2008 Interim Report

Kingdee International Software Group Company Limited

Stock Code: 268

Kingdee

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 2008

Financial highlights for the six months ended 30 June 2008

— Turnover increased by approximately 27% over the same period in 2007 to approximately RMB422,366,000

— Profit for the period increased by approximately 34% over the same period in 2007 to approximately RMB53,345,000

— Profit attributable to equity holders of the Company during the period increased by approximately 34% over the same period in 2007 to approximately RMB53,029,000

— Basic earnings per share for profit attributable to the equity holders of the Company during the period increased by approximately 30% over the same period in 2007 to approximately RMB2.840 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 2008, together with the comparative unaudited consolidated figures for the corresponding period in 2007 are as follows:

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2008
(All amounts in Renminbi thousand unless otherwise stated)

	Notes	**30 June 2008 Unaudited**	31 December 2007 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	5	**261,705**	206,992
Lease prepayments	6	**74,425**	18,211
Intangible assets		**95,786**	86,918
Deferred income tax assets		**3,981**	3,841
Total non-current assets		**435,897**	315,962
Current assets			
Inventories		**4,543**	2,313
Trade and other receivables	7	**146,451**	117,928
Due from customers on implementation contracts		**28,569**	27,852
Held-to-maturity financial assets	8	**75,000**	—
Pledged bank deposits		**2,406**	6,777
Short-term bank deposits		**20,305**	39,633
Cash and cash equivalents		**302,620**	392,185
Total current assets		**579,894**	586,688
Total assets		**1,015,791**	902,650

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2008
(All amounts in Renminbi thousand unless otherwise stated)

	Notes	**30 June 2008 Unaudited**	31 December 2007 Audited
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	9	**50,822**	48,773
Share premium	9	**230,364**	98,786
Other reserves		**321,835**	321,835
Retained earnings			
– Proposed final dividend		**—**	36,470
– Others		**154,330**	101,666
		757,351	607,530
Minority interest		**5,615**	5,299
Total equity		**762,966**	612,829
LIABILITIES			
Current liabilities			
Trade and other payables	10	**145,407**	159,106
Current income tax liabilities		**5,105**	11,227
Borrowings	11	**9,500**	—
Due to customers on implementation contracts		**24,159**	44,714
Deferred income		**68,654**	74,774
Total current liabilities		**252,825**	289,821
Total equity and liabilities		**1,015,791**	902,650
Net current assets		**327,069**	296,867
Total assets less current liabilities		**762,966**	612,829

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2008
(All amounts in Renminbi thousand unless otherwise stated)

	Notes	**Six months ended 30 June**	
		2008	2007
		Unaudited	Unaudited
Turnover	12	**422,366**	333,882
Cost of sales	14	**(90,619)**	(71,118)
Gross profit		**331,747**	262,764
Selling and marketing expenses	14	**(197,706)**	(152,739)
Administrative expenses	14	**(120,994)**	(101,169)
Other income	13	**46,443**	36,458
Operating profit		**59,490**	45,314
Finance costs – Net	15	**(1,180)**	(143)
Share of loss of associates		**—**	(607)
Profit before income tax		**58,310**	44,564
Income tax expense	16	**(4,965)**	(4,767)
Profit for the period		**53,345**	39,797
Attributable to:			
Equity holders of the Company		**53,029**	39,442
Minority Interest		**316**	355
		53,345	39,797
Earnings per share for profit attributable to the equity holders of the Company			
– basic	17	**RMB 2.840cents**	RMB 2.180cents
– diluted	17	**RMB 2.699cents**	RMB 2.039cents
Dividends	18	**—**	—

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008
(All amounts in Renminbi thousand unless otherwise stated)

		Attributable to equity holders of the Company						
	Notes	Share capital	Share premium	Other reserves	Retained earnings	Total	Minority Interest	Total equity
Balance at 1 January 2007		48,282	75,005	232,080	116,569	471,936	3,040	474,976
Net income recognized directly in equity								
– Currency translation difference		—	—	1,176	—	1,176	—	1,176
Profit for the period		—	—	—	39,442	39,442	355	39,797
Total recognized income for the period ended 30 June 2007		—	—	1,176	39,442	40,618	355	40,973
Employees share option scheme:								
– Value of employee services	9	—	3,711	—	—	3,711	—	3,711
– Proceeds from shares issued	9	321	9,692	—	—	10,013	—	10,013
Share options granted to related parties		—	1,525	—	—	1,525	—	1,525
Dividend relating to 2006	18	—	—	—	(29,150)	(29,150)	—	(29,150)
Balance at 30 June 2007		48,603	89,933	233,256	126,861	498,653	3,395	502,048
Balance at 1 January 2008		**48,773**	**98,786**	**321,835**	**138,136**	**607,530**	**5,299**	**612,829**
Net income recognized directly in equity								
Profit for the period		**—**	**—**	**—**	**53,029**	**53,029**	**316**	**53,345**
Total recognized income for the period ended 30 June 2008		**—**	**—**	**—**	**53,029**	**53,029**	**316**	**53,345**
Employees share option scheme:								
– Value of employee services	9	**—**	**5,368**	**—**	**—**	**5,368**	**—**	**5,368**
– Proceeds from shares issued	9	**49**	**5,912**	**—**	**—**	**5,961**	**—**	**5,961**
Issue of shares	9	**2,000**	**121,894**	**—**	**—**	**123,894**	**—**	**123,894**
Shares issue expenses	9	**—**	**(2,613)**	**—**	**—**	**(2,613)**	**—**	**(2,613)**
Share options granted to related parties		**—**	**1,017**	**—**	**—**	**1,017**	**—**	**1,017**
Dividend relating to 2007	18	**—**	**—**	**—**	**(36,835)**	**(36,835)**	**—**	**(36,835)**
Balance at 30 June 2008		**50,822**	**230,364**	**321,835**	**154,330**	**757,351**	**5,615**	**762,966**

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2008
(All amounts in Renminbi thousand unless otherwise stated)

	Notes	Six months ended 30 June	
		2008	2007
		Unaudited	Unaudited
Cash flows from operating activities:			
Cash generated from operations	19	**11,648**	19,248
Interest paid		**—**	(143)
Income tax paid		**(10,324)**	(7,854)
Net cash generated from operating activities		**1,324**	11,251
Cash flows from investing activities:			
Purchase of property, plant and equipment		**(46,576)**	(58,867)
Proceeds from sales of property, plant and equipment	19	**45**	51
Payments for lease prepayments		**(56,409)**	—
Additions of intangible assets		**(39,059)**	(28,186)
Payments for held-to-maturity financial assets		**(75,000)**	(20,000)
Pledged bank deposits withdrawn		**4,371**	129
Short-term bank deposits withdrawn/ (placed)		**19,328**	(4,878)
Interest received		**2,537**	2,027
Net cash used in investing activities		**(190,763)**	(109,724)
Cash flows from financing activities:			
Proceeds from issuance of shares		**127,242**	10,013
Proceeds from borrowings		**9,500**	—
Repayment of borrowings		**—**	(27,150)
Dividends paid to Company's shareholders		**(36,835)**	(29,150)
Net cash generated/(used in) from financing activities		**99,907**	(46,287)
Net decrease in cash and cash equivalents		**(89,532)**	(144,760)
Cash and cash equivalents at beginning of the period		**392,185**	358,845
Exchange losses on cash and cash equivalents		**(33)**	(227)
Cash and cash equivalents at end of the period		**302,620**	213,858

SELECTED NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. General information

The Company was incorporated in the Cayman Islands in 1999 as an exempted company with limited liability. The address of its office is 4th Level, Zone B, Block W1, Hi-Tech Industrial Park, Shennan Highway, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China (the "PRC").

The Company is an investment holding company. The principal activities of its subsidiaries are developing, manufacturing and selling of software products and provision of software-related technical services in the PRC.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These condensed consolidated interim financial statements are presented in thousands of Renminbi (RMB'000), unless otherwise stated. These condensed consolidated interim financial statements have been approved for issue by the Board of Directors on 10 September 2008.

2. Basis of preparation

This unaudited condensed consolidated interim financial information for the half-year ended 30 June 2008 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 2007, which have been prepared in accordance with International Financial Reporting Standards.

3. Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group.

3. Accounting policies *(Continued)*

- IFRIC - Int 11, 'IFRS 2 – Group and treasury share transactions'
- IFRIC - Int 12, 'Service concession arrangements'
- IFRIC - Int 14, 'IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction'

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- IFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14, 'Segment reporting', and requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail, but it appears likely that the number of reported segments may increase.
- IAS 23 (revised), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group currently applies a policy of capitalising borrowing costs.
- IFRS 2 (amendment) 'Share-based payment', effective for annual periods beginning on or after 1 January 2009. Management is assessing the impact of changes to vesting conditions and cancellations on the Group's SAYE schemes.
- IFRS 3 (revised), 'Business combinations' and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates' and IAS 31, 'Interests in joint ventures', effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group. The Group does not have any joint ventures.

3. Accounting policies *(Continued)*

- IAS 1 (revised), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. Management is in the process of developing proforma accounts under the revised disclosure requirements of this standard.
- IAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to IAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group as the Group, does not have any puttable instruments.
- IFRIC – Int 13, 'Customer loyalty programmes', effective for annual periods beginning on or after 1 July 2008. Management is evaluating the effect of this interpretation on its revenue recognition.
- IFRS 1 and IAS 27 (revised) 'Cost of an investment in a subsidiary, jointly controlled entity or associate', and consequential amendments to IAS 18 'Revenue', IAS 21 'The Effects of Changes in Foreign Exchange Rates' and IAS 36 'Impairment of Assets', effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group is not a first-time adopter of IFRS.

4. Segment information

No segment information is presented as the Group operates in one single industry and one single segment. The Group operates within one geographic segment as its revenues are primarily generated in the PRC and its major assets are located in the PRC.

5. Property, plant and equipment

	2008	2007
	Unaudited	Audited
Opening net book amount at 1 January	**206,992**	99,358
Additions	**61,738**	121,941
Disposals	**(62)**	(757)
Depreciation	**(6,963)**	(13,550)
Closing net book amount at 30 June/31 December	**261,705**	206,992

During the period, there was a construction cost of RMB 52,335,000 for Kingdee Shanghai R&D center and Shenzhen R&D building.

6. Lease prepayments

In April 2008, the Group entered into a Land-use Rights Transfer Agreement with Beijing Shun'Ao Investment Centre (the owner) in respect of the Land-use Rights of the Land located at Mapo Area, Shunyi District, Beijing, the PRC. The consideration of the transaction was RMB70,511,809.95. Under the terms, the Group paid a sum of RMB56,409,447.96, representing 80% of the consideration in May. Please refer to our circular dated 24 April 2008 for the details.

7. Trade and other receivables

	30 June 2008 Unaudited	31 December 2007 Audited
Trade receivables (a)	**163,370**	149,489
Less: provision of receivables (b)	**(93,931)**	(86,202)
Trade receivables – net	**69,439**	63,287
Notes receivable	**2,290**	2,456
Advance to employees (c)	**5,224**	5,450
Prepayments	**4,923**	5,942
VAT recoverable (d)	**59,997**	27,930
Re-investment refund receivable	**—**	3,993
Others	**4,578**	8,870
	146,451	117,928

(a) Sales of the Group are generally on 90 days' credit terms. The ageing analysis of trade receivables is as follows:

	30 June 2008 Unaudited	31 December 2007 Audited
0-180 days	**51,113**	58,852
181-360 days	**28,834**	16,356
Over 360 days	**83,423**	74,281
	163,370	149,489

7. Trade and other receivables *(Continued)*

(b) Movement on the provision for impairment of trade receivables are as follows:

	2008 **Unaudited**	2007 Audited
At 1 January	**(86,202)**	(77,084)
Provision for impairment	**(7,729)**	(16,621)
Written off as uncollectible	**—**	7,503
At 30 June/31 December	**(93,931)**	(86,202)

(c) The amount advanced to employees is interest free, unsecured and repayable on demand.

(d) In July 2008, the Group received recoverable VAT amounting to about RMB33,434,000.

8. Held-to-maturity financial assets

The Company signed financial product agreements with two banks amounting to RMB75,000,000. It included RMB25,000,000 with a period of half year from 15 April 2008 to 15 October 2008 and RMB50,000,000 with a period of one year from 24 January 2008 to 24 January 2009. According to the agreements, the financial products are redeemable.

9. Share capital and share premium

	Number of issued shares (thousands)	Ordinary shares	Share premium	Total
At 1 January 2007	451,606	48,282	75,005	123,287
Employees share option scheme:				
– Value of services provided	—	—	3,711	3,711
– Exercise of share options	3,279	321	9,692	10,013
Share options granted to related parties	—	—	1,525	1,525
At 30 June 2007	454,885	48,603	89,933	138,536
At 1 January 2008	456,612	48,773	98,786	147,559
Subdivision of shares	1,369,836	—	—	—
At 1 January 2008 – subdivided (a)	1,826,448	48,773	98,786	147,559
Employees share option scheme:				
– Value of services provided	—	—	5,368	5,368
– Exercise of share options	13,344	49	5,912	5,961
Issue of shares (b)	80,000	2,000	121,894	123,894
Shares issue expenses (b)	—	—	(2,613)	(2,613)
Share options granted to related parties	—	—	1,017	1,017
At 30 June 2008	1,919,792	50,822	230,364	281,186

Note:

(a) On 8 May 2008, the shareholder of the Company approved at the extraordinary general meeting (the "EGM") of the Company in the form of an ordinary resolution that each of the existing issued and unissued Shares of par value of HK$0.1 each in the share capital of the Company be subdivided into four shares of par value of HK$0.025 each. After the subdivision of shares, the total authorized number of ordinary shares is 4,000 million shares (2007: 1,000 million shares) with a par value of HK$0.025 per share (2007: HK$0.1 per share). All issued shares are fully paid and ranked pari passu in all respects.

(b) Billion Ocean Limited, a substantial shareholder of the Company, has placed a total of 20,000,000 placing shares to not less than six placees at the placing price of HK$6.90 per placing shares. Completion of the placing took place on 15 April 2008. On 23 April, 2008, the Company issued 20,000,000 new shares under the general mandate, which were subscribed by Billion Ocean Limited. The net proceeds was HK$135,089,580 (approximately RMB121,281,000) and the net placing price was approximately HK$6.74 (approximately RMB6.05) per Share.

10. Trade and other payables

	30 June 2008 Unaudited	31 December 2007 Audited
Trade payables (a)	**35,754**	32,412
Salary and staff welfare payable	**7,053**	21,245
Customers' deposits	**69,515**	55,034
VAT and business tax payable	**19,505**	27,392
Accrued expenses	**7,247**	17,188
Others	**6,333**	5,835
	145,407	159,106

(a) As at 30 June 2008, the ageing analysis of trade payables is as follows:

	30 June 2008 Unaudited	31 December 2007 Audited
0-180 days	**34,947**	30,767
181- 360 days	**466**	972
Over 360 days	**341**	673
	35,754	32,412

11. Borrowings

The Group received an interest free bank loan of RMB9,500,000 with period from 14 March 2008 to 14 March 2009. The interest is subsidized by PRC government.

12. Turnover

Turnover is stated net of applicable value-added tax ("VAT") in the People's Republic of China (the "PRC") and comprises the following:

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Sales of software	**293,227**	237,246
Software implementation services	**65,205**	49,176
Software solution consulting and support services	**55,894**	37,874
Sales of computer and related products	**8,040**	9,586
	422,366	333,882

13. Other income

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Subsidy income		
VAT refund (a)	**40,716**	29,210
Tax refund for re-investments	**—**	3,706
Others	**312**	1,320
	41,028	34,236
Interest income	**2,537**	2,027
Others	**2,878**	195
	46,443	36,458

(a) According to the current tax regulations in the PRC, the development and sales of computer software are subject to VAT with an applicable rate of 17%. In September 2000, the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs of the PRC jointly issued a circular (the "Circular") regarding the Taxation Policy for Encouraging the Development of the Software and Integrated Circuits Industries (Cai Shui Zi [2000] No.25). Pursuant to the Circular, for the period from 24 June 2000 to 31 December 2010, software enterprises which engage in the sale of self-developed software in the PRC are entitled to a preferential taxation treatment which provides for the payment of VAT at the rate of 17% and the refund of any VAT paid for the sales of the software in the PRC which exceeds the VAT rate of 3%.

14. Expenses by nature

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

	Six months ended 30 June 2008 Unaudited	Six months ended 30 June 2007 Unaudited
Research and development costs		
Amounts incurred	**52,831**	49,922
Less: amounts capitalised	**(36,973)**	(28,044)
Add: amortisation of capitalised costs	**27,664**	21,060
	43,522	42,938
Employee benefit expense	**231,707**	193,352
Less: amount included in research and development costs	**(44,445)**	(41,793)
	187,262	151,559
Cost of inventories consumed	**19,352**	18,099
Depreciation of property, plant and equipment	**6,963**	6,005
Amortisation of computer software	**901**	2,191
Charge of lease prepayments	**195**	194
Impairment of receivables	**7,729**	6,088
Loss on disposals of property, plant and equipment	**17**	28

15. Finance costs – Net

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Interest expense on bank borrowings	**—**	143
Net foreign exchange loss	**1,180**	—
	1,180	143

16. Income tax expense

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
PRC income tax		
– Current income tax	**4,825**	3,694
– Deferred income tax	**140**	1,073
	4,965	4,767

(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 year in those jurisdictions.

(b) Majority of the subsidiaries and associates of the Group are established in the PRC and subject to Enterprise Income Tax ("EIT") at a rate of 25%, unless preferential rates are applicable in the cities where the subsidiaries are located.

(c) Certain subsidiaries and associates of the Group are foreign investment enterprises and are entitled to full exemption from EIT for two years and a 50% reduction in the next three years thereafter starting from the first profit making year after offsetting prior years' losses.

(d) According to the document "Guo Fa [2000] No.18" issued by the State Council, those subsidiaries recognised as important software enterprises but are not in their tax holiday period are entitled to a preferential tax rate of 10% in the relevant year.

16. Income tax expense *(Continued)*

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

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Profit before tax	**58,310**	44,564
Tax at the statutory tax rate of 25% (2007: 33%)	**14,578**	14,706
– Effect of preferential tax rates	**(8,747)**	(10,250)
– Tax losses not recognised	**3,700**	4,134
– Expenses not deductible for tax purposes	**1,672**	1,010
– Income not subject to tax	**(3,824)**	(2,422)
– Additional deductible allowance for research and development expenses	**(2,414)**	(2,411)
	4,965	4,767

17. Earnings per share

(a) Basic

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

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Profit attributable to equity holders of the Company	**53,029**	39,442
Weighted average number of ordinary shares in issue (thousands)	**1,867,369**	1,809,108
Basic earnings per share	**RMB 2.840cents**	RMB 2.180cents

17. Earnings per share *(Continued)*

(b) Diluted

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

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Profit attributable to equity holders of the Company	**53,029**	39,442
Weighted average number of ordinary shares in issue (thousands)	**1,867,369**	1,809,108
Adjustments for– share options (thousands)	**97,043**	125,196
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,964,412**	1,934,304
Diluted earnings per share	**RMB 2.699cents**	RMB 2.039cents

The comparative information of the basic and diluted earnings per share, weighted average number of ordinary shares and number of share options for the six-month period ended 30 June 2007 have been adjusted for the subdivision of the Company's shares on the basis of every one existing share of HK$0.1 each into four new shares of HK$0.025 each on 8 May 2008.

18. Dividends

2007 and 2006 final dividends of RMB36,835,000 (HK$40,688,000)(RMB0.02 per share (HK$0.02125 per share)) and RMB29,150,000 (HK$29,447,000) (RMB0.016 per share (HK$0.01625 per share)) were paid in June 2008 and June 2007 respectively. The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2008 (the six months ended 30 June 2007: Nil).

19. Cash generated from operations

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Profit before tax	**58,310**	44,564
Adjustments for:		
Depreciation	**6,963**	6,005
Loss on disposals of property, plant and equipment	**17**	28
Share of loss from associates	**—**	607
Charge of lease prepayments	**195**	194
Amortisation on intangible assets	**30,191**	23,251
Interest income	**(2,537)**	(2,027)
Interest expense	**—**	143
Share option expenses		
– granted to directors and employees	**5,368**	3,711
– granted to related parties	**1,017**	1,525
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)	**99,524**	78,001
Inventories	**(2,230)**	(1,718)
Trade and other receivables	**(27,357)**	(8,323)
Deferred income	**(6,120)**	(11,394)
Trade and other payables	**(30,897)**	(31,378)
Due from/to customers on implementation contracts	**(21,272)**	(5,940)
Cash generated from operations	**11,648**	19,248

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Net book amount	**62**	79
Loss on disposals of property, plant and equipment	**(17)**	(28)
Proceeds from disposals of property, plant and equipment	**45**	51

20. Contingent liabilities

The Group had no significant contingent liabilities as of 30 June 2008 (30 June 2007: nil).

21. Commitments – Group

Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	30 June 2008 Unaudited	31 December 2007 Audited
Property, plant and equipment	**140,015**	55,417

Operating lease commitments – group company as lessee

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

	30 June 2008 Unaudited	31 December 2007 Audited
Not later than one year	**5,646**	13,387
Later than one year and not later than five years	**28,842**	14,944
	34,488	28,331

22. Related party transactions

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

23. Subsequent events

The Group and the Company had no significant subsequent events as at the end of the period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the reporting period, as government macroeconomic austerity measures continued, many Chinese enterprises started to look at factors that could drive sustainable growth of their business. They placed more emphasis on internal management to survive and achieve growth in hard time by boosting efficiency and lowering cost. More corporations turned to managing with information technology, which has proven to be an effective means for optimizing workflows, enhancing efficiency and lowering costs. This trend braced strong growth of the enterprise software industry in China.

Having a clear grasp of the industry trend, the Group mapped out development strategy for the next three years in the reporting period, creating roadmaps for its different businesses, namely enterprise management software, middleware and online management services (SaaS). It started to transform from a product provider into a service provider positioned as an "enterprise management expert" and actively promoted a "Chinese management model in age of globalization". These efforts were well recognized by the market and customers.

(1) Only Chinese enterprise to win "China's Best After-sale Service Award" presented by the China Information Industry Association and China Association of Trade in Services (June 2008)

(2) Chairman of the Group Mr. Xu Shaochun won the "Shenzhen Mayor Award for Innovative Technology" presented by the Shenzhen Municipal Government (June 2008)

(3) Only Chinese enterprise to win the IBM Global WebSphere Beacon Award - Finalist from IBM (April 2008)

(4) "The Third Capital Outstanding Application Software Supplier in China" Award from Capital magazine, Hong Kong (May 2008)

MANAGEMENT DISCUSSION AND ANALYSIS

1. Enterprise Management Software

Guided by the objectives of business transformation and building a management expert image, the Group laid down an operational plan for its enterprise management software business aiming for achieving business goal of one breakthrough (in channel expansion) and two emphases (develop the high-end market and service business).

(a) Small and Medium Enterprise Market

Channel expansion is an effective method to realize rapid growth in sales of mid-end to low-end software products as well as extend market coverage. Continuing the success in transforming to the distribution model of Kingdee KIS products in 2007, the Group stepped up effort in transforming K/3 product to distribution model in the period under review, resulting in a 48% year-on-year increase in overall distribution income.

To realize channel expansion, the Group has begun to manage the nationwide market by gridding in addition to stepping up recruitment and deployment of distributors to expand network coverage. It also forged a strong execution partner regime to enhance product delivery ability and support penetration of high-end markets by its direct branches.

To realize channel breakthrough and satisfy demand of business partners for batch delivery, the Group launched Kingdee K/3 V11.0, added new systems and special functions such as MTO (Make-To-Order), lean production, portal and mobile commerce and strengthened the quality and ease-of-use of products. These efforts were recognized by both business partners and customers. The Group continued to enhance R&D of Kingdee KIS, the product under full-scale distribution. The Group launched KIS mini version 8.0 and KIS standard version 8.0 and added functions to support new accounting standards and Window Vista, as well as optimized user-friendly applications for small enterprises to meet their need for upgrade commanded by fast business growth. It gave small enterprises convenience in adopting IT and protecting their IT investment.

(b) High-end Market Operation

The Group continued to expand the Kingdee EAS operation and establish its reputation and management expert image in the high-end ERP product market during the review period with the aim of boosting its competitiveness against overseas manufacturers, while serving as a role model for small and medium enterprises. The Group also set up a department to take care of major government customers such as the State-owned Assets Supervision and Administration Commission of the State Council and government divisions. This arrangement allowed the Group to fully realize the strengths of Kingdee EAS in corporate management and control, and also boosted competitiveness of the Group in the government department and large state-owned enterprise business sector. During the reporting period, revenue from EAS software product increased by 72% over last year.

During the reporting period, EAS products secured model clients in the real estate industry represented by China Vanke Co., Ltd, in the steel industry represented by Ying Kou Steel Corporation, in the government financial sector represented by Nanjing Public Security Bureau, in the tobacco industry represented by Anhui China Tobacco Industry Corporation and the port industry represented by Ying Kou Port Co., Ltd. It also won contracts from large enterprises and groups such as Chengdu QuanU Furniture (Group) Co., Ltd, Zhongsheng (Dalian) Group Co., Limited, Guangdong Province Changda Highway Engineering Limited, Guangdong Haid Group Co., Limited and Hangzhou Public Transport Corporations.

To support the operation of EAS, the Group strengthened its R&D center in Beijing to pool together high-end application consultants and R&D talents. Facilitated by its innovative “multi-R&D bases” management model, it launched Kingdee EAS V5.4 which application value was highly recognized by its customers. The product boasts its enhanced performance, integration ability and functionality when applied in scale.

(c) *Service Operations*

Through grooming the market and enlarging market share, the business was able to create more sustainable income sources. During the reporting period, service income grew by 39% year-on- year.

During the period, the Group continued to optimize its service support systems to realize all-round service provision via call center, the Internet, and on-site and remote means to deliver diverse and all-rounded services to customers. It also introduced new services and products, including dedicated services and distribution of service products and product packages. By pushing for standardization of operation, it helped to enhance customer satisfaction and lower cost, as well as increase the proportion of purchase of maintenance service by long-time customers.

The Group set up a consultation department during the period for the consolidation of internal and external expert resources to render management advice, IT deployment planning and application assessment services to high-end customers, and also to lead the development of value-added services of the Group. The department has a professional team with members having professional expertise and extensive experience in execution, thus is capable of providing a wide range of consultation services to customers, including corporate management and control, operational management, human resources, IT planning and workflow optimization, etc. The Group has secured specific service projects from customers including Perfect (China) Limited, Xinjiang Daming Mining Group Limited, Guangdong Hotor Electrical Appliance Co., Ltd, Hong Kong Golden Hans Chain Restaurant Management Co., Ltd, Wuhan Heavy Dutymachine Tool Group Co., Ltd and Dalian TADERCN Limited, etc., which have strengthened its image as a management expert. With the new business added to its service offerings, the Group has an extended and more stable enterprise management software production chain with higher added-value helping it lower operational risk.

In addition, the Group implemented a charging system based on manpower working days and definite consultation fees during the period, which has given structure to its service business chain and raised the quality and efficiency of product delivery, thus realizing the full value of its services.

To support the service operation, Kingdee launched the first K/3 service product package during the period. The package comprised tools for data cleaning, performance diagnosis, maintenance tool set and online service platform interface, providing partners and customers access to highly efficient localized service and enhancing integration and standardization of services and products.

2. Middleware Business

This segment continued to adhere to the long-term development strategy emphasizing “product leadership, partner oriented” during the period. It launched the next generation enterprise integration middleware product Apusic ESB integrating seamlessly with the Apusic Java EE application server and Apusic message middleware to provide a SOA foundation structure. The product has enhanced the ability of the Group to provide SOA service and grow in line with the expanding functions and applications of middleware products.

The segment made notable progress in channel construction during the period particularly in cooperation with independent software vendors. It signed cooperative agreements with various independent software vendors regarding bundling of Kingdee middleware products with their software products.

During the period, the Group expanded its middleware business in the e-government sector. It was awarded the first project of the National “Four Databases and Twelve Operation Systems,” - national e-government infrastructure information database project. It also successfully concluded two Olympic projects, namely the operational organization and scheduling system project for Beijing Pubic Transport Holdings, Ltd. and the application system project for the Beijing Tourism Bureau.

3. Online Management Service (SaaS)

Rapid development of the Internet and e-commerce has commanded more and more enterprises to adopt new management approaches that link internal management with external up and downstream operations, using the Internet to enhance their competitiveness in the e-commerce era. Out of the Internet tide, the brand new Software as a Service ("SaaS") model was born. Under SaaS concept, software suppliers deploy application software online for customers to use via the Internet. Customers are charged based on the service content they purchased and duration of usage, freeing them from having to hire IT technician service and spending on expensive hardware. SaaS can allow enterprise to reap the benefit of a network system at low cost, realizing internal synergy and synergy with suppliers upstream and customers downstream.

The www.youshang.com website of Kingdee, in partnership with IBM strategically and technologically, has launched SaaS to serve the needs of 42 million SMEs in China for the online management and e-commerce, providing them with one-stop service that facilitates online internal management and e-commerce activities of SMEs. The online accounting and supply chain service available on www.youshang.com are supported by a multi-lingual interface, promising enterprise management timely access to critical business information that can facilitate fast and accurate response and decision making. The platform can also support multi-users and multi-location access at the same time, thus matches the need of business with multi-point operations in the Internet era. As at the end of June 2008, the online management services that www.youshang.com were used by many industries, including electronic technology, consultation service, trading, investment, logistics, property agency, etc. in the Asia-Pacific region and Hong Kong, Taiwan and China. Currently, it has 23,100 registered users.

The web-based management service platform was recognized and supported by government departments and had passed stringent assessments of the Accounting Society of China under the Ministry of Finance. It has set the security and technological benchmarks for enterprise application of SaaS management services and established Kingdee as a pioneer and leader in the area. The accounting service on www.youshang.com also received the "SaaS Product Innovation Award" from CCW, making it the only SaaS service product in the financial category in China to be given the accreditation.

4. Human Capital and Innovative Culture

To ensure effective implementation of its strategies, the Group has drawn up a three-year human resources strategic plan with the goal of "expanding its senior executive team and nurturing a pool of experts in corporate management", pledging to step up grooming and recruitment of high caliber personnel. It will also create an "open and equal corporate culture" with the customer at the core and emphasis on building a working atmosphere that encourages "innovation, win-win, harmony and happiness" and stimulating the potential of each individual employee.

During the reporting period, the Group saw the completion of Kingdee Software Park in Shanghai and acquired a plot of land of approximately 140,000 sq. m. in Shunyi District, Beijing for building another software park in Beijing. Consequently, the Group will have permanent bases in Shenzhen, Shanghai and Beijing, the three major talent pools in the country, which will allow it to attract and retain high-end application consultants, technical professionals and management experts.

In the past 15 years, the Group has insisted on innovation worthy of intellectual property rights. It has thus accumulated many patents, copyrights and trademarks. The "Kingdee" trademark is recognized as a "Famous Trademark in Guangdong" and "Chinese Well-known Mark" and Kingdee ERP products are among products wearing the "Famous China Brands" honor. The intellectual property rights owned by the Group have become its invaluable intangible asset and competitive advantage.

5. Social Responsibility

The Group has been keen on fulfilling its responsibility as a corporate citizen. After the disastrous earthquake hit Wenchuan in Sichuan province on 12 May 2008, the Group immediately donated RMB1,200,000 to the affected areas and its employees raised donations amounting to RMB610,000 for the victims as well as raising funds through charitable sale. Chairman of the Group, Mr. Xu Shaochun, personally donated RMB1,000,000 to set up a "Kingdee Education Aid Fund for Mao Xian" to support poor primary and secondary school children and award their dedicated teachers. All the branch organizations of the Group in the country gave help to their colleagues and partners in Sichuan through the difficult time. The Group also set up a free service hotline to provide quality service to customers in the earthquake-stricken areas.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

Consolidated Results of. Operation

For the six months ended 30 June 2008, the Group made turnover amounting to approximately RMB422,366,000, representing an increase of 27% against the same period last year (for the six months ended 30 June 2007: RMB333,882,000). Continuing from 2007, the Group maintained strong turnover growth thanks to stable growth in demand for enterprise application software and its proven effective business development strategy.

During the reporting period, the Group realized revenue from software sales of approximately RMB293,227,000, representing an increase of 24% against the same period of 2007 (for the six months ended 30 June 2007: RMB237,246,000). Software distribution sales brought revenue of approximately RMB111,421,000, representing an increase of 48% against the same period of 2007 (for the six months ended 30 June 2007: RMB75,483,000) and service revenue amounted to approximately RMB121,099,000, representing an increase of 39% against the same period of 2007 (for the six months ended 30 June 2007: RMB87,050,000).

During the reporting period, the Group reaped enhanced profit and saw net profit margin grew steadily. As at 30 June 2008, profit for the period was approximately RMB53,345,000, representing an increase of approximately 34% against the same period of 2007 (for the six months ended 30 June 2007: RMB39,797,000). Basic earnings per share were RMB2.840 cents (for the six months ended 30 June 2007: RMB2.180 cents).

Gross Profit

Gross profit of the Group increased from approximately RMB262,764,000 for the six months ended 30 June 2007 to approximately RMB331,747,000 for the six months ended 30 June 2008, representing an increase of approximately 26%. Gross profit margin during the reporting period was approximately 79% (for the six months ended 30 June 2007: 79%).

Selling and Marketing Expenses and Administrative Expenses

For the six months ended 30 June 2008, selling and marketing expenses of the Group totaled approximately RMB197,706,000, representing an increase of approximately 29% over corresponding period last year (for the six months ended 30 June 2007: RMB152,739,000). Administrative expenses was approximately RMB120,994,000, representing an increase of approximately 20% when compared with the corresponding period last year (for the six months ended 30 June 2007: RMB101,169,000). During the reporting period, the percentage of selling and marketing expenses to total turnover increased from 46% in the corresponding period last year to 47%, whereas the percentage of administrative expenses to total turnover dropped from 30% in the corresponding period last year to approximately 29%. The increase in selling and marketing expenses in line with turnover growth also reflected the increased wages and remunerations matching CPI upward trend in the country, general elevation of labor cost, increased investment in advertising and sales and marketing, and the rising outsourcing fees with increasing outsourcing of projects, followed by the forging executive partnership.

Financial Resources and Liquidity

The Group was in a healthy cash position. As at 30 June 2008, the Group had cash and cash equivalents plus deposits amounting to approximately RMB325,331,000 (31 December 2007: RMB438,595,000). Investment in financial assets amounted to RMB75,000,000 (31 December 2007: nil). Current ratio (current assets over current liabilities) was approximately 2.29 (31 December 2007: 2.02) and gearing ratio (bank loans over shareholders' fund) was approximately 1% (31 December 2007: 2%). As at July 2008, the Group received value-added tax rebate of RMB33,434,000, which should have been received before 30 June. This item was not reflected in the cash flow statement for the period (for the six months ended 30 June 2007: tax rebate was received in June).

As at 30 June 2008, the Group had a bank loan amounted to RMB9,500,000 (31 December 2007: RMB10,000,000).

As at 30 June 2008, the Group was not subject to any material exchange rate exposure and had not entered into any foreign exchange futures contract to hedge against exchange rate fluctuation.

As at 30 June 2008, the Group did not have any material contingent liabilities (31 December 2007: nil).

PROSPECT

From the experiences of mature markets in Europe and the U.S., the survival of an enterprise hinges much on whether it could fully exploit its innate strengths. This need is what drives the adoption of IT by enterprises. That is the reason that despite the uncertain domestic and international economic situations, we remain confident of the management software, middleware and online management service market in China.

In the second half year, the Group will continue to push forward its three-year strategy and devote efforts into implementing the operating plan for the year. To grow its management software business, it will strive to boost its image as an enterprise management expert, expand network coverage and market share, and increase the proportion of value-added service revenue and maintenance service. On the middleware business front, it will seek to project an infrastructure platform expert image, actively expand the government and large enterprise application market and strengthen its unique core advantage in ERP + middleware. For the online management service market, it will position itself as an online management service expert, grow the number of registered users and provide online management service to a great number of small enterprises, with the aim of promoting software service development and creating remarkable software services that promise good value for money.

At the same time, the Group will continue to implement sound financial strategy to ensure it has sufficient cash reserves. It will also follow closely macroeconomic trends, maintain a positive yet cautious attitude in tackling adversity and focus on pursuing mergers and acquisitions and business consolidation.

SUBDIVISION OF SHARES AND CHANGE OF BOARD LOT SIZE

With effect from 9 May 2008, each of the existing issued and unissued shares of par value HK$0.10 each in the share capital of the Company was subdivided into four shares of par value HK$0.025 each ("Subdivision of Shares"). After the Subdivision of Shares, the board lot size has been changed from 500 shares to 2,000 subdivided shares. In this report, all information disclosed is based on data after the subdivision of shares unless otherwise specified.

PLACING OF EXISTING SHARES AND SUBSCRIPTION FOR NEW SHARES

Billion Ocean Limited, a substantial shareholder of the Company, has placed a total of 20,000,000 placing shares before the Subdivision of Shares to not less than six placees at the placing price of HK$6.90 per placing shares. Completion of the placing took place on 15 April 2008. On 23 April, 2008, the Company issued 20,000,000 new shares before the Subdivision of Shares under the general mandate, which were subscribed by Billion Ocean Limited. These 20,000,000 placing shares represent approximately 4.36% of the issued share capital of the Company as at the date of completion of the placing, approximately 4.42% of the issued share capital of the Company as at the date on which general mandate was granted and approximately 4.18% of the issued share capital of the Company as enlarged by the subscription of new shares by Billion Ocean Limited.

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

As at 30 June 2008, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock

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

Long positions in shares/underlying shares of the Company

Name of Directors	Number of shares/ underlying shares (where appropriate)	Capacity	Percentage of issued share capital
Xu Shao Chun	567,665,000	Interests of controlled corporation (Note 1)	
	25,851,520	Beneficial owner	
	35,600,000	Other/Share option (Note 2)	
Aggregate:	629,116,520		*32.77%*
Ho Ching Hua	17,600,000	Other/Share option (Note 2)	
Aggregate:	17,600,000		*0.92%*
Chen Deng Kun	10,840,616	Other/Share option (Note 2)	
Aggregate:	10,840,616		*0.56%*
James Ming King	400,000	Other/Share option (Note 2)	
Aggregate:	400,000		*0.02%*
Gary Clark Biddle	400,000	Other/Share option (Note 2)	
Aggregate:	400,000		*0.02%*
Yeung Kwok On	400,000	Other/Share option (Note 2)	
Aggregate:	400,000		*0.02%*
Yang Zhou Nan	400,000	Other/Share option (Note 2)	
Aggregate:	400,000		*0.02%*
Wu Cheng	400,000	Other/Share option (Note 2)	
Aggregate:	400,000		*0.02%*
Hugo Shong (resigned on 31 March 2008)	400,000	Other/Share option (Note 2)	*0.02%*
Aggregate:	400,000		

Notes:

1. Out of the 567,665,000 shares held by Mr. Xu Shao Chun, 334,425,000 shares were held through Oriental Gold Limited and 233,240,000 shares were held through Billion Ocean Limited. Oriental Gold Limited and Billion Ocean Limited are controlled by Mr. Xu Shao Chun, therefore Mr. Xu Shao Chun is deemed to be interested in those 567,665,000 shares.

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

Save as disclosed in this paragraph, as at 30 June 2008, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of Company and its associated corporations (within the meaning of Part XV of the SFO), which as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OUTSTANDING SHARE OPTIONS

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

Pursuant to the share option scheme of the Company adopted on 30 January 2001 ("2001 Scheme"), an aggregate of 6,880,000 share options were granted, out of which 3,790,0000 share options were exercised, 2,870,000 were cancelled and 220,000 remained outstanding as at 30 June 2008.

Pursuant to the share option scheme of the Company adopted on 26 April 2002 ("2002 Scheme"), an aggregate of 193,850,000 share options were granted, out of which 64,109,396 share options were exercised, 82,906,788 were cancelled and 46,833,816 remained outstanding as at 30 June 2008.

As at 30 June 2005, both of the 2001 Scheme and 2002 Scheme have been terminated by the Company. In the extraordinary general meeting of the Company convened on 11 July 2005, the Company adopted a new share option scheme ("2005 Scheme"). As at 30 June 2008, the Company has granted 188,560,000 share options, out of which 7,440,000 share options were exercised, 17,224,000 were cancelled and 163,896,000 remained outstanding.

As at 30 June 2008, details of the outstanding options are as follows. Table 1 represents the figures as at 8 May 2008 before the share subdivision took effect. Table 2 represents the figures as at 30 June 2008 after the Subdivision of Shares which took effect on 9 May 2008.

Table 1:

Grant Date	Exercise price HK$	Options held at 1 January 2008	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options held at 8 May 2008
27/09/2001(1)	1.49	55,000	—	—	—	55,000
15/05/2002(2)	1.78	1,500,000	—	1,500,000	—	—
20/02/2003(2)	1.39	418,500	—	106,000	—	312,500
08/08/2003(3)	2.05	944,000	—	76,000	122,000	746,000
23/03/2004(4)	3.18	4,000,000	—	—	—	4,000,000
01/06/2004(5)	2.65	3,914,527	—	92,837	78,097	3,743,593
27/12/2004(6)	2.05	337,500	—	45,000	—	292,500
21/04/2005(7)	1.55	3,000,000	—	—	—	3,000,000
15/02/2006(8)	2.325	750,000	—	250,000	—	500,000
28/04/2006(9)	2.61	5,100,000	—	—	150,000	4,950,000
28/04/2006(9)	2.61	12,900,000	—	—	2,750,000	10,150,000
28/04/2006(9)	2.61	3,450,000	—	—	—	3,450,000
04/05/2006(9)	2.63	1,900,000	—	—	—	1,900,000
22/06/2006(9)	2.625	10,700,000	—	—	—	10,700,000
18/07/2006(10)	2.895	1,120,000	—	—	—	1,120,000
23/01/2007(11)	3.74	4,400,000	—	—	—	4,400,000
05/06/2007(11)	6.83	3,700,000	—	—	196,000	3,504,000
08/06/2007(11)	7.23	1,180,000	—	—	—	1,180,000
Total		59,369,527	—	2,069,837	3,296,097	54,003,593

Table 1 (Directors' share options) (12):

Name of Directors	Grant Date	Exercise price HK$	Options held at 1 January 2008	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options held at 8 May 2008
Xu Shao Chun	22/06/2006(9)	2.625	1,900,000	—	—	—	1,900,000
	21/04/2005(7)	1.55	3,000,000	—	—	—	3,000,000
	23/03/2004(4)	3.18	4,000,000	—	—	—	4,000,000
	15/05/2002(2)	1.78	1,500,000	—	1,500,000	—	—
Chen Deng Kun	08/06/2007(11)	7.23	680,000	—	—	—	680,000
	04/05/2006(9)	2.63	1,900,000	—	—	—	1,900,000
	01/06/2004(5)	2.65	130,154	—	—	—	130,154
Ho Ching Hua	23/01/2007(11)	3.74	4,400,000	—	—	—	4,400,000
Non-executive directors	08/06/2007(11)	7.23	500,000	—	—	—	500,000
Total			18,010,154	—	1,500,000	—	16,510,154

Table 2:

Grant Date	Exercise price HK$	Options held at 1 January 2008	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options held at 8 May 2008
27/09/2001(1)	0.3725	220,000	—	—	—	220,000
15/05/2002(2)	0.445	—	—	—	—	—
20/02/2003(2)	0.3475	1,250,000	—	40,000	—	1,210,000
08/08/2003(3)	0.5125	2,984,000	—	136,000	—	2,848,000
23/03/2004(4)	0.795	16,000,000	—	—	—	16,000,000
01/06/2004(5)	0.6625	14,974,372	—	1,280,556	—	13,693,816
27/12/2004(6)	0.5125	1,170,000	—	88,000	—	1,082,000
21/04/2005(7)	0.3875	12,000,000	—	—	—	12,000,000
15/02/2006(8)	0.58125	2,000,000	—	—	—	2,000,000
28/04/2006(9)	0.6525	19,800,000	—	720,000	—	19,080,000
28/04/2006(9)	0.6525	40,600,000	—	2,500,000	—	38,100,000
28/04/2006(9)	0.6525	13,800,000	—	300,000	—	13,500,000
04/05/2006(9)	0.6575	7,600,000	—	—	—	7,600,000
22/06/2006(9)	0.65625	42,800,000	—	—	—	42,800,000
18/07/2006(10)	0.72375	4,480,000	—	—	—	4,480,000
23/01/2007(11)	0.935	17,600,000	—	—	—	17,600,000
5/06/2007(11)	1.7075	14,016,000	—	—	—	14,016,000
8/06/2007(11)	1.8075	4,720,000	—	—	—	4,720,000
Total		216,014,372	—	5,064,556	—	210,949,816

Table 2 (Directors' share options) (12):

Name of Directors	Grant Date	Exercise price *HK$*	Options held at 1 January 2008	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options held at 8 May 2008
Xu Shao Chun	22/06/2006(9)	0.65625	7,600,000	—	—	—	7,600,000
	21/04/2005(7)	0.3875	12,000,000	—	—	—	12,000,000
	23/03/2004(4)	0.795	16,000,000	—	—	—	16,000,000
	15/05/2002(2)	0.445	—	—	—	—	—
Chen Deng Kun	08/06/2007(11)	1.8075	2,720,000	—	—	—	2,720,000
	04/05/2006(9)	0.6575	7,600,000	—	—	—	7,600,000
	01/06/2004(5)	0.6625	520,616	—	—	—	520,616
Ho Ching Hua	23/01/2007(11)	0.935	17,600,000	—	—	—	17,600,000
Non-executive directors	08/06/2007(11)	1.8075	2,000,000	—	—	—	2,000,000
Total			66,040,616	—	—	—	66,040,616

Note:

(1) 2001 Scheme. All of these options have duration of 10 years from the date of grant, provided that the options may not be exercised in respect of more than 25%, 50% and 75% of the options within 12 months, 24 months and 36 months respectively from the date of grant.

(2) 2002 Scheme. All of these options have duration of 10 years from the date of grant, provided that the options may not be exercised within 12 months from the date of grant and that the options may not be exercised in respect of more than 25%, 50% and 75% of the options within 12 months, 24 months and 36 months respectively from 1 year after the date of grant.

(3) 2002 Scheme. All of these options have duration of 10 years from the date of grant, provided that the options can only be exercised from the date of 8 August 2004.

(4) 2002 Scheme. All of these options have duration of 10 years from 23 March 2004, provided that the options may not be exercised in respect of more than 50% of the options prior to the date of 31 December 2004.

(5) 2002 Scheme. All of these options have duration of 10 years from the date of grant, provided that

(i) the options cannot be exercised within 1 year from the date of grant;

(ii) the number of options that can be exercised within the 2 years from the date of grant cannot be more than 25% of the revenue ratio for the financial year of 2004 ended 31 December 2004;

(iii) the number of options that can be exercised within the 3 years from the date of grant cannot be more than 25% of the aggregate revenue ratios for the financial years of 2004 ended 31 December 2004 and 2005 ended 31 December 2005;

(iv) the number of options that can be exercised within the 4 years from the date of grant cannot be more than 25% of the aggregate revenue ratios for the financial years of 2004 ended 31 December 2004, 2005 ended 31 December 2005 and 2006 ended 31 December 2006; and

(v) the number of options that can be exercised after 4 years from the date of grant cannot be more than 25% of the aggregate revenue ratios for the financial years of 2004 ended 31 December 2004, 2006 ended 31 December 2006 and 2007 ended 31 December 2007;

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

(6) 2002 Scheme. All of these options have duration of 10 years from the date of grant and the options can be exercised from the date of grant.

(7) 2002 Scheme. All of these options have duration of 5 years from the date of grant and the options can be exercised from the date of grant.

(8) Share Option Scheme. All of these options have duration of 10 years from the date of grant, provided that the options may not be exercised within 12 months from the date of grant and that the options may not be exercised in respect of more than 25%, 50% and 75% of the options within 12 months, 24 months and 36 months respectively from 1 year after the date of grant.

(9) Share Option Scheme. All of these options have duration of 10 years from the date of grant, and the options can be exercised upon the conditions.

(10) Share Option Scheme. All of these options have duration of 10 years from the date of grant, provided that the options may not be exercised within 12 months from the date of grant and that the options may not be exercised in respect of more than 30% and 60% of the options within 12 months and 24 months respectively from 1 year after the date of grant.

(11) Share Option Scheme. All of these options have duration of 10 years from the date of grant, and the options can be exercised upon the conditions.

(12) The data disclosed in the table regarding share options held by Directors is included in Tables 1 and 2 respectively.

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

As at 30 June 2008, as far as the Directors were aware, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Long positions in shares/underlying shares of the Company

Name	Number of shares/underlying shares (where appropriate)	Capacity	Percentage of issued share capital
Oriental Gold Limited	334,425,000	Beneficial owner	17.42%
Billion Ocean Limited	233,240,000	Beneficial owner	12.15%

Save as disclosed above, as at 30 June 2008, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

REPORT OF DIRECTORS

PURCHASE, SALE OR REDEMPTION OF SHARES

In the reporting period, one of the Company's substantial shareholders, Billion Ocean Limited has placed a total of 20,000,000 placing shares before the Subdivision of Shares to not less than six placees at the placing price of HK$6.90 per placing shares. Completion of the placing took place on 15 April 2008.

Except the above, none of the Company or any of its subsidiaries had purchased, sold or redeemed any of its securities during the reporting period ended 30 June 2008.

COMPETING INTEREST

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

CHANGE OF DIRECTORS

Mr. Charles Po-shun Wu ("Mr. Wu") has resigned as a non-executive director of the Company with effect from 10 September 2008 for the reason that he is busy with his business engagements. The Company invites Mr. Wu to continue to serve as an observer of the Board with effect from 10 September 2008.

CORPORATE GOVERNANCE

The Company has been dedicating to establish rules and procedures of good corporate governance. Maintaining a good, solid and sensible framework of corporate governance has been and remains one of the Company's top priorities. Save as disclosed below, the Company has complied with all the code provisions of "Code on Corporate Governance Practices" (the "Code"), as set out in Appendix 14 to the Listing Rules during the six months ended 30 June 2008.

The Board has set up four specialized committees, namely the Audit Committee, Remuneration Committee, Nomination Committee and Strategy Committee to oversee particular aspects of the Company's affairs. The terms of reference of these committees are set out in the Board Rules. These committees mainly consist of the independent non-executive Directors and non-executive Directors.

Audit Committee

The audit committee has reviewed the Group's unaudited consolidated results for the six months ended 30 June 2008. The audit committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

Company Culture Development

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

Internal Control

The Company has always placed importance to internal control and risk management. The Company has established a sound internal control and management system according to national laws and regulations and the actual situation of the Company. Meanwhile, the system would be constantly revised and improved according to the internal and external environment of the Company, and the requirements of business restructuring and management functions.

In the reporting period, the Company has adopted the following measures of internal control.

1. Working Environment Control

    (1) Strengthen employees' awareness in the integrity and moral values. Integrity and moral values are important components of the working environment control. The Company has drawn a "Kingdee" version of "Three Main Rules of Discipline and Eight Points of Attention", which guide employees to develop good integrity and moral values.

(2) Improve the management philosophy and operation styles of the management. The management is responsible for formulation, implementation and monitoring of the operation and business strategy of the Company. The Board and the Audit Committee supervise the work of the management effectively. During the first half year of the reporting period, the management has taken appropriate measures to ameliorate or rectify the internal control weaknesses and irregularities on a timely basis.

(3) During the first half year of the reporting period, the Company has organized the organizational structure effectively and reasonably, and scientifically assigned obligations to each internal unit in the structure in order to form a mutual check and balance system.

2. Internal Information Sharing

During the first half year of the reporting period, through our intranet, the Company has effectively established information exchange channels and feedback mechanisms to maximize the information sharing. The Company has provided adequate human and financial resources to ensure normal communication of information and effective operation could be maintained.

3. Control Activities

The Company ensures the realization of the strategic objectives through improving the following control procedures: transaction authorization control, assignation of obligations control, information disclosure control, etc.

(1) Transaction authorization control: defined the scope, power, procedure, obligation and other related contents of each authorization level.

(2) Assignation of obligations control: reasonable division of work, scientific assignation of obligations and authorities, separation of incompatible duties such as approval and authorization, business handling, bookkeeping of accounting records, property safekeeping, operational auditing, supervision and inspection, in order to form a mutual check and balance system.

(3) Information disclosure control: the Company is aware of its obligations under the Listing Rules and the overriding principle that information which is expected to be price-sensitive should be announced immediately. The Company has always complied with the "Guide on disclosure of price-sensitive information" issued by the Stock Exchange, and has formed a sound set of internal management and information disclosure processes, as well as internal control measures to ensure the disclosure of relevant information to its shareholders and regulatory agencies timely, accurately and appropriately.

4. Strengthen auditing functions and supervision

The Company continues to strengthen the monitoring functions of the audit department which plays the role as an independent party to other operation departments.

(1) The Company has properly adjusted the internal control organization. The audit department now is lead by the Board, and reports directly to the Audit Committee instead of the management as before.

(2) The mode of the Company's internal audit work has been changed from the financial-oriented mode to the system-oriented mode and risk-oriented mode, and thus more in line with international norms. The focus of the internal audit work has been shifted from financial results auditing to strategic implementation and business operations auditing.

Corporate Communication

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

- The Company maintains a website (www.kingdee.com) on which comprehensive information about the Company is available to shareholders and the public.
- The Company provides its shareholders and other stakeholders with the information necessary for them to form their own judgment and to provide feedback.
- The Company awares that full and frank disclosure does not only increase transparency of the Company, but is also essential for building market confidence.

Adoption of Code of Conduct Regarding Director's Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transaction on terms no less exacting than the required standard set out in the Model Code. The Directors have complied with such code of conduct throughout the accounting period covered by this interim report.

Appreciation

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

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

Shenzhen, The People's Republic of China, 10 September 2008