

Kingdee



Kingdee International Software Group Company Limited

金蝶國際軟件集團有限公司

Stock Code 股份代號: 268

INTERIM REPORT 2014 中期報告



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 2014**

Financial highlights for the six months ended 30 June 2014

- Revenue increased by approximately 0.7% over the same period in 2013 to approximately RMB749,878,000 (the six months ended 30 June 2013: RMB744,847,000)
- Profit for the period is approximately RMB80,954,000 (the six months ended 30 June 2013: Profit of RMB2,935,000)
- Profit attributable to owners of the Company during the period is approximately RMB81,457,000 (the six months ended 30 June 2013: Profit of RMB8,614,000)
- Basic earnings per share for profit attributable to owners of the Company during the period is approximately RMB3.192 cents (the six months ended 30 June 2013: Basic earnings per share for profit of RMB0.342 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 2014 are as follows:

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2014

	<i>Notes</i>	Unaudited 30 June 2014 RMB’000	Audited 31 December 2013 RMB’000
ASSETS			
Non-current assets			
Land use rights	6	133,430	135,488
Property, plant and equipment	7	745,287	760,218
Intangible assets	7	592,973	597,514
Investment in associates		1,619	2,143
Investment properties	8	826,623	826,623
Entrusted loan	9	25,700	25,800
Total non-current assets		<u>2,325,632</u>	<u>2,347,786</u>
Current assets			
Inventories		5,124	3,936
Trade and other receivables	9	288,470	276,516
Due from customers on implementation contracts		297,320	296,197
Pledged bank deposits		4,420	4,420
Short-term bank deposits		606,668	140,500
Cash and cash equivalents		744,735	858,446
Total current assets		<u>1,946,737</u>	<u>1,580,015</u>
Total assets		<u><u>4,272,369</u></u>	<u><u>3,927,801</u></u>

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (Continued)

As at 30 June 2014

		Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	10	64,964	64,435
Share premium	10	516,105	480,253
Other reserves		537,684	528,988
Retained earnings			
– Others		758,193	676,736
		<u>1,876,946</u>	<u>1,750,412</u>
Non-controlling interests		<u>3,963</u>	<u>4,466</u>
Total equity		<u>1,880,909</u>	<u>1,754,878</u>
LIABILITIES			
Non-current liabilities			
Borrowings	11	654,758	1,154,985
Convertible bond	12	1,048,073	—
Deferred income tax liabilities-net		63,665	66,022
		<u>1,766,496</u>	<u>1,221,007</u>
Current liabilities			
Trade and other payables	13	310,074	362,860
Due to customers on implementation contracts		36,567	72,442
Borrowings	11	196,600	420,215
Current income tax liabilities		12,850	10,492
Deferred income		68,873	85,907
		<u>624,964</u>	<u>951,916</u>
Total current liabilities		<u>624,964</u>	<u>951,916</u>
Total liabilities		<u>2,391,460</u>	<u>2,172,923</u>
Total equity and liabilities		<u>4,272,369</u>	<u>3,927,801</u>
Net current assets		<u>1,321,773</u>	<u>628,099</u>
Total assets less current liabilities		<u>3,647,405</u>	<u>2,975,885</u>

The notes on pages 8 to 22 are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2014

		Unaudited	
		Six months ended 30 June	
	Notes	2014	2013
		RMB'000	RMB'000
Revenue	14	749,878	744,847
Cost of sales	15	(143,590)	(188,780)
Gross profit		606,288	556,067
Selling and marketing expenses	15	(381,920)	(434,443)
Administrative expenses	15	(72,705)	(84,394)
Research and development costs	15	(112,265)	(126,445)
Other gains – net	16	97,768	150,317
Operating profit		137,166	61,102
Finance income		3,076	3,798
Finance costs		(53,635)	(55,806)
Finance costs – net		(50,559)	(52,008)
Profit before income tax		86,607	9,094
Income tax expense	17	(5,653)	(6,159)
Profit for the period		80,954	2,935
Attributable to:			
Owners of the Company		81,457	8,614
Non-controlling interests		(503)	(5,679)
		80,954	2,935
Earnings per share for profit attributable to owners of the Company			
– Basic	18	RMB3.192 cents	RMB0.342 cents
– Diluted	18	RMB2.970 cents	RMB0.332 cents

The notes on pages 8 to 22 are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Profit for the period	80,954	2,935
Total comprehensive income for the period	80,954	2,935
Total comprehensive income attributable to:		
– Owners of the Company	81,457	8,614
– Non-controlling interests	(503)	(5,679)
	80,954	2,935

The notes on pages 8 to 22 are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

(All amounts in Renminbi thousand unless otherwise stated)

	Unaudited							
	Attributable to owners of the Company						Non-controlling interests	Total equity
	Notes	Share capital	Share premium	Other reserves	Retained earnings	Total		
Balance at 1 January 2014		64,435	480,253	528,988	676,736	1,750,412	4,466	1,754,878
Comprehensive income								
Profit/(loss) for the period		—	—	—	81,457	81,457	(503)	80,954
Total comprehensive income/(loss)		—	—	—	81,457	81,457	(503)	80,954
Transaction with owners								
Employees share option scheme:								
– value of employee services	10	—	11,925	—	—	11,925	—	11,925
– proceeds from shares issued	10	529	23,927	—	—	24,456	—	24,456
Convertible bond-equity component	10	—	—	8,696	—	8,696	—	8,696
Total transactions with owners		529	35,852	8,696	—	45,077	—	45,077
Balance at 30 June 2014		64,964	516,105	537,684	758,193	1,876,946	3,963	1,880,909
Balance at 1 January 2013		64,059	435,460	528,988	550,336	1,578,843	11,459	1,590,302
Comprehensive income								
Profit/(Loss) for the period		—	—	—	8,614	8,614	(5,679)	2,935
Total comprehensive income/(loss)		—	—	—	8,614	8,614	(5,679)	2,935
Employees share option scheme:								
– value of employee services	10	—	14,061	—	—	14,061	—	14,061
– proceeds from shares issued	10	38	966	—	—	1,004	—	1,004
Total transactions with owners		38	15,027	—	—	15,065	—	15,065
Balance at 30 June 2013		64,097	450,487	528,988	558,950	1,602,522	5,780	1,608,302

The notes on pages 8 to 22 are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2014

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cash flows from operating activities:		
Cash generated from operations	210,125	62,378
Interest paid	(53,335)	(40,647)
Income tax paid	(5,652)	(857)
	<u>151,138</u>	<u>20,874</u>
Net cash generated from operating activities		
Cash flows from investing activities:		
Purchases of property, plant and equipment	(52,746)	(89,779)
Proceeds from sale of property, plant and equipment	3,040	355
Purchases of intangible assets	(107,806)	(111,894)
Cash paid for contingent and deferred consideration for business combination	(580)	(9,645)
Purchases of financial assets at fair value through profit or loss	—	(60,000)
Short-term bank-deposits withdrawn	—	5,591
Short-term bank-deposits placed	(466,168)	(8,511)
Principal received from entrusted loan	100	—
Interest received	3,076	2,435
	<u>(621,084)</u>	<u>(271,448)</u>
Net cash used in investing activities		
Cash flows from financing activities:		
Proceeds from share options exercised	24,456	1,004
Proceeds from issuance of convertible bond	1,056,579	—
Proceeds from borrowings	—	385,000
Repayments of borrowings	(724,800)	(374,000)
	<u>356,235</u>	<u>12,004</u>
Net cash generated from financing activities		
Net decrease in cash and cash equivalents	(113,711)	(238,570)
Cash and cash equivalents at beginning of the period	<u>858,446</u>	<u>898,002</u>
Cash and cash equivalents at end of the period	<u><u>744,735</u></u>	<u><u>659,432</u></u>

The notes on pages 8 to 22 are an integral part of these consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

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 its subsidiaries (the “Group”) are developing, manufacturing and selling of software products and provision of software-related technical services in the PRC.

The shares of the Company have been listed on the Stock Exchange of Hong Kong Limited since 15 February 2001.

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 13 August 2014.

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 2014 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 2013 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

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 2013, as described in those annual financial statements.

- Amendment to IAS 32, ‘Financial instruments: Presentation’, on asset and liability offsetting. This amendment relates to the application guidance in IAS 32, ‘Financial instruments: Presentation’, and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.
- Amendment to IAS/HKAS 36, ‘Impairment of assets’ on recoverable amount disclosures. This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.
- IFRIC 21, ‘Levies’, sets out the accounting for an obligation to pay a levy that is not income tax. The interpretation addresses what the obligating event is that gives rise to pay a levy and when should a liability be recognised.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. Accounting policies *(Continued)*

Other amendments to IFRSs effective for the financial year ending 31 December 2014 are not expected to have a material impact on the Group.

Taxes on income for the interim period are accrued using the tax rates that would be applicable to expected total annual assessable profits.

4. Estimates

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

5. 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 determined the 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 identified the following operating segments:

Enterprise Management	–	sales and implementation of enterprise management software, provision of other related services and sales of hardware related to enterprise management software arrangements
Software Business		
Middleware, E-commerce	–	sales of middleware software business and provision of E-commerce and other online management services
Service and others		
Investment Properties	–	operation of investment properties

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

5. Segment information (Continued)

The unaudited segment information for the six months ended 30 June 2014 is as follows:

	Enterprise management software business RMB'000	Middleware, E-commerce service and others RMB'000	Investment Properties RMB'000	The Group Total RMB'000
Revenue (from external customers)	723,837	26,041	—	749,878
Operating profit/(loss)	112,585	(2,433)	27,014	137,166
Finance costs	(53,620)	(15)	—	(53,635)
Finance income	2,463	613	—	3,076
Finance (cost)/income – net	(51,157)	598	—	(50,559)
Profit/(loss) before income tax	61,428	(1,835)	27,014	86,607
Income tax expense	(2,952)	—	(2,701)	(5,653)
Segment results	58,476	(1,835)	24,313	80,954
Segment assets	3,339,783	105,963	826,623	4,272,369
Segment liabilities	2,281,086	110,374	—	2,391,460
Reductions to non-current assets (other than financial instruments and deferred tax assets)	(14,824)	(7,330)	—	(22,154)
Material non-cash expenses/income				
Depreciation and amortisation	135,553	510	—	136,063
(Written-back)/allowance for doubtful trade and other receivables	(10,155)	6,225	—	(3,930)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

5. Segment information (Continued)

The unaudited segment information for the six months ended 30 June 2013 is as follows:

	Enterprise management software business RMB'000	Middleware, E-commerce service and others RMB'000	Investment Properties RMB'000	The Group Total RMB'000
Revenue (from external customers)	728,705	16,142	—	744,847
Operating profit/(loss)	57,742	(14,747)	18,107	61,102
Finance costs	(55,785)	(21)	—	(55,806)
Finance income	3,597	201	—	3,798
Finance (cost)/income – net	<u>(52,188)</u>	<u>180</u>	<u>—</u>	<u>(52,008)</u>
Profit/(loss) before income tax	5,554	(14,567)	18,107	9,094
Income tax expense	(4,348)	—	(1,811)	(6,159)
Segment results	<u>1,206</u>	<u>(14,567)</u>	<u>16,296</u>	<u>2,935</u>
Segment assets	<u>2,913,971</u>	<u>85,834</u>	<u>825,575</u>	<u>3,825,380</u>
Segment liabilities	<u>2,108,480</u>	<u>108,598</u>	<u>—</u>	<u>2,217,078</u>
Reductions to non-current assets (other than financial instruments and deferred tax assets)	(29,643)	(890)	—	(30,533)
Material non-cash expenses/income				
Depreciation and amortisation	154,567	634	—	155,201
(Written-back)/allowance for doubtful trade and other receivables	(1,454)	110	—	(1,344)
	<u>(1,454)</u>	<u>110</u>	<u>—</u>	<u>(1,344)</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6. Land use rights

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Opening net book amount at 1 January	135,488	138,849
Amortisation charge	(2,058)	(1,680)
Closing net book amount at 30 June	<u>133,430</u>	<u>137,169</u>
Represented by:		
Cost	148,892	148,892
Accumulated amortisation charges	(15,462)	(11,723)
	<u>133,430</u>	<u>137,169</u>

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

7. Property, plant, equipment and intangible assets

	Unaudited Property, plant and equipment RMB'000	Intangible assets RMB'000
Six months ended 30 June 2014		
Opening net book amount at 1 January 2014	760,218	597,514
Additions	9,962	107,806
Disposals	(3,235)	—
Depreciation and amortisation	(21,658)	(112,347)
	<u>745,287</u>	<u>592,973</u>
Six months ended 30 June 2013		
Opening net book amount at 1 January 2013	791,216	637,183
Additions	14,468	111,894
Disposals	(1,094)	(600)
Depreciation and amortisation	(20,670)	(132,851)
	<u>783,920</u>	<u>615,626</u>

8. Investment properties

	Unaudited Six months ended 30 June 2014 RMB'000	2013 RMB'000
Opening net book amount at 1 January	826,623	825,575
Fair value gains	—	—
	<u>826,623</u>	<u>825,575</u>

The investment properties represent the third and fourth floor of Block 1 and 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, the building of W1-B4 in Shenzhen high-tech park and the third floor to sixth floor of Block 1 which are located in Beijing research and development center.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

9. Trade and other receivables

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Trade receivables (a)	181,501	199,437
Less: allowance for impairment	<u>(79,702)</u>	<u>(83,632)</u>
Trade receivables – net	101,799	115,805
Notes receivable	19,472	21,563
Advance to employees	24,760	24,297
Prepayments	40,096	40,983
VAT recoverable	42,764	36,718
Others	<u>59,579</u>	<u>37,150</u>
	<u>288,470</u>	<u>276,516</u>
Add: non-current portion		
Entrusted loan	<u>25,700</u>	<u>25,800</u>
	<u>314,170</u>	<u>302,316</u>

- (a) Sales 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 2014 RMB'000	Audited 31 December 2013 RMB'000
0–180 days	69,943	82,235
181–360 days	21,378	21,064
Over 360 days	<u>90,180</u>	<u>96,138</u>
	<u>181,501</u>	<u>199,437</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

10. Share capital and share premium

	Number of issued shares (thousands)	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2014	2,538,106	64,435	480,253	544,688
Employee share option scheme				
– Value of services provided	—	—	11,925	11,925
– Exercise of share options	26,635	529	23,927	24,456
At 30 June 2014 (Unaudited)	2,564,741	64,964	516,105	581,069
At 1 January 2013	2,519,139	64,059	435,460	499,519
Employee share option scheme				
– Value of services provided	—	—	14,061	14,061
– Exercise of share options	1,706	38	966	1,004
At 30 June 2013 (Unaudited)	2,520,845	64,097	450,487	514,584

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11. Borrowings

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Non-current	654,758	1,154,985
Current	196,600	420,215
	<u>851,358</u>	<u>1,575,200</u>

Movement in borrowings is analysed as follows:

	RMB'000
Six months ended 30 June 2014	
Opening amount at 1 January 2014	1,575,200
Repayment of borrowings	(724,800)
Adjustment of interest	958
Closing amount at 30 June 2014	<u>851,358</u>
Six months ended 30 June 2013	
Opening amount at 1 January 2013	1,590,641
Acquisition of borrowings	385,000
Repayment of borrowings	(374,000)
Adjustment of interest	900
Closing amount at 30 June 2013	<u>1,602,541</u>

Interest expense on borrowings and loans for the six months ended 30 June 2014 is RMB42,586,000 (the six months ended 30 June 2013: RMB55,947,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

12. Convertible bond

On 14 April 2014, the Company issued five-year convertible bond (the “Convertible Bond”) in the aggregate principal amount of USD175 million (equivalent to approximately RMB1,076,793,000). The Convertible Bond carries interest at a rate of 4% per annum, which is payable half-yearly in arrears on 14 April and 14 October. The aggregate amount of RMB1,076,793,000, at the option of bond holders, will be convertible into fully paid shares with a par value of HKD0.025 each of the Company. During the reporting period ended 30 June 2014, there was no movement in the number of the Convertible Bond.

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in equity.

The Convertible Bond recognised in the balance sheet is calculated as follows:

	RMB'000
Face value of the Convertible Bond issued at 14 April 2014	1,076,793
Equity component	(8,696)
Transaction costs	(20,214)
	<hr/>
Liability component on initial recognition at 14 April 2014	1,047,883
Interest expenses	9,215
Interest payable	(8,973)
Effects of foreign exchanges	(52)
	<hr/>
Liability component at 30 June 2014 (Unaudited)	<u><u>1,048,073</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13. Trade and other payables

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
Trade payables (a)	40,703	43,923
Amounts due to related parties	550	937
Salary and staff welfare payables	44,218	69,035
Advances from customers	49,926	47,363
VAT and business tax payable	41,642	47,291
Accrued expenses	33,822	34,901
Construction fee payable	16,576	57,242
Contingent consideration for business combination	4,360	4,940
Deferred consideration for business combination	5,888	5,888
Deposits of distributors	32,555	26,391
Interest payable	37,773	14,400
Others	2,061	10,549
	<u>310,074</u>	<u>362,860</u>

(a) As at 30 June 2014, the ageing analysis of trade payables is as follows:

	Unaudited 30 June 2014 RMB'000	Audited 31 December 2013 RMB'000
0–180 days	30,179	36,214
181–360 days	8,748	2,934
Over 360 days	1,776	4,775
	<u>40,703</u>	<u>43,923</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

14. Revenue

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Sales of software	396,196	365,628
Software implementation services	138,565	167,473
Software solution consulting and support services	188,384	184,203
Sales of computers and related products	26,733	27,543
	<u>749,878</u>	<u>744,847</u>

15. Expenses by nature

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

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Research and development costs		
Amounts incurred	120,891	122,728
Less: development costs capitalised	(107,691)	(111,848)
Add: amortisation	99,065	115,565
	<u>112,265</u>	<u>126,445</u>
Employee benefit expenses	417,489	471,379
Less: amount included in research and development costs	(106,525)	(108,043)
	<u>310,964</u>	<u>363,336</u>
Cost of inventories consumed	24,852	41,699
Depreciation of property, plant and equipment	21,658	20,670
Amortisation of computer software, licenses and copyrights	12,658	16,662
Amortisation of customer relationship	624	624
Amortisation of land use rights	2,058	1,680
Impairment of receivables	(3,930)	(1,344)
Loss on disposals of property, plant and equipment	<u>195</u>	<u>739</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16. Other gains

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Subsidy income		
– VAT refund	67,296	62,179
– Government grants	3,440	38,326
Rental income – net	27,014	18,107
Re-measurement of the consideration for business combinations	—	22,347
Gains from sale of copyrights	—	6,132
Others	18	3,226
	<u>97,768</u>	<u>150,317</u>

17. Income tax expense

	Unaudited Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
PRC income tax		
– Current income tax	8,010	—
– Under-provision in previous year	—	1,569
– Deferred income tax	(2,357)	4,590
	<u>5,653</u>	<u>6,159</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 period 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) Kingdee China and Shenzhen Kingdee Middleware Co., Ltd. were qualified as national important software enterprise and is entitled to the preferential tax rate of 10% for the period ended 30 June 2014.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

18. Earnings per share

(a) Basic

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

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Profit attributable to owners of the Company	<u>81,457</u>	<u>8,614</u>
Weighted average number of ordinary shares in issue (thousands)	<u>2,551,534</u>	<u>2,519,338</u>
Basic earnings per share	<u>RMB3.192 cents</u>	<u>RMB0.342 cents</u>

(b) Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares. The Company has only two categories of dilutive potential ordinary shares: Share options and convertible bond.

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Profit attributable to owners of the Company	81,457	8,614
Interest on convertible bond	<u>3,018</u>	<u>—</u>
Profit used to determine diluted earnings per share	<u>84,475</u>	<u>8,614</u>
Weighted average number of ordinary shares in issue (thousands)	2,551,534	2,519,338
Adjustments – share options (thousands)	141,987	78,004
Adjustments – conversion of convertible bond (thousands)	<u>150,833</u>	<u>—</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>2,844,354</u>	<u>2,597,342</u>
Diluted earnings per share	<u>RMB2.970 cents</u>	<u>RMB0.332 cents</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

19. Dividends

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2014 (the six months ended 30 June 2013: Nil).

20. Contingent liabilities

The Group had no significant contingent liabilities as of 30 June 2014 (30 June 2013: nil).

21. Related party transactions

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

22. Event occurring after the balance sheet date

The Group had no significant event occurring after the balance sheet date.

23. Business combination

The Group had no business combination during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Review

During the first half of 2014, the Group's operation quality was significantly improved. The gross profit margin of the Group increased from 74.7% to 80.9% and net profit increased from RMB8,614,000 to RMB 81,457,000 compared to the same period of 2013, net profit margin increased from 1.2% to 10.9% compared to the same period of 2013. Despite some ERP businesses shifted from direct sales to indirect sales strategy, our total revenue grew by 0.7% y/y and our software shipment posted a double-digit increase. Cloud services business again recorded a rapid growth of 125.0% y/y, accounting for 5.4% of the Group's total revenue. The increase of Cloud services business represented a remarkable result in the Group's mobile Internet transformation.

During the reporting period, the Group continued to execute "Dual-core drivers, Accelerate mobile Internet transformation" strategy. On the one hand, the Group increased core ERP product quality, created first-class user experience, as well as optimized business structure and strategically enhanced indirect sales; On the other hand, the Group met the challenge with innovation, created an open Cloud platform and developed Cloud services products, accelerated the transformation of the mobile Internet business, so as to become the largest work and business platform in China.

I. Corporate ERP Business

SME Market

During the reporting period, China's ERP software market grew steadily. KIS revenue increased by 29.6% y/y, driven by the substantial growth of KIS Professional edition and expansion of distribution coverage. K/3 Wise, decreased by 1.7% y/y, due to the short-term impact of indirect sales strategy, but software shipment increased by double-digit. The Group leveraged Internet model innovations and ERP upgrades in order to closely meet the demand of SME customers. As the Internet product experience constantly improved, product usages accelerated and drove the Cloud services and value-added business revenues. During the reporting period, the Group further provided more comprehensive Internet management solutions for SMEs, cooperated with Internet companies, offered mobile Internet applications to establish one-stop Cloud service solutions for SMEs and aimed to become the most preferred Cloud Services brand.

During the reporting period, IDC, an authoritative international survey organization, once again ranked Kingdee No.1 Market Share in China's application software for SMEs in 2013 for ten conservative years.

MANAGEMENT DISCUSSION AND ANALYSIS

Medium and Large-sized Enterprises Product and Industry Market

During the reporting period, due to the short-term impacts of proactive business adjustments, EAS revenue decreased by 10.5% y/y while software shipment increased by double-digit. The Group recognized enterprises' increasing demand for industry transformation and upgrade, launched financial sharing solutions for large enterprises to enhance the quality and efficiency of financial management. In addition, the Group leveraged the opportunity of favorable national information security policies for Chinese software solutions, cooperated with strategic partners and public-sector organizations to explore the high value customer segments. During the reporting period, China Merchants, Vanke and other existing customers continued to benefit from the changes in the mobile Internet management, while Daqo Group, Sunac and other renowned corporations signed contracts with Kingdees, further strengthening the Group's leading position in the large and medium-sized business market.

Consulting, Implementation and Maintenance Services

During the reporting period, the implementation revenue decreased by 17.3% y/y, mainly due to the impact of direct to indirect mix change. The Group strengthened the establishments of partnership labs, improved service partners' capability, actively expanded to high-value customers, and continued to adopt effective measures including "Project Management Program", "Project Manager Accountability System", and "Engagement Partner Operation Model".

During the reporting period, maintenance revenue grew by 5.0% y/y, due to the improved maintenance renewal rate and the increased adoption of Kingdee OEM support service. The Group promoted distribution partners to provide onsite services and built a unified Cloud services platform. Kingdee Service Management (KSM) is offered to over 80% of the Group's products. Over tens of thousands of users had installed KSM.

International Business

During the reporting period, the Group promoted Cloud services products in the Asia Pacific market, as well as successfully implemented "Cloud Hub" for New World Group, and CTS' mobile application projects. For overseas markets, the Group committed to establish a partner ecosystem, supported the development of partners in Singapore, Malaysia, the Philippines and Taiwan.

MANAGEMENT DISCUSSION AND ANALYSIS

II. Cloud Services Business

K/3 Cloud

During the reporting period, K/3 Cloud achieved high growth in China's enterprise market. Revenue increased by nearly three times. K/3 Cloud provides innovative marketing solutions, supply chain solution and financial solutions in order to meet traditional enterprises' rapidly growing demands for Internet O2O marketing model. K/3 Cloud aims to become the first choice of ERP Cloud platform for middle size businesses, and China largest ERP Cloud services provider. So far, the Group has signed contracts with some famous enterprise including Yinlu Food Company and Jindi Group.

Cloud Hub

During the reporting period, Cloud Hub grew rapidly in the Chinese enterprise market, registered enterprise and registered users exceeded 100,000 and 2 million, respectively. The Group pioneered the revolution of new mobile working platform system and launched the new Kingdee mobile work platform "Cloud Hub" V4.0, to help Vanke, Haier, New World, Hopson Development and Zhongsheng Group, etc., to accelerate their Enterprise Mobile transformation. The "Cloud Hub Tour" was promoted nationally to help enterprises understand and learn a new working platform.

Youshang.com

Youshang.com is China's largest online financial service platform. During the reporting period, the revenue and number of new paying customers of Youshang online SaaS increased by 72% and 52%, respectively compared with 2013 1H, driven by effective target marketing, expansion of accounting service channel coverage and over 80% retention rate of paying customers. While Kingdee Wise Note is China's largest invoice management app by user volume, which is free and based on "Cloud + Terminal" model. At present, the total of customer has over than 2 million, which is far ahead leading the market in the small and micro businesses.

Kuaidi100

Kuaidi100 is China's largest third party express and logistics information service platform. During the reporting period, the number of users express queries exceeded 2 billion searches and revenue increased by 136% compared with 2013 1H, benefited from the PC to the mobile trend. The Group timely introduced the mobile technology website (m.kuaidi100.com). In addition, the support of the mobile App and the real-time synchronization with the Cloud created a consistent user experience for a variety of devices.

MANAGEMENT DISCUSSION AND ANALYSIS

III. Business of Subsidiaries

Kingdee Medical and Healthcare Software Business

During the reporting period, Kingdee Medical Software Company took the lead in launching a comprehensive mobile hospital solution and developed innovative mobile services and payment software products for patients. The Group pioneered mobile Internet transformation solutions for Chinese hospitals and successively launched in Guangzhou Women and Children's Medical Center and Foshan Hospital of Traditional Chinese Medicine. The patient's mobile services and payment system enabled an integrated paperless mobile experience inside and outside the hospital. The Group will continue the mobile Internet development and further consolidate its strength in the industry, to achieve a rapid expansion for the business.

Middleware business

During the reporting period, the Apusic middleware company leveraged the intellectual property rights and secured and reliable smart cloud platform product development to transform from a traditional middleware manufacturer into a cloud platform provider. The Company's ACP smart cloud platform is widely adopted in fields of government management, military industry, finance, telecommunications, energy, tobacco and others, and it made a breakthrough in areas of smart city, e-government, enterprise applications, big data and so forth. The Company is nominated as "Key Software Enterprise of State Deployment", which further strengthened its leading position in the market as the most preferred brand of domestic middleware. The Company will take advantage of the government's greater emphasis on using domestic infrastructure software to strengthen business development.

2. Group Organization and Human Resource Development

During the period, the Group optimized its human resource management based on the "dual-core driving strategy", strengthened employee motivation and leadership development training, recruited Internet talents to support the Group's strategy. Meanwhile, the Group intended to hire post-85s and post-90s employees in order to solidify the Group's workforce.

3. Social Responsibility

During the reporting period, the Group has supported the selection of Excellence Award of Chinese Management Models for the seventh consecutive years collectively with joint efforts from China's top business schools, proactively promoting the values of "Walk on ZHENGDAO (right track) and Walk by WANGDAO (noble way)" for the construction of new business culture.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Group signed strategic cooperation agreement with over 30 renowned universities in China such as Suzhou University, Beijing Information Science and Technology University, Capital Normal University, Southwestern University of Finance and Economics. It established practical education centers, joint laboratories, domestic basic software practicing base and technology centers, so as to cultivate basic software professionals for the country and enterprises.

4. Financial Review

For the six months ended 30 June 2014, the Group's turnover amounted to RMB749,878,000, an increase of approximately 0.7% from the same period last year (the six months ended 30 June 2013: RMB744,847,000).

During the reporting period, the Group recorded software revenue of RMB396,196,000, an increase of approximately 8.4% compared with the same period last year (the six months ended 30 June 2013: RMB365,628,000), and service revenue of RMB138,565,000, a decrease of approximately 17.3% from the same period last year (the six months ended 30 June 2013: RMB167,473,000). Net cash flow from operating activities totaled RMB151,138,000 (the six months ended 30 June 2013: RMB20,874,000).

During the reporting period, the net profit attributable to equity holders of the Company was RMB81,457,000 (the six months ended 30 June 2013: RMB8,614,000). The comprehensive profit attributable to equity holders of the Company was RMB81,457,000 (the six months ended 30 June 2013: RMB8,614,000). During the period, net profit margin was approximately 10.9% (the six months ended 30 June 2013: approximately 1.2%) and basic earnings per share was approximately RMB3.192 cents (the six months ended 30 June 2013: approximately RMB0.342 cents).

Gross Profit

During the reporting period, gross profits of the Group was RMB606,288,000, an increase of approximately 9.0% compared to the same period last year (the six months ended 30 June 2013: RMB556,067,000). Gross profit margin for the period was approximately 80.9% (the six months ended 30 June 2013: approximately 74.7%).

Selling and Marketing Expenses

Selling and marketing expenses for the six months ended 30 June 2014 were RMB381,920,000 (the six months ended 30 June 2013: RMB434,443,000), a decrease of approximately 12.1% compared to the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses and Research and Development Costs

Administrative expenses for the six months ended 30 June 2014 were RMB72,705,000 (the six months ended 30 June 2013: RMB84,394,000), a decrease of approximately 13.9% compared to the same period last year. The research and development costs were RMB112,265,000, a decrease of approximately 11.2% over the same period last year (the six months ended 30 June 2013: RMB126,445,000).

5. Future Prospects

As China has become the world's largest mobile Internet market, we believe that the enterprise Cloud service market has entered into the golden development time and mobile Internet is the next wave. The Group has gained the first-mover advantages in the China's enterprise Cloud services market. The essence of work revolution advocated since the first half of 2014 is to redefine people's work style, build open mobile work platform, solve the difficulties in the corporate mobile applications and use "mobile first" as the guiding principle to revolutionize businesses. Meanwhile, the Group uses Cloud Hub's light applications to greatly streamline business processes and improve efficiencies.

Looking into the second half year, the Group will firmly adhere to the 2014 strategy. On the one hand, we will consistently apply Internet thinking to transform and upgrade ERP, improve ERP core quality, take advantage of national information security policy and software localization opportunities to make a breakthrough in the market. On the other hand, we will continue to innovate corporate Internet business model, create the ultimate Internet user experience, with the dual-core drivers, launch more diverse Cloud services and products to accelerate mobile Internet development. We will strengthen strategic partnership and grow together with customers so as to become China's largest work and business platform by connecting hundreds of thousands of partners, millions of service organizations and billions of service users. Moreover, the Group will create greater value for shareholders and customers and lead the industry to re-imagination. We will share the success with all stakeholders: to promote career development for staff, to create a win-win for partners, to grow together with customers and to deliver fair returns to shareholders.

REPORT OF DIRECTORS

Outstanding Share Options

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, directors (the “Directors”), consultants, suppliers and customers of the Group.

Pursuant to the share option scheme of the Company adopted on 30 January 2001 (the “2001 Scheme”), an aggregate of 6,880,000 share options were granted, of which 4,010,000 share options were exercised, 2,870,000 share options lapsed and none remained outstanding as at 30 June 2014.

Pursuant to the share option scheme of the Company adopted on 26 April 2002 (the “2002 Scheme”) and the adjustment made due to the bonus issue of shares of the Company effective on 9 May 2011 (the “Bonus Issue”), an aggregate of 232,620,000 share options were granted, of which 126,523,120 share options were exercised, 106,096,880 share options lapsed and none remained outstanding as at 30 June 2014.

Both of the 2001 Scheme and 2002 Scheme were terminated by the Company on 30 June 2005. At the extraordinary general meeting of the Company convened on 11 July 2005, the Company adopted a new share option scheme (the “2005 Scheme”) with the validity period of ten years. The scheme limit of the 2005 Scheme was refreshed at the annual general meetings of the Company held on 26 April 2007 and 10 May 2012, respectively. As at 30 June 2014, the Company had granted 529,501,600 share options pursuant to the 2005 Scheme and the adjustment made due to the Bonus Issue, of which 142,619,140 share options were exercised, 94,274,006 share options lapsed and 292,608,454 share options remained outstanding. According to the scheme mandate limit of the 2005 Scheme as refreshed at the annual general meeting of the Company on 10 May 2012 (being 251,526,926 share options) less the 107,969,600 share options granted by the Company since the refreshment, the Company may further grant 144,255,326 share options (including the lapsed share options since the refreshment), representing approximately 5.62% of the issued share capital of the Company as at 30 June 2014.

REPORT OF DIRECTORS

Name or category of participants	Grant date	Exercise price HK\$	Options held at 1 January 2014	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options held at 30 June 2014
Directors							
Xu Shao Chun (Note)	19/11/2008	0.792	6,000,000	—	6,000,000	—	0
	02/04/2013	1.308	2,800,000	—	—	—	2,800,000
Oriental Gold Limited (Note)	23/04/2010	2.592	2,400,000	—	—	—	2,400,000
	30/03/2012	1.870	2,500,000	—	—	—	2,500,000
Yang Jian	23/04/2014	2.660	0	2,500,000	—	—	2,500,000
	28/04/2006	0.543	630,000	—	294,000	—	336,000
	01/08/2008	1.458	120,000	—	—	—	120,000
	17/09/2009	1.141	180,000	—	—	—	180,000
	23/04/2010	2.592	360,000	—	—	—	360,000
	16/03/2011	4.275	400,000	—	—	—	400,000
	30/03/2012	1.870	700,000	—	—	—	700,000
	22/08/2012	1.150	2,000	—	—	—	2,000
	22/03/2013	1.340	400,000	—	—	—	400,000
	02/04/2013	1.308	300,000	—	—	—	300,000
Chen Deng Kun	04/05/2006	0.548	6,720,000	—	—	—	6,720,000
	08/06/2007	1.507	3,264,000	—	—	—	3,264,000
	01/08/2008	1.458	2,400,000	—	—	—	2,400,000
	23/04/2010	2.592	960,000	—	—	—	960,000
	16/03/2011	4.275	960,000	—	—	—	960,000
	30/03/2012	1.870	1,300,000	—	—	—	1,300,000
	22/03/2013	1.340	400,000	—	—	—	400,000
	02/04/2013	1.308	300,000	—	—	—	300,000
Ho Ching Hua	23/01/2007	0.779	940,000	—	940,000	—	0
	30/03/2012	1.870	200,000	—	—	—	200,000
	22/03/2013	1.340	200,000	—	—	—	200,000
Gary Clark Biddle	08/06/2007	1.507	480,000	—	—	—	480,000
	30/03/2012	1.870	300,000	—	—	—	300,000
	22/03/2013	1.340	200,000	—	—	—	200,000
Wu Cheng	08/06/2007	1.507	480,000	—	480,000	—	0
	30/03/2012	1.870	200,000	—	—	—	200,000
	22/03/2013	1.340	200,000	—	—	—	200,000
Dong Ming Zhu	22/03/2013	1.340	200,000	—	—	—	200,000
Other employees in aggregate			257,747,834	22,500,000	18,920,788	592	261,326,454
Total			294,243,834	25,000,000	26,634,788	592	292,608,454

Note:

Oriental Gold Limited is wholly owned by Mr. Xu Shao Chun, the Chairman of the Board and the Chief Executive Officer of the Company.

REPORT OF DIRECTORS

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

As at 30 June 2014, 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 (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which will be required to be notified to the Company and the Stock Exchange of Hong Kong Limited (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" (the "Model Code") as set out in Appendix 10 of The Rules Governing the Listing of Securities on the Stock Exchange (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	765,298,624	Interests of controlled corporation (Note 1)	
	11,565,200	Beneficial owner	
	10,200,000	Other/Share option (Note 2)	
Aggregate:	787,063,824		30.69%
Yang Jian	605,626	Beneficial owner	
	2,798,000	Other/Share option (Note 2)	
Aggregate:	3,403,626		0.13%
Chen Deng Kun	112,000	Beneficial owner	
	16,304,000	Other/Share option (Note 2)	
Aggregate:	16,416,000		0.64%
Ho Ching Hua	2,080,000	Beneficial owner	
	400,000	Other/Share option (Note 2)	
Aggregate:	2,480,000		0.10%
Gary Clark Biddle	980,000	Other/Share option (Note 2)	
Aggregate:	980,000		0.04%
Wu Cheng	480,000	Beneficial owner	
	400,000	Other/Share option (Note 2)	
Aggregate:	880,000		0.03%
Dong Ming Zhu	200,000	Other/Share option (Note 2)	
Aggregate:	200,000		0.01%

REPORT OF DIRECTORS

Notes:

1. Of the 765,298,624 shares, 409,412,000 shares were held through Oriental Gold Limited and 355,886,624 shares were held through Billion Ocean Limited. Oriental Gold Limited and Billion Ocean Limited are wholly owned by Mr. Xu Shao Chun. Therefore, Mr. Xu Shao Chun is deemed to be interested in those 765,298,624 shares.
2. Details of the share options are set out in the paragraph headed “Outstanding Share Options” of this report.

Save as disclosed in this paragraph, as at 30 June 2014, 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 Model Code.

Directors’ Rights to Acquire Shares or Debentures

Save as disclosed in the section headed “Outstanding Share Options” 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 2014.

REPORT OF DIRECTORS

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

As at 30 June 2014, 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 (Note 1)	409,412,000(L) (Note 2)	Beneficial owner	
	7,400,000(L)	Other/share option (Note 3)	
TOTAL	416,812,000(L)		16.25%
Billion Ocean Limited (Note 1)	355,886,624(L)	Beneficial owner	13.88%
JPMorgan Chase&Co. (Note 4)	1,254,000(L)	Beneficial owner	
	200,783,600 (Lending)	Custodian	
TOTAL	202,037,600(L)		7.88%
Credit Suisse Group AG (Note 5)	224,079,016(L)	Interest of controlled corporations	8.74%
	149,824,298(S)	Interest of controlled corporations	5.84%
Franklin Templeton Investments (Asia) Limited	152,228,000(L)	Investment manager	5.94%
Franklin Templeton Investment Management Limited	151,367,757(L)	Investment manager	5.90%

REPORT OF DIRECTORS

Notes:

1. Both Oriental Gold Limited and Billion Ocean Limited are wholly owned by Mr. Xu Shao Chun.
2. Out of the 409,412,000 shares (L), 130,000,000 shares (the “Lent Shares”) are made available to Credit Suisse AG (“CSAG”) on the basis that CSAG in turn agrees to make available to Credit Suisse Securities (Europe) Limited (“CSSEL”) for purposes of stock lending by CSSEL to investors of the Guaranteed Convertible Bonds (*as defined below*) procured by CSSEL and for purposes of on-lending by CSSEL to Macquarie Bank Limited (“Macquarie”) to facilitate stock lending by Macquarie to investors in the Bonds procured by Macquarie. During the terms of the lending arrangement, Oriental Gold Limited will not have the right to recall the Lent Shares and it will not have voting rights on the Lent Shares. It is expected that the Lent Shares will be returned to Oriental Gold Limited on or before the earlier of (i) the date on which all the Guaranteed Convertible Bonds are redeemed or converted and (ii) 14 April 2017.
3. Details of the share options are set out in the section headed “Outstanding Share Options” of this report.
4. JPMorgan Chase & Co. had interest in a total of 202,037,600 shares (L) and 1,254,000 shares (S) in the Company through its various controlled corporations, the details of which are set out below:
 - (i) JPMorgan Chase Bank, N.A, which was a wholly-owned subsidiary of JPMorgan Chase & Co., held 200,783,600 shares (L) in the Company.
 - (ii) J.P. Morgan Securities plc held 1,254,000 shares (L) and 1,254,000 shares (S) in the Company. J.P. Morgan Securities plc was a 98.95% owned subsidiary of J.P. Morgan Chase International Holdings Limited which was in turn a wholly-owned subsidiary of J.P. Morgan Chase (UK) Holdings Limited. J.P. Morgan Chase (UK) Holdings Limited was a wholly-owned subsidiary of J.P. Morgan Capital Holdings Limited which in turn was wholly owned by J.P. Morgan International Finance Limited. J.P. Morgan International Finance Limited was wholly-owned by Bank One International Holdings Corporation, being a corporation wholly owned by J.P. Morgan International Inc. and J.P. Morgan International Inc. was wholly owned by JPMorgan Chase Bank, N.A. which was in turn wholly owned by JPMorgan Chase & Co..
 - (iii) The entire interest of JPMorgan Chase & Co. in the Company included a lending pool of 200,783,600 shares (L).
5. Credit Suisse Group AG had interest in a total of 224,079,016 shares (L) and 149,824,298 shares (S) in the Company through its various controlled corporations, the details of which are set out below:
 - (i) Credit Suisse AG, which was a wholly-owned subsidiary of Credit Suisse Group AG, held 130,000,000 shares (L) and 130,000,000 shares (S) in the Company.

REPORT OF DIRECTORS

- (ii) Credit Suisse Securities (Europe) Limited held 76,465,049 shares (L) and 19,424,298 shares (S) in the Company. Credit Suisse Securities (Europe) Limited was a wholly-owned subsidiary of Credit Suisse Investments Holdings (UK), which was in turn a wholly-owned subsidiary of Credits Suisse Investments (UK). Credits Suisse Investments (UK) was a wholly-owned subsidiary of Credit Suisse AG, which was in turn wholly owned by Credit Suisse Group AG.
- (iii) Credit Suisse (Hong Kong) Limited held 6,791,603 shares (L) in the Company. Credit Suisse (Hong Kong) Limited was a wholly-owned subsidiary of Credit Suisse AG, which was in turn wholly owned by Credit Suisse Group AG.
- (iv) Credit Suisse Securities (USA) LLC held 10,822,364 shares (L) and 400,000 shares (S) in the Company. Credit Suisse Securities (USA) LLC was a wholly-owned subsidiary of Credit Suisse (USA), Inc., which was in turn a wholly-owned subsidiary of Credit Suisse Holdings (USA), Inc.. Credit Suisse Holdings (USA), Inc. was owned as to 57% by Credit Suisse AG and 43% by Credit Suisse Group AG.

Besides, 73,977,918 H shares (L) and 152,000 H shares (S) were held through derivatives as follows:

67,645,918 H shares (L)	–	through physically settled listed securities
6,332,000 H shares (L) and 152,000 H shares (S)	–	through cash settled unlisted securities

6. (L) denotes long position and (S) denotes short position.

Save as disclosed above, as at 30 June 2014, 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 2014, the Company or its subsidiaries had not repurchased, sold or redeemed any of the listed securities of the Company.

REPORT OF DIRECTORS

Issue of Guaranteed Convertible Bonds

During the reporting period ended 30 June 2014, Crotona Asset Limited (a Company's wholly-owned subsidiary, as Issuer and the Company, as Guarantor) issued five-year guaranteed convertible bond in the principal amount of USD175,000,000 which bear interest at a rate of 4% per annum payable semi-annually (the "Guaranteed Convertible Bonds") on 14 April 2014. The estimated net proceeds from the issue of the Guaranteed Convertible Bonds, after deduction of commission and expenses, is approximately USD171.9 million. The Group intends to apply the proceeds for (i) investment in cloud-management and particularly mobile internet technologies, (ii) the repayment of existing bank loans, (iii) strategic investments and acquisitions, and (iv) for working capital and general corporate purposes. Unless previously redeemed, converted or purchased and cancelled, the Issuer will redeem each Guaranteed Convertible Bond at its principal amount together with accrued and unpaid interest thereon on 14 April 2019. The Guaranteed Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 25 May 2014 to the close of business on the date falling 10 days prior to 14 April 2019, at a price of HKD3.90 per share, subject to adjustments. There was no conversion or redemption of the Guaranteed Convertible Bonds during the period from 14 April 2014 to 30 June 2014.

Please also refer to the announcements of the Company dated 8 April 2014, 10 April 2014, 14 April 2014 and 15 April 2014 for the details of the Guaranteed Convertible Bonds.

Change of Information of Directors and Senior Management

With effect from 17 March 2014, Mr. Yeung Kwok On resigned as an independent non-executive Director, and ceased to be the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee.

With effect from 17 March 2014, Mr. Liu Chia Yung has been appointed as an independent non-executive Director, and the chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee.

With effect from 13 August 2014, Mr. Ho Ching Hua resigned as an independent non-executive Director, and ceased to be the member of the Corporate Governance and Strategy Committee.

REPORT OF DIRECTORS

Corporate Governance

The Company has complied with all the code provisions of Corporate Governance Code (the “Code”) as set out in Appendix 14 to the Listing Rules throughout the reporting period ended 30 June 2014 except for the deviation in respect of the roles of Chairman and CEO under Code provision A.2.1. During the reporting period, Mr. Xu Shao Chun assumed the roles of both the Chairman and the 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 the IT industry and possesses a unique strategic perspective. The Board believes that he can lead the Company to formulate effective strategies and react promptly to market changes. His continuous service 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 of the Company.

Internal Control & Risk Management

During the reporting period, to ensure the implementation of the Company’s strategies, the Company has further improved the level of internal control and risk management by adjusting the business structure, accelerating distribution channel build out, improving the operation quality, promoting the conversion of sales branches to partners, strengthening service partner ecosystem management, integrating external resources to push ahead with project delivery. By streamlining its workforce, the Company has further reduced and controlled its costs and expenses. During the reporting period, increased efforts have been made on promoting timely collection of the accounts receivables to ensure that the Company’s financial and operational risks are effectively controlled.

Regarding the disclosure of inside information and internal control measures, the Company understands its duties under the Listing Rules and the SFO, and adheres to the important principle of timely publication of the inside information. The Company abides by the “Guidelines on Disclosure of Inside Information” published by the Securities and Futures Commission, and has developed a complete system of internal procedures and internal control measures for processing and publication of information in order to ensure the timely, accurate and appropriate disclosure of the relevant information to shareholders and regulatory authorities.

Adoption of Code of Conduct Regarding Directors’ 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 reporting period.

REPORT OF DIRECTORS

Audit Committee

The audit committee of the Company has reviewed the Group's unaudited consolidated results for the six months ended 30 June 2014. 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.

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

Shenzhen, the People's Republic of China, 13 August 2014

As at the date hereof, 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. Wu Cheng and Mr. Liu Chia Yung as independent non-executive directors

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.



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