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**KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY
LIMITED**

金蝶國際軟件集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 268)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2012**

The board (the “Board”) of directors (the “Directors”) of Kingdee International Software Group Company Limited (“Kingdee International” or the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2012, together with the comparative audited consolidated figures for the year ended 31 December 2011 are as follows:

Financial highlights for the year ended 31 December 2012

- Turnover decreased by approximately 12.7% compared with 2011 to approximately RMB1,765,493,000.
- Loss attributable to equity holders of the Company during the period was approximately RMB140,246,000. (2011: Profit of RMB144,988,000)
- Basic loss per share attributable to equity holders of the Company during the period was approximately RMB0.0557. (2011: Profit of RMB0.0577)
- The directors did not recommend the payment of a final dividend in respect of the year ended 31 December 2012.

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December	
		2012 RMB'000	2011 RMB'000 (Restated)
ASSETS			
Non-current assets			
Land use rights		138,849	83,683
Property, plant and equipment		791,216	518,110
Intangible assets	4	637,183	587,864
Investment properties	5	825,575	496,925
Loans and receivables	6	26,000	-
		<u>2,418,823</u>	<u>1,686,582</u>
Current assets			
Inventories		3,936	4,036
Trade and other receivables	6	313,458	378,960
Prepaid income tax		712	-
Available-for-sale financial assets	7	-	11,013
Due from customers on implementation contracts		326,328	292,467
Pledged bank deposits		5,591	11,032
Short-term bank deposits		14,500	16,490
Cash and cash equivalents		898,002	633,412
		<u>1,562,527</u>	<u>1,347,410</u>
Total assets		<u>3,981,350</u>	<u>3,033,992</u>

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	As at 31 December	
		2012 RMB'000	2011 RMB'000 (Restated)
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	8	64,059	63,941
Share premium	8	435,460	405,730
Other reserves		528,988	436,023
Retained earnings			
- Others		550,336	703,600
		<u>1,578,843</u>	<u>1,609,294</u>
Non-controlling interests		<u>11,459</u>	<u>34,316</u>
Total equity		<u>1,590,302</u>	<u>1,643,610</u>
LIABILITIES			
Non-current liabilities			
Borrowings	9	1,363,641	597,500
Deferred income tax liabilities		61,911	48,080
Long term payables		7,388	37,548
		<u>1,432,940</u>	<u>683,128</u>
Current liabilities			
Trade and other payables	10	537,633	465,597
Due to customers on implementation contracts		73,642	64,514
Borrowings	9	227,000	20,000
Current income tax liabilities		-	7,798
Deferred income		119,833	149,345
		<u>958,108</u>	<u>707,254</u>
Total liabilities		<u>2,391,048</u>	<u>1,390,382</u>
Total equity and liabilities		<u>3,981,350</u>	<u>3,033,992</u>
Net current assets		<u>604,419</u>	<u>640,156</u>
Total assets less current liabilities		<u>3,023,242</u>	<u>2,326,738</u>

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2012 RMB'000	2011 RMB'000
Revenue	11	1,765,493	2,022,498
Cost of sales	13	<u>(618,526)</u>	<u>(604,656)</u>
Gross profit		1,146,967	1,417,842
Selling and marketing expenses	13	(1,153,722)	(1,229,721)
Administrative expenses	13	(216,866)	(254,485)
Research and development costs	13	(200,357)	(168,724)
Fair value gains of investment properties	5	60,958	135,658
Other gains, net	12	<u>260,083</u>	<u>289,716</u>
Operating (loss)/profit		(102,937)	190,286
Finance income	14	6,813	3,524
Finance costs		<u>(65,896)</u>	<u>(12,368)</u>
Finance costs- net	14	(59,083)	(8,844)
(Loss)/profit before income tax		(162,020)	181,442
Income tax expense	15	<u>(1,955)</u>	<u>(28,280)</u>
(Loss)/profit for the year		<u>(163,975)</u>	<u>153,162</u>
Attributable to:			
Equity holders of the Company	16	(140,246)	144,988
Non-controlling interest		<u>(23,729)</u>	<u>8,174</u>
		<u>(163,975)</u>	<u>153,162</u>
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company (expressed in RMB cents per share)			
- basic	16	<u>RMB (5.57)</u>	<u>RMB 5.77</u>
- diluted		<u>RMB (5.57)</u>	<u>RMB 5.42</u>

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December		
	Note	2012	2011
		RMB'000	RMB'000
(Loss)/profit for the year		(163,975)	153,162
Other comprehensive income:			
Fair value change of owner-occupied land and buildings before being transferred to investment properties, net of tax		87,753	-
Fair value change of available-for-sale financial assets, net of tax		913	912
Disposal of available-for-sale financial assets, net of tax		(1,825)	-
		<u>86,841</u>	<u>912</u>
Total comprehensive (loss)/ income for the year		<u>(77,134)</u>	<u>154,074</u>
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		(53,405)	145,900
Non-controlling interest		(23,729)	8,174
		<u>(77,134)</u>	<u>154,074</u>

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Note	Attributable to equity holders of the Company					Non-controlling interest	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance at 1 January 2011	54,653	425,358	427,323	626,720	1,534,054	14,271	1,548,325
Comprehensive income							
Profit for the year	-	-	-	144,988	144,988	8,174	153,162
Other comprehensive income	-	-	912	-	912	-	912
Total comprehensive income	-	-	912	144,988	145,900	8,174	154,074
Transactions with owners							
Employees share option scheme:							
- value of employee services	-	24,667	-	-	24,667	-	24,667
- proceeds from shares issued	596	21,717	-	-	22,313	-	22,313
Bonus shares	9,177	(9,177)	-	-	-	-	-
Repurchase and cancellation of own shares	(485)	(56,835)	485	(485)	(57,320)	-	(57,320)
Appropriation to reserve funds	-	-	7,303	(7,303)	-	-	-
Dividend relating to 2010	-	-	-	(60,320)	(60,320)	-	(60,320)
Non-controlling interests arising on business combination (Restated)	-	-	-	-	-	11,871	11,871
Total transactions with owners	9,288	(19,628)	7,788	(68,108)	(70,660)	11,871	(58,789)
Balance at 31 December 2011	63,941	405,730	436,023	703,600	1,609,294	34,316	1,643,610
Balance at 1 January 2012	63,941	405,730	436,023	703,600	1,609,294	34,316	1,643,610
Comprehensive loss							
Loss for the year	-	-	-	(140,246)	(140,246)	(23,729)	(163,975)
Other comprehensive income	-	-	86,841	-	86,841	-	86,841
Total comprehensive loss	-	-	86,841	(140,246)	(53,405)	(23,729)	(77,134)
Transactions with owners							
Employees share option scheme:							
- value of employee services	-	28,787	-	-	28,787	-	28,787
- proceeds from shares issued	136	4,013	-	-	4,149	-	4,149
Repurchase and cancellation of own shares	(18)	(1,302)	18	(18)	(1,320)	-	(1,320)
Transactions with Non-controlling Interests							
Interests	-	-	(6,894)	-	(6,894)	872	(6,022)
Acquisition of treasury shares	-	(1,768)	-	-	(1,768)	-	(1,768)
Capitalization of retained earnings	-	-	13,000	(13,000)	-	-	-
Total transactions with owners	118	29,730	6,124	(13,018)	22,954	872	23,826
Balance at 31 December 2012	64,059	435,460	528,988	550,336	1,578,843	11,459	1,590,302

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Note	Year ended 31 December	
		2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Cash generated from operations		71,901	177,092
Interest paid (Excluding interest paid capitalized)		(54,273)	(23,386)
Income tax paid		(5,967)	(2,453)
Net cash generated from operating activities		11,661	151,253
Cash flows from investing activities			
Purchase of property, plant and equipment		(253,129)	(192,693)
Proceeds from sale of property, plant and equipment		9,105	3,620
Payments for land use rights		(62,036)	(10,014)
Purchases of investment property		(64,258)	(72,105)
Payments for loans and receivables		(26,000)	3,520
Purchases of intangible assets		(255,537)	(264,352)
Cash paid for business combination, net of cash acquired		(74,234)	(47,535)
Purchases of available-for-sale financial assets		(101,000)	-
Proceeds from sale of available-for-sale financial assets		114,041	-
Pledged bank deposits withdrawn		6,011	5,070
Pledged bank deposits placed		(570)	(11,032)
Short-term bank deposits withdrawn		1,990	100,527
Interest paid capitalised		(19,771)	-
Interest received		5,634	3,524
Net cash used in investing activities		(719,754)	(481,470)
Cash flows from financing activities			
Proceeds from options exercised	8	4,149	22,313
Repurchase of own shares	8	(1,320)	(57,320)
Proceeds from borrowings		1,027,141	432,000
Repayments of borrowings		(54,000)	(4,500)
Acquisition of treasury shares		(1,768)	-
Dividends paid to the Company's shareholders		-	(60,320)
Cash paid for acquisition of non-controlling interest		(1,519)	-
Net cash generated from financing activities		972,683	332,173
Net increase in cash and cash equivalents		264,590	1,956
Cash and cash equivalents at beginning of year		633,412	631,456
Cash and cash equivalents at end of year		898,002	633,412

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

1 General information

Kingdee International Software Group Company Limited (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 the Company and its subsidiaries (together the “Group”) are developing, manufacturing and selling of enterprise management software products and provision of software-related technical services in the PRC.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited since 15 February 2001.

These financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors on 20 March 2013.

2 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”). The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and available-for-sale financial assets, which are carried at fair value.

The acquisition of Kingdee Medical Software Technology Co. Ltd. (“Kingdee Medical” Previously known as “Guangzhou Wisetop computer Co, Ltd” or “Guangzhou Huitong”) has been completed on 1st August 2011. The acquisition of Kingdee Medical was a business combination. The Group used the provisional value to account for this business combination when preparing 2011 consolidated financial statements as the Group had not yet completed the assessment of the fair value of net identified assets acquired at the date of 2011 annual report. The Group followed the provision of IFRS3 (Revised) to record Kingdee Medical provisional Medical’s assets and liabilities provisionally at fair value which values approximated by the carrying value amounts, with one year grace period to finalise the fair value in subsequent fiscal year and adopt the fair value retrospectively. The difference between (a) the aggregate of the consideration, and the carrying value amount of non-controlling interest and (b) the provisional fair value of the assets net of the liabilities of Kingdee Medical was tentatively recorded as intangible asset – goodwill.

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2 Basis of preparation (continued)

In 2012, the Group completed the assessment. The fair value of the identified intangible asset at the acquisition date has been increased by RMB7,420,000, which resulted in an increase in deferred tax liabilities of RMB1,113,000, an increase non-controlling interests of RMB1,576,000, and a decrease in goodwill of RMB4,731,000. The 2011 comparative information is restated to reflect the above adjustments. There is no change to the previously published consolidated financial statements of the Group as at 31 December 2010. The detail of the initial accounting of the acquisition of Kingdee Medical is recorded in Note 18.

3 Segment information

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

The executive directors consider the business from product perspective. Upon the adoption of IFRS 8 "Operating Segments", the Group has determined that the operating segments:

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

The reconciliation items to the profit for the year and total asset of the Group between segment asset and segment result mainly represented the operation of investment properties.

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3 Segment information (continued)

The segment information for the year ended 31 December 2012 is as follows:

	Enterprise management software business RMB'000	Others RMB'000	Reconciliation RMB'000	The Group Total RMB'000
Revenue (from external customers)	1,710,169	55,324	-	1,765,493
Operating (loss)/ profit	(148,642)	(42,327)	88,032	(102,937)
Finance costs	(65,833)	(63)	-	(65,896)
Finance income	6,288	525	-	6,813
Finance (cost)/ income – net	(59,545)	462	-	(59,083)
(loss) /profit before income tax	(208,187)	(41,865)	88,032	(162,020)
Income tax (credit)/ expense	6,848	-	(8,803)	(1,955)
Segment results	(201,339)	(41,865)	79,229	(163,975)
Segment assets	3,053,710	102,065	825,575	3,981,350
Segment liabilities	2,274,391	116,657	-	2,391,048
Additions to non-current assets (other than financial instruments and deferred tax assets)	404,466	(875)	328,650	732,241
Material non-cash expenses /income				
Depreciation and amortisation	238,703	1,117	-	239,820
(Written -back) /provision for doubtful trade and other receivables	(2,226)	3,041	-	815

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3 Segment information (continued)

The segment information for the year ended 31 December 2011 is as follows:

	Enterprise management software business RMB'000	Others RMB'000	Reconciliation RMB'000	The Group Total RMB'000
Revenue (from external customers)	1,931,117	91,381	-	2,022,498
Operating profit/(loss)	38,205	(8,014)	160,095	190,286
Finance costs	(12,285)	(83)	-	(12,368)
Finance income	2,971	553	-	3,524
Finance income/(cost) – net	(9,314)	470	-	(8,844)
Profit/(loss) before income tax	28,891	(7,544)	160,095	181,442
Income tax expense	(9,600)	(2,670)	(16,010)	(28,280)
Segment results	19,291	(10,214)	144,085	153,162
Segment assets(Restated)	2,389,532	147,535	496,925	3,033,992
Segment liabilities(Restated)	1,273,772	116,610	-	1,390,382
Additions to non-current assets (other than financial instruments and deferred tax assets)	360,945	7,875	207,763	576,583
Material non-cash expenses				
Depreciation and amortisation	202,379	744	-	203,123
Provision for doubtful trade and other receivables	19,700	2,112	-	21,812

The Company is incorporated in Cayman Islands while the Group mainly operates its businesses in the PRC. The result of its total revenue from external customers from the PRC is RMB 1,752,146,000 (2011: RMB 1,991,448,000), and the total of revenue from external customers from other countries is RMB 13,347,000 (2011: RMB31,050,000) for the year ended 31 December 2012. All the Group's non-current assets are located in the PRC.

There is no single customer that contributed for over 10% of the Group's revenue for the years ended 31 December 2012 and 2011.

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

4 Intangible assets - Group

	Goodwill (Restated) RMB'000	Development costs RMB'000	Acquired licenses and copyrights (Restated) RMB'000	Computer software for own use RMB'000	Customer relationship (Restated) RMB'000	Total (Restated) RMB'000
Year ended 31 December 2011						
Opening net book amount	-	260,040	113,598	3,598	-	377,236
Additions	-	258,209	14,300	3,221	-	275,730
Acquired in business combination(Restated Note 18)	84,311	-	8,986	-	6,240	99,537
Amortisation charge	-	(132,061)	(30,066)	(2,512)	-	(164,639)
Closing net book amount	84,311	386,188	106,818	4,307	6,240	587,864
At 31 December 2011						
Cost	109,871	821,051	155,656	14,356	6,240	1,107,174
Accumulated amortisation	-	(434,863)	(48,838)	(10,049)	-	(493,750)
Accumulated impairment	(25,560)	-	-	-	-	(25,560)
Net book amount	84,311	386,188	106,818	4,307	6,240	587,864
Year ended 31 December 2012						
Opening net book amount	84,311	386,188	106,818	4,307	6,240	587,864
Additions	-	252,045	1,316	1,992	-	255,353
Disposal	-	-	(4,680)	-	-	(4,680)
Amortisation charge (Note 13)	-	(169,264)	(26,866)	(3,456)	(1,768)	(201,354)
Closing net book amount	84,311	468,969	76,588	2,843	4,472	637,183
At 31 December 2012						
Cost	109,871	1,073,096	152,292	16,348	6,240	1,357,847
Accumulated amortisation	-	(604,127)	(75,704)	(13,505)	(1,768)	(695,104)
Accumulated impairment	(25,560)	-	-	-	-	(25,560)
Net book amount	84,311	468,969	76,588	2,843	4,472	637,183

Amortisation charge of RMB 32,090,000 (2011: RMB32,578,000) has been included in administrative expenses, and RMB 169,264,000 (2011:RMB132,061,000) in research and development costs.

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4 Intangible assets - Group (continued)

Impairment tests for goodwill

Goodwill acquired through business combinations has been primarily allocated to the CGU of Kingdee Medical Software Technology Co., Ltd (“Kingdee Medical”) for impairment testing. The carrying amount of goodwill is as follows:

	Opening	Addition	Impairment	Closing
2011	RMB'000	RMB'000	RMB'000	RMB'000
Kingdee Medical	-	84,311	-	84,311
<hr/>				
	Opening	Addition	Impairment	Closing
2012	RMB'000	RMB'000	RMB'000	RMB'000
Kingdee Medical	84,311	-	-	84,311

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the Enterprise Management Software Business in which the CGU operates. The Kingdee Medical CGU is a component of the operational segment of Enterprise Management Software business.

The key assumptions used for value-in-use calculations in 2012 are as follows:

	<u>Kingdee Medical</u>
Average EBITDA rate	20%
Average growth rate	23%
Pre-tax discount rate	15%

These assumptions have been used for the analysis of the CGU of Kingdee Medical.

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

5 Investment properties – Group

	2012	2011
	RMB'000	RMB'000
At 1 January	496,925	289,162
Addition	131,524	72,105
Transfer from building	136,168	-
Fair value gain	60,958	135,658
At 31 December	<u>825,575</u>	<u>496,925</u>

As at 30 June 2012, the Group transferred the Block B's tenth floor of the Group's research and development center located in Shenzhen, as well as the third and fourth floor of Block 1 of the Group's research and development center located in Shanghai from building to investment property. These properties were transferred to investment properties at lease commencing date.

As at 31 December 2012, apart from the above, the investment properties included the whole Block 2 and Block 3 of the Group's research and development center located in Shanghai, the south area on the 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, B1 on 4th floor of W1 building located in Hi-Tech Industrial Park of Shenzhen, all of which are completed properties and have been under lease. In addition, the third, fourth, fifth and sixth floors of the Block 1 of Beijing new research and development center located in Shunyi Beijing have been completed at the end of 2012, and will be lease out in the coming year.

At the end of each reporting period, the directors will assess the fair value of each investment property, taking into account the most recent assessment results indicated in independent valuations. The directors determine a property's fair value within a range of reasonable fair value estimates.

For the year ended 31 December 2012, the Group appointed an independent valuer, Guangheng Xingyue Asset Appraisal Company Limited, to assess the fair value of all its investment properties as at 31 December 2012.

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

	2012	2011
	RMB'000	RMB'000
In the PRC, held on:		
Leases of between 10 to 50 years	<u>825,575</u>	<u>496,925</u>

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

6 Trade and other receivables - Group and company

	Group		Company		
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000 (Reclassified)	2010 RMB'000 (Reclassified)
Trade receivables (a)	234,045	228,135	-	-	-
Less: allowance for impairment	(90,000)	(93,392)	-	-	-
Trade receivables – net	144,045	134,743	-	-	-
Notes receivable	12,556	27,279	-	-	-
Advances to employees	37,572	33,863	-	-	-
Prepayments	47,062	83,323	-	-	-
VAT recoverable	41,633	61,603	-	-	-
Other receivables	30,590	38,149	28,488	30,236	5,660
	313,458	378,960	28,488	30,236	5,660
Add non-current portion: loans and receivables	26,000	-	-	-	-
	<u>339,458</u>	<u>378,960</u>	<u>28,488</u>	<u>30,236</u>	<u>5,660</u>

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

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

The credit quality of financial assets that are neither past due nor impaired are assessed by making reference to historical information about counterparty default rates, reputation, liquidity and other financial information.

- (a) Sales are generally made without prescribed credit terms in the sales contracts but customers usually take 1 to 3 months to settle the receivables. Trade receivables aged more than 3 months had been considered for impairment. The ageing analysis of trade receivables is as follows:

	2012 RMB'000	2011 RMB'000
0 - 90 days	84,257	68,061
91 - 180 days	37,145	30,787
181 - 360 days	25,495	49,932
Over 360 days	87,148	79,355
	<u>234,045</u>	<u>228,135</u>

All trade receivables were past due as at 31 December 2012 and they had been considered for impairment.

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

7 Available-for-sale financial assets – Group

	2012 RMB'000	2011 RMB'000
At 1 January	11,013	10,000
Addition	101,000	-
Net fair value gains recognised in other comprehensive income	1,015	1,013
Disposal	<u>(113,028)</u>	<u>-</u>
At 31 December	<u>-</u>	<u>11,013</u>

8 Share capital and premium - Group and Company

Group	Number of Issued shares (thousands)	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2011	2,091,609	54,653	425,358	480,011
Bonus issue of shares (a)	417,123	9,177	(9,177)	-
Employee share option scheme				
– Value of services provided	-	-	24,667	24,667
– Exercise of share options	27,064	596	21,717	22,313
Repurchase and cancellation of own shares (a)	<u>(22,044)</u>	<u>(485)</u>	<u>(56,835)</u>	<u>(57,320)</u>
At 31 December 2011	2,513,752	63,941	405,730	469,671
Employee share option scheme				
– Value of services provided	-	-	28,787	28,787
– Exercise of share options	6,237	136	4,013	4,149
Repurchase and cancellation of own shares (a)	<u>(850)</u>	<u>(18)</u>	<u>(1,302)</u>	<u>(1,320)</u>
Acquisition of treasury shares (b)	<u>-</u>	<u>-</u>	<u>(1,768)</u>	<u>(1,768)</u>
At 31 December 2012	<u>2,519,139</u>	<u>64,059</u>	<u>435,460</u>	<u>499,519</u>

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8 Share capital and premium - Group and company (continued)

The total authorised number of ordinary shares as at 31 December 2012 is 4,000,000,000 shares (2011: 4,000,000,000 shares) with a par value of HKD 0.025 per share (2011: HKD 0.025 per share). All issued shares are fully paid.

- (a) During 2012, 850,000 shares (2011: 22,044,000 shares) were repurchased by the Company on the Hong Kong Stock Exchange at an aggregate consideration of approximately RMB1,320,000 (2011: RMB57,320,000) and they were then cancelled. The nominal value of these shares of RMB18,000 (2011: RMB485,000) was credited to the capital redemption reserve. The capital redemption reserve of RMB18,000(2011: RMB485,000) and the premium arising from such purchase of approximately RMB1,302,000(2011: RMB56,835,000) were paid out of the Company's retained earnings and share premium account, respectively.
- (b) During 2012, 1,500,000 shares were purchased by subsidiary on the Hong Kong Stock Exchange through an agent at an aggregate consideration of approximately RMB 1,768,000.

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9 Borrowings- Group

	2012	2011
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings, unsecured	888,500	597,500
The Medium-term Notes (a)	<u>475,141</u>	<u>-</u>
	1,363,641	597,500
Current		
Current portion of long-term borrowings, unsecured	227,000	8,000
Short-term bank borrowings, unsecured	<u>-</u>	<u>12,000</u>
	<u>1,590,641</u>	<u>617,500</u>

The Group's bank borrowings mature until 2018 (2011: 2014) and bear average interest rate of 7.09% annually (2011: 7.05% annually) and are wholly repayable within 6 years.

At 31 December 2012, the Group's borrowings were repayable as follows:

	Bank borrowings	
	2012	2011
	RMB'000	RMB'000
Within 1 year	227,000	20,000
Between 1 and 2 years	364,833	195,900
Between 2 and 6 years	<u>998,808</u>	<u>401,600</u>
	<u>1,590,641</u>	<u>617,500</u>

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates at the balance sheet dates are within 1 year (2011: within 1 year).

The fair value of the non-current borrowings as of 31 December 2012 is RMB 1,604,258.00 , which is based on cash flows discounted using a rate based on the borrowing rate 6.49 % (2011: 6.56%).

The fair value of the current borrowings equal their carrying amount as the impact of discount is not significant.

- (a) Kingdee Software (China) Co., Ltd ("Kingdee Software"), a wholly-owned subsidiary of the Company has completed the issuance of the first tranche of the Medium-term Notes in the People's Republic of China(the "PRC") on 16 July 2012. The first tranche of the Medium-term Notes was issued in the amount of RMB 0.48 billion, at the interest rate of 6.0% per annum, and with a term of three years. The proceeds raised from the issuance of the first tranche of the Medium-term Notes would be used to meet the needs of part of the Group's construction-in-progress project and to provide working capital for the Group.

The Group's borrowings are all denominated in RMB.

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10 Trade and other payables - Group and company

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables (a)(b)	29,290	35,308	-	-
Salary and staff welfare payables	50,891	75,313	-	-
Advances from customers	84,770	71,157	-	-
VAT and business tax payable	30,042	57,574	-	-
Accrued expenses	66,779	82,639	-	-
Construction fee payable	158,613	11,062	-	-
Contingent consideration for business combination	35,170	42,360	-	-
Deferred consideration for business combination	8,832	40,035	-	-
Deposits of distributors	33,262	22,078	-	-
Interest Payable	14,400	2,761	-	-
Others	25,584	25,310	1,176	736
	<u>537,633</u>	<u>465,597</u>	<u>1,176</u>	<u>736</u>

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

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

(b) At 31 December 2012, the ageing analysis of the trade payables based on invoice date is as follows:

	2012	2011
	RMB'000	RMB'000
0 - 180 days	22,059	31,631
181 - 360 days	5,453	1,033
Over 360 days	1,778	2,644
	<u>29,290</u>	<u>35,308</u>

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11 Revenue

Turnover consists of sale of software, software implementation service, software solution consulting and support service and sale of computer and related products. Revenue is stated net of applicable value-added tax (“VAT”) in the PRC and comprises the following:

	2012	2011
	RMB'000	RMB'000
Sales of software	873,578	1,088,015
Software implementation services	486,750	509,289
Software solution consulting and support services	354,177	346,577
Sales of computers and related products	50,988	78,617
	<u>1,765,493</u>	<u>2,022,498</u>

12 Other gains - net

	2012	2011
	RMB'000	RMB'000
VAT refund (a)	161,068	183,419
Government grant	56,861	82,433
Rental income - net	27,074	24,437
Re-measurement of the contingent consideration for business combinations	9,639	(3,740)
Gain from sale of available-for-sale financial asset	2,028	-
Others	3,413	3,167
	<u>260,083</u>	<u>289,716</u>

- (a) According to the current tax regulations in the PRC, the development and sales of computer software are subject to VAT with an applicable rate of 17%. In 2011, the State Department issued a circular regarding the “Taxation Policy for Encouraging the Development of Software and Integrated Circuits Industry” (Guo Fa [2011] No.4). Pursuant to the Circular, software enterprises which engage in the sales of self-developed software in the PRC and pay VAT at a rate of 17% are entitled to VAT refund to the extent that the effective VAT rate of the sales of the software in the PRC exceeds 3% of the sales amounts.

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13 Expenses by nature

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

	2012	2011
	RMB'000	RMB'000
Research and development costs		
Amounts incurred	283,138	294,872
Less: development costs capitalised	(252,045)	(258,209)
Add: amortisation	169,264	132,061
	<u>200,357</u>	<u>168,724</u>
Employee benefit expenses	1,416,633	1,439,931
Less: amount included in development costs	(230,030)	(228,172)
	<u>1,186,603</u>	<u>1,211,759</u>
Depreciation	34,500	36,544
Less: amount included in development costs	(8,329)	(8,586)
	<u>26,171</u>	<u>27,958</u>
Cost of inventories consumed	133,309	98,927
Amortisation of acquired licenses and copyrights	26,866	30,066
Amortisation of customer relationship	1,768	-
Amortisation of computer software for own use	3,456	2,512
Amortisation of land use rights	3,966	1,940
Impairment of receivables	815	21,812
Loss on disposals of property, plant and equipment	1,833	511
Auditors' remuneration	1,600	1,600
Advertising expenses	89,500	124,807
Sales promotion expenses	86,185	88,662
Professional service expenses	22,935	22,195
Traveling expenses	78,005	83,931
Rental and utilities	59,718	60,254
Outsourcing services	129,912	158,954
Office expenses	43,732	43,210
Training expenses	6,239	13,524
Other tax and surcharge	39,698	46,547
Others	46,803	49,693
Total cost of sales, selling and marketing expenses, research and development costs and administrative expenses	<u>2,189,471</u>	<u>2,257,586</u>

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14 Finance costs – net

	2012	2011
	RMB'000	RMB'000
Interest income	6,813	3,524
Bank charges	(897)	(189)
Net foreign exchange loss	16	(911)
Interest on borrowings	(86,214)	(25,958)
Less: interest capitalised in construction in progress		
	<u>21,199</u>	<u>14,690</u>
	<u>(59,083)</u>	<u>(8,844)</u>

During 2012, the capitalisation rate applied to funds borrowed generally and used for the construction in progress was approximately 6.96% (2011: 7.05%) per annum.

15 Income tax expense

Taxation on the PRC profits is calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC.

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the principal rate of the PRC enterprise income tax as follows:

	2012	2011
	RMB'000	RMB'000
PRC income tax		
- Current income tax	3,512	10,251
- Over-provision in previous year	(5,916)	-
- Deferred income tax	<u>4,359</u>	<u>18,029</u>
	<u>1,955</u>	<u>28,280</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 years in those jurisdictions.
- (b) The directors are confident that Kingdee China is qualified as national important software enterprise and is entitled to the preferential tax rate of 10% for the year ended 31 December 2012.
- (c) According to the Corporate Income Tax Law of the People's Republic of China (hereinafter "the new CIT Law") and the relevant regulations, the enterprise income tax rate applicable to the subsidiaries of the Group is 25%. Preferential rates are applicable to foreign investment enterprises established in Special Economic Zones in the PRC for a transitional period of 5 years from 2008 in which the income tax rate will be changed to 18%, 20%, 22% 24% and 25% from the five years from 2008 to 2012 respectively. Accordingly, the applicable income tax rate of the subsidiaries of the Group established in Shenzhen Special Economic Zone, Xiamen Special Economic Zone and Pudong New Zone for the year ended 2012 was 25%. (2011: 24%)

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15 Income tax expense (continued)

- (d) As at February 2009, According to Cai Shui Zi [2009] No.1 issued by relevant tax authorities in the PRC, Shanghai Kingdee Software Co., Ltd. was qualified as an approved software enterprise in Feb 2011 and was entitled to be exempted from enterprise income tax from year 2009 to year 2010 and a 50% deduction of income tax rate from year 2011 to year 2013.
- (e) According to Cai Shui Zi [2008] by Ministry of Science and Technology, Ministry of Finance and tax authorities in the PRC, Shenzhen Kingdee Middleware Co., Ltd, as well as Kingdee Medical Software Co.,Ltd were qualified as national important software enterprise from 2011 to 2014. Therefore the above two companies are applied to the tax rate of 15% to calculate income tax expense.

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

	2012	2011
	RMB'000	RMB'000
Profit before tax	(162,020)	181,442
Tax at the statutory tax rate of 25% (2011: 25%)	(40,506)	45,361
– Effect of preferential tax rates	11,899	(34,531)
– Tax losses not recognised	37,107	44,916
– Expenses not deductible for tax purposes	5,969	4,847
– Income not subject to tax (a)	-	(19,512)
– Additional deductible allowance for research and development expenses	(12,514)	(12,801)
	<u>1,955</u>	<u>28,280</u>

- (a) Income not subject to tax includes the VAT refund and certain government grants which are not taxable according to relevant tax regulations.

16 Earnings per share

- (a) Basic

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

	2012	2011
Profit attributable to equity holders of the Company (RMB'000)	(140,246)	144,988
Weighted average number of ordinary shares in issue (thousands)	<u>2,516,344</u>	<u>2,513,194</u>
Basic (loss)/earnings per share (RMB cents per share)	<u>(5.57)</u>	<u>5.77</u>

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16 Earnings per share (continued)

(b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming the conversion of all dilutive potential ordinary shares. The Company's outstanding share options are potentially dilutive. A calculation is done to determine the number of shares that could have been issued at fair value (determined as the average market price of the Company's shares during the periods) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares so calculated is compared with the number of shares that would have been issued assuming the exercise of the share options. The difference is added to the denominator as the number of ordinary shares issued for no consideration. As the Company's share options are anti-dilutive if exercised, no diluted (loss) per share is calculated for 2012. No adjustment is made to the (loss) / profit attributable to equity holders of the Company as the numerator.

	2011
Profit attributable to equity holders of the Company (RMB'000)	144,988
Weighted average number of ordinary shares in issue (thousands)	2,513,194
Adjustments for	
– share options (thousands)	<u>162,791</u>
Weighted average number of ordinary shares for diluted earnings	
– per share (thousands)	<u>2,675,985</u>
Diluted earnings per share (RMB cents per share)	<u><u>5.42</u></u>

2011 earnings per share (both basic and diluted) have been adjusted to reflect the effect of bonus issue of share as if the bonus issue of shares occurred at 1 January 2011.

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17 Commitments - Group

(a) Capital commitments

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

	2012 RMB'000	2011 RMB'000
Property, plant and equipment	-	256,934
	<u>-</u>	<u>256,934</u>

(b) Operating lease commitments

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

	2012 RMB'000	2011 RMB'000
Not later than one year	21,239	30,694
Later than one year and not later than five years	<u>20,448</u>	<u>30,473</u>
	<u>41,687</u>	<u>61,167</u>

18 Completion of initial accounting for acquisition of Kingdee Medical

On 1 August 2011, the Group acquire 75% equity interest of Kingdee Medical Software Technology Co. Ltd. ("Kingdee Medical" previously known as Guangzhou Wisetop Computer Co, Ltd), a company which operates management software business for medical industry. The acquisition of Kingdee Medical was a business combination as the Group owned 75% equity interest in Kingdee Medical after the acquisition.

The acquisition-related costs for Kingdee Medical acquisition amounted to RMB324,000 and were included in general and administrative expenses in the consolidated income statement for the year ended 31 December 2011. The total consideration payable for the transaction is RMB119,925,000, which includes a contingent consideration of RMB 46,320,000 linked to the future performance indicators in year 2011 and 2012.

For the period from 1 August 2011 to 31 December 2011, Kingdee Medical contributed revenue of RMB 20,225,000 and a net profit of RMB 1,516,000 to the Group.

Had the Kingdee Medical been consolidated from 1 January 2011, the consolidated income statement for year ended 31 December 2011 would show pro-forma revenue of RMB 2,041,253,000 and profit of RMB155, 775,000.

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18 Completion of initial accounting for acquisition of Kingdee Medical (continued)

As a result of the assessment of the Kingdee Medical's performance indicators as at 31 December 2012, there was a decrease of RMB13,012,000 of contingent consideration which was recognised as other gains.

The Group used the provisional value to account for this business combination when preparing 2011 consolidated financial statements as the Group had not yet completed the assessment of the fair value of net identified assets acquired at the date of 2011 annual report. The Group consolidated Kingdee Medical use their provisional fair value which approximates the carrying value. The difference between the consideration, carrying value of non-controlling interest and the provisional fair value of Kingdee Medical was tentatively recorded as intangible asset – goodwill.

In 2012, the Group completed the relevant assessment. Based on the valuation report issued by an independent valuer appointed by the Group, the finalised fair value of the net identified assets acquired and the relevant goodwill, together with the provisional value used in 2011 are as follows:

	Kingdee Medical	
	Fair Value finalised	Provisioinal fair value
	RMB'000	RMB'000
Consideration:		
– Cash	73,605	73,605
– Contingent consideration	46,320	46,320
Total consideration	119,925	119,925
Non-controlling interest	11,871	10,295
Total	131,796	130,220
Fair value or provisional fair value of identifiable assets acquired		
Property, plant and equipment	618	618
Intangible assets	10,920	3,500
Inventories	5,040	5,040
Trade and other receivables	11,567	11,567
Due from customers on implementation contracts	19,448	19,448
Cash and cash equivalents	1,705	1,705
Current liabilities	(700)	(700)
Deferred tax liability	(1,113)	-
Total identifiable net assets	47,485	41,178
Goodwill	84,311	89,042

**18 Completion of initial accounting for acquisition of Kingdee Medical
(continued)**

The identified intangible asset is customer relationship. The fair value of the identified intangible asset at the acquisition date has been increased by RMB7,420,000, which resulted in an increase in deferred tax liabilities of RMB1,113,000, an increase in minority interests of RMB1,576,000, and a decrease in goodwill of RMB4,731,000. The 2011 comparative information (including the movement of intangible assets and deferred tax assets and liabilities) is restated to reflect above adjustments. There is no change to the previously published consolidated balance sheet of the Group as at 31 December 2010.

Management Discussion and Analysis

I. Business Review

In 2012, as the demand of Chinese enterprises for management software and service was impacted by macro-economic uncertainty, as well as the Group's proactive measures to adjust its strategy and enhance business quality, a negative growth in its turnover was recorded for the first time since its incorporation. Meanwhile, though the Group put much effort at the optimization of organizational structure, controlled cost increase, enhanced the competitiveness of core products, launched social ERP, proactively explored the three major emerging technologies—Social Networking, Mobile Technology and Cloud Computing. Moreover, the Group strengthened its distribution partners ecosystem by shifting from a sales-oriented model to a delivery-oriented model, reinforcing project management and targeting the existing clients. As the Group continued to optimize its organizational structure and enhance risk control, profitability improved in the second half.

1. Enterprise Management Software and Services

Small and Medium-Sized Enterprise Market

During the reporting year, small and medium-sized enterprises faced pressure from the domestic and external economic environment, as well as other factors such as the increase in labor costs, and thus reduced expenditure on software. As such, revenue from KIS software, K/3 software and implementation service decreased as compared to the same period last year. To increase market share, the Group implemented multiple measures, such as integrating the distribution business of KIS and K/3 products, strengthening the core competitiveness of our distribution channels and partners, and launching value-adding training, so as to gradually establish a client-oriented business model with our partners as the main body. At the same time, the Group launched a series of Cloud Management products for small and medium-sized enterprises on the theme “Cloud Management, Everywhere and Always”, which included the “Cloud + Terminals” Kingdee KIS Cloud Management software as the first of this kind catering to small and micro enterprises in China. Besides, multiple mobile applications targeting owners, sales personnel, etc. in small and micro enterprises came in the market. Furthermore, we made continuous improvement in K/3 WISE products and launched the Cloud-based ERP product K/3 Cloud V1.0, which can work with industry chains and clients to create third-party applications and add value to client services.

In 2012, the Group was honored as “The No. 1 Market Share Leader in China's SME Market” for the eighth straight year (IDC, August 2012).

Large and Medium-sized Enterprises Market

During the reporting year, large and medium-sized enterprises were more stringent in their IT strategies and took on longer decision cycles. In addition, the Group proactively adjusted its business structure, which caused EAS software and implementation revenue to decrease as compared to the same period last year. The Group observed an acceleration in industry upgrade, where large and medium-sized enterprises became more concerned with business and management model innovations through IT. The Group thus launched China's first enterprise social ERP—EASV7.5, which integrated the three major emerging technologies of Cloud Management, achieving major breakthrough in enterprise management, mobile social application, personalized extension and performance upgrade. At the same time, the Group continued to enhance industry solutions for core industries such as real estate, launching Cloud Management applications such as Mobile Property Sales to assist enterprises in upgrading management efficiency. During the reporting period, long-term clients (including Qingdao Port, Zhongsheng Group, Xidian Group and Kingboard Chemical) were upgraded to EASV7.5, while well-known major clients (including Shandong Shiheng Special Steel Group, Ningxia Baofeng Energy Group, Hubei Changjiang Radio and Television Media Group and Shaanxi Expressway Group) signed contracts for our services as well, thereby reinforcing the Group's leading position in the market of large and medium-sized enterprises.

Consulting, Implementation and Maintenance Services

During the reporting year, the Group persisted in improving the core competitiveness of its management consulting businesses by focusing on ERP-related IT planning, organization, process, performance and system management to raise the value of ERP. Due to the decline in software revenue, the implementation service revenue was reduced as compared to the same period last year. The Group continued to accelerate towards a delivery-oriented model, aggressively expand its service partner base, enhance project management, strengthen the construction of delivery systems in sales branches and build up a service database, so as to assist clients in successfully adopting their information systems quickly and satisfactorily in the informatization process.

Despite the impact from the market environment during the reporting year, the Group's maintenance business revenue remained on the rise. Meanwhile, the Group's maintenance business underwent a strategic transformation towards "Cloud + Terminals" by setting up a new service model with a Cloud service platform as the core and a desktop service platform as client terminals, which would cover tens of thousands of clients and provide a one-stop Internet service experience. To meet large and medium-sized enterprises' demand for customized maintenance services, the Group optimized its maintenance solutions and offered a variety of IT service solutions to provide customized services and high value-added

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maintenance service solutions to our clients for the purpose of sustainable growth of our maintenance business.

International Business

During the reporting year, the Group continued to boost business development in the Asia Pacific, with its focus on foreign enterprises operating in mainland China and Chinese companies with global reach. It established collaborative relations with more than 30 overseas partners. The industry giants that the Group secured as its clients included Quality HealthCare Medical Services Limited, Emerson Network Power, Yamazaki Mazak, Yanlord Land Group Limited, Singapore Xinyang Group and Tory Burch Far East Limited Company.

2. Enterprise Internet Service

During the reporting period, facing a new application renovation driven by emerging Internet technologies, the Group took the initiative to integrate and expand its businesses. It set up the Enterprise Internet Service Group and promoted emerging services, such as the enterprise social networking and SaaS, which was designed to provide a private “Workspace of Social Networking” for better communication, collaboration and management efficiency.

Among which, Cloud Hub (www.kdweibo.com), our enterprise social networking product, became the largest enterprise social network in China, with the number of registered enterprises exceeding 22,000 and enterprise users amounting to 350,000. It was granted the “2012 Most Valuable Internet Product Award of Enterprise Class in China” by the Public Service Platform of National Information Industry.

Youshang (www.youshang.com), the largest online accounting SaaS service platform in China, focused on the online accounting SaaS service with new paying subscribers at a stable growth of 40% year-on-year and retention rate at 80%.

Kuaidi 100 (kuaidi100.com) product achieved a breakthrough that single-day page view (PV) went beyond 9,000,000, and opened API for connection with nearly 10,000 domestic electronic commercial websites. It was a purple-gold-class strategic partner of Baidu and became the largest courier and logistics information enquiry and service platform in China.

Kingdee Wise Note product (zhj.kisdee.com) is the first “Cloud + Terminals” Sales-and-Inventory software in China. It had over 22,000 paying users and continued to lead in the individually-owned enterprise market.

3. Subsidiary Business

Kingdee Medical and Healthcare Software and Service

During the reporting period, we saw a strong demand from the PRC medical and healthcare sector. In 2011, following the completion of acquisitions and integrations with Guangzhou Wisetop Computer Co. Ltd. and Shanghai Kehuaqixiao Technology Co. Ltd., the Group launched the “Medical Information Integration and Management Solution”, and successively released other new products such as a cloud computing platform hBOS for medical and healthcare organizations, mobile medical and healthcare products, HRP professional edition, E-record V7.5 and mobile BI. It also signed contracts with several important clients, including Wuhan Chinese Medicine Hospital, Henan Chest Hospital and Binzhou Regional Health Information Platform.

Middleware

During the reporting period, a new version of application server of our core product was released to the public. It had new competitive edges in terms of performance and application management, Cloud computing as well as support to visualization. In the same period, the Group consecutively obtained the planning and design projects of Cloud computing platform of giant enterprises including Hunan Tobacco Company and CNOOC. The nationally major science and technology project taken thereunder, entitled “Core Electronic Parts, High-end Chips, Basic Software Products”, received an acceptance from the Ministry of Industry and Information Technology.

II. Organization and Personnel Assurance

At 31 December 2012, the Group had approximately 7,755 (31 December 2011: approximately 10,300) full-time employees. The majority of these employees work in the PRC. The Group offers remuneration packages in line with industry practice. Employees’ remuneration includes basic salaries and bonuses. In order to attract and retain a high caliber of capable and motivated workforce, the Group offers share based incentive schemes to staff based on the individual performance and the achievements of the Group’s targets. The Group is committed to providing its staff with various in house and external training and development programs.

III. Corporate Social Responsibility

During the reporting period, the Group kept on the cooperation with China’s top business schools to continually push forward the Chinese Management Model and support the selection activities of the Chinese Management Model Outstanding Awards. In addition, it assisted enterprises in developing their own management models and social sharing, and

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proactively promoted “Walk on ZHENGDAO, and Walk by WANGDAO” so as to build a new business culture.

During the reporting period, the Group signed strategic cooperation agreements with a number of renowned universities, including Wuhan University, Nanjing Audit University and Northwest University, to build joint labs, training bases and technical centres of original software in order to nurture more original software professionals for China and for enterprises as well. The Group continued to sponsor students and teachers at Southeast University, as well as organize the “Kingdee Cup” National Student Business Start-ups Competition to encourage students to start-up their own businesses, enhance their job skills, and help the Chinese enterprises develop their talents.

During the reporting period, the Group signed a cooperation agreement with the most dynamic domestic charity, One Foundation, and built a social ERP platform to help facilitate smooth, clear and transparent public welfare services. The platform will drive transparency and efficiency and promote the development of public welfare in China. At the same time, the Group donated RMB 1,400,000 to the One Foundation’s “Joining Hands with Orphans” charity project.

IV. Financial Review

For the year ended 31 December 2012, the Group’s turnover amounted to RMB1,765,493,000, a decrease of 12.7% against 2011 (2011: RMB2,022,498,000).

During the reporting period, the Group recorded software revenues of RMB873,578,000, a decline of 19.7% against 2011 (2011: RMB1,088,015,000); Services revenue of RMB840,927,000, a decline of 1.7% against 2011 (2011: RMB855,866,000). The Group’s net cash flow generated from operating activities was RMB11,661,000 (2011: RMB151,253,000).

During the reporting period, the trade receivables turnover climbed by 13 days to 48 days (the average of the trade receivables balance at the beginning and the end of the year divided by the total revenue of the year times 365 days) (2011: 35 days).

For the year ended 31 December 2012, loss attributable to equity holders of the Company was RMB140,246,000 (2011: profit of RMB144,998,000). Comprehensive loss attributable to equity holders of the Company was RMB53,405,000 (2011: profit of RMB145,900,000).

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During the year, net profit margin was approximately -7.9% (2011: approximately 7.2%) and basic loss per share was RMB0.0557 (2011: profit of RMB0.0577).

Gross Profit

Gross profit of the Group declined by approximately 19.1% from RMB1,417,842,000 in 2011 to RMB1,146,967,000 in 2012. Gross profit margin for the year decreased to approximately 65.0% (2011: approximately 70.1%). The decline of the gross margin was mainly due to the higher mix of the service revenue.

Selling and marketing expenses

Selling and marketing expenses for 2012 amounted to RMB1,153,722,000 (2011: RMB1,229,721,000), representing a decrease of 6.2% against last year. The decline was mainly due to the Group's organizational integration, to optimize and strengthen various cost controls.

Administrative Expenses

Administrative expenses for 2012 amounted to RMB216,866,000 (2011: RMB254,485,000), representing a decrease of approximately 14.8%. The decrease was mainly due to the integration of organization structure and departments, the number of headcount, as well as various cost control initiatives.

Research and Development costs

R&D costs for 2012 amounted to RMB200,357,000 (2011: RMB168,724,000), representing an increase of approximately 18.7%. The increase was mainly due to the higher growth in R&D costs in 2011, and the capitalized R&D costs drove the amortization expense to increase 28.2%.

Capital Expenditure

For the year ended 31 December 2012, the Group's major capital expenditure mainly included R&D capitalised expenses of RMB252,045,000 (2011: RMB258,209,000), construction fees and machinery and equipment purchasing of Software Park in the amount

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of RMB317,387,000 (2011: RMB264,798,000); land use rights of RMB62,036,000 (2011: RMB10,014,000); payments for acquisition of RMB74,234,000 (2011: RMB47,535,000).

Financial Resources and Liquidity

As at 31 December 2012, the Group had cash, cash equivalents and deposits amounting to RMB918,093,000 (2011: RMB660,934,000). The current ratio was 1.6 (2011: 1.9) and the gearing ratio (defined as total borrowings to total capital) was 50.0% (2011: 27.3%).

As at 31 December 2012, the Group had short-term bank loans of RMB227,000,000 (2011: 20,000,000). As at 31 December 2012, the Group had long-term borrowings amounting to RMB1,363,641,000 (2011: RMB597,500,000).

As at 31 December 2012, the Group was not subject to any material exchange rate exposure, and had not entered into any foreign exchange futures contract to hedge against exchange rate fluctuations.

As at 31 December 2012, the Group did not have any material contingent liabilities (2011: nil).

V. Future Development

In 2013, the macro economy is beginning to stabilize, and demand for informatization among Chinese enterprises will see signs of recovery. At the same time, the competitive environment, both international and domestic, will push Chinese enterprises to accelerate their transformation and upgrade. The integration of the three major emerging technologies, Social Networking, Mobile Technology and Cloud Computing, and traditional IT services will drive a new round of enterprise informatization. “Cloud Management” is bringing innovative changes to enterprise management.

Looking ahead into 2013, the Group will proactively tackle changes in the external market following the overall strategy of “Leading-Product, Partner-First, Enthusiastic-Professional, Mutual-Success”. We will continue to enhance product competitiveness with focus on core products, establish a new marketing framework of “Client-Centric, Partner Ecosystem” to transform continuously towards a delivery-oriented model, under which we will actively expand our service partners and promote client retention and loyalty. The Group will keep on developing the enterprise Internet business model and build the social workspace of Cloud Hub. More new and leading Cloud management products will be launched, while closer cooperation and mutual growth of the Group and its clients can be expected. The

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Group will optimize the business structure to improve profitability incessantly, and believes that it can achieve long-term sustainable growth to create greater value for shareholders and clients and become the Cloud Management leader. Invariably, it will continue to dedicate efforts toward nurturing its staff, leading industry re-imagination, generating internal synergies and collaborating closely with business partners that result in the advancement of customers' business and delivery of fair returns to shareholders.

Final Dividends

The Board of Directors (the "Board") does not recommend the payment of a final dividend for the year ended 31 December 2012. (2011: nil).

Closure of Register

The register of members of the Company will be closed from Friday, 3 May 2013 to Wednesday, 8 May 2013 (both days inclusive), during which time no transfer of shares will be registered. In order to be qualified to attend, participate in and vote at the AGM that is going to be held on 8 May 2013, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registration and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 2 May 2013.

Purchase, Sale or Redemption of Shares

During the reporting period ended 31 December 2012, the Company had not repurchased, sold or redeemed any of its listed securities. The 850,000 shares that were repurchased by the Company on 20 December 2011 had been cancelled on 2 February 2012.

During the reporting period, Kingdee Software (China) Co. Ltd ("Kingdee Software"), a wholly-owned subsidiary of the Company, had purchased 1,500,000 shares of the Company on the Stock Exchange at a total consideration of HKD 2,179,567.50.

Issuance of the First Tranche of Medium-Term Notes in PRC

Kingdee Software had completed the issuance of the first tranche of the Medium-term Notes in the PRC on 16 July 2012. The first tranche of the Medium-term Notes was issued in the amount of RMB 0.48 billion, at the interest rate of 6.0% per annum, and with a term of three years. The proceeds raised from the issuance of the first tranche of the Medium-term Notes would be used to meet the needs of part of the Company's construction-in-progress projects and to provide working capital for the Company.

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Corporate Governance

The Company had complied with all the code provisions of the “Code on Corporate Governance Practices” (the “Code”), as set out in Appendix 14 to the Listing Rules which was revised and took effect on 1 April 2012, as well as those of the former Code, throughout the financial year ended 31 December 2012 except for code provision A 2.1.

Audit Committee

As at 31 December 2012, the Audit Committee of the Company (“Audit Committee”) comprised three independent non-executive Directors namely, Mr. Gary Clark Biddle, Mr. Wu Cheng, and Mr. Yeung Kwok On. Mr. Gary Clark Biddle is the chairman of the Audit Committee. The Audit Committee has reviewed the accounting principles and practices adopted by the Company, discussed auditing, internal control and financial reporting matters and reviewed the audited financial statements for the year ended 31 December 2012 of the Group.

External Auditor

PricewaterhouseCoopers was appointed as the external auditor of the Group for the year of 2012, and there has been no change in the Group’s auditor in any of the preceding three years. To ensure independence, PricewaterhouseCoopers provides only audit services to the Group. A resolution for re-appointment of PricewaterhouseCoopers as the auditor of the Group will be proposed at the AGM. During the year ended 31 December 2012, the Group had paid RMB 1,600,000 as the audit fees. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements and consequently no assurance has been expressed by PricewaterhouseCoopers on the annual results announcement.

On behalf of the Board
**KINGDEE INTERNATIONAL SOFTWARE
GROUP COMPANY LIMITED**
Xu Shao Chun
Chairman

Shenzhen, the People’s Republic of China, 20 March 2013

As at the date of this announcement, the Board comprises Mr. Xu Shao Chun (Chairman of the Board and Chief Executive Officer) Mr. Chen Deng Kun and Mr. Yang Jian as executive directors; Ms. Dong Ming Zhu as non-executive director; and Mr. Gary Clark Biddle, Mr. Ho Ching-hua, Mr. Wu Cheng and Mr. Yeung Kwok On as independent non-executive directors.