Executive Summary

Market
- ERP market in China is the largest segment of the Chinese Enterprise Applications market
- ERP market in China has shown strong growth generating USD -- mn in 2010, and is expected to grow at x% during 20-20-

Drivers:
- Wage Inflation
- Increasing Demand from SMBs
- Penetration of New Industries
- Demand of Enterprise Management System
- Rising Auto Sales
- Opportunity from Cloud Computing
- Stricter Regulation of Resource Consumption & Carbon Emissions

Drivers & Challenges
- High Cost of ERP Implementation
- Cultural Issues
- Lack of ERP Experience
- Communication Barrier
- Profitability Concerns for ERP Vendors

Emergence of Chinese ERP Software Vendors as Dominant Players
Software Localization
Shift towards High-end, Large-scale Clients
Shift in ERP Focus to Business Processes
Increasing Mergers & Acquisitions

Trends

Competition

Major Domestic Players
- Company A
- Company B
- Company C

Major Foreign Players
- Company D
- Company E
- Company F
- Company G
• Introduction
  • Market Overview
    ▪ Global
    ▪ China
  • ERP Selection Criteria
  • Benefits of ERP Implementation
  • Drivers & Challenges
  • Government Initiatives
  • Trends
  • Mergers & Acquisitions
  • Competition
  • Key Takeaways
Enterprise Resource Planning (ERP) - Definition

ERP is an accounting oriented information system needed to acquire, create, distribute and account for customer orders for classifying and planning the enterprise resources.

Key Characteristics of ERP Systems

**Standardized Data Definitions**
- Same data definition across all ERP application modules is shared by the ERP business processes

**Common Access to a Single Set of Data**
- Single set of data is to be maintained in a basic design objective across all business processes within an organization

**Beyond the Company Scope**
- ERP system should support an organization's online services to external units instead of confining to an organization’s boundary

**System Flexibility**
- With the changing needs of an enterprise an ERP system should be flexible which is facilitated by client/server technology to run across different database back-ends through Open Data Base Connectivity (ODBC)

**Open System Architecture**
- Any ERP module can be interfaced or detached when required without affecting other modules and should support multiple hardware platforms for companies that use heterogeneous systems, including some third-party add-ons
Since, 1960 Information Technology has offered solutions which are intended for facilitating smoother and faster business operations within an organization, some of which can be illustrated as below:
Framework of ERP System

- Manufacturing
- Purchase
- Vendor Management
- ERP Console
- CRM
- Accounting
- Sales
- Inventory Management
- HR / Payroll

Components:
- ERP Console
- Manufacturing
- Purchase
- Vendor Management
- CRM
- Accounting
- Sales
- Inventory Management
- HR / Payroll
Global ERP Market is expected to grow at 3.8% during 2009-13, reaping significant benefits from various factors

Global ERP Market – Overview

- Global ERP Market in terms of \textit{sales is expected to reach USD -- bn by 20-} with a compound annual growth rate (CAGR) of \(x\)% during 20- -20-
- Global ERP market \textit{in SaaS is expected to reach -- bn USD in 20-} from -- bn USD in 20- with a CAGR of \(y\)%
- Rising revenues for maintenance fees, new acquisitions, penetration of new industries, and emerging markets such as China, will extend development and new growth over the coming years

Global ERP Sales and Growth

Global ERP Market \( (\text{SaaS}) \)

Note: \textit{SaaS} refers to \textit{Software as a Service} which is a sub-segment in ERP
The top 10 global ERP vendors generated almost half of the total revenues from ERP software.

Global ERP Software Revenues (20-)

By 20-, the global ERP software revenues accounted about -- bn with the top five global ERP vendors having x% share of the market.

Note: ERP vendors considered are not exhaustive.
ERP market in China is expected to be the fastest growing market in the world with x% CAGR during 20-20-

China ERP Market – Overview

• ERP market is expected to grow with a CAGR of ~x% during 20-20- reaching USD -- bn by 20-

• ERP market in China is the largest segment of the Chinese Enterprise Applications market, commanding ~y% market share in 20-

• Enterprise software market in China is expected to grow to USD -- bn by 20- with a CAGR of z% during 20-20-

• Foreign ERP vendors like SAP, Oracle and others entered China attracted by significant business opportunities and taking control in the Chinese ERP market

ERP Market Size and Growth

Enterprise Software Market Growth
ERP vendors are seeking growth opportunities from the growing enterprise sales revenue

**Average Sales Revenue Per Enterprise**

Top eight provinces of China having x enterprises accrued USD -- mn average sales revenue per enterprise in 20- demonstrates huge opportunities for both domestic and international vendors in ERP market

Note: Eight provinces and cities with the largest number of enterprises have been studied
Company 1 and Company 2, the top two foreign ERP vendors accounted for more than x% market share in the high-end ERP market.

### Market Share of Major ERP Vendors in the High-End ERP Segment (2009)

- **Company 1**: a1%
- **Company 2**: a2%
- **Company 3**: a3%
- **Company 4**: a4%
- **Company 5**: a5%
- **Company 6**: a6%
- **Company 7**: a7%
- **Company 8**: a8%
- **Others**: a9%

**Groups of ERP Vendors**

- **International ERP Vendors – Company 1, Company 2 etc.**
- **Local Vendors – Company 3, Company 4 etc.**
- **Industry Solutions Vendors – Company 5, Company 6 etc.**
- **SaaS Vendors - Company 7, Company 8 etc.**

**Note:** High-end ERP segment caters to vast and complex operations.
ERP Selection Criteria (1/4)

Finding 1
• Sub-finding 1
• Sub-finding 2

Finding 2
• Sub-finding 3
• Sub-finding 4

Finding 3
• Sub-finding 5
• Sub-finding 6
ERP Selection Criteria (3/4)

ERP – Cost Components (1/2)

Cost Components – ERP Installation

Direct Cost

Source 1
Basic ERP application or the software that needs to be purchased

Source 2
Necessary hardwares such as administration consoles, peripherals and connectivity and networking tools, to support the functioning of software has to be procured

Source 3
Several tools and application also needs to be installed including security softwares, software updates and software license fees to ensure a proper and secured functioning of the ERP
ERP Selection Criteria (4/4)

ERP – Cost Components (2/2)

**Cost Components – ERP Installation**

**Indirect Cost**

**Source 1**
Time utilized by the company to prepare details such as analysis and documentations relevant to the implementation of the solution

**Source 2**
In-house staff and IT staff needs to be trained on its usage and other necessary details, which in turn attracts a crucial cost component for the company

**Source 3**
Cost to convert the existing data and media to the format supported by the ERP

**Source 4**
Cost incurred for testing and scrutiny of the solution’s performance and user acceptance before its actual implementation
• Introduction
• Market Overview
  ▪ Global
  ▪ China
• ERP Selection Criteria
• **Benefits of ERP Implementation**
• Drivers & Challenges
• Government Initiatives
• Trends
• Mergers & Acquisitions
• Competition
• Key Takeaways
Benefits from ERP Implementation (1/6)

Benefit 1

- Improved decision making
- Improve financial management
- Faster and more accurate transactions
- Reducing the requirements of manpower
- Improved inventory/asset mgt

Benefit 2

- Customers can be online communication
- Integration of business operations and processes
- Improve the labor productivity
- Quality of information
- Improved delivery times
- Reduction of total operation and administration costs
- Reduction of stock levels
- Reduction of real-time information
Benefits from ERP Implementation (3/6)

Direct Benefits from ERP Implementation

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Benefit 1</td>
<td>a1%</td>
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<td>Benefit 2</td>
<td>a2%</td>
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<td>Benefit 3</td>
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<td>Benefit 4</td>
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<td>Benefit 12</td>
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<td>Benefit 13</td>
<td>a13%</td>
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Note: % share are approximation

Direct benefits from ERP implementation in enterprises obviously act at the level of the improvement of delivery efficiency prior to the improvement in purchasing efficiency leading to customer satisfaction and escalating market share.
Factors influencing Chinese Companies to Implement an ERP System

• Finding 1
• Finding 2
• Finding 3
Critical Success Factors (CSF) in ERP Implementation in China (1/2)

- Teamwork and Composition
- Top Management Support
- Business Process Re-engineering
- Effective Project Management
- Education and Training
- Suitability of Software and Hardware
- Effective Interdepartmental Communication
- Change Management Programme & Culture
- Organizational Culture
Critical Success Factors (CSF) in ERP Implementation in China (2/2)

Note: 1 refers to lowest rating and 5 refers to highest rating
### Drivers & Challenges – Summary

#### Drivers
- Wage Inflation
- Increasing Demand from SMBs
- Penetration of New Industries
- Rising Need for Management Effectiveness
- Rising Automobile Production
- Opportunity from Cloud Computing

#### Challenges
- High Cost of ERP Implementation
- Cultural Issues
- Lack of ERP Experience
- Communication Barrier
- Profitability Concerns for ERP Vendors
Wage inflation will be a catalyst for expanding ERP usage in China

Wage Inflation

• Finding 1
• Finding
  ▪ Sub-finding 1
  ▪ Sub-finding 2
• Finding 3
  ▪ Sub-finding 3
  ▪ Sub-finding 4

Labour Costs

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<thead>
<tr>
<th>Country</th>
<th>a1</th>
<th>a2</th>
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<td>Country 8</td>
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<td>Country 9</td>
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</tbody>
</table>

Impact

Growth in Average Monthly Wage

Note: Per capita Average Annual Salary (USD) has been considered as of Oct 2010
ERP is increasingly gaining popularity among the SMBs that account for a1% of the total Chinese enterprises.

**Increasing Demand from SMBs**

- Finding 1
- Finding 2
- Finding 3
  - Sub-finding 1
  - Sub-finding 2

**Share of SMEs in Total Chinese Enterprises**

- a2%
- a1%

**In the presence of healthy economic outlook, increasing competitiveness among SMBs is leading to more aggressive ERP growth**

**Impact**

- Demand from the SMBs is increasing to improve their infrastructure and with spreading out of operations

*Note: SMB refers to Small & Medium Business*
With the major enterprises entering into new industries, usage of ERP...

Penetration of ERP in New Industries (1/2)

- Finding
  - Sub-finding 1
  - Sub-finding 2

*Significant opportunity lies for the ERP vendors as the major enterprises in the industry plan to enhance management systems*

- Sub-finding 3
- Sub-finding 4
- Sub-finding 5
- Sub-finding 6
China’s enterprise management software market witness rapid growth owing to rising need for cost-effectiveness.

### Rising Need for Management Effectiveness

- **Finding 1**
  - Sub-finding 1
  - Sub-finding 2

- **Finding 2**
  - Sub-finding 3

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### Management Software Revenue Growth

- **20-**
  - a1
- **20-e**
  - a2

China’s management software market revenue was expected to reach USD -- bn in 20- with a CAGR of x% during 20- to 20-.
Chinese automobile sector growing with a CAGR 10% during 2007-20 will foster software demands for automakers.

**Rising Automobile Production**

- Finding 1
  - Sub-finding 1
  - Sub-finding 2
- Finding 2

**Impact**

**Growth of Automobile Production**

<table>
<thead>
<tr>
<th>Year</th>
<th>Units</th>
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<tbody>
<tr>
<td>20-</td>
<td>a1</td>
</tr>
<tr>
<td>20-</td>
<td>a2</td>
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<tr>
<td>20-</td>
<td>a3</td>
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<tr>
<td>20-</td>
<td>a4</td>
</tr>
<tr>
<td>20-e</td>
<td>a5</td>
</tr>
<tr>
<td>20-e</td>
<td>a6</td>
</tr>
</tbody>
</table>

The growth in automobile production is expected to increase exponentially, with projections for 20- and 20-e showing significant growth.
Lack of ERP adoption in China is primarily due to high cost of implementation

High Cost of ERP Implementation

• Finding 1
• Finding 2
  ▪ Sub-finding 1

Impact

Total Cost of an ERP Solution

Hardware Costs of an ERP System

finding 1

finding 2

<table>
<thead>
<tr>
<th>Company Size</th>
<th>ERP Users</th>
<th>Total Cost of ERP Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>-</td>
<td>USD --</td>
</tr>
<tr>
<td>Medium</td>
<td>-</td>
<td>USD --</td>
</tr>
<tr>
<td>Big</td>
<td>-</td>
<td>USD --</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Company Size</th>
<th>ERP Users</th>
<th>Hardware Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>-</td>
<td>USD --</td>
</tr>
<tr>
<td>Big</td>
<td>-</td>
<td>More than a mn USD</td>
</tr>
</tbody>
</table>
ERP industry stands to gain from wider growth avenues as the govt. increases focus on IT and software innovation

Plan for Growth in Five Key Areas of Beijing's Software and Information Services Industry

1. Finding 1
2. Finding 2
3. Finding 3
4. Finding 4
5. Finding 5
Trends – Summary

Emergence of Chinese ERP Software Vendors as Dominant Players

Increasing Mergers & Acquisitions

Shift in ERP Focus to Business Processes

Software Localization

Shift towards High-end, Large-scale Clients
Domestic ERP vendors like company 1, company 2 and company 3 accounted for more than x% of ERP market share

Emergence of Chinese ERP Software Vendors as Dominant Players

- Finding 1
- Finding 2
  - Sub-finding 1
  - Sub-finding 2

Local ERP vendors are dominating the market

Market Share of Major ERP Vendors (2010)

- Top five domestic ERP vendors hold y% market share gaining competitive edge
- Top three foreign ERP vendors hold z% of the market share

Motivation behind Development of Domestic ERP Market

- Motivation 1
- Motivation 2
- Motivation 3

Note: Market share is in context with overall ERP market
With a1% ERP market client share in China, large-scale enterprises...

Shift towards High-end, Large-scale Clients (1/2)

- Finding 1
  - Sub-finding 1
- Finding 2
- Finding 3
  - Sub-finding 2

China’s ERP market is shifting towards the high-end clients

China’s ERP Market Client Structure (20-)

By 20-, China’s ERP market captured a1% of the large enterprises evidently showing the shift towards high-end, large scale clients

Note: SME – Small & Medium Enterprises
# Mergers & Acquisitions (M&A) (1/3)

<table>
<thead>
<tr>
<th>Announced Date</th>
<th>Closed Date</th>
<th>Target</th>
<th>Buyer/Investors</th>
<th>Sellers</th>
<th>Size (USD mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-16-20-</td>
<td>Jan-11-20-</td>
<td>Target Company A</td>
<td>Investor Company A</td>
<td>Seller Company A</td>
<td>USD X mn</td>
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<tr>
<td>Sep-6-20-</td>
<td>Jan-4-20-</td>
<td>Target Company B</td>
<td>Investor Company B</td>
<td>Seller Company B</td>
<td>USD X mn</td>
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<tr>
<td>Sep-22-20-</td>
<td>N.A.</td>
<td>Target Company C</td>
<td>Investor Company C</td>
<td>Seller Company C</td>
<td>USD X mn</td>
</tr>
<tr>
<td>Sep-20-20-</td>
<td>Sep-16-20-</td>
<td>Target Company D</td>
<td>Investor Company D</td>
<td>Seller Company D</td>
<td>USD X mn</td>
</tr>
</tbody>
</table>
Major Domestic Public Companies – Summary (1/2)

Note: Revenue and Net Profit figures are in USD mn for the year ending Dec 31st 2010; Market Cap figures for UFIDA Software Co., Ltd. is for Feb 1st 2012, for Kingdee International Software Group Company Limited is for Jan 20th 2012 and for Inspur Group is for Feb 23rd 2012.
Total Income and Profit for Major Domestic Companies

Company 1
- Total income: \( t_1 \)
- Net income: \( n_1 \)

Company 2
- Total income: \( t_2 \)
- Net income: \( n_2 \)

Company 3
- Total income: \( t_3 \)
- Net income: \( n_3 \)

Note: All figures are in USD mn for the year ending Dec 31st 2010
Domestic Company – Company A

Company Information

| Corporate Address | Company 5  
x, y Avenue, City 5, City 5 Pin-code, Country |
<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Tel No.</td>
<td>xxx-yyy-zzz</td>
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<td>Fax No.</td>
<td>xxx-yyy-zzz</td>
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<tr>
<td>Website</td>
<td>-</td>
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<tr>
<td>Year of Incorporation</td>
<td>19</td>
</tr>
<tr>
<td>Ticker Symbol</td>
<td>xx</td>
</tr>
<tr>
<td>Stock Exchange</td>
<td>yy</td>
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Products and Services

<table>
<thead>
<tr>
<th>Category</th>
<th>Products/Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software Products</td>
<td>Enterprise resource planning, information security software</td>
</tr>
<tr>
<td>Development Platform Products</td>
<td>Web groupware, Web application framework, business service platform, business process management, model driven architecture</td>
</tr>
<tr>
<td>Tax-control Products</td>
<td>Chipsets, cashing machines, controllers, printers</td>
</tr>
</tbody>
</table>

Locations – China

Key People

<table>
<thead>
<tr>
<th>Name</th>
<th>Designation</th>
</tr>
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<tbody>
<tr>
<td>Person 1</td>
<td>Chairman of the Board, CEO &amp; President</td>
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<tr>
<td>Person 2</td>
<td>Vice Chairman &amp; General Manager</td>
</tr>
<tr>
<td>Person 3</td>
<td>General Manager &amp; Director</td>
</tr>
<tr>
<td>Person 4</td>
<td>CFO &amp; Secretary</td>
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</tbody>
</table>
Domestic Company – Company A

Financial Summary

• The company earned a net profit of USD - mn in FY 20-, as compared to net loss of USD - mn in FY 20-
• The company reported total income of USD - mn in FY 20-, registering an increase of x % over FY 20-
• The company earned an operating margin of y % in FY 20- an increase of z percentage points over FY 20-
• The company reported debt to equity ratio of - in FY 20-, an increase of a % over FY 20-

Key Ratios

<table>
<thead>
<tr>
<th>Particulars</th>
<th>y-o-y change (2010-09)</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
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<tbody>
<tr>
<td><strong>Profitability Ratios</strong></td>
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<tr>
<td>Operating Margin</td>
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<td>Net Margin</td>
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<td>Profit Before Tax Margin</td>
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<td>Return on Equity</td>
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<td>Return on Capital Employed</td>
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<td>Return on Working Capital</td>
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<td>Return on Assets</td>
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<td>Return on Fixed Assets</td>
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<td><strong>Cost Ratios</strong></td>
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<td>Operating costs (% of Sales)</td>
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<td>Administration costs (% of Sales)</td>
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<td>Debt to Capital Ratio</td>
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<td>Interest Coverage Ratio</td>
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<td><strong>Efficiency Ratios</strong></td>
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<td>Fixed Asset Turnover</td>
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<td>Capital Employed Turnover</td>
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Indicators | Value (23/02/2012)
---|------------------
Market Capitalization (USD) | x1 mn
Total Enterprise Value (USD) | x2 mn
EPS (USD) | x3
PE Ratio (Absolute) | x4

Improved | Decline

ERP MARKET IN CHINA 2012.PPT
Domestic Company – Company A

Key Business Segments

- The company operates through single reportable segment namely, Segment A

Key Geographic Segments

- Western China: a1%, a2%
- North China: b1%, b2%
- South China: a3%, a4%
- East China: b3%, b4%

Key Recent Developments

<table>
<thead>
<tr>
<th>Description</th>
<th>News</th>
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</thead>
<tbody>
<tr>
<td>Overview</td>
<td>• Company A provides various information technology (IT) products and services in China and internationally</td>
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<td>• Company A is one of the major domestic ERP vendors in China accounting 10.4% market share in 2010</td>
</tr>
<tr>
<td>Approval</td>
<td>• Ministry of Science and Technology (MOST) has approved China's Company A to establish the national engineering technology research center for information storage in recent days</td>
</tr>
<tr>
<td>Joint Venture &amp; Acquisition</td>
<td>• Company A and Comarch Semiramis have agreed on a joint venture for entering into the Chinese ERP market together in 2010</td>
</tr>
<tr>
<td></td>
<td>• Company A acquired 49% stake in LC Genersoft, an ERP company in 2008</td>
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</tbody>
</table>
ERP market in China is expected to be the fastest growing market in the world with x% CAGR during 20-- - --

Despite various challenges, future of Chinese ERP market is optimistic

Trends in the Market

Local ERP vendors are gaining competitive edge over their foreign counterparts particularly in low-end, with 5 Chinese domestic companies holding 53% share of the market.

By 2010, China’s ERP market captured 36% of the large enterprises evidently showing increased focus on high-end solutions for large scale clients.

ERP focus is shifting from finance and accounting to business process related modules such as CRM, SCM and PLM.

Initiatives Taken by Players

Players are taking steps to upgrade the quality of their products and after-sales services along with development in software outsourcing services.

Though the ERP spending is till low, ERP vendors are developing through M&A to improve their products and satisfy the multiplying demands of customers.

Challenges

- High Cost of ERP Implementation
- Cultural Issues
- Lack of ERP Experience
- Communication Barrier
- Profitability Concerns for ERP Vendors

Market Size

USD mn

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<tr>
<th>Year</th>
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## Ratio Calculations

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Calculations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating Margin</strong></td>
<td>(Operating Income/Revenues)*100</td>
</tr>
<tr>
<td><strong>Net Margin</strong></td>
<td>(Net Profit / Revenues) *100</td>
</tr>
<tr>
<td><strong>Profit Before Tax Margin</strong></td>
<td>(Income Before Tax / Revenues) *100</td>
</tr>
<tr>
<td><strong>Return on Equity (ROE)</strong></td>
<td>(Net Income / Shareholders Equity)*100</td>
</tr>
<tr>
<td><strong>Return on Capital (ROCE)</strong></td>
<td>EBIT / (Total Assets – Current Liabilities)*100</td>
</tr>
<tr>
<td><strong>Return on Working Capital</strong></td>
<td>(Net Income / Working Capital) *100</td>
</tr>
<tr>
<td><strong>Return on Assets</strong></td>
<td>(Net Income / Total Assets)*100</td>
</tr>
<tr>
<td><strong>Return on Fixed Assets</strong></td>
<td>(Net Income / Fixed Assets) *100</td>
</tr>
<tr>
<td><strong>Operating Costs (% of Sales)</strong></td>
<td>(Operating Expenses / Sales) *100</td>
</tr>
<tr>
<td><strong>Administration Costs (% of Sales)</strong></td>
<td>(Administrative Expenses / Sales) *100</td>
</tr>
<tr>
<td><strong>Interest Costs (% of Sales)</strong></td>
<td>(Interest Expenses / Sales) *100</td>
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</table>

<table>
<thead>
<tr>
<th>Ratio</th>
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</thead>
<tbody>
<tr>
<td>Current Ratio</td>
<td>Current Assets / Current Liabilities</td>
</tr>
<tr>
<td>Cash Ratio</td>
<td>{(Cash &amp; Bank Balance + Marketable Securities) / Current Liabilities}</td>
</tr>
<tr>
<td>Debt to Equity</td>
<td>Total Liabilities / Shareholders Equity</td>
</tr>
<tr>
<td>Debt to Capital Ratio</td>
<td>{Total Debt / (Shareholders Equity + Total Debt)}</td>
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<tr>
<td>Interest Coverage Ratio</td>
<td>EBIT / Interest Expense</td>
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<tr>
<td>Fixed Asset Turnover</td>
<td>Sales / Fixed Assets</td>
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<td>Sales / Total Assets</td>
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<tr>
<td>Capital Employed Turnover</td>
<td>Sales / Shareholders Equity</td>
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</tbody>
</table>

### Appendix (1/2)
Key sources of information used in the report include the following:

- News articles
- Journals
- Business intelligence databases
- Industry associations
- Government publications
Thank you for the attention

ERP Market - China report is a part of Netscribes’ Information Technology Industry Series. For more detailed information or customized research requirements please contact:

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E-Mail: sales@netscribes.com

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