



Kingdee International Software Group Company Limited
Stock Code: 268



ENTERPRISE MANAGEMENT EXPERT

INTERIM REPORT 2011





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 2011**

Financial highlights for the six months ended 30 June 2011

- Turnover increased by 58.00% over the same period in 2010 to approximately RMB844,223,000
- Profit for the period increased by 45.52% over the same period in 2010 to approximately RMB124,918,000
- Profit attributable to equity holders of the Company during the period increased by 42.98% over the same period in 2010 to approximately RMB126,860,000
- Basic earnings per share for profit attributable to the equity holders of the Company during the period increased by approximately 14.67% over the same period in 2010 to RMB5.050 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 2011 are as follows:

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2011

	<i>Notes</i>	Unaudited 30 June 2011 RMB’000	Audited 31 December 2010 RMB’000
ASSETS			
Non-current assets			
Property, plant and equipment	5	376,152	350,632
Land use rights	6	81,915	79,449
Intangible assets	5	426,176	377,236
Investment properties	7	399,347	289,162
Available-for-sale financial assets		10,000	10,000
Other non-current assets		—	3,520
Total non-current assets		1,293,590	1,109,999
Current assets			
Inventories		3,981	1,987
Trade and other receivables	8	407,129	272,895
Due from customers on implementation contracts		154,429	119,834
Pledged bank deposits		1,458	5,070
Short-term bank deposits		16,990	117,017
Cash and cash equivalents		440,248	631,456
Total current assets		1,024,235	1,148,259
Total assets		2,317,825	2,258,258

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (Continued)

As at 30 June 2011

	Notes	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	9	63,905	54,653
Share premium	9	412,813	425,358
Other reserves		427,323	427,323
Retained earnings			
– Proposed final dividend		—	60,320
– Others		691,062	566,400
		<u>1,595,103</u>	<u>1,534,054</u>
Non-controlling interest		<u>12,329</u>	<u>14,271</u>
Total equity		<u>1,607,432</u>	<u>1,548,325</u>
LIABILITIES			
Non-current liabilities			
Borrowings	11	<u>345,000</u>	<u>190,000</u>
Total non-current liabilities		<u>345,000</u>	<u>190,000</u>
Current liabilities			
Trade and other payables	10	205,207	315,238
Due to customers on implementation contracts		31,409	60,359
Deferred income		92,143	115,499
Deferred income tax liabilities		36,634	28,837
Total current liabilities		<u>365,393</u>	<u>519,933</u>
Total liabilities		<u>710,393</u>	<u>709,933</u>
Total equity and liabilities		<u>2,317,825</u>	<u>2,258,258</u>
Net current assets		<u>658,842</u>	<u>628,326</u>
Total assets less current liabilities		<u>1,952,432</u>	<u>1,738,325</u>

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2011

		Unaudited	
		Six months ended 30 June	
	Notes	2011	2010
		RMB'000	RMB'000
Turnover	12	844,223	534,312
Cost of sales	14	<u>(197,611)</u>	<u>(112,111)</u>
Gross profit		646,612	422,201
Selling and marketing expenses	14	(514,337)	(316,602)
Administrative expenses	14	(103,798)	(79,158)
Research and development costs	14	(83,643)	(49,211)
Other gains-Net	13	<u>190,710</u>	<u>109,060</u>
Operating profit		135,544	86,290
Finance costs-Net		<u>(1,859)</u>	<u>741</u>
Profit before income tax		133,685	87,031
Income tax expense	15	<u>(8,767)</u>	<u>(1,187)</u>
Profit for the period		<u><u>124,918</u></u>	<u><u>85,844</u></u>
Attributable to:			
Equity holders of the Company		126,860	88,726
Non-controlling interest		<u>(1,942)</u>	<u>(2,882)</u>
		<u><u>124,918</u></u>	<u><u>85,844</u></u>
Earnings per share for profit attributable to the equity holders of the Company			
– basic	16	<u><u>RMB5.050 cents</u></u>	<u><u>RMB4.404 cents</u></u>
– diluted	16	<u><u>RMB4.748 cents</u></u>	<u><u>RMB4.131 cents</u></u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Unaudited	
	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Profit for the period	124,918	85,844
Fair value gains of buildings before transferred to investment properties, net of tax	—	14,950
Total comprehensive income for the period	124,918	100,794
Total comprehensive income attributable to:		
– Equity holders of the Company	126,860	103,676
– Non-controlling interest	(1,942)	(2,882)
	124,918	100,794

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

(All amounts in Renminbi thousand unless otherwise stated)

	Notes	Unaudited						
		Attributable to equity holders of the Company					Non-controlling interest	Total equity
		Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2010		53,812	381,374	388,119	419,040	1,242,345	9,715	1,252,060
Profit for the year		—	—	—	271,710	271,710	4,556	276,266
Other comprehensive income		—	—	14,950	—	14,950	—	14,950
Total comprehensive income		—	—	14,950	271,710	286,660	4,556	291,216
Employees share option scheme:								
– value of employee services	9	—	21,830	—	—	21,830	—	21,830
– proceeds from shares issued	9	914	34,794	—	—	35,708	—	35,708
Appropriation to reserve funds		—	—	24,181	(24,181)	—	—	—
Repurchase and cancellation of own shares	9	(73)	(12,640)	73	(73)	(12,713)	—	(12,713)
Dividend relating to 2009	17	—	—	—	(39,776)	(39,776)	—	(39,776)
Balance at 31 December 2010		<u>54,653</u>	<u>425,358</u>	<u>427,323</u>	<u>626,720</u>	<u>1,534,054</u>	<u>14,271</u>	<u>1,548,325</u>
Balance at 1 January 2011		<u>54,653</u>	<u>425,358</u>	<u>427,323</u>	<u>626,720</u>	<u>1,534,054</u>	<u>14,271</u>	<u>1,548,325</u>
Profit for the year		—	—	—	126,860	126,860	(1,942)	124,918
Other comprehensive income		—	—	—	—	—	—	—
Total comprehensive income		—	—	—	126,860	126,860	(1,942)	124,918
Employees share option scheme:								
– value of employee services	9	—	13,714	—	—	13,714	—	13,714
– proceeds from shares issued	9	219	10,696	—	—	10,915	—	10,915
Repurchase and cancellation of own shares		(144)	(27,778)	—	(144)	(28,066)	—	(28,066)
Bonus issue of shares	9	9,177	(9,177)	—	—	—	—	—
Dividend relating to 2010	17	—	—	—	(62,374)	(62,374)	—	(62,374)
Balance at 30 June 2011		<u>63,905</u>	<u>412,813</u>	<u>427,323</u>	<u>691,062</u>	<u>1,595,103</u>	<u>12,329</u>	<u>1,607,432</u>

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2011

	Unaudited	
	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Cash flows from operating activities:		
Cash generated from operations	(159,940)	87
Income tax paid	(970)	(1,187)
Net cash used in operating activities	(160,910)	(1,100)
Cash flows from investing activities:		
Purchases of property, plant and equipment (PPE)	(37,941)	(10,072)
Proceeds from sale of PPE	2,016	436
Payments for land use rights	(34,028)	—
Purchases of intangible assets	(143,737)	(93,357)
Pledged bank-deposits withdrawn	5,070	—
Pledged bank-deposits placed	(1,458)	—
Short-term bank deposits withdrawn	100,027	65,500
Short-term bank deposits placed	—	2,267
Interest received	4,278	—
Net cash used in investing activities	(105,773)	(35,226)
Cash flows from financing activities:		
Proceeds from options exercised	10,915	11,879
Repurchase and cancellation of own shares	(28,066)	—
Proceeds from borrowings	155,000	40,000
Repayments of borrowings	—	(37,332)
Dividends paid to the Company's shareholders	(62,374)	(39,952)
Net cash generated/(used in) from financing activities	75,475	(25,405)
Net decrease in cash and cash equivalents	(191,208)	(61,731)
Cash and cash equivalents at beginning of the period	631,456	519,790
Cash and cash equivalents at end of the period	440,248	458,059

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 16th August 2011.

This condensed consolidated interim financial information has not been audited.

2. Basis of preparation

This unaudited condensed consolidated interim financial information for the half-year ended 30 June 2011 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 2010, 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 2010, 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.

a) *New and amended standards adopted by the Group*

The following new standards and amendments to standard are mandatory for the first time for the financial year beginning 1 January 2011:

- Amendment to IAS 34 'Interim financial reporting' is effective for annual periods beginning on or after 1 January 2011. It emphasizes the existing disclosure principles in IAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. Accounting policies *(Continued)*

(b) Amendments and interpretations to existing standards effective in 2011 but not relevant to the Group

- IAS 24 (Revised) , “Related Party Disclosures” is effective for annual period beginning on or after January 2011 which replaced the IAS 24 published in 2003. It introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government related entities and the government. This is not currently applicable to the Group, as it has no government-related entities.
- Amendment to IAS 32 ‘Classification of rights issues’ is effective for annual periods beginning on or after 1 February 2010. This is not currently applicable to the Group, as it has not made any rights issue.
- Amendments to IFRIC Int-14 ‘Prepayments of a minimum funding requirement’ correct an unintended consequence of IFRIC Int-14, ‘IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction’. Without the amendments, entities are not permitted to recognize as an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was not intended when IFRIC Int-14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. This is not currently applicable to the Group.
- IFRIC – Int 19 ‘Extinguishing financial liabilities with equity instruments’ is effective for annual periods beginning on or after 1 July 2010. This is not currently applicable to the Group, as it has no extinguishment of financial liabilities replaced with equity instruments currently.
- ‘Limited exemption from comparative IFRS 7 disclosures for first-time adopters’ (Amendment to IFRS 1) provide first-time adopters with the same transition provisions as included in the amendment to IFRS 7 in relation to relief from presenting comparative information that ended before 31 December 2009 for new fair value disclosures requirements. This is required to be applied for annual periods beginning on or after 1 July 2010. Early adoption is permitted. This is not relevant to the Group, as it is an existing IFRS preparer.
- The improvements to International Financial Reporting Standards (2010) were issued in May 2010 by IASB. All improvements are effective in the financial year of 2011.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. Accounting policies *(Continued)*

(c) *The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:*

- IFRS 7 (Amendment) 'Disclosures – Transfers of financial assets' introduces new disclosure requirement on transfers of financial assets. Disclosure is required by class of asset of the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. The gain or loss on the transferred assets and any retained interest in those assets must be given. In addition, other disclosures must enable users to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. The disclosures must be presented by type of ongoing involvement. The amendment is applicable to annual periods beginning on or after 1 July 2011 with early adoption permitted.
- IAS 12 (Amendment) 'Deferred tax: Recovery of underlying assets' introduces an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012 with early adoption permitted.
- IFRS 9, 'Financial Instruments' (effective from 1 January 2013) . Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortized cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features') . All other debt instruments are to be measured at fair value through profit or loss. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. The Group and Company did not early adopt IFRS 9 for the six months ended 30 June 2011. It is not expected to have a material impact on the Group or Company's financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. Segment information

The chief operating decision-maker has been identified as the board of executive directors of the Company. The board of executive 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 executive directors considers the business from product perspective. On the first-time adoption of IFRS 8 'Operating Segments', the Group determined that the operating segments are:

- | | | |
|---|---|--|
| Enterprise Management Software and Service Business | – | the sales and implementation of enterprise management software, provision of other services and hardware related to enterprise management software arrangements. |
| Others | – | middleware business and online management services |

The chief operating decision-maker assesses the performance of the operating segments based on the operating profit of each segment. Substantially all of the businesses of the Group are carried out in the PRC.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. Segment information (Continued)

The unaudited segment information for the six months ended 30 June 2011 is as follows:

	Enterprise management software and service business RMB'000	Others RMB'000	Unallocated RMB'000	The Group Total RMB'000
Revenue (from external customers)	808,172	36,051	—	844,223
Operating profit	59,247	(16,516)	92,813	135,544
Finance costs	(5,930)	(207)	—	(6,137)
Finance income	4,158	119	1	4,278
Finance income/(cost) – net	(1,772)	(88)	1	(1,859)
Profit/(loss) before income tax	57,475	(16,604)	92,814	133,685
Income tax expense	(7,870)	(897)	—	(8,767)
Segment results	49,605	(17,501)	92,814	124,918
Segment assets	1,332,226	76,946	908,653	2,317,825
Total assets				2,317,825
Segment liabilities	610,434	56,972	6,353	673,759
Deferred tax liabilities	—	—	—	36,634
Total liabilities				710,393
Additions to non-current assets (other than financial instruments and deferred tax assets)	72,680	726	110,185	183,591
Material non-cash expenses				
Depreciation and amortisation	92,603	211	—	92,814
Provision for doubtful trade and other receivables	(2,163)	(188)	—	(2,351)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. Segment information (Continued)

The unaudited segment information for the six months ended 30 June 2010 is as follows:

	Enterprise management software and service business RMB'000	Others RMB'000	Unallocated RMB'000	The Group Total RMB'000
Revenue (from external customers)	518,120	16,192	—	534,312
Operating profit	62,040	(18,296)	42,547	86,290
Finance costs	(986)	(28)	—	(1,014)
Finance income	1,653	101	1	1,755
Finance income/(costs) – net	667	73	1	741
Profit before income tax	62,707	(18,223)	42,548	87,031
Income tax expense	(716)	(471)	—	(1,187)
Segment results	<u>61,991</u>	<u>(18,694)</u>	<u>42,548</u>	<u>85,844</u>
Segment assets	1,027,156	69,035	755,204	1,851,395
Total assets	<u> </u>	<u> </u>	<u> </u>	<u>1,851,395</u>
Segment liabilities	456,818	34,056	14,801	505,675
Deferred tax liabilities	—	—	—	11,271
Total liabilities	<u> </u>	<u> </u>	<u> </u>	<u>516,946</u>
Additions to non-current assets (other than financial instruments and deferred tax assets)	89,143	3,779	36,418	129,340
Material non-cash expenses				
Depreciation and amortization	58,062	137	—	58,199
Provision for doubtful trade and other receivables	(4,512)	(54)	—	(4,566)

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 2010		
Opening net book amount at 1 January 2010	327,045	193,916
Additions	10,072	112,141
Disposals	(394)	—
Transfer to investment properties	(23,479)	—
Depreciation and amortization	(14,297)	(43,580)
Revaluation surplus before transferred to investment properties, credited to reserve	16,611	—
Intangible asset from business combinations	—	36,170
	<u>315,558</u>	<u>298,647</u>
Closing net book amount at 30 June 2010	<u>315,558</u>	<u>298,647</u>
Six months ended 30 June 2011		
Opening net book amount at 1 January 2011	350,632	377,236
Additions	45,070	121,699
Disposals	(2,242)	—
Transfer to investment properties	(2,033)	—
Depreciation and amortization	(15,275)	(76,159)
Intangible asset acquired in business combinations	—	3,400
	<u>376,152</u>	<u>426,176</u>
Closing net book amount at 30 June 2011	<u>376,152</u>	<u>426,176</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6. Land use rights

	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
Opening net book amount at 1 January	79,449	81,785
Additions	34,028	—
Transfer to investment properties	(30,182)	—
Amortisation charge	(1,380)	(2,336)
At 30 June/31 December	<u>81,915</u>	<u>79,449</u>
Represented by:		
Cost	89,141	85,295
Accumulated amortisation charges	(7,226)	(5,846)
	<u>81,915</u>	<u>79,449</u>

The Group's interests in land use rights represent prepaid operating lease payments.

7. Investment properties

	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
Opening net book amount at 1 January	289,162	236,511
Transfer from construction in progress	2,033	—
Transfer from property, plant and equipment	—	23,479
Transfer from land use rights	30,182	—
Fair value gains	77,970	29,172
At 30 June/31 December	<u>399,347</u>	<u>289,162</u>

The investment properties represent the whole Block 2 and Block 3 of the Group's research and development center located in Shanghai, the south area on second floor of Block B, the sixth, seventh and eighth floors of Block B of the Group's research and development center located in Shenzhen and the building of W1-B4 in Shenzhen high-tech park. The new under-construction investment properties are on third floor to sixth floor of Block 1 which are located in Beijing Kingdee software center.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

8. Trade and other receivables

	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
Trade receivables (a)	182,952	164,394
Less: provision of receivables	<u>(78,341)</u>	<u>(75,990)</u>
Trade receivables – net	104,611	88,404
Notes receivable	16,993	3,597
Advance to employees	40,022	21,774
Prepayments	106,424	79,594
VAT recoverable	107,458	63,664
Others	<u>31,621</u>	<u>15,862</u>
	<u>407,129</u>	<u>272,895</u>

- (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 2011 RMB'000	Audited 31 December 2010 RMB'000
0 – 180 days	78,789	78,653
181 – 360 days	33,836	19,661
Over 360 days	<u>70,327</u>	<u>66,080</u>
	<u>182,952</u>	<u>164,394</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9. Share capital and share premium

	Number of issued shares (thousands)	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2010	<u>2,053,392</u>	<u>53,812</u>	<u>381,374</u>	<u>435,186</u>
Employee share option scheme:				
– Value of services provided	—	—	21,830	21,830
– Exercise of share options	41,547	914	34,794	35,708
Repurchase and cancellation of own shares	<u>(3,330)</u>	<u>(73)</u>	<u>(12,640)</u>	<u>(12,713)</u>
At 31 December 2010 (Audited)	<u><u>2,091,609</u></u>	<u><u>54,653</u></u>	<u><u>425,358</u></u>	<u><u>480,011</u></u>
At 1 January 2011	<u><u>2,091,609</u></u>	<u><u>54,653</u></u>	<u><u>425,358</u></u>	<u><u>480,011</u></u>
Employee share option scheme:				
– Value of services provided	—	—	13,714	13,714
– Exercise of share options	9,898	219	10,696	10,915
Bonus issue of shares	417,122	9,177	(9,177)	—
Repurchase and cancellation of own shares	<u>(6,554)</u>	<u>(144)</u>	<u>(27,778)</u>	<u>(27,922)</u>
At 30 June 2011 (Unaudited)	<u><u>2,512,075</u></u>	<u><u>63,905</u></u>	<u><u>412,813</u></u>	<u><u>476,718</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10. Trade and other payables

	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
Trade payables (a)	27,447	15,605
Salary and staff welfare payable	1,072	39,511
Customers' deposits	46,595	72,239
VAT and business tax payable	49,502	37,420
Accrued expenses	8,525	41,062
Construction fee payable	29,883	22,703
Land use rights fee payable	3,840	3,840
Outstanding consideration for intangible assets	20,561	39,200
Deposits of distributors	14,375	16,647
Others	3,407	27,011
	<u>205,207</u>	<u>315,238</u>

(a) As at 30 June 2011, the ageing analysis of trade payables is as follows:

	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
0 – 180 days	26,335	14,973
181 – 360 days	553	314
Over 360 days	559	318
	<u>27,447</u>	<u>15,605</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11. Borrowings

	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
Non-current	345,000	190,000
Current	—	—
	<u>345,000</u>	<u>190,000</u>

Movement in borrowings is analyzed as follows:

	RMB'000
Six months ended 30 June 2010	
Opening amount at 1 January 2010	57,378
Acquisition of borrowings	40,000
Repayment of borrowings	(37,332)
Closing amount at 30 June 2010	<u>60,046</u>
Six months ended 30 June 2011	
Opening amount at 1 January 2011	190,000
Acquisition of borrowings	155,000
Repayment of borrowings	—
Closing amount at 30 June 2011	<u>345,000</u>

Interest expense on borrowings and loans for the six months ended 30 June 2011 was RMB6,137,000 (30 June 2010: RMB1,014,000) .

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12. Turnover

	Unaudited	
	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Sales of software	488,186	335,518
Software implementation services	152,996	88,063
Software solution consulting and support services	172,830	103,056
Sales of computer and related products	30,211	7,675
	<u>844,223</u>	<u>534,312</u>

13. Other gains

	Unaudited	
	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Subsidy income		
– VAT refund	89,211	57,099
– Others	15,199	3,849
	<u>104,410</u>	<u>60,948</u>
Fair value gains of investment properties	77,970	12,940
Negative goodwill from business combinations	—	28,170
Others	8,330	7,002
	<u>190,710</u>	<u>109,060</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14. Expenses by nature

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

	Unaudited	
	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Research and development costs		
Amounts incurred	137,284	90,491
Less: amounts capitalized	(119,884)	(78,917)
Add: amortization of capitalized costs	66,243	37,637
	<u>83,643</u>	<u>49,211</u>
Employee benefit expense	513,109	365,541
Less: amount included in research and development costs	(123,770)	(80,707)
	<u>389,339</u>	<u>284,834</u>
Cost of inventories consumed	42,442	17,984
Depreciation of property, plant and equipment	15,275	14,297
Amortization of computer software	9,916	5,943
Amortization of land use rights	1,380	322
Impairment of receivables	2,351	(4,566)
Loss on disposals of property, plant and equipment	226	13

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

15. Income tax expense

	Unaudited	
	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
PRC income tax		
– Current income tax	—	—
– Under-provision/(over-provision) in previous year	970	1,187
– Deferred income tax	7,797	—
	<u>8,767</u>	<u>1,187</u>

- (a) No provision for profits tax in the Cayman Islands and Hong Kong has been made as the Group has no income assessable for profits tax for the year in those jurisdictions.
- (b) 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 [2011] No.4” 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.

	Unaudited	
	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Profit attributable to equity holders of the Company	<u>126,860</u>	<u>88,726</u>
Weighted average number of ordinary shares in issue (thousands)	<u>2,512,075</u>	<u>2,014,769</u>
Basic earnings per share	<u>RMB5.050 cents</u>	<u>RMB4.404 cents</u>

(b) Diluted

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

	Unaudited	
	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Profit attributable to equity holders of the Company	<u>126,860</u>	<u>88,726</u>
Weighted average number of ordinary shares in issue (thousands)	<u>2,512,075</u>	<u>2,014,769</u>
Adjustments for – share options (thousands)	<u>159,935</u>	<u>132,958</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>2,672,010</u>	<u>2,147,727</u>
Diluted earnings per share	<u>RMB4.748 cents</u>	<u>RMB4.131 cents</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17. Dividends

The dividends in 2010 and 2009 of approximately RMB62,374,000 (HK\$70,879,000) (RMB0.029 per share (HK\$0.034 per share)) and RMB39,776,000 (HK\$45,200,000) (RMB0.019 per share (HK\$0.022 per share)) were paid in June 2011 and June 2010 respectively. The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2011 (the six months ended 30 June 2010: Nil) .

18. Contingent liabilities

The Group had no significant contingent liabilities as of 30 June 2011 (30 June 2010: 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

On 1 August 2011, the Group entered into an acquisition agreement with Guangzhou Wisetop Computer Company Limited to acquire the health and medicine management software for a consideration of about RMB120,000,000. (For details please refer to the announcement of the company issued on 1 August 2011.)

21. Business combination

On 17 May 2011, the Group entered into an acquisition agreement with Changsha Aolian Information Technology Development Company Limited to acquire the manufactory management software for a consideration of RMB10,000,000.

MANAGEMENT DISCUSSION AND ANALYSIS

I. Business Review

Industry Overview

2011 is the commencing year of China's the "Twelfth Five-year Plan". In the coming 5 to 10 years, the Chinese government will accelerate to promote the transformation of the economic development model; and transformation has also become the mainstream development trend among Chinese enterprises. The software industry has been positioned as one of the new strategic industries under the national strategy of the "Specific Policies to Further Promote the Development of Software Industry and Integrated Circuit Industry" and the "Twelfth Five-year Plan". In addition, the demand for transformation among Chinese enterprises has been intensifying. Thus, the Chinese management and IT service market has entered a new golden era. Following the development trend and the business strategy of "transformation, integration, high growth", the Group continued to consolidate its market leading position in enterprise management and IT integration solutions, small enterprise Internet application services and middleware. Meanwhile, the Group will also speed up the development into the electronic public administration and medical healthcare industry market, step forward onto a new platform in the international market, and keep exploring the emerging opportunities such as enterprise Internet application services, cloud computing, the Internet of things, etc.

During the reporting period, the Group has achieved tremendous revenue growth of 58% and earned numerous accolades and achievements, including:

- 1) Kingdee Middleware was accredited with "Award for Promoting Chinese Enterprise Informatisation" (jointly presented by the magazine *IT Managers' World* and IDC, January 2011)
- 2) The Best Provider of Enterprise Resources Planning Software (by the magazine *CAPITAL*, March 2011)
- 3) The Best Provider of HR Management Software in Greater China Region (by *Human Resources Management*, March 2011)
- 4) Kingdee YouShang.com was recognized as "The Best Small Enterprise SaaS Service Platform" (2011 Asia and Pacific E-Commerce Green Ecological Environment Development Summit *cum* the 2nd Analysys E-Commerce Annual Meeting jointly organised by Analysys International and APEC E-Commerce Business Alliance, March 2011)
- 5) "Excellent Management Software for the Catering Industry 2011" (by the China Cuisine Association, May 2011)
- 6) Kingdee Middleware was selected as one of the Excellent SOA Examples and Top 10 Solutions in 2010 (at the 4th China SOA Standardisation Seminar, by the SOA Standardisation Task Group, SOA China National Information Technology Standardisation Technical Committee, June 2011)

MANAGEMENT DISCUSSION AND ANALYSIS

1. *Enterprise Management Software and Service*

During the reporting period, the Group continued to enhance the transformation into a service company, and constructed a consulting-based business model of management and IT integrated solutions. The group focused on improving and enlarging its core business in order to increase productivity and profit margin.

Small and Medium Enterprise Product Market

During the reporting period, the Group perceived the stronger industrialization demand of manufacturing enterprises, and also the rapid development of various industries such as social service, catering, hospitality, IT service and business service has become the major driving force for the informatisation of small and medium enterprises. The Group kept speeding up to set up direct sales forces and distribution partnership. With the setting up of 5 new branches and the total number of branches in China reaching 103, the Group further enlarged its coverage in second and third tier cities and consolidated its leading position in small and medium enterprise market. While consolidating Kingdee's traditional financial and logistics management software, the Group also developed KIS commerce software and released K/3 WISE innovation management platform v12.2, which extended the application of ERP e-commerce on the supplier management platform and the client management information system. The Group also released the K/3 RISE v12.1 Shishen Catering System, entering the informatisation field of catering, hospitality and other service industries. The system has won "The Best Provider of Management and IT Integration Solution for the Chinese Hospitality Industry 2010-2011", "Excellent Management Software for the Catering Industry 2011" and other honors. On the one hand, the Group kept increasing the number of its distribution partners. On the other hand, it expanded the channels of KIS and K/3, elevating the productivity of our core partners. Besides, it raised direct investment in product distribution. It made direct investment within more than 20 cities for K/3 RISE product advertising which helped its distribution partners expand the market.

Large Enterprise Product and Industry Market

During the reporting period, the Group saw the notable demand among large and medium enterprises for strategic transformation, expansion and management control, standardisation and efficiency enhancement. Chinese enterprises are inclined to management and IT integration solutions with vigorous demand in corporate management and control, human resources, risk management, business intelligence, etc. Furthermore, there has been rapid-growing demand in various industries such as construction and real estate industry, retail and circulation industry, manufacturing industry, etc. The Group has put an effort to develop consulting-based integrated services and promote management and IT integration solution to large enterprises, resulting a sustainable rapid growth in revenue from large enterprises and industry businesses.

Released in the first half of the year, "Kingdee EAS Management and IT Integration Solutions" with a total of seven integrated solutions including Manufacturing, Retail and Circulation, Garment, Property, Metallurgy and Mining, Ports and Logistics, helped enterprises achieve total integration of IT management at the strategic, operational and technical level. Meanwhile, the release of EAS 7.0.3 expanded the application of the EAS in enterprise risk management, enterprise financial management, budget management, enterprise manufacturing and industrial chain synergy.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of the year, the Group has secured several large EAS clients, including: CIMC Vehicle (Group), Shenzhen Hepalink Pharmaceutical, Shenzhen Huaqiang Holdings, Vision China Media Group, Inner Mongolia Donghua Energy, Three Gorges Quantong Coated and Galvanized Plate, Xi'an Mingda Group and Shandong Sangle Solar Energy. These initiatives consolidated Kingdee's position as a leading management and integrated IT solution provider for large-and-medium-sized enterprises.

During the reporting period, the Group has established Shanghai Kingdee Health Care and Medical Software Technology Co., Ltd., providing hospitals and medical institutions with industry products and services such as Hospital Resource Management System (HRP) and Clinical Information System (CIS). Riding on the opportunity of the medical reform in China, the Group has expanded into the medical and healthcare industry informatisation market.

During the reporting period, as the chair organization of The Open Group in China, Kingdee has hosted the first Chinese Management Cloud Conference and the Annual Meeting 2011 of The China Open Group in Shenzhen, and announced management and integrated IT solution service of Kingdee Solution Foundation Framework (KSFF). Chinese Management Cloud is an important component of the strategic transformation of Kingdee, and is set to mark another milestone in its transformation after the innovation of the Chinese management model and establishment of a dedicated Chinese management think tank.

International Business

During the reporting period, the Group established the international business department and set up a Taiwan branch in order to boost the business development in the Asia Pacific region. Apart from launching the EAS English edition, the Group has also announced the KIS international edition, which led to persistently high growth in the areas of international businesses including foreign enterprises in mainland China, the globalized Chinese companies and overseas markets.

Maintenance and IT Service

During the reporting period, the Group continued to promote service packages and differentiation. Based on numerous evaluations of domestic and foreign hardware/software companies, the Group has developed an integrated IT services and product package of ERP software and system hardware, including standard support, upgrades and migration, etc. To cater for the different characteristics of large enterprises, it designed a comprehensive IT service solution and established specialised regional services marketing and services delivery teams of experts. The Group developed Internet services as well as an integrated desktop and online service system. In collaboration with different hardware/software vendors, the Group offered one-stop IT services for small enterprises. At the same time, Kingdee's service brand was advanced through a series of large-scale service marketing events involving "Kingdee Customers IT Skills Contest", "The IT Integration and Excellent Strategies" National Summit and a series of specialised service seminars "IT innovation, Kingdee's Motivation".

MANAGEMENT DISCUSSION AND ANALYSIS

Consulting Service

The management consulting service of the Group followed the trend of integrated management and IT service development, put emphasis on “Consultation + IT” as a core competitive advantage, the Group has achieved another stage of rapid growth and become a major player, powering the top tier consulting service in China. Management consulting products included strategic consulting, enterprise-wide management and control consulting, human resources consulting, financial consulting, supply chain consulting, workflow consulting, IT planning consulting, business blueprint consulting and high-end management training, which satisfied the transformation and upgrade demand of Chinese enterprises as well as the construction of informatisation. During the reporting period, the Group has won contracts from prominent corporate clients including: Agricultural Bank of China, Zijin Mining Group, Great Northern Wilderness Rice Industry Group, China West Power Electric and Hanking Group. This distinguished client portfolio set a benchmark in the industry and created a high value-added consulting brand for the Group.

2. *Middleware Business*

During the reporting period, the Group’s middleware business continued to maintain rapid growth. Driven by the revenue growth from the SOA comprehensive solution and service segment, revenue and profitability increased significantly. Kingdee’s middleware has maintained its No.1 market share status in the domestic application server middleware market. While maintaining the leading position in the government sector, Kingdee achieved breakthrough in the large enterprise market, capturing clients including China Railway Construction, China International Travel Service and Northeast Pharmaceutical, and has progressed smoothly in SOA reaching the first phase of acceptance. As an issue undertaking unit of “Core Electronic Parts, High-end Chips, Basic Software Products” (“核高基”), a national science and technology project, the Group has completed all the tasks of the national issue. In technology and product systems, the product platform under a complete SOA structure of Kingdee’s middleware has been undergoing continuous optimisation, launching the ACP V2.0 edition of the cloud computing platform. To facilitate major data control and management and unified identification management within large enterprises, the Group has developed new products and solutions.

3. *Internet Application Services for Small Enterprises*

During the reporting period, Kingdee’s YouShang.com continually promoted the development of online management cloud computing services based on SaaS. On the one hand, the Group has promoted the optimisation and transformation of traditional software business to internet services through the bridging of traditional ERP (KIS) with the cloud platform; and on the other hand, the Group has developed the traditional ERP (KIS) into enterprise and personal business software applications and services. After Wise Note (智慧記) and Kuaidi 100, the Group promoted Internet application products such as cash flow statement, taxation invoice inquiries, HaoHuiji (好會記), etc. At the same time, Youshang.com has successfully established extensive partnership with Internet and e-commerce enterprises including Baidu, Tencent, Taobao, and 360, promoting our products and branding to a broader user base in the business sector. During the reporting period, Kingdee Youshang.com was honored as “The Best Small Enterprise SaaS Service Platform” (2011 Asia and Pacific E-Commerce Green Ecological Environment Development Summit *cum* the 2nd Analysys E-Commerce Annual Meeting jointly organised by Analysys International and APEC E-Commerce Business Alliance, March 2011), Kingdee Kuaidi 100 was awarded as “The Most Innovative Award” (Baidu Union, April 2011).

MANAGEMENT DISCUSSION AND ANALYSIS

II. Strategic Partnership and Business Development

During the reporting period, the Group continued to leverage and enhance its strategic partnership with IBM, and obtained highly satisfactory achievements in consulting, sales and delivery. The “IBM EAS Implementation Team” has initiated business collaboration providing services to enterprises in various fields such as construction and real estate, human resources, modern agriculture, manufacturing and circulation of pharmaceuticals, and equipment manufacturing.

During the reporting period, the Group has pushing forward positive mergers and acquisitions strategy. The Group has acquired Changsha Aolian Calculator Information Technology Development Co., Ltd., a specialized software developer for the equipment manufacturing industry, aiming at providing more vertical industry-specific management and IT integration solutions to the fast-growing equipment manufacturing industry and the automobile industry in China. On the other hand, the Group has acquired and consolidated Langfang Golden Times Technology Co., Ltd, and set up a direct subsidiary to strengthen the coverage of its direct subsidiary in the Beijing-Tianjin Economic Circle so as to provide prompt services to more clients.

III. Organisation and Personnel Assurance

During the period under review, the Group actively attracted middle-to-high level software and industry experts, optimised its human resources structure and experts cultivation program, improved its leadership capabilities and enhanced its leading brand name.

During the period under review, the Group continued to advance its transformation in both operational and cultural senses. The Group held a series of learning activities and exploring the road ahead in the Group’s transformation. The Group also introduced a new corporate culture with a core value of “Passion, Professional, Teamwork, Win” to create an encouraging atmosphere inspiring the passion of staff in order to achieve our mission of fulfilling employees’ dreams, assisting clients’ success and promoting Chinese management model to the world.

IV. Social Responsibility

During the reporting period, the Group carried on its social responsibility to research on and promote the Chinese management model. The Group continued to support the selection activities of the Fourth Chinese Management Model Outstanding Awards, and support business schools and relevant research institutions to explore and develop Chinese management theory and education system, assisting Chinese enterprises to enhance their management standards and promoting the five transformations.

In the first half of the year, the Group continually set up scholarship in Southeast University, and also has signed strategic cooperation agreements with a number of universities such as Wuhan University, Nanjing Audit University and Northwest University to build joint labs, a training base and technical centre of foundation software in order to cultivate more software professionals for China and for enterprises as well.

During the period under review, the Group actively cooperated with the Government to push forward the paper-free examination for accounting professional qualifications. A high degree of appreciation and support was given by the National Finance Department for this project and nearly 100,000 candidates have taken part in the exam in Guangxi and Guizhou Provinces.

MANAGEMENT DISCUSSION AND ANALYSIS

V. Financial Review

For the six months ended 30 June 2011, the Group's turnover amounted to approximately RMB844,223,000, an increase of 58.0% against the same period last year (the six months ended 30 June 2010: RMB534,312,000). The high growth was mainly due to the Group's "transformation, integration, high growth" strategy, strengthening its transformation into a management and integrated IT solution provider. On the other hand, the newly set up branches in 2010 and recruitment of talents made a huge contribution to the turnover.

During the reporting period, the Group realized a revenue from software of RMB488,186,000, a rise of 45.5% against the same period of 2010 (the six months ended 30 June 2010: RMB335,518,000), and service revenue of RMB325,826,000, an increase of 70.5% against the same period last year (for the six months ended 30 June 2010: RMB191,119,000).

For the period under review, profit attributable to equity holders of the Company was RMB126,860,000, representing an increase of approximately 43.0% against the same period in 2010 (the six months ended 30 June 2010: RMB88,726,000). Comprehensive income attributable to equity holders of the Company reached approximately RMB126,860,000, representing an increase of 22.4% compared to the same period in 2010 (for the six months ended 30 June 2010: RMB103,676,000). During the period, net profit margin was 15.0% (the six months ended 30 June 2010: 16.6%) and basic earnings per share was RMB5.050 cents (the six months ended 30 June 2010: RMB4.404 cents).

Gross Profit

During the period under review, gross profit of the Group rose approximately 53.2% to around RMB646,612,000 (for the six months ended 30 June 2010: RMB422,201,000). Gross profit margin for the period was 76.6% (for the six months ended 30 June 2010: 79.0%).

Selling and Marketing Expenses

Selling and marketing expenses for the six months ended 30 June 2011 was approximately RMB514,337,000 (the six months ended 30 June 2010: RMB316,602,000), representing an increase of 62.5% against the same period last year. During the period, selling and marketing expenses accounted for 60.9% of turnover, compared to 59.3% in the same period in 2010. The growth of selling and marketing expenses was mainly because of the Group's increasing marketing spending and sales promotion as well as the costs arising from the recruitment of staff and setting up of new branches in 2010 to strengthen the market coverage.

Administrative Expenses and Research and Development Costs

Administrative expenses for the six months ended 30 June 2011 amounted to RMB103,798,000 (the six months ended 30 June 2010: RMB79,158,000), representing an increase of approximately 31.1%. During the period, administrative expenses accounted for a comparable 12.3% of the turnover, compared to 14.8% in the last corresponding period. The research and development cost was approximately RMB83,643,000, a rise of 70.0% against the same period last year (for the six months ended 30 June 2010: RMB49,211,000).

MANAGEMENT DISCUSSION AND ANALYSIS

VI. Future Prospects

The years 2011-2013 are critical for the Group on its path of evolving into a management and IT integration solution provider. The Group is confident about its future development based on its in-depth insights of the global IT technology development trends, China's macro economic development, the demands for enterprise transformation upgrades and Chinese government's encouragement policies for management and IT services.

During the second half of the year, Kingdee will keep pushing forward the business strategy of "transformation, integration, high growth". While continually sustaining high growth of revenue, the Group will also optimize the business structure and control expenses, improve the management of project profitability and enhance the customer satisfaction in order to achieve its operating targets and hence to create greater value for shareholders.

REPORT OF DIRECTORS

Outstanding Share Option

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

The share option scheme is to encourage and reward the contribution of eligible persons to the Company. The eligible persons include employees (include executive directors), consultants, non-executive directors, suppliers and customers of the Company.

During the period of report, the Company has allotted and issued bonus shares on the basis of two Bonus Shares for every ten existing Shares on 9 May 2011, so the exercise price and the number of share options have been adjusted accordingly.

Pursuant to the share option scheme of the Company adopted on 30 January 2001 (“2001 Scheme”), an aggregate of 8,256,000 share options were granted, of which 4,812,000 share options were exercised, 3,444,000 share options were cancelled and 0 share option remained outstanding as at 30 June 2011.

Pursuant to the share option scheme of the Company adopted on 26 April 2002 (“2002 Scheme”), an aggregate of 232,620,000 share options were granted, of which 122,812,061 share options were exercised, 101,518,002 share options were cancelled and 8,289,937 share options remained outstanding as at 30 June 2011.

Both of the 2001 Scheme and 2002 Scheme were terminated by the Company on 30 June 2005. In the extraordinary general meeting of the Company convened on 11 July 2005, the Company adopted a new Share Option Scheme (“2005 Scheme”). The validity period is ten years. As at 30 June 2011, the Company had granted 386,532,000 share options pursuant to the 2005 Scheme, of which 77,324,666 share options were exercised, 48,225,000 share options were cancelled and 260,982,334 share options remained outstanding.

Name or category of participants	Grant date	Exercise price HK\$	Options held at 1 January 2011	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options held at 30 June 2011 ⁽²⁾
Directors							
Xu Shao Chun	19/11/2008	0.792	5,000,000	—	—	—	6,000,000
Oriental Gold Limited ⁽¹⁾	23/04/2010	2.592	2,000,000	—	—	—	2,400,000
Chen Deng Kun	04/05/2006	0.548	5,600,000	—	—	—	6,720,000
	08/06/2007	1.507	2,720,000	—	—	—	3,264,000
	01/08/2008	1.458	2,000,000	—	—	—	2,400,000
	23/04/2010	2.592	800,000	—	—	—	960,000
	16/03/2011	4.275	800,000	—	—	—	960,000
Ho Ching Hua	23/01/2007	0.779	2,200,000	—	—	—	2,640,000
James Ming King	08/06/2007	1.507	100,000	—	—	—	120,000
Gary Clark Biddle	08/06/2007	1.507	400,000	—	—	—	480,000
Yeung Kwok On	08/06/2007	1.507	400,000	—	—	—	480,000
Yang Zhou Nan	08/06/2007	1.507	200,000	—	100,000	—	120,000
Wu Cheng	08/06/2007	1.507	400,000	—	—	—	480,000
FengGuoHua	16/3/2011	4.275	0	10,000,000	—	—	12,000,000
Other employees in aggregate			611,028,000	14,000,000	9,909,641	1,291,128	230,248,271
Total			633,648,000	24,000,000	10,009,641	1,291,128	269,272,271

Note⁽¹⁾: Oriental Gold Limited is wholly owned by Mr. Xu Shao Chun, the Chairman and an executive director of the Company.

Note⁽²⁾: During the period of report, the Company has allotted and issued Bonus Shares on the basis of two Bonus Shares for every ten existing Shares on 9 May 2011, the exercise price and the number of share options have been adjusted accordingly.

REPORT OF DIRECTORS

Directors' and Chief Executive's Interests or Short Positions in the Shares, Underlying Shares or Debentures

As at 30 June 2011, 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 ("SFO")), which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), were as follows:

Long positions in shares/underlying shares of the Company

Name of Directors	Number of Shares/ underlying shares (where appropriate)	Types of interests	Percentage of issued share capital
Xu Shao Chun	754,896,624 2,983,200 6,000,000	Interests of controlled corporation (Note 1) Beneficial owner Other/ Share option (Note 2)	
Oriental Gold Limited ⁽¹⁾	2,400,000	Other/ Share option (Note 2)	
Aggregate:	766,279,824		30.50%
Chen Deng Kun	14,304,000	Other/ Share option (Note 2)	0.57%
Ho Ching Hua	240,000 2,640,000	Beneficial owner Other/ Share option (Note 2)	
Aggregate:	2,880,000		0.11%
James Ming King	120,000	Other/ Share option (Note 2)	0.01%
Gary Clark Biddle	480,000	Other/ Share option (Note 2)	0.02%
Yeung Kwok On	480,000	Other/ Share option (Note 2)	0.02%
Yang Zhou Nan	120,000	Other/ Share option (Note 2)	0.01%
Wu Cheng	480,000	Other/ Share option (Note 2)	0.02%
FengGuoHua	12,000,000	Other/ Share option (Note 2)	0.48%

Notes:

- Of the 754,896,624 Shares, 404,910,000 Shares were held through Oriental Gold Limited and 349,986,624 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 754,896,624 Shares.
- Details of the share options are set out in the paragraph headed "Outstanding Share Option".

REPORT OF DIRECTORS

Save as disclosed in this paragraph, as at 30 June 2011, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section headed "Outstanding Share Option" above, none of the Directors or their respective associates (as defined under the Listing Rules) was granted by the Company, or any of its subsidiaries, any rights or options to acquire shares or debentures in the Company during the six months ended 30 June 2011.

Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares, Underlying Shares

As at 30 June 2011 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 which would fall to be disclosed to the Company under the provisions of Part XV of the SFO and required to be 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	404,910,000	Beneficial owner	16.12%
Billion Ocean Limited	349,986,624	Beneficial owner	13.93%
FMR LLC	209,143,095 (Note 1)	Investment manager	8.33%
Matthews International Capital Management, LLC	148,276,800 (Note 2)	Investment manager	5.90%
Capital Research and Management Company	130,845,600 (Note 2)	Investment manager	5.21%

Notes:

1. As no updated disclosure of interest form was filed by FMR LLC after the Bonus Issue was completed on 9 May 2011, the Company assumed that the number of shares interested by FMR LLC should have been increased as a result of the Bonus Issue from 174,285,913 to 209,143,095 Shares. Of the 209,143,095 Shares, 198,236,535 Shares were held through Fidelity Management & Research Company and 10,906,560 Shares were held through Fidelity Management Trust Company and Pyramis Global Advisors LLC. As Fidelity Management & Research Company and Fidelity Management Trust Company, Pyramis Global Advisors LLC were wholly owned/controlled by FMR LLC, FMR LLC is deemed to be interested in those 209,143,095 Shares.
2. As no updated disclosure of interest forms were filed by Matthews International Capital Management, LLC and Capital Research and Management Company after the Bonus Issue was completed on 9 May 2011, the Company assumed that the number of shares deemed to be interested by Matthews International Capital Management, LLC and Capital Research and Management Company should have been increased as a result of the Bonus Issue from 123,564,000 to 148,276,800 and from 109,038,000 to 130,845,600, respectively.

REPORT OF DIRECTORS

Save as disclosed above, as at 30 June 2011, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest and 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 ended 30 June 2011, the Company had repurchased an aggregate of 6,016,000 Shares, and has cancelled total of 6,554,000 Shares, which including 538,000 Shares, has been repurchased but not cancelled before 31 December 2011. Save as disclosed, the Company had not repurchased, sold or redeemed any of its listed securities during the reporting period.

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 reporting period ended 30 June 2011 except A 2.1. During the period of the report, Mr. Xu Shao Chun held roles of both Chairman and CEO of the Company. The Board considers that Mr. Xu Shao Chun, as one of the main founders of the Company, has abundant knowledge of IT industry and unique strategy perspective. The Board feels that he can lead the Company to formulate effective strategies and react promptly to market change. His continuous serving in both roles is beneficial to the stable and healthy development of the Company. However, the Board will review and make appropriate changes when necessary in order to enhance the level of corporate governance.

Internal Control

The Company has always placed importance to internal control and risk management. The audit committee has been set up in the Board, and it promotes to build the Company’s internal control system according to the COSO internal control framework, and further through the supervision and inspection functions of the audit to promote the Company’s safety, efficient operation and to protect shareholder value as well as the value of the assets. 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.

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 made which is of price-sensitive nature. 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.

Audit Committee

The audit committee has reviewed the Group’s unaudited condensed consolidated results for the six months ended 30 June 2011. 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.

REPORT OF DIRECTORS

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. Having made specific enquiry to each of the Directors, the Directors confirmed that they had complied with such code of conduct throughout the accounting period covered by this report.

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

Shenzhen, the People's Republic of China, 16 August 2011

As at the date hereof, the executive Directors are Mr. Xu Shao Chun (Chairman of the Company and Chief Executive Officer) and Mr. Feng Guo Hua and Mr. Chen Deng Kun; the non-executive Director is Mr. James Ming King; and the independent non-executive Directors are Ms. Yang Zhou Nan, Mr. Wu Cheng, Mr. Yeung Kwok On, Mr. Gary Clark Biddle and Mr. Ho Ching Hua.

This report, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.