDITORS’ PROCEDURES PERFORMED ON THIS RESULTS ANNOUNCEMENT

The figures set out in the annual results announcement of the Group for the year ended 31 December 2008 have been agreed by the Company’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with International Standards on Auditing, International Standards on Review Engagements or International Standards on Assurance Engagements and consequently no assurance has been expressed by PricewaterhouseCoopers on the announcement.

APPRECIATION

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

By order of the Board

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED
Xu Shao Chun
Chairman

Shenzhen, the PRC, 25 March, 2009

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