

Kingdee

Kingdee International Software Group Company Limited

Stock Code: 268

KINGDEE, ENTERPRISE MANAGEMENT EXPERT

INTERIM REPORT 2009





**KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY
LIMITED**

金蝶國際軟件集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 268)

INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2009

Financial highlights for the six months ended 30 June 2009

- Turnover increased by 4.31% over the same period in 2008 to approximately RMB440,574,000
- Profit for the period increased by 43.55% over the same period in 2008 to approximately RMB76,577,000
- Profit attributable to equity holders of the Company during the period increased by 41.1% over the same period in 2008 to approximately RMB74,826,000
- Basic earnings per share for profit attributable to the equity holders of the Company during the period increased by approximately 33.66% over the same period in 2008 to RMB3.796 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 2009, together with the comparative unaudited consolidated figures for the corresponding period in 2008 are as follows:

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2009

		Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
	<i>Notes</i>		
ASSETS			
Non-current assets			
Property, plant and equipment	5	310,442	328,760
Leasehold land and land use right	6	83,382	84,951
Intangible assets	5	157,182	115,458
Investment properties	7	202,131	53,903
Deferred income tax assets		1,863	5,749
Total non-current assets		755,000	588,821
Current assets			
Inventories		1,613	2,773
Trade and other receivables	8	145,273	136,875
Due from customers on implementation contracts		70,335	57,827
Pledged bank deposits		275	2,213
Short-term bank deposits		95,990	95,247
Cash and cash equivalents		375,529	423,640
Total current assets		689,015	718,575
Total assets		1,444,015	1,307,396

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2009

	<i>Notes</i>	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	9	53,081	50,923
Share premium	9	359,090	241,194
Other reserves		369,410	343,160
Retained earnings			
– Proposed final dividend		—	37,213
– Others		299,329	224,674
		<hr/>	<hr/>
		1,080,910	897,164
Minority interest		<hr/> 10,531	<hr/> 8,780
Total equity		<hr/> 1,091,441	<hr/> 905,944
LIABILITIES			
Current liabilities			
Trade and other payables	10	232,083	263,091
Current income tax liabilities		—	7,071
Borrowings	11	37,378	9,500
Due to customers on implementation contracts		28,903	41,900
Deferred income		54,210	79,890
		<hr/>	<hr/>
Total current liabilities		352,574	401,452
Total equity and liabilities		<hr/> 1,444,015	<hr/> 1,307,396
Net current assets		<hr/> 336,441	<hr/> 317,123
Total assets less current liabilities		<hr/> 1,091,441	<hr/> 905,944

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2009

		Unaudited	
		Six months ended 30 June	
	Notes	2009	2008
		RMB'000	RMB'000
Turnover	12	440,574	422,366
Cost of sales	14	(91,637)	(90,619)
Gross profit		348,937	331,747
Selling and marketing expenses	14	(245,849)	(197,706)
Administrative expenses	14	(119,574)	(120,994)
Other gains	13	92,112	46,443
Operating profit		75,626	59,490
Finance costs – net		(19)	(1,180)
Share of loss of associates		—	—
Profit before income tax		75,607	58,310
Income tax expense	15	970	(4,965)
Profit for the period		76,577	53,345
Attributable to:			
Equity holders of the Company		74,826	53,029
Minority interest		1,751	316
		76,577	53,345
Earnings per share for profit attributable to the equity holders of the Company			
– basic	16	RMB 3.796cents	RMB 2.840cents
– diluted	16	RMB 3.665cents	RMB 2.699cents
Dividends		—	—

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	Unaudited	
	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Profit for the period	76,577	53,345
Other comprehensive income	—	—
Total comprehensive income for the period	76,577	53,345
Total comprehensive income attributable to:		
– equity holders of the Company	74,826	53,029
– minority interest	1,751	316
	76,577	53,345

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

(All amounts in Renminbi thousand unless otherwise stated)

		Unaudited						
		Attributable to equity holders of the Company						
Notes	Share capital	Share premium	Other reserves	Retained earnings	Total	Minority Interest	Total equity	
	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	9	16,100	—	—	16,100	—	16,100
	– Proceeds from shares issued	9	8,661	—	—	9,058	—	9,058
	Issue of shares	9	119,482	—	—	121,278	—	121,278
	Repurchase of own shares	9	(1,835)	43	(43)	(1,878)	—	(1,878)
	Appropriation to reserve funds		—	21,282	(21,282)	—	—	—
	Dividend relating to 2007	17	—	—	(36,470)	(36,470)	—	(36,470)
	Balance at 31 December 2008	<u>50,923</u>	<u>241,194</u>	<u>343,160</u>	<u>261,887</u>	<u>897,164</u>	<u>8,780</u>	<u>905,944</u>
	Balance at 1 January 2009	50,923	241,194	343,160	261,887	897,164	8,780	905,944
	Profit for the period	—	—	—	74,826	74,826	1,751	76,577
	Employees share option scheme:							
	– Value of employee services	9	9,864	—	—	9,864	—	9,864
	– Proceeds from shares issued	9	4,339	—	—	4,517	—	4,517
	Issue of shares	9	103,693	—	—	105,673	—	105,673
	Fair value gain on investment properties		—	26,250	—	26,250	—	26,250
	Dividend relating to 2008	17	—	—	(37,384)	(37,384)	—	(37,384)
	Balance at 30 June 2009	<u>53,081</u>	<u>359,090</u>	<u>369,410</u>	<u>299,329</u>	<u>1,080,910</u>	<u>10,531</u>	<u>1,091,441</u>

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2009

	Unaudited	
	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Cash flows from operating activities:		
Cash generated from operations	(30,690)	11,648
Income tax paid	(5,132)	(10,324)
Net cash generated from operating activities	(35,822)	1,324
Cash flows from investing activities:		
Purchase of property, plant and equipment	(52,025)	(46,576)
Proceeds from sales of property, plant and equipment	101	45
Payments for leasehold land and land use right	—	(56,409)
Additions of intangible assets	(64,294)	(39,059)
Payments for held-to-maturity financial assets	—	(75,000)
Increase/Decrease in pledged bank deposits	1,938	4,371
Increase/Decrease in short-term bank deposits	(743)	19,328
Interest received	2,050	2,537
Net cash used in investing activities	(112,973)	(190,763)
Cash flows from financing activities:		
Proceeds from issuance of shares	110,190	127,242
Proceeds from borrowings	37,378	9,500
Repayment of borrowings	(9,500)	—
Dividends paid to Company's shareholders	(37,384)	(36,835)
Net cash generated/(used in) from financing activities	100,684	99,907
Net decrease in cash and cash equivalents	(48,111)	(89,532)
Cash and cash equivalents at beginning of the period	423,640	392,185
Exchange losses on cash and cash equivalents	—	(33)
Cash and cash equivalents at end of the period	375,529	302,620

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 Kingdee Software Park, 2 Keji 12th Road South, Hi-Tech Industrial Park, 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 shares listed 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 16 September 2009.

2. Basis of preparation

This unaudited condensed consolidated interim financial information for the half-year ended 30 June 2009 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 2008, which have been prepared in accordance with International Financial Reporting Standards.

3. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. Accounting policies *(Continued)*

- IAS 1 (revised), 'Presentation of financial statements'.
- IFRS 8, 'Operating segments'.
- IAS 23 (amendment), 'Borrowing costs'.
- IFRS 2 (amendment), 'Share-based payment'.
- IAS 32 (amendment), 'Financial instruments: presentation'.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant for the Group.

- IFRIC 9 (amendment), 'Reassessment of embedded derivatives' and IAS/HKAS 39 (amendment), 'Financial instruments: Recognition and measurement'.
- IFRIC 13, 'Customer loyalty programmes'.
- IFRIC 15, 'Agreements for the construction of real estate'.
- IFRIC 16, 'Hedges of a net investment in a foreign operation'.
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'.

4. Segment information

The chief operating decision-maker has been identified as the board of directors of the Company. The board of directors reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The board of directors considers the business from product perspective. On first-time adoption of IFRS 8 "Operating Segments", the Group determined that the operating segments were the same as the business segments previously identified under IAS 14 Segment Reporting. The Group's revenue, expenses, assets, liabilities and capital expenditure are primarily attributable to the development and sales of software products. The directors consider that there is only one business segment for the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. Property, plant, equipment and intangible assets

	Unaudited	
	Property, plant and equipment RMB'000	Intangible assets RMB'000
Six months ended 30 June 2008		
Opening net book amount at 1 January 2008	206,992	86,918
Additions	61,738	39,059
Disposals	(62)	—
Depreciation and amortisation	(6,963)	(30,191)
Closing net book amount at 30 June 2008	261,705	95,786
	<u><u> </u></u>	<u><u> </u></u>
Six months ended 30 June 2009		
Opening net book amount at 1 January 2009	328,760	115,458
Additions	52,025	75,542
Disposals	(297)	—
Transfer to investment properties	(64,513)	—
Depreciation and amortisation	(5,533)	(33,818)
Closing net book amount at 30 June 2009	310,442	157,182
	<u><u> </u></u>	<u><u> </u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6. Leasehold land and land use right

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Opening net book amount at 1 January 2008	84,951	18,211
Additions	3,839	70,512
Transfer to investment properties	(4,335)	(1,971)
Amortisation charge	(1,073)	(1,801)
At 30 June /31 December	83,382	84,951
Represented by:		
Cost	87,572	88,068
Accumulated amortisation charges	(4,190)	(3,117)
	83,382	84,951

Amounts were paid for obtaining land use rights in the PRC. The related ownership certificates have been obtained.

7. Investment properties

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Opening net book amount at 1 January	53,903	—
Transfer from property, plant and equipment	64,513	13,270
Transfer from leasehold land and land use right	4,335	1,971
Fair value gains	79,380	38,662
At 30 June /31 December	202,131	53,903

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8. Trade and other receivables

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Trade receivables	147,564	126,277
Less: provision of receivables	(90,565)	(81,662)
	<hr/>	<hr/>
Trade receivables – net	56,999	44,615
Notes receivable	3,047	3,169
Advance to employees	10,487	7,353
Prepayments	25,359	39,855
VAT recoverable	28,012	29,807
Others	21,369	12,076
	<hr/>	<hr/>
	145,273	136,875
	<hr/> <hr/>	<hr/> <hr/>

- (a) Sales of the Group are generally made without prescribed credit 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:

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
0-180 days	45,702	18,415
181- 360 days	10,876	19,214
Over 360 days	90,986	88,648
	<hr/>	<hr/>
	147,564	126,277
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9. Share capital and share premium

	Number of issued shares (thousands)	Ordinary shares	Share premium	Total
At 1 January 2008 – subdivided	1,826,448	48,773	98,786	147,559
Employees share option scheme:				
- Value of services provided	—	—	16,100	16,100
- Exercise of share options	17,575	397	8,661	9,058
Issue of shares	80,000	1,796	119,482	121,278
Repurchase of own shares	(1,958)	(43)	(1,835)	(1,878)
At 31 December 2008	<u>1,922,065</u>	<u>50,923</u>	<u>241,194</u>	<u>292,117</u>
At 1 January 2009	<u>1,922,065</u>	<u>50,923</u>	<u>241,194</u>	<u>292,117</u>
Employees share option scheme:				
- Value of services provided	—	—	9,864	9,864
- Exercise of share options	7,783	178	4,339	4,517
Issue of shares	90,000	1,980	103,693	105,673
At 30 June 2009	<u>2,019,848</u>	<u>53,081</u>	<u>359,090</u>	<u>412,171</u>

On 22 June 2009, the issue share capital of the Company increased by RMB 1,980,000 by issuing 90,000,000 ordinary shares at a price of HK\$1.37 per share.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10. Trade and other payables

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Trade payables ((a))	16,076	19,626
Salary and staff welfare payable	9,420	24,869
Customers' deposits	114,854	112,303
VAT and business tax payable	14,777	26,091
Accrued expenses	26,808	22,168
Construction fee payable	30,310	30,108
Leasehold land and land use right payable	3,840	14,102
Others	15,998	13,824
	<u>232,083</u>	<u>263,091</u>

(a) As at 30 June 2009, the ageing analysis of trade payables is as follows:

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
0-180 days	15,346	18,960
181- 360 days	175	288
Over 360 days	555	378
	<u>16,076</u>	<u>19,626</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11. Borrowings

	Unaudited 30 June 2009 RMB'000	Audited 31 December 2008 RMB'000
Current bank borrowings	<u>37,378</u>	<u>9,500</u>
Movement in borrowings is analysed as follows:		
Six months ended 30 June 2008		
Opening amount at 1 January 2008		—
Acquisition of borrowings		<u>9,500</u>
Closing amount at 30 June 2008		<u><u>9,500</u></u>
Six months ended 30 June 2009		
Opening amount at 1 January 2009		9,500
Acquisition of borrowings		37,378
Repayment of borrowings		<u>(9,500)</u>
Closing amount at 30 June 2009		<u><u>37,378</u></u>

12. Turnover

	Six months ended 30 June 2009 Unaudited RMB'000	2008 Unaudited RMB'000
Sales of software	281,541	293,227
Software implementation services	75,451	65,205
Software solution consulting and support services	75,693	55,894
Sales of computer and related products	7,889	8,040
	<u>440,574</u>	<u><u>422,366</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13. Other gains

	Six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
	RMB'000	RMB'000
Subsidy income		
- VAT refund	32,691	40,716
- Others	6,790	312
	<u> </u>	<u> </u>
Interest income	2,319	2,537
Fair value gain on investment properties	50,214	—
Others	98	2,878
	<u> </u>	<u> </u>
	92,112	46,443
	<u> </u>	<u> </u>

14. Expenses by nature

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

	Six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
	RMB'000	RMB'000
Research and development costs		
Amounts incurred	67,233	52,831
Less: amounts capitalised	(57,850)	(36,973)
Add: amortisation of capitalised costs	32,727	27,664
	<u> </u>	<u> </u>
	42,110	43,522
	<u> </u>	<u> </u>
Employee benefit expenses	285,340	231,707
Less: amount included in research and development costs	(60,246)	(44,445)
	<u> </u>	<u> </u>
	225,094	187,262
	<u> </u>	<u> </u>
Cost of inventories consumed	14,354	19,352
Depreciation of property, plant and equipment	5,534	6,963
Amortisation of computer software	3,275	901
Amortisation of leasehold land and land use right	1,074	195
Impairment of receivables	8,903	7,729
Loss on disposals of property, plant and equipment	196	17
	<u> </u>	<u> </u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15. Income tax expense

	Six months ended 30 June	
	2009	2008
	Unaudited RMB'000	Unaudited RMB'000
PRC income tax		
- Current income tax	224	4,825
- Over-provision/(under-provision) in previous year	(2,163)	—
- Deferred income tax	969	140
	(970)	4,965
	(970)	4,965

- (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) Subsidiaries of the Group are established in the PRC and subject to Corporate Income Tax (“CIT”) at a rate of 25%, unless preferential rates are applicable in the cities where the subsidiaries are located.
- (c) According to the document “Guo Fa [2000] No.18” issued by the State Council, subsidiaries of the Group recognized as national important software enterprises but are not in their tax holiday periods are entitled to a preferential tax rate of 10% in the relevant year.
- (d) According to China’s corporate income tax regulations, the Group is not required to pay income tax during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16. Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
	RMB'000	RMB'000
Profit attributable to equity holders of the Company	<u>74,826</u>	<u>53,029</u>
Weighted average number of ordinary shares in issue (thousands)	<u>1,970,957</u>	<u>1,867,369</u>
Basic earnings per share	<u>RMB 3.796cents</u>	<u>RMB 2.840cents</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16. Earnings per share (Continued)

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: Share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
	RMB'000	RMB'000
Profit attributable to equity holders of the Company	74,826	53,029
Weighted average number of ordinary shares in issue (thousands)	1,970,957	1,867,369
Adjustments for– share options (thousands)	70,543	97,043
Weighted average number of ordinary shares for diluted earnings per share (thousands)	2,041,500	1,964,412
Diluted earnings per share	RMB 3.665cents	RMB 2.699cents

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17. Dividends

2008 and 2007 final dividends of RMB37,384,000 (HK\$42,407,422)(RMB0.019 per share (HK\$0.022 per share)) and RMB36,835,000 (HK\$40,688,000) (RMB0.02 per share (HK\$0.02125 per share)) were paid in June 2009 and June 2008 respectively. The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2009 (the six months ended 30 June 2008: Nil).

18. Contingent liabilities

The Group had no significant contingent liabilities as of 30 June 2009 (30 June 2008: nil).

19. Related party transactions

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

20. Event occurring after the balance sheet date

The Group and the Company had no significant subsequent events occurring after the balance sheet date.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

1. Industry Overview

In the first half of 2009, with the impacts of the financial and economic crisis prevailing, SMEs in China had to face pressures from reduced orders, increased costs and difficulty in financing. The IT industry was also inevitably affected. On the one hand, amid the crisis, customers were able to see better the importance of informatization to their business, but on the other hand SMEs were cutting down or postponing investment in IT in the uncertain economic environment. The IT industry thus had slowed down in growth in first half year and many SMEs were subjected to heavy pressure on survival breeding merger and acquisition opportunities.

2. Market Position

Despite the unfavorable economic situation, riding on the Chinese government's Electronic Information Industry Adjustment and Revival Plan and strategies to stimulate domestic demand, the Group stepped up studies on management consultation and management models. With "promoting the China management model to the world" as mission, the Group continued to transform from a product company into a service company, building its image as a management service expert and promoting the "China management model". It also continued to enhance awareness of its brand in the high-end market and consolidate its leadership in the SME market. These efforts earned the Group different awards:

Highest customer satisfaction in the SME market in 2008 (2008年中小企業市場用戶滿意度第一) by CCW, April 2009;

The most innovative SaaS provider (最具創新能力的SaaS廠商) by CCW, June 2009;

Management software with the highest execution capability in China (中國最具實踐力的管理軟件) by China Enterprise Confederation, June 2009;

The most capable and innovative software enterprise in China in 2009 (2009中國軟件企業自主創新最具實力獎) by China International Software and Information Service Fair, June 2009;

AAA grade in China software service industry credit assessment (中國軟件服務業信用評估AAA級企業) by the Internet Society of China, March 2009

MANAGEMENT DISCUSSION AND ANALYSIS

3. Business Analysis

In the first half of the year, the Group strived to broaden income sources and trim cost in tackling the economic crisis. The measures undertaken included optimizing corporate organizational structure and pushing forward with transforming into a customer-oriented service company, streamlining work force to enhance overall efficiency, freezing salaries, capping expansion of administration department to control labor expenses, and lowering various fees and tightening supervision.

(1) *Enterprise Management Software*

- **SME Market**

Launched in the first half of the year, KIS V10.0 (professional edition) is an excellent management execution solution tailored for small Chinese industrial and commercial enterprises. It enables collaboration among sales, production, procurement and storage departments of a corporate customer thus allows customer to control costs and risks at the source. To complement the launch of the software, the Group organized a number of launch and trial events for customers to experience the product and was well-received by SME customers.

During the reporting period, pinpointing specific industrial needs of different SMEs, the Group launched three products namely the KIS XinSiLu FuZhuangWang (新絲路服裝王), the KIS CaiShuiWang (財稅王) and KIS JiZhangWang (記賬王). These products are designed to provide customers in the fashion industry with professional solutions covering from production to sales, helping SME customers enhance their tax planning ability and budding enterprises manage cash flow. They have also allowed the Group to keep expanding its product mix and share in the SME market.

The Group also launched a novice version (成長版), a standard version (標準版) and an advanced version (精益版) V12.0 of K/3 to enrich the product line. Kingdee K/3 novice version boasts the features of all-round functionality, easy to use and speedy delivery. As for the Kingdee K/3 standard version, it is capable of quick arrangement of production and procurement based on sales orders and projections, thus allows enterprises to coordinate sales, procurement, production and services thereby ensuring sustainable and rapid growth of its corporate users. Kingdee K/3 advanced version helps a customer manage the entire value chain of the enterprise including supply chain management, production floor management, human resources management, quality control and cost management, allowing for application and advanced management of operations.

MANAGEMENT DISCUSSION AND ANALYSIS

Taking into account the current economic situation and SMEs seeking to transform and upgrade their businesses, the Group organized for SMEs a series of enterprise transformation and upgrade management seminars themed “Shrewd management can make the difference for an enterprise in challenging times”. The Group also held exhibitions on informatization for SMEs in over 100 cities in the country to capture market attention.

During the reporting period, under the guidance of The Ministry of Industry and Information Technology, Kingdee joined hands with IBM, Baidu, Shenzhen Development Bank, CCN86.com, China Association of Small and Medium Enterprises to announce the “Transition and Upgrade for Small and Medium Enterprises-Kingdee Aid Program”. The Program covers five major areas including aids for new business start-ups, financing aid, development support, order support and assistance in business transformation. It takes care of the management improvement needs of SMEs in the different stages of their lifecycle. SME customers will be provided with simple, easy to use high-yield integrated enterprise management solutions covering provision of management software, hardware, management training, consultation, online diagnosis and information assessment, etc.

- **Large Enterprise and Industry Markets**

During the reporting period, the Group actively marketed its products pinpointing medium to large enterprises in specific industries (including conglomerate businesses, manufacturing, construction and properties, cigarette, financial, government and public service departments, etc.). It took part in roadshows of EAS product solutions and dedicated industry seminars in dozens of medium and large cities in the country, effectively reaching targeted markets. The Group launched EAS 6.0 version which has optimized its own finance, human resources and supply chain functions and boosted distribution, manufacturing and integrated management application. In addition, it launched a steel industry version and a property industry version which set it apart in strength in the market. The outstanding corporate management capabilities of EAS products have brought orders to the Group from major customers including Daming Mining, Guangzhou City Construction & Development General Corporation, China Union Pay, Bohai Securities, Guangxi Road & Bridge Engineering Corporation, Shenzhen Airlines, etc.

MANAGEMENT DISCUSSION AND ANALYSIS

- **Services and Consultation**

During the reporting period, the Group pushed ahead with business transformation, structuring its services according to the business and operational cycles of customers. Its innovative service products and service systems cover aspects including consultation, implementation, maintenance, and training, etc., laying down initial professional standards and service requirements, and optimized call center services, online services, remote and on-site services. These diverse and tailored value-added services have fostered customer loyalty and a steady rise in order for the Group. And, by providing management and IT consultation services to enterprises, the Group has markedly enhanced its image as a management expert.

(2) ***Middleware Market***

During the reporting period, Kingdee Middleware launched OperaMasks V2.2 and an online version of open source forum to provide programmers with more flexible frameworks for developing new programs. At the same time, Kingdee has set up subsidiaries in Beijing and Shanghai to provide middleware and related services to local customers and partners and also to attract high caliber local talents who can help it pave the way for strong growth of the segment.

Kingdee continued to develop the government market for its middleware business in the first half year. The Group won a number of tenders including for a platform system from the General Office of the CPC Central Committee, an information resources management platform for central committee of China Association for Promoting Democracy and new rural cooperative medical system project under the Department of Health of Anhui Province. As a benchmark provider of basic software in the country, Kingdee participated in the China International Software Expo and China International Software Service Trade Fair and won the Best Technological Innovation in Chinese Software Industry award (中國軟件行業最佳技術創新獎) and The most capable and innovative software enterprise in China in 2009 (2009 中國軟件企業自主創新最具實力獎).

MANAGEMENT DISCUSSION AND ANALYSIS

(3) *Online Management Service*

Online management service can effectively reduce the cost pressure of informatization on small-to-medium enterprises, helping them resolve difficulties in upgrading enterprise management, coordinating upstream and downstream operations and financing. According to IDC, youshang.com of Kingdee is currently the leader in the online management service and integrated e-Business service market. As at 30 June, youshang.com had over 200,000 registered users.

During the reporting period, youshang.com and Zhuhai office of minority business enterprise (珠海市中小企業局) signed an agreement to jointly build a Zhuhai SME e-commerce service platform to provide complete, one-stop turnkey e-commerce services to more than 40,000 SMEs in Zhuhai. This cooperation mode has been recognized by government departments responsible for SME management in various cities in China and more efforts have been made to promote it.

During the period under review, the Industrial and Commercial Bank of China (“ICBC”) and youshang.com jointly launched the “Online Finance Software for Enterprise E-bank”. ICBC became the first bank in China to launch online accounting service in the market with youshang.com responsible for providing comprehensive financial management services for all online banking users of ICBC, giving them hassle-free access to accounting service and account verification function.

Furthermore, youshang.com signed a strategic cooperation agreement with Lenovo Group, that entails installation of online management service products in Lenovo’s Yangtian (揚天) commercial PC series. The cooperation will allow the Group to quickly extend the coverage of youshang.com.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Strategic Cooperation and other Business Development

The Group continued to strengthen strategic cooperation with IBM. In June, Kingdee and IBM announced their “Blue Wings” cooperation program in Beijing. The program will ride on the long-term strategic partnership between the two companies, marrying the leading software capabilities of IBM and Kingdee’s expertise in ERP and resources of the two companies to provide total software solutions to growth enterprises in China. The entire software series of Kingdee will be installed in IBM servers and storage products to provide affordable and highly efficient all-round solutions to businesses.

During the reporting period, the Group actively pursued acquisitions and business integration. In January, the Group completed the acquisition and integration of Shenzhen Sunsoft Technology, a manufacturer serving the retail industry in Southern China. In April, it acquired Guangzhou Qi Sheng Software Limited, the most active ERP software provider for the garment industry in the Pearl River Delta Region. These moves have boosted the overall capability of the Group in providing the garment industry with informatization solutions thus expanded its share in the market. In May, the Group acquired NanJing Tongmeng, a developer of taxation software, which has enabled it to boost the functionality of related products to better capture opportunities presented by the tax reform.

The Group also signed a concession agreement with The Open Group, where in Kingdee will assist in setting up a China branch of The Open Group for introducing and promoting standards in relation to international corporate structure, SOA structure, distributed system management, software reliability, etc. to help Chinese enterprises improve the standards of their information systems and operational structures and lead the China software sector in contributing to in the setting of international industry standards.

On 22 May, Shenzhen Kingdee Software Park began operation with the inauguration ceremony attended by many government officials including the Vice-governor of Hunan and Deputy Mayor of Shenzhen. The over 60,000 sq. m. park can accommodate 3,000 workers at the same time, providing them with a good working environment, allowing for access to consolidated resources for boosting overall operational efficiency and other benefits such as lower rental expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Consolidated Results of Operation

For the six months ended 30 June 2009, the Group made turnover amounting to approximately RMB440,574,000, representing an increase of 4.3% against the same period last year (for the six months ended 30 June 2008: RMB422,366,000). The slower growth reflected the general slowdown of the ERP industry as a result of the economic downturn.

During the reporting period, the Group realized revenue from software sales of approximately RMB281,541,000, representing a decrease of 4.0% against the same period of 2008 (for the six months ended 30 June 2008: RMB293,227,000). Software distribution sales brought revenue of approximately RMB105,890,000, representing a drop of 5.0% against the same period last year (for the six months ended 30 June 2008: RMB111,421,000) and service revenue amounted to approximately RMB151,144,000, representing an increase of 24.8% against the same period last year (for the six months ended 30 June 2008: RMB121,099,000).

During the reporting period, the Group reaped more profit and saw its net profit margin grew steadily. As at 30 June 2009, profit for the period was approximately RMB76,577,000, representing an increase of approximately 43.6% against the same period of 2008 (for the six months ended 30 June 2008: RMB53,345,000). Basic earnings per share were RMB3.796 cents (for the six months ended 30 June 2008: RMB2.840 cents).

Gross Profit

Gross profit of the Group increased from approximately RMB331,747,000 for the six months ended 30 June 2008 to approximately RMB348,937,000 for the six months ended 30 June 2009, representing an increase of approximately 5.2%. Gross profit margin during the reporting period was approximately 79% (for the six months ended 30 June 2008: 79%).

Selling and Marketing Expenses and Administrative Expenses

Selling and marketing expenses for the six months ended 30 June 2009 was approximately RMB245,849,000 (for the six months ended 30 June 2008: RMB 197,706,000), representing an increase of around 24.4% against the same period last year. Administrative expenses amounted to approximately RMB119,574,000 (for the six months ended 30 June 2008: RMB120,994,000), representing a decrease of approximately 1.2%. During the period, selling and marketing expenses accounted for a comparable 56% of turnover, compared to 47% in the same period last year, while administrative expenses accounted for a comparable 27% of the turnover, compared to 29% in the same period in 2008. The increase in selling and marketing expenses was mainly from increased headcount, advertising costs and marketing activities.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Resources and Liquidity

The Group was in a healthy cash flow position. As at 30 June 2009, it had cash and cash equivalents plus deposits amounting to approximately RMB471,794,000 (31 December 2008: RMB521,100,000). Current ratio (current assets over current liabilities) was 1.95 (31 December 2008: 1.80) and gearing ratio (bank loans over shareholders' fund) was approximately 3% (31 December 2008: 1%).

As at 30 June 2009, the Group owed RMB37,378,000 in bank loan (31 December 2008: RMB9,500,000).

As at 30 June 2009, the Group, not subject to any material exchange rate exposure, had not entered into any foreign exchange futures contract to hedge against exchange rate fluctuation.

As at 30 June 2009, the Group did not have any material contingent liabilities (31 December 2008: nil).

FUTURE PROSPECTS

Although some of the impacts of the financial crisis still linger, the country's economic stimulus measures and plans to invigorate the electronics and information industry are expected to produce more obvious results in the second half year. The IT and informatization industries, can help effectively boost economic growth and corporate productivity. The industries will benefit from the country stepping up efforts to encourage enterprises to adopt local proprietary software and pursue informatization initiatives. Learning their lesson in the financial crisis, Chinese enterprises will also be keen on adopting IT to help them improve efficiency and lower costs. Thus, we continue to have full confidence in the management software, middleware and online management services markets in China.

In the second half year, the Group will continue its transformation to be a service company, consolidate relationship with existing customers, secure large enterprise customers and different industry markets, expand distribution channels and enlarge its share in the SME market. In addition, it will implement prudent financial strategies and step up consolidation of internal resources by implementing a performance-based remuneration system to retain talents and provide work incentives, strictly control expenses and lower costs. The Group will tackle different market situations with prudence and optimism and continue to step up pursuit of mergers and acquisitions and integration, with the aim of cementing its leadership in the industry.

REPORT OF DIRECTORS

SHARE AWARD PLAN

The Company has adopted the Share Award Plan on 25 March 2009. The purpose of Share Award Plan is to recognize and reward the contribution of employees to the growth and development of the Group through an award of shares.

PLACING OF EXISTING SHARES AND SUBSCRIPTION FOR NEW SHARES

On 11 June 2009, Billion Ocean Limited, a substantial shareholder of the Company, has placed a total of 90,000,000 placing shares to not less than six placees at the placing price of HK\$1.37 per placing share. Completion of the placing took place on 16 June 2009. On 22 June 2009, the Company issued 90,000,000 new shares under the general mandate, which were subscribed by Billion Ocean Limited. These 90,000,000 placing shares represent approximately 4.67% of the issued share capital of the Company as at the date of completion of the placing, approximately 4.67% of the issued share capital of the Company as at the date on which general mandate was granted and approximately 4.46% of the issued share capital of the Company as enlarged by the subscription of new shares by Billion Ocean Limited.

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

As at 30 June 2009, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong limited ("Stock Exchange") pursuant to the Model Code for Securities

REPORT OF DIRECTORS

Transactions by Directors of Listed Companies (“Model Code”) as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”), were as follows:

Long positions in shares/underlying shares of the Company

Name of Directors (where appropriate)	Number of shares/ underlying shares	Capacity	Percentage of issued share capital
Xu Shao Chun	567,665,000	Interests of controlled corporation (Note 1)	
	43,001,520	Beneficial owner	
	40,600,000	Other/ Share option (Note 2)	
<i>Aggregate:</i>	651,266,520		32.24%
Chen Deng Kun	91,500	Beneficial owner	
	11,473,116	Other/Share option (Note 2)	
<i>Aggregate:</i>	11,564,616		0.57%
Ho Ching Hua	4,400,000	Other/Share option (Note 2)	
<i>Aggregate:</i>	4,400,000		0.22%
James Ming King	400,000	Other/Share option (Note 2)	
<i>Aggregate:</i>	400,000		0.02%
Gary Clark Biddle	400,000	Other/Share option (Note 2)	
<i>Aggregate:</i>	400,000		0.02%
Yeung Kwok On	200,000	Beneficial owner	
	400,000	Other/Share option (Note 2)	
<i>Aggregate:</i>	600,000		0.03%
Yang Zhou Nan	400,000	Other/Share option (Note 2)	
<i>Aggregate:</i>	400,000		0.02%
Wu Cheng	400,000	Other/Share option (Note 2)	
<i>Aggregate:</i>	400,000		0.02%

REPORT OF DIRECTORS

Notes:

1. Out of the 567,665,000 shares held by Mr. Xu Shao Chun, 334,425,000 shares were held through Oriental Gold Limited and 233,240,000 shares were held through Billion Ocean Limited. Oriental Gold Limited and Billion Ocean Limited are controlled by Mr. Xu Shao Chun, therefore Mr. Xu Shao Chun is deemed to be interested in those 567,665,000 shares.
2. Details of the share options are set out in the paragraph headed “Outstanding Share Options”.

Save as disclosed in this paragraph, as at 30 June 2009, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of Company and its associated corporations (within the meaning of Part XV of the SFO), which as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OUTSTANDING SHARE OPTIONS

Outstanding share options under the 2001 Scheme, 2002 Scheme and 2005 Scheme

Pursuant to the share option scheme of the Company adopted on 30 January 2001 (“2001 Scheme”), an aggregate of 6,880,000 share options were granted, out of which 3,790,000 share options were exercised, 2,870,000 were cancelled and 220,000 remained outstanding as at 30 June 2009.

Pursuant to the share option scheme of the Company adopted on 26 April 2002 (“2002 Scheme”), an aggregate of 193,850,000 share options were granted, out of which 65,952,532 share options were exercised, 84,001,522 were cancelled and 43,895,946 remained outstanding as at 30 June 2009.

As at 30 June 2005, both of the 2001 Scheme and 2002 Scheme have been terminated by the Company. In the extraordinary general meeting of the Company convened on 11 July 2005, the Company adopted a new share option scheme (“2005 Scheme”). As at 30 June 2009, the Company has granted 242,010,000 share options, out of which 17,616,300 share options were exercised, 31,968,000 were cancelled and 192,425,700 remained outstanding.

As at 30 June 2009, details of the outstanding options are as follows (Table 1).

REPORT OF DIRECTORS

Table 1

Grant Date	Exercise price HK\$	Options held at 1 January 2009	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options held at 30 June 2009
27/09/2001(1)	0.3725	220,000	0	0	0	220,000
20/02/2003(2)	0.3475	1,210,000	0	0	0	1,210,000
08/08/2003(3)	0.5125	2,704,000	0	104,000	0	2,600,000
23/03/2004(4)	0.795	16,000,000	0	0	0	16,000,000
1/06/2004(5)	0.6625	12,852,598	0	737,853	968,799	11,145,946
27/12/2004(6)	0.5125	1,020,000	0	0	80,000	940,000
21/04/2005(7)	0.3875	12,000,000	0	0	0	12,000,000
15/02/2006(8)	0.58125	2,000,000	0	1,000,000	0	1,000,000
28/04/2006(9)	0.6525	18,440,000	0	160,000	0	18,280,000
28/04/2006(9)	0.6525	38,100,000	0	1,500,000	0	36,600,000
28/04/2006(9)	0.6525	13,330,000	0	240,000	400,000	12,690,000
04/05/2006(9)	0.6575	6,600,000	0	0	0	6,600,000
22/06/2006(9)	0.65625	42,800,000	0	4,046,300	0	38,753,700
18/07/2006(10)	0.72375	2,560,000	0	0	0	2,560,000
23/01/2007(11)	0.935	17,600,000	0	0	13,200,000	4,400,000
05/06/2007(11)	1.7075	13,996,000	0	0	424,000	13,572,000
08/06/2007(11)	1.8075	4,720,000	0	0	0	4,720,000
01/08/2008(8)	1.75	45,250,000	0	0	0	45,250,000
19/11/2008(11)	0.95	5,000,000	0	0	0	5,000,000
14/4/2009(8)	1.16	0	3,000,000	0	0	3,000,000
Total		256,402,598	3,000,000	7,788,153	15,072,799	236,541,646

REPORT OF DIRECTORS

Table 2 Directors' share options (12):

Name of Directors	Grant Date	Exercise price HK\$	Options held at 1 January 2009	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options held at 30 June 2009
Xu Shao Chun	23/03/2004(4)	0.795	16,000,000	0	0	0	16,000,000
	21/04/2005(7)	0.3875	12,000,000	0	0	0	12,000,000
	22/06/2006(9)	0.65625	7,600,000	0	0	0	7,600,000
	19/11/2008(11)	0.95	5,000,000	0	0	0	5,000,000
Chen Deng Kun	1/06/2004(5)	0.6625	153,616	0	0	0	153,616
	04/05/2006(9)	0.6575	6,600,000	0	0	0	6,600,000
	8/06/2007(11)	1.8075	2,720,000	0	0	0	2,720,000
	01/08/2008(8)	1.75	2,000,000	0	0	0	2,000,000
Ho Ching Hua	23/01/2007(11)	0.935	17,600,000	0	0	13,200,000	4,400,000
Other							
Non-Executive Directors	8/06/2007(11)	1.8075	2,000,000	0	0	0	2,000,000
Total			71,673,616	0	0	13,200,000	58,473,616

Note:

- (1) 2001 Scheme. All of these options have duration of 10 years from the date of grant, provided that the options may not be exercised in respect of more than 25%, 50% and 75% of the options within 12 months, 24 months and 36 months respectively from the date of grant.
- (2) 2002 Scheme. All of these options have duration of 10 years from the date of grant, provided that the options may not be exercised within 12 months from the date of grant and that the options may not be exercised in respect of more than 25%, 50% and 75% of the options within 12 months, 24 months and 36 months respectively from 1 year after the date of grant.
- (3) 2002 Scheme. All of these options have duration of 10 years from the date of grant, provided that the options can only be exercised from the date of 8 August 2004.
- (4) 2002 Scheme. All of these options have duration of 10 years from 23 March 2004, provided that the options may not be exercised in respect of more than 50% of the options prior to the date of 31 December 2004.

REPORT OF DIRECTORS

- (5) 2002 Scheme. All of these options have duration of 10 years from the date of grant, provided that
- (i) the options cannot be exercised within 1 year from the date of grant;
 - (ii) the number of options that can be exercised within the 2 years from the date of grant cannot be more than 25% of the revenue ratio for the financial year of 2004 ended 31 December 2004;
 - (iii) the number of options that can be exercised within the 3 years from the date of grant cannot be more than 25% of the aggregate revenue ratios for the financial years of 2004 ended 31 December 2004 and 2005 ended 31 December 2005;
 - (iv) the number of options that can be exercised within the 4 years from the date of grant cannot be more than 25% of the aggregate revenue ratios for the financial years of 2004 ended 31 December 2004, 2005 ended 31 December 2005 and 2006 ended 31 December 2006; and
 - (v) the number of options that can be exercised after 4 years from the date of grant cannot be more than 25% of the aggregate revenue ratios for the financial years of 2004 ended 31 December 2004, 2006 ended 31 December 2006 and 2007 ended 31 December 2007;

“Revenue ratio” shall equal to the actual revenue of the Group divided by the estimated revenue of the Group as determined by the Board for a particular financial year.

- (6) 2002 Scheme. All of these options have duration of 10 years from the date of grant and the options can be exercised from the date of grant.
- (7) 2002 Scheme. All of these options have duration of 5 years from the date of grant and the options can be exercised from the date of grant.
- (8) Share Option Scheme. All of these options have duration of 10 years from the date of grant, provided that the options may not be exercised within 12 months from the date of grant and that the options may not be exercised in respect of more than 25%, 50% and 75% of the options within 12 months, 24 months and 36 months respectively from 1 year after the date of grant.
- (9) Share Option Scheme. All of these options have duration of 10 years from the date of grant, and the options can be exercised upon the conditions.
- (10) Share Option Scheme. All of these options have duration of 10 years from the date of grant, provided that the options may not be exercised within 12 months from the date of grant and that the options may not be exercised in respect of more than 30% and 60% of the options within 12 months and 24 months respectively from 1 year after the date of grant.
- (11) Share Option Scheme. All of these options have duration of 10 years from the date of grant, and the options can be exercised upon the conditions.
- (12) The data disclosed in Table 2 regarding share options held by Directors is included in Table 1.

REPORT OF DIRECTORS

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

As at 30 June 2009, as far as the Directors were aware, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Long positions in shares/underlying shares of the Company

Name	Number of shares/underlying shares (where appropriate)	Capacity	Percentage of issued share capital
Oriental Gold Limited	334,425,000	Beneficial owner	16.56%
Billion Ocean Limited	233,240,000	Beneficial owner	11.55%

Save as disclosed above, as at 30 June 2009, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the reporting period, Billion Ocean Limited, a substantial shareholder of the Company, has placed a total of 90,000,000 placing shares to not less than six places at the placing price of HK\$1.37 per placing share and has subscribed for 90,000,000 new shares at a price of HK\$1.37 per share.

Except the above, none of the Company or any of its substantial had purchased, sold or released any of its securities during the reporting period ended 30 June 2009.

COMPETING INTEREST

None of the Directors or their respective associates (as defined in the Listing) had an interest in a business, which competes or may compete with the business of the Group.

CORPORATE GOVERNANCE REPORT

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 2009.

Provision A.2.1 of the Code requires for the segregation of the roles of Chairman of the Board (the "Chairman") and Chief Executive Officer ("CEO"). Mr. Xu Shao Chun has been performing both roles of the Chairman and CEO since 31 December 2008. The Board considers that Mr. Xu Shao Chun has the experience of performing both roles. 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 challenges under the current financial 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.

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 2009. 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.

Company Culture Development

In the reporting period, the Company has implemented new development strategies, namely establishing a leading position in the China's software industry, creating outstanding value in software services, and continuing the development of the Company culture of "equal culture with no paternalistic manager".

CORPORATE GOVERNANCE REPORT

Internal Control

The Company has always placed importance to internal control and risk management. In accordance with relevant state laws, regulations and listing rules for the basic norms of internal control requirements, from the control environment, risk assessment, control activities, information and communication, and supervision from the five elements of internal control, we constantly improve the internal control management system. In the first half year of 2009, facing severe economic crisis situation, the Company optimized and restructured the system of restructuring process, and facilitate rapid response to market strategies, streamline the internal code, shorten the internal control processes, improve operational efficiency and ensure effective control of operational risks and legal risks.

Control environment – in the first half of the year, the Company adjusted the internal organizational structure and licensing system to ensure that managers of different levels will have a reasonable power of the business functions. Management has been fully aware of the importance of risk control, and fully supports the internal control management. Managers at all levels regularly discussed and approved the business strategies, plans and budgets developed by each business units.

Risk assessment – the Company has done the identification, assessment and rating to the Company’s financial and operating impact in accordance with national policy in view of the economic environment.

Control activities – the Company has took appropriate actions according to the Company’s strategic planning and business strategy as highlighted in the procedure of risk assessment. In a clear mandate with principles of control of transaction, control of the responsibility of the division and control of information disclosure, the Company has set the strategy for the business functions and processes to ensure the realization of the strategic objectives.

Information and communication – the written work system of the Company has set out all the Company’s operation module, and important decision approval and authorization module. The Company achieves control of workflow through information system. In the first half of the year, Company has established an effective exchange of information and information feedback system on the internal Web site, in order to maximize the realization of information sharing.

Supervision – the Company’s workflow is subject to supervision and inspection requirements. The Company has established Audit Department, which directly reports to the Board of Directors and Audit Committee, in order to fully guarantee the independence and objectivity of the Audit Department. The Audit Department independently supervises and evaluates various policies and systems and their implementation status of the Company. It checks the implementation of corporate strategy and inspects violations. The Company adopts self-assessment of internal control. The Company periodically assesses employees of the headquarters and branches, and informs them main monitoring procedures, in order to continue to assess and manage business risks.

Regarding workflow of price-sensitive information and internal control measures, the Company understands the duties according to the Listing Rules, as well as major principles of releasing decision-making relating to the price-sensitive information. The Company abides by the “Guide on disclosure of price-sensitive information” of the Stock Exchange, and has formed a complete system of internal processing and publication of information and internal control measures to ensure the timely, accurate and appropriate disclosure of relevant information to shareholders and regulatory agencies.

CORPORATE GOVERNANCE REPORT

Corporate Communication

The Company has implemented a policy of open communication and fair disclosure. Disclosure of information is a key means to enhance the Company's corporate governance standards.

The Company maintains a website (www.kingdee.com) on which comprehensive information about the Company is available to shareholders and the public.

The Company provides its shareholders and other stakeholders with the information necessary for them to form their own judgment and to provide feedback.

The Company is aware that full and frank disclosure does not only increase transparency of the Company, but is also essential for building market confidence.

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.

Appreciation

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

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

Shenzhen, the People's Republic of China, 16 September 2009

As at the date hereof, the executive Directors are Mr. Xu Shao Chun (Chairman of the Company and Chief Executive Officer) and Mr. Chen Deng Kun; the non-executive Directors are Mr. Ho Ching Hua and 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.