

Kingdee

Kingdee International Software Group Company Limited
Stock Code: 268

INTERIM REPORT 2012

Enterprise Management Expert





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 2012**

Financial highlights for the six months ended 30 June 2012

- Turnover decreased by approximately 7.6% over the same period in 2011 to approximately RMB779,719,000
- Loss for the period is approximately RMB225,797,000 (the six months ended 30 June 2011: Profit of RMB124,918,000)
- Loss attributable to equity holders of the Company during the period is approximately RMB210,558,000 (the six months ended 30 June 2011: Profit of RMB126,860,000)
- Basic loss per share for loss attributable to the equity holders of the Company during the period is approximately RMB8.374 cents (the six months ended 30 June 2011: Basic earnings per share for profit of RMB5.050 cents)

The board (the “Board”) of directors (the “Directors”) of Kingdee International Software Group Company Limited (the “Company”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2012 are as follows:

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2012

	<i>Notes</i>	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
ASSETS			
Non-current assets			
Land use rights	5	143,886	83,683
Property, plant and equipment	6	622,974	518,110
Intangible assets	6	631,697	585,175
Investment properties	7	496,925	496,925
Total non-current assets		1,895,482	1,683,893
Current assets			
Inventories		4,301	4,036
Trade and other receivables	8	340,793	378,960
Available-for-sale financial assets		—	11,013
Due from customers on implementation contracts		344,279	292,467
Pledged bank deposits		12,769	11,032
Short-term bank deposits		16,490	16,490
Cash and cash equivalents		600,202	633,412
Total current assets		1,318,834	1,347,410
Total assets		3,214,316	3,031,303

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (Continued)

As at 30 June 2012

	<i>Notes</i>	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	9	63,996	63,941
Share premium	9	417,566	405,730
Other reserves		427,874	436,023
Retained earnings			
– Proposed final dividend		—	—
– Others		493,024	703,600
		<u>1,402,460</u>	1,609,294
Non-controlling interest		<u>24,756</u>	32,740
Total equity		<u>1,427,216</u>	1,642,034
LIABILITIES			
Non-current liabilities			
Borrowings	10	1,057,500	597,500
Deferred income tax liabilities		49,811	46,967
Long term payables		7,388	37,548
Total non-current liabilities		<u>1,114,699</u>	682,015
Current liabilities			
Trade and other payables	11	331,751	465,597
Due to customers on implementation contracts		121,135	64,514
Borrowings	10	94,000	20,000
Current income tax liabilities		—	7,798
Deferred income		125,515	149,345
Total current liabilities		<u>672,401</u>	707,254
Total liabilities		<u>1,787,100</u>	1,389,269
Total equity and liabilities		<u>3,214,316</u>	3,031,303
Net current assets		<u>646,433</u>	640,156
Total assets less current liabilities		<u>2,541,915</u>	2,324,049

The notes on pages 8 to 23 are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2012

	<i>Notes</i>	Unaudited	
		Six months ended 30 June	
		2012	2011
		RMB'000	RMB'000
Turnover	12	779,719	844,223
Cost of sales	13	<u>(244,858)</u>	<u>(197,611)</u>
Gross profit		534,861	646,612
Selling and marketing expenses	13	(625,564)	(514,337)
Administrative expenses	13	(118,250)	(103,798)
Research and development costs	13	(92,461)	(83,643)
Other gains – Net	14	<u>95,568</u>	<u>190,710</u>
Operating profit		(205,846)	135,544
Finance costs – Net		<u>(19,045)</u>	<u>(1,859)</u>
(Loss)/Profit before income tax		(224,891)	133,685
Income tax expense	15	<u>(906)</u>	<u>(8,767)</u>
(Loss)/Profit for the period		<u>(225,797)</u>	<u>124,918</u>
Attributable to:			
Equity holders of the Company		(210,558)	126,860
Non-controlling interest		<u>(15,239)</u>	<u>(1,942)</u>
		<u>(225,797)</u>	<u>124,918</u>
(Loss)/Earnings per share for (loss)/profit attributable to the equity holders of the Company			
– basic	16	<u>RMB(8.374)cents</u>	<u>RMB5.050cents</u>
– diluted	16	<u>RMB(8.374)cents</u>	<u>RMB4.748cents</u>

The notes on pages 8 to 23 are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
(Loss)/Profit for the period	(225,797)	124,918
Transfer to investment incomes, fair value change of available-for-sale financial assets, net of tax	(912)	—
Total comprehensive (loss)/income for the period	(226,709)	124,918
Total comprehensive (loss)/income attributable to:		
– Equity holders of the Company	(211,470)	126,860
– Non-controlling interest	(15,239)	(1,942)
	(226,709)	124,918

The notes on pages 8 to 23 are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

(All amounts in Renminbi thousand unless otherwise stated)

	Notes	Attributable to equity holders of the Company				Total	Non- controlling interest	Total equity
		Share capital	Share premium	Other reserves	Retained earnings			
Balance at 1 January 2011		54,653	425,358	427,323	626,720	1,534,054	14,271	1,548,325
(Loss)/Profit for the year		—	—	—	144,988	144,988	8,174	153,162
Other comprehensive income		—	—	912	—	912	—	912
Total comprehensive (loss)/income		—	—	912	144,988	145,900	8,174	154,074
Employees share option scheme:								
– value of employee services	9	—	24,667	—	—	24,667	—	24,667
– proceeds from shares issued	9	596	21,717	—	—	22,313	—	22,313
Issue of shares		9,177	(9,177)	—	—	—	—	—
Repurchase and cancellation of own shares	9	(485)	(56,835)	485	(485)	(57,320)	—	(57,320)
Appropriation to reserve funds		—	—	7,303	(7,303)	—	—	—
Dividend relating to 2010	17	—	—	—	(60,320)	(60,320)	—	(60,320)
Non-controlling interest arising on business combination		—	—	—	—	—	10,295	10,295
Total transactions with owners		9,288	(19,628)	7,788	(68,108)	(70,660)	10,295	(60,365)
Balance at 31 December 2011 (Audited)		<u>63,941</u>	<u>405,730</u>	<u>436,023</u>	<u>703,600</u>	<u>1,609,294</u>	<u>32,740</u>	<u>1,642,034</u>
Balance at 1 January 2012		<u>63,941</u>	<u>405,730</u>	<u>436,023</u>	<u>703,600</u>	<u>1,609,294</u>	<u>32,740</u>	<u>1,642,034</u>
(Loss)/Profit for the period		—	—	—	(210,558)	(210,558)	(15,239)	(225,797)
Other comprehensive income		—	—	(912)	—	(912)	—	(912)
Total comprehensive (loss)/income		—	—	(912)	(210,558)	(211,470)	(15,239)	(226,709)
Employees share option scheme:								
– value of employee services	9	—	11,133	—	—	11,133	—	11,133
– proceeds from shares issued	9	73	2,005	—	—	2,078	—	2,078
Additional capital		—	—	(7,255)	—	(7,255)	7,255	—
Repurchase and cancellation of own shares		(18)	(1,302)	18	(18)	(1,320)	—	(1,320)
Total transactions with owners		55	11,836	(7,237)	(18)	4,636	7,255	11,891
Balance at 30 June 2012 (Unaudited)		<u>63,996</u>	<u>417,566</u>	<u>427,874</u>	<u>493,024</u>	<u>1,402,460</u>	<u>24,756</u>	<u>1,427,216</u>

The notes on pages 8 to 23 are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2012

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Cash flows from operating activities:		
Cash generated from operations	(174,090)	(155,857)
Income tax paid	(5,759)	(970)
Net cash used in operating activities	(179,849)	(156,827)
Cash flows from investing activities:		
Purchases of property, plant and equipment (PPE)	(123,829)	(37,941)
Proceeds from sale of PPE	2,167	2,016
Payments for land use rights	(62,035)	(34,028)
Purchases of intangible assets	(135,669)	(107,684)
Cash paid for business combination	(59,250)	(36,053)
Maturity of available-for-sale financial assets	11,013	—
Pledged bank-deposits withdrawn	11,032	5,070
Pledged bank-deposits placed	(12,769)	(1,458)
Short-term bank deposits withdrawn	—	100,027
Interest received	—	4,278
Net cash used in investing activities	(369,340)	(105,773)
Cash flows from financing activities:		
Proceeds from options exercised	2,078	10,915
Repurchase of own shares	—	(28,066)
Proceeds from borrowings	552,000	155,000
Repayments of borrowings	(18,000)	—
Interest paid	(20,099)	(6,137)
Dividends paid to the Company's shareholders	—	(60,320)
Net cash generated/(used in) from financing activities	515,979	71,392
Net decrease in cash and cash equivalents	(33,210)	(191,208)
Cash and cash equivalents at beginning of the period	633,412	631,456
Cash and cash equivalents at end of the period	600,202	440,248

The notes on pages 8 to 23 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 21 August 2012.

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 2012 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 2011, which have been prepared in accordance with International Financial Reporting Standards.

3. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in those annual financial statements.

(a) *New and amended standards relevant to the Group*

- Amendment to IAS 12 ‘Income taxes’ is applicable retrospectively to annual periods beginning on or after 1 January 2012 with early adoption permitted. It introduces an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The Group has not applied the amended standard retrospectively in this interim report temporarily and has expected to adopt it in the annual report.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. Accounting policies (Continued)

(b) Amendments and interpretations to existing standards already effective in 2012 but not relevant to the Group

- Amendment to IFRS1 'First-time Adoption of International Financial Reporting Standards' is effective for annual periods beginning on or after 1 July 2011. The first amendment replaces references to a fixed date of 1 January 2004 with 'the date of transition to IFRSs', thus eliminating the need for entities adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.
- Amendment to IFRS7 'Financial Instruments: Disclosures' is effective for annual periods beginning on or after 1 July 2011 with early adoption permitted. 'Disclosures-Transfers of financial asset' on transfer of financial assets. Disclosure is required by class of asset of nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. In addition, other disclosures must enable users to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities.

(c) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted

- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 is applicable to annual periods beginning on or after 1 January 2013 with early adoption permitted.
- IFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 is applicable to annual periods beginning on or after 1 January 2013 with early adoption permitted.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

3. Accounting policies (Continued)

(c) *The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted (Continued)*

- IFRS 9 'Financial Instruments' (effective from 1 January 2015). Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. An instrument is subsequently measured at amortized cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss. All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment. It is not expected to have a material impact on the Group or Company's financial statements.
- IFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. IFRS 13 is applicable to annual periods beginning on or after 1 January 2013 with early adoption permitted.
- IAS 19 (Amendment) 'Employee benefits' eliminates the corridor approach and calculate finance costs on a net funding basis. IAS19 is applicable to annual periods beginning on or after 1 January 2013. The group is yet to assess the amendments to IAS 19's impact.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. Segment information

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

The board of executive directors considers the business from product perspective. On the first-time adoption of IFRS 8 'Operating Segments', the Group determined that the operating segments are:

Enterprise Management Software 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 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

4. Segment information (Continued)

The unaudited segment information for the six months ended 30 June 2012 is as follows:

	Enterprise management software and service business RMB'000	Others RMB'000	Unallocated RMB'000	The Group Total RMB'000
Revenue (from external customers)	763,162	16,557	—	779,719
Operating (loss)/profit	(176,772)	(41,935)	12,861	(205,846)
Finance costs	(20,577)	(16)	—	(20,593)
Finance income	1,302	246	—	1,548
Finance (cost)/income – net	(19,275)	230	—	(19,045)
(Loss)/Profit before income tax	(196,047)	(41,705)	12,861	(224,891)
Income tax expense	380	—	(1,286)	(906)
Segment results	(195,667)	(41,705)	11,575	(225,797)
Segment assets	2,614,219	103,172	496,925	3,214,316
Segment liabilities	1,671,203	115,897	—	1,787,100
Additions to non-current assets (other than financial instruments and deferred tax assets)	211,589	—	—	211,589
Material non-cash expenses/(income)				
Depreciation and amortisation	104,752	634	—	105,386
Provision for doubtful trade and other receivables	4,006	112	—	4,118

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION**

4. Segment information (Continued)

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

	Enterprise management software and service business RMB'000	Others RMB'000	Unallocated RMB'000	The Group Total RMB'000
Revenue (from external customers)	808,172	36,051	—	844,223
Operating (loss)/profit	62,897	(16,516)	89,163	135,544
Finance costs	(5,930)	(207)	—	(6,137)
Finance income	4,159	119	—	4,278
Finance (cost)/income – net	<u>(1,771)</u>	<u>(88)</u>	<u>—</u>	<u>(1,859)</u>
(Loss)/Profit before income tax	<u>61,126</u>	<u>(16,604)</u>	<u>89,163</u>	<u>133,685</u>
Income tax expense	1,046	(897)	(8,916)	(8,767)
Segment results	<u><u>62,172</u></u>	<u><u>(17,501)</u></u>	<u><u>80,247</u></u>	<u><u>124,918</u></u>
Segment assets	<u>1,841,532</u>	<u>76,946</u>	<u>399,347</u>	<u>2,317,825</u>
Segment liabilities	<u>653,421</u>	<u>56,972</u>	<u>—</u>	<u>710,393</u>
Additions to non-current assets (other than financial instruments and deferred tax assets)	72,680	726	110,185	183,591
Material non-cash expenses/(income)				
Depreciation and amortisation	92,603	211	—	92,814
Provision for doubtful trade and other receivables	<u>2,163</u>	<u>188</u>	<u>—</u>	<u>2,351</u>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION**

5. Land use rights

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Opening net book amount at 1 January	83,683	79,449
Additions	62,035	6,174
Amortisation charge	(1,832)	(1,940)
Closing net book amount at 30 June/31 December	<u>143,886</u>	<u>83,683</u>
Represented by:		
Cost	152,338	90,303
Accumulated amortisation charges	(8,452)	(6,620)
	<u>143,886</u>	<u>83,683</u>

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

6. Property, plant, equipment and intangible assets

	Unaudited	
	Property, plant and equipment RMB'000	Intangible assets RMB'000
Six months ended 30 June 2011		
Opening net book amount at 1 January 2011	350,632	377,236
Additions	45,070	121,699
Disposals	(2,242)	—
Transfer to investment properties	(2,033)	—
Depreciation and amortisation	(15,275)	(76,159)
Intangible assets from business combinations	—	3,400
Closing net book amount at 30 June 2011	<u>376,152</u>	<u>426,176</u>
Six months ended 30 June 2012		
Opening net book amount at 1 January 2012	518,110	585,175
Additions	124,657	132,669
Disposals	(2,386)	—
Depreciation and amortisation	(17,407)	(86,147)
Closing net book amount at 30 June 2012	<u>622,974</u>	<u>631,697</u>

7. Investment properties

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Opening net book amount at 1 January	496,925	289,162
Addition	—	72,105
Fair value gains	—	135,658
Closing net book amount at 30 June/31 December	<u>496,925</u>	<u>496,925</u>

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

8. Trade and other receivables

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Trade receivables(a)	237,369	228,135
Less: provision of receivables	(97,510)	(93,392)
	<hr/>	<hr/>
Trade receivables – net	139,859	134,743
Notes receivable	19,799	27,279
Advance to employees	36,637	33,863
Prepayments	67,445	83,323
VAT recoverable	36,459	61,603
Others	40,594	38,149
	<hr/>	<hr/>
	<u>340,793</u>	<u>378,960</u>

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

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
0 – 180 days	94,947	98,848
181 – 360 days	54,595	49,932
Over 360 days	87,827	79,355
	<hr/>	<hr/>
	<u>237,369</u>	<u>228,135</u>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION**

9. Share capital and share premium

	Number of issued shares (thousands)	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2011	2,091,609	54,653	425,358	480,011
Issue of shares	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	(22,044)	(485)	(56,835)	(57,320)
At 31 December 2011 (Audited)	<u>2,513,752</u>	<u>63,941</u>	<u>405,730</u>	<u>469,671</u>
At 1 January 2012	<u>2,513,752</u>	<u>63,941</u>	<u>405,730</u>	<u>469,671</u>
Employee share option scheme				
– Value of services provided	—	—	11,133	11,133
– Exercise of share options	3,382	73	2,005	2,078
Repurchase and cancellation of own shares	(850)	(18)	(1,302)	(1,320)
At 30 June 2012 (Unaudited)	<u>2,516,284</u>	<u>63,996</u>	<u>417,566</u>	<u>481,562</u>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION**

10. Borrowings

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Non-current	1,057,500	597,500
Current	94,000	20,000
	<u>1,151,500</u>	<u>617,500</u>

Movement in borrowings is analysed as follows:

	RMB'000
Six months ended 30 June 2011	
Opening amount at 1 January 2011	190,000
Acquisition of borrowings	155,000
Repayment of borrowings	—
Closing amount at 30 June 2011	<u>345,000</u>
Six months ended 30 June 2012	
Opening amount at 1 January 2012	617,500
Acquisition of borrowings	552,000
Repayment of borrowings	(18,000)
Closing amount at 30 June 2012	<u>1,151,500</u>

Interest expense on borrowings and loans for the six months ended 30 June 2012 is RMB20,099,000 (the six months ended 30 June 2011: RMB6,137,000). The costs of the borrowing specifically for the construction of Beijing R&D center which have been capitalized are RMB7,731,000 (the six months ended 30 June 2011: Nil).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

11. Trade and other payables

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Trade payables (a)	10,948	35,308
Salary and staff welfare payable	40,850	75,313
Customers' deposits	111,672	71,157
VAT and business tax payable	29,242	57,574
Accrued expenses	38,662	82,639
Construction fee payable	5,193	11,062
Outstanding consideration for business combination	67,353	82,395
Deposits of distributors	14,676	22,078
Others	13,155	28,071
	<u>331,751</u>	<u>465,597</u>

(a) As at 30 June 2012, the ageing analysis of trade payables is as follows:

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
0–180 days	9,525	31,631
181–360 days	547	1,033
Over 360 days	876	2,644
	<u>10,948</u>	<u>35,308</u>

12. Turnover

	Unaudited Six months ended 30 June 2012 RMB'000	2011 RMB'000
Sales of software	381,672	488,186
Software implementation services	166,328	152,996
Software solution consulting and support services	185,627	172,830
Sales of computer and related products	46,092	30,211
	<u>779,719</u>	<u>844,223</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

13. Expenses by nature

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

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Research and development costs		
Amounts incurred	156,667	137,284
Less: amounts capitalised	(135,669)	(119,884)
Add: amortisation of capitalised costs	71,463	66,243
	<u>92,461</u>	<u>83,643</u>
Employee benefit expense	634,741	513,109
Less: amount included in research and development costs	(140,887)	(123,770)
	<u>493,854</u>	<u>389,339</u>
Cost of inventories consumed	60,098	42,442
Depreciation of property, plant and equipment	17,407	15,275
Amortisation of computer software, licenses and copyrights	14,684	9,916
Amortisation of land use rights	1,832	1,380
Impairment of receivables	4,118	2,351
Loss on disposals of property, plant and equipment	219	226
	<u>219</u>	<u>226</u>

14. Other gains

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Subsidy income		
– VAT refund	71,916	89,211
– Others	8,825	15,199
	<u>8,825</u>	<u>15,199</u>
Fair value gains of investment properties	—	77,970
Others	14,827	8,330
	<u>14,827</u>	<u>8,330</u>
	<u>95,568</u>	<u>190,710</u>

**NOTES TO THE CONDENSED CONSOLIDATED INTERIM
FINANCIAL INFORMATION**

15. Income tax expense

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
PRC income tax		
– Current income tax	664	—
– Under-provision/(over-provision) in previous year	(2,703)	970
– Deferred income tax	2,945	7,797
	906	8,767

- (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) Up to the date of this report, the relevant tax authorities had not completed the certification of the identity for PRC software enterprises for the fiscal year 2012. Nevertheless, the directors are confident that Kingdee Software (China) Co., Ltd (“Kingdee Software”), a wholly-owned subsidiary of the Group, will continuously be qualified and recognised as national important software enterprise for 2012 based on past records and their fulfillment of the stipulated conditions. Therefore, the directors believe that it is appropriate to apply the preferential tax rate of 10% to calculate the deferred income tax assets and liabilities of Kingdee China as at 30 June 2012.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

16. (Loss)/Earnings per share

(a) Basic

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

	Unaudited Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
(Loss)/Profit attributable to equity holders of the Company	<u>(210,558)</u>	<u>126,860</u>
Weighted average number of ordinary shares in issue (thousands)	<u>2,514,507</u>	<u>2,512,075</u>
Basic (loss)/earnings per share	<u>RMB(8.374) cents</u>	<u>RMB5.050 cents</u>

(b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: Share options. According to IAS 33.41, the effects of anti-dilutive potential ordinary shares are ignored in calculating diluted EPS. So for this period, diluted loss per share is the same with basis loss per share.

	Unaudited Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
(Loss)/Profit attributable to equity holders of the Company	<u>(210,558)</u>	<u>126,860</u>
Weighted average number of ordinary shares in issue (thousands)	<u>2,514,507</u>	<u>2,512,075</u>
Adjustments – share options (thousands)	<u>—</u>	<u>159,935</u>
Weighted average number of ordinary shares for diluted (loss)/earnings per share (thousands)	<u>2,514,507</u>	<u>2,672,010</u>
Diluted (loss)/earnings per share	<u>RMB(8.374) cents</u>	<u>RMB4.748 cents</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

17. Dividends

The dividends in 2011 and 2010 of nil and RMB60,320,000 (HK\$71,106,000) (RMB0.029 per share (HK\$0.034 per share)) were paid in June 2012 and June 2011, respectively. The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2012 (the six months ended 30 June 2011: Nil).

18. Contingent liabilities

The Group had no significant contingent liabilities as of 30 June 2012 (30 June 2011: nil).

19. Related party transactions

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

20. Event occurring after the balance sheet date

On 16 July 2012, Kingdee Software (China) Co., Ltd, a wholly-owned subsidiary of the Group has completed the issuance of the first tranche of the Medium-term Notes in the People's Republic of China. The first tranche of the Medium-term Notes was issued in the amount of RMB0.48 billion, at the interest rate of 6.00% per annum, and with a term of three years. (For details please refer to the announcement of the Group issued on 17 July 2012).

21. Business combination

The Group had no business combination during the period.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Review

In 2012, the Group proactively transformed itself and made adjustments. During the reporting period, the demand of Chinese enterprises for management software and services continued to be adversely affected by a global slowdown in the macro-economy that was also affecting China, the Group had made related proactive adjustments in its organizational structure and focused on high-value operations. As such, the Group's turnover in the first half of the year recorded negative growth. Adhering to the Group's "Transformation, Focus and High Value" strategy, the Group focused on differentiating competitiveness by improving core products, transitioning from a sales-oriented model to a delivery-oriented model, strengthening project risk management, increasing project profitability, stepping up indirect sales distribution efforts, promoting customer retention, optimising business structure and controlling costs. Moreover, the Group emphasized innovations to face competitive challenges, explored mobile internet, social network and cloud computing technologies to create innovative cloud-management solutions. The Group intends to become the global leader in cloud-management. Having experienced such economic slowdown, the Group has clearly determined its future development directions and is highly confident about its future prospects.

I. Enterprise Management Software and Services

Small and Medium-Sized Business Product Market

During the reporting period, driven by the decline in exports caused by the EURO zone debt crisis and a tighter credit policy implemented by the Chinese Government, the manufacturing industry was severely affected by the sluggish macro-economy. As a result, SME demand for management software remained weak. As such, revenue from KIS and K/3 decreased by 35.8% and 17.0%, respectively, as compared to the same period last year. However, the Group also observed a convergence of traditional IT services and Internet technology that will become an important driver for SME informatization. In light of this, the Group has launched a series of cloud-management products under the theme of "Cloud-management, Everywhere and Always". Through "Cloud-management" smart mobile terminals, enterprises can process and review routine tasks over the Internet at anytime and anywhere without constraints on location, timing, organization and IT resources, thus highly improving SME management efficiency and responsiveness. Therefore, SMEs are becoming increasingly interested in Kingdee's Cloud-management products, both existing and under development.

During the reporting period, the Group also continued to implement and advance its "Expand Indirect Distribution" strategy to help partners succeed. By enhancing channel partner recruitments, optimizing the distribution ecosystem, actively developing R&D, service, and training partners, the Group further extended market coverage. The Group also focused on promoting core products, effectively consolidated product portfolio and distribution channel, and increased the operating scale and profitability of partners. Further, the Group improved professional service capability, rendered more solid support to partners, and enhanced channel partners' core competitiveness.

In recognition of these efforts, the Group was honored as "The No. 1 Market Share Leader in China's SME Management Software Market" for the eighth straight year (IDC, August 2012).

MANAGEMENT DISCUSSION AND ANALYSIS

Large and Medium-sized Enterprises Product and Industry Market

During the reporting period, large and medium-sized enterprises also faced pressure. These enterprises extended the approval process and decision cycles for their IT spending, resulting in a longer sales cycle and delayed purchases. In response, the Group initiated a transformation of delivery methods, focused on high-value operations, and proactively terminated some high-risk projects, which caused EAS revenue to decrease by 2.9% as compared to the same period of last year. In order to cope with the slowing economy and declining efficiency, the Group observed that there is a clear demand for business model innovations as enterprises seek to transform their businesses by improving management and risk control through IT. Therefore, the Group launched in-depth application solutions for group control, supply chain, human resources and collaboration as well as industry solutions, for example, for the construction & property industries. The Group continued to maintain its leading position in enterprise core applications and BOS platforms.

During the reporting period, the Group released integrated management applications with new technologies such as social networking, mobile applications and cloud computing. Driven by heavy research investment in mobile technology, the Group has launched five types of mobile application solutions including work flow, mobile ERP, mobile industry solutions, social networks for large and medium-sized enterprises to increase business responsiveness, and business innovations to improve management capabilities. Due to the breakthrough of Cloud-management technology, the Group has secured several new customers and solidified its position in the large and medium-sized enterprise market by signing agreements with China Vanke Group Co., Ltd., Guangxi Liugong Group Co., Ltd., Shenzhen Media Group, Hongdou Group Co., Ltd., China-Ningbo Yofoto Commodity Co., Ltd., and Tianjin Cenval Investment Group., among others.

Consulting and Maintenance Services

During the reporting period, due to the decline in software sales, the consulting and maintenance services business was negatively impacted and grew only by 7.4% as compared to the same period last year. In the context of management consulting strategy, the Group continued to improve the core competitiveness of its management consulting businesses, but reduced strategic consulting business in order to focus on product-driven business process and IT planning consulting. At the same time, the Group actively adjusted its consulting resources, optimized its organizational structure, strictly controlled costs, and improved quality as well as business scale. Through focused strategy and operational transformation, the Group has already established a Kingdee management consulting practice and continuously enhanced ERP values.

During the reporting period, in the context of maintenance strategy and high-value innovation, the Group continued to develop and promote a standardized Cloud-computing platform and related high-value personalized services. The Group launched China's first cloud-based "Front Desktop Platform", providing one-stop shop "Anything, Anywhere, Anytime" standard cloud services for SMEs. This offering enhanced customer contacts and stickiness. While large and medium-sized enterprises have different maintenance needs and personalized services requirements, the Group has optimized its maintenance solutions to offer a variety of IT service solutions. The demand for these services has increased steadily and has increasingly become a main growth driver for the Group's maintenance business.

MANAGEMENT DISCUSSION AND ANALYSIS

II. Corporate Internet Business

Cloud Hub (雲之家):

The Group recently launched an enterprise social platform “Cloud Hub” (previously named Kingdee Weibo) to help enterprises kick-off their Cloud-management transformation and to improve business collaborations and competitiveness. “Cloud Hub” provides seamless communications among internal and external organizations. Through articles, instant messages, file sharing, video communications, micro-blogs and communities, management can regularly communicate with employees, eliminate bureaucracy, improve efficiency, and enhance corporate culture and cooperation. In addition, “Cloud Hub” can be a proprietary external communication and collaboration platform for clients, partners and investors that enhances public relations and corporate profiles. As of today, over 20,000 enterprises and 240,000 users have registered and Kingdee’s “Cloud Hub” has already emerged as the largest social enterprise platform in China.

Youshang Online Accounting:

During the reporting period, Youshang (www.youshang.com) focused on the provision of an online accounting applications and services platform. Through the integration of Internet and accounting software, Youshang offers online accounting software (SaaS) and cloud accounting applications to customers. The number of new paying users and the renewal rate of existing users have steadily increased. This has proven the accounting SaaS business model and its significant market opportunities in China. During the reporting period, a 50% increase, and revenues also increased by 50% as compared to the same period last year. As the largest online accounting SaaS platform in China, Youshang.com has gained the accolade of “Demonstration Enterprise of Golden Software Cloud Application Software” at the 14th Golden Software and Golden Service Survey from China Computer Industry Association. It has also received subsidies from the National Electronic Information Industry Development Fund and the Shenzhen Internet Industry Development Fund.

III. Subsidiary Business

Kingdee Medical and Healthcare Software Business

The Group acquired Guangzhou Wise Top in August 2011 and formed Kingdee Medical Software Ltd (“Kingdee Medical”). As China continues to invest in the medical industry and the industry’s demand for informatisation services remains high, Kingdee Medical launched China’s first Medical Information Integration and Management Solution, which aims to eliminate information islands within medical and healthcare organisations. With it, health care managers can implement closed loop monitoring on their operations anytime and anywhere, thus enhancing the efficiency and quality of healthcare services. During the reporting period, Kingdee Medical had also launched other new products such as a Cloud-computing platform hBOS for medical and healthcare organisations, a mobile medical and healthcare product, HRP expert edition, and e-record V7.5. Kingdee Medical also signed contracts with several leading healthcare enterprises to enhance their information systems, including Yunnan province Hospital, Wuhan Xinzhou People’s Hospital, Regional Health information platform of Chenzhou, and Yingde People’s Hospital.

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, Kingdee Medical further expanded its market coverage from the Guangdong province to the whole nation. After a year of consolidation and innovation, Kingdee Medical has achieved considerable success in developing medical solutions, products, project delivery and maintenance capabilities. It possesses the potential to capture sizable market share in the emerging medical and healthcare IT market.

Middleware Business

During the reporting period, driven by the economic slowdown in China, the middleware business encountered stronger headwind in the high-end enterprise market. A seasonally low cycle and intense competition among domestic middleware vendors led to a decline in middleware revenue in the public sector as compared to the same period last year. During the reporting period, the company launched new Cloud-computing and Internet-of-Things solutions. In addition, the Company' national science and technology project received the high-tech subsidy (核高基) approval from the PRC Ministry of Industry and Information Technology.

2. Corporate Social Responsibility

During the reporting period, the Group cooperated with China's top business school to continually push forward the Chinese Management Model, supported the "Outstanding Chinese Management Award", promoted "Walk on ZHENGDAO, and Walk by WANGDAO" in order to build a new business culture. Over the past five years, the "Outstanding Chinese Management Award" has become an influential case study and award. Chinese enterprises are currently going through a transformation, and the Group will continue to share the best Chinese management practices with society and help more small and medium-sized businesses to succeed.

During the reporting period, the Group continued to sponsor students and teachers at Southeast University, as well as organise the "Kingdee Cup" National Student Business Start-ups Competition to encourage students to start-up their own businesses and enhance their job skills. The Group launched the "Kingdee KIS Paperless Examination Software for Accounting" to facilitate paperless accounting exams, and released EAS teaching products targeting education institutions to drive education reform. The Group has also signed strategic collaboration agreements with a number of famous domestic education institutions, including Shenzhen University, Yunnan University of Finance and Economics, Guizhou University of Finance and Economics and Jiangxi University of Finance and Economics. The Group regularly hosts educational seminars and internal cross-college seminars to assist 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 RMB1,400,000 to the One Foundation's "Joining Hands with Orphans" charity project.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Financial Review

For the six months ended 30 June 2012, the Group's turnover amounted to approximately RMB779,719,000, representing a decrease of 7.6% from the same period last year (the six months ended 30 June 2011: RMB844,223,000).

During the reporting period, the Group realized revenue from software of RMB381,672,000, representing a decline of 21.8% compared with 2011 (the six months ended 30 June 2011: RMB488,186,000), and service revenue of RMB351,955,000, representing an increase of 8.0% from the same period last year (for the six months ended 30 June 2011: RMB325,826,000).

For the period under review, the net loss attributable to equity holders of the Company was RMB210,558,000 (the six months ended 30 June 2011: profit of RMB126,860,000). The comprehensive loss attributable to equity holders of the Company was RMB211,470,000 (for the six months ended 30 June 2011: profit of RMB126,860,000). During the period, net profit margin was -27.0% (the six months ended 30 June 2011: 15.0%) and basic loss per share was RMB8.374 cents (the six months ended 30 June 2011: basic earnings per share RMB5.050 cents).

Gross Profit

During the period under review, gross profits of the Group declined by approximately 17.3% to RMB534,861,000 (for the six months ended 30 June 2011: RMB646,612,000). Gross profit margin for the period was 68.6% (for the six months ended 30 June 2011: 76.6%).

Selling and Marketing Expenses

Selling and marketing expenses for the six months ended 30 June 2012 was approximately RMB625,564,000 (the six months ended 30 June 2011: RMB514,337,000), representing an increase of 21.6% against the same period last year.

Administrative Expenses and Research and Development Costs

Administrative expenses for the six months ended 30 June 2012 were RMB118,250,000 (the six months ended 30 June 2011: RMB103,798,000), representing an increase of approximately 13.9%. The research and development costs for the reporting period were RMB92,461,000, representing a rise of 10.5% against the same period last year (for the six months ended 30 June 2011: RMB83,643,000).

4. Future Prospects

Since the beginning of this year, the slowdown in the macro-economy has induced Chinese enterprises to accelerate transformations and enhance their competitiveness. As such, this economic crisis offers opportunities to adopt new management and IT. Thus the prospects for Chinese management software and IT services are very bright. The Group will continue to explore social network, mobile Internet, Cloud-computing and other new technologies to develop new products, turnkey solutions and innovative services to capture this new market demand. The Group will also focus on strengthening differentiated core competitive edge and solidify its leadership position in the enterprise management software and service market.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking ahead to the second half of the year, the Group will continue to implement the “Transformation, Focus and High Value” operating strategy, together with the “Leading-Product and Partner-First” approach. The Group will enhance the quality and competitiveness of core products, push forward delivery-oriented model to increase project profitability, expand the group of indirect distribution and service partners, and cross-sell to its existing customer base. At the same time, the Group will strive to further optimise its organizational structure and resource allocations, and stringently control costs. The Group has sufficient cash and operating cash flow to meet internal working capital and operational needs and will be prudent in strengthening its financial management and risk control. The Group is committed to the development and promotion of innovative cloud management technologies, to become the global Cloud-management leader, to fully unleash the value of the “social ERP”, and help Chinese enterprises to achieve Cloud management transformations that enhance their competitiveness.

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 (include executive directors), consultants, non-executive directors, suppliers and customers of the Company.

Pursuant to the share option scheme of the Company adopted on 30 January 2001 (“2001 Scheme”), an aggregate of 6,880,000 share options were granted, of which 4,010,000 share options were exercised, 2,870,000 share options lapsed and 0 share option remained outstanding as at 30 June 2012. As no share option granted under the 2001 Scheme was outstanding, the number of share options was not adjusted as a result of the bonus issue of shares of the Company effective on 9 May 2011 (the “Bonus Issue”).

Pursuant to the share option scheme of the Company adopted on 26 April 2002 (“2002 Scheme”) and the adjustment made due to the Bonus Issue, an aggregate of 232,620,000 share options were granted, of which 124,079,842 share options were exercised, 105,740,886 share options lapsed and 2,799,272 share options remained outstanding as at 30 June 2012.

Both of the 2001 Scheme and 2002 Scheme were terminated by the Company on 30 June 2005. In the extraordinary general meeting of the Company convened on 11 July 2005, the Company adopted a new Share Option Scheme (“2005 Scheme”). The validity period is ten years. 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 2012, the Company had granted 421,532,000 share options pursuant to the 2005 Scheme and the adjustment made due to the Bonus Issue, of which 96,605,491 share options were exercised, 78,784,960 share options lapsed and 246,141,549 share options remained outstanding.

Name or category of participants	Grant date	Exercise price HK\$	Options held at 1 January 2012	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options held at 30 June 2012
Directors							
Xu Shao Chun	19/11/2008	0.792	6,000,000				6,000,000
Oriental Gold Limited (Note 1)	23/04/2010	2.592	2,400,000				2,400,000
	30/03/2012	1.870	—	2,500,000			2,500,000
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
Ho Ching Hua	30/03/2012	1.870	—	1,300,000			1,300,000
	23/01/2007	0.779	2,640,000				2,640,000
Gary Clark Biddle	30/03/2012	1.870	—	200,000			200,000
	08/06/2007	1.507	480,000				480,000
Yeung Kwok On	30/03/2012	1.870	—	300,000			300,000
	08/06/2007	1.507	480,000				480,000
Wu Cheng	30/03/2012	1.870	—	200,000			200,000
	08/06/2007	1.507	480,000				480,000
Other employees in aggregate			230,002,872	15,200,000	3,382,451	23,983,600	217,836,821
Total			256,306,872	20,000,000	3,382,451	23,983,600	248,940,821

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 2012, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("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	764,358,624	Interests of controlled corporation (Note 1)	
	4,983,200	Beneficial owner	
	6,000,000	Other/Share option (Note 2)	
Oriental Gold Limited	4,900,000	Other/Share option (Note 2)	
Aggregate:	780,241,824		31.01%
Chen Deng Kun	106,000	Beneficial owner	
	15,604,000	Other/Share option (Note 2)	
Aggregate:	15,710,000		0.62%
Ho Ching Hua	240,000	Beneficial owner	
	2,840,000	Other/Share option (Note 2)	
Aggregate:	3,080,000		0.12%
Gary Clark Biddle	780,000	Other/Share option (Note 2)	0.03%
Yeung Kwok On	2,954,000	Beneficial owner	
	300,000	Other/Share option (Note 2)	
Aggregate:	3,254,000		0.13%
Wu Cheng	680,000	Other/Share option (Note 2)	0.03%

Notes:

- Of the 764,358,624 Shares, 408,472,000 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 controlled by Mr. Xu Shao Chun. Therefore, Mr. Xu Shao Chun is deemed to be interested in those 764,358,624 Shares.
- Details of the share options are set out in the paragraph headed "Outstanding Share Options".

REPORT OF DIRECTORS

Save as disclosed in this paragraph, as at 30 June 2012, 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 2012.

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

As at 30 June 2012, 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	408,472,000	Beneficial owner	
	4,900,000	Other/share option (Note 1)	
	<i>Subtotal:</i> 413,372,000		16.43%
Billion Ocean Limited	355,886,624	Beneficial owner	14.14%
Matthews International Capital Management, LLC	152,874,800	Investment manager	6.08%
Capital Research and Management Company	127,698,400	Investment manager	5.07%
FIL Limited	127,275,198	Investment manager	5.06%

Notes:

1. Details of the share options are set out in the paragraph headed "Outstanding Share Options".

REPORT OF DIRECTORS

Save as disclosed above, as at 30 June 2012, 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 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.

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

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 Company’s construction-in-progress projects and to provide working capital for the Company.

Corporate Governance

The Company has complied with all the code provisions of “Corporate Governance Code And Corporate Governance Report” (the “Code”) which was revised and took effect on 1 April 2012, as well as those of the former Code, as set out in Appendix 14 to the Listing Rules throughout the reporting period ended 30 June 2012 except for the deviation in respect of the roles of Chairman and CEO under Code Provision A.2.1 of the Code. During the period of this report, 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

In response to the market environment and the operating condition of the Company during the year ended 31 December 2011 and the reporting period ended 30 June 2012, the Company has adjusted its strategy as well as taken positive measures to further strengthen its internal control system during the reporting period. By streamlining its workforce, the Company has cut down and controlled its costs and expenses. By implementing comprehensive budget management, halting the loss-making business and units, integrating and centralizing management and R&D resources, monitoring the profit and loss of the projects, pushing ahead with project implementation, ensuring the project delivery as well as promoting timely collection of the accounts receivables, the Company has efficiently controlled its financial and operational risks.

REPORT OF DIRECTORS

Regarding the disclosure of price-sensitive information and internal control measures, the Company understands its duties under the Listing Rules. The Company abides by the “Guide on disclosure of price-sensitive information” published by the Stock Exchange, and has developed a complete system of internal processing and publication of information and internal control measures to ensure the timely, accurate and appropriate disclosure of relevant information to shareholders and regulatory agencies.

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 accounting period covered by this report.

Audit Committee

The audit committee of the Company has reviewed the Group’s unaudited consolidated results for the six months ended 30 June 2012. 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, 21 August 2012

As at the date hereof, the Board comprises Mr. Xu Shao Chun (Chairman of the Board and Chief Executive Officer) and Mr. Chen Deng Kun 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.

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.