

# Corporate Governance Report

As a leading provider in China's software industry, the Group dedicates to meet the increasing needs for the informatization of enterprise management by developing and offering enterprise management software and e-commerce application software, and providing management consultation, implementation and technical support services in relation to software products to customers around the world. At the same time, further improving the management, enhancing the transparency and accountability within the Group, and maintaining a good, solid and sensible framework of corporate governance has been and remains one of the Group's top priorities.

The Company has complied with all the code provisions of "Code on Corporate Governance Practices" (the "Code"), as set out in Appendix 14 of the Listing Rules throughout the financial year ended 31 December 2006, except with deviation from code provision A.2.1 in respect of the requirement for the segregation of the roles of the chairman and chief executive officer ("CEO") (but such provisions has been complied with since 1 January 2007).

During the financial year ended 31 December 2006, Mr. Xu Shao Chun was the chairman of the board of directors (the "Board") and CEO of the Company. Mr. Ho Ching-hua was appointed on 9 December 2006 by the Board to serve as CEO of the Company with effect from 1 January 2007. Since 1 January 2007, Mr. Xu Shao Chun remained as the Chairman of the Board (the "Chairman") as well as the chief software architect of the Group. Accordingly, the roles of the chairman and CEO were performed by Mr. Xu Shao Chun and Mr. Ho Ching-hua respectively with effect from 1 January 2007.

With respect to the compliance with Part A of the Code, the Company has carried out the following corporate governance practices:

The Company has held eight Board meetings during the financial year ended 31 December 2006. The directors have been consulted to advice the agenda of the Board meeting. Sufficient notice of the Board meeting has been given to the Directors. Minutes of the Board and the Board Committees are recorded in sufficient details and kept by the Board secretaries for inspection at any reasonable time on reasonable notice by any Director. The composition of the Board is shown on page 28 of this report. Non-executive Directors of the Company has been appointed for a specific term, subject to re-election. At every annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three, then the number nearest to but not exceeding one-third shall retire from office. A Director appointed by the Board to fill a casual vacancy or as an addition shall hold office until the next general meeting or the next annual general meeting. The Company has established a nomination committee with specific written terms of reference, details of which set out in section "Board Committees" below.

Every Director is aware that he/she should give sufficient time and attention to the affairs of the Company. Most of the Directors have satisfactory attendance rates at both Board meetings and Committee meetings, details of which are set out in the attendance form as shown below. For other details of the responsibilities of Directors, please refer to the section "Board of Directors" below. All Directors are entitled to have access to the minutes and other relevant documents.

With respect to the compliance with Part B of the Code, the Company has established a remuneration committee with specific written terms of reference, details of which are set out in page 34 of this report.

With respect to the compliance with Part C of the Code, the Company has carried out the following corporate governance practices:

Management has provided sufficient explanation and information to the Board as will enable the Board to make an informed assessment of financial and other information put before the Board for approval. The Company has announced the interim report of 2006 on 14 September 2006. The details of the internal controls of the Company and the audit committee are set out under the section "Internal Control" and "Board Committees".

With respect to the compliance with Part D of the Code, the Company has carried out the following corporate governance practices:

When the Board delegates aspects of its management and administration functions to management, it has given clear directions as to the powers of management, in particular, with respect to the circumstance where management shall report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The Company has set up four committees, for details, please refer to the section "Board Committees" below.

With respect to the compliance with Part E of the Code, the procedures for demanding a poll by the shareholders were incorporated in every circular issued during the financial year ended 31 December 2006.

To ensure strict adherence to the Code, the Company has perfected the Board structure and standardized the rules of procedure of board of directors (the “Board Rules”).

## Board of Directors

In order to further enhance the Company’s corporate governance framework, clearly define the duties and powers of the Board of Directors, and effectively implement the duties and responsibilities conferred by the shareholders on the Board of Directors and board committees, the Board of Directors of the Company adopted and implemented the “Rules and Procedures of Board Meetings”.

The responsibilities of the Board set out in the Board Rules include the following:

- (1) To convene the shareholders’ meeting, report to the shareholders and implement the resolution of the meeting;
- (2) To review and approve mid- and long-term strategic plan and management strategies of the Group;
- (3) To review and approve critical investment projects and purchase, repurchase securities, consolidation, and dismiss plan;
- (4) To review and approve the Group’s financial policies, annual final budget, profit distribution and loss remedy of the Group;
- (5) To draw out the amendments to the articles of association, alteration of registered capitals and the issue of board and listing rules;
- (6) To be authorized by shareholders and approve the remuneration plan of directors; and
- (7) To hear the working report of the CEO and to review the work of the CEO.

The senior management team shall be responsible for the implementing the decisions reached at the Board meetings, all the team members shall be appointed by the Board. The CEO will be responsible for the operation management and shall report to the Board.

The Board of Directors consists of nine members, with two executive directors, three non-executive directors and four independent non-executive directors.

The attendance of individual Directors at Board meeting and Board Committee meeting for the year ended 31 December 2006 are as follows:

Directors during the financial year ended 31 December 2006	Attendance/Number of Meetings					
	Board		Board Committees			
	Board	INED	Audit Committee	Remuneration Committee	Nomination Committee	Strategy Committee
<b>Executive Directors</b>						
Mr. Xu Shao Chun	8/8	N/A	N/A	N/A	N/A	1/1
Mr. Chen Deng Kun	8/8	N/A	N/A	2/2	N/A	1/1
<b>Non-executive Directors</b>						
Mr. Zhao Yong	6/8	N/A	2/2	N/A	N/A	N/A
Mr. Hugo Shong	5/8	N/A	N/A	N/A	N/A	N/A
Mr. James Ming King	7/8	N/A	N/A	N/A	N/A	1/1
<b>Independent Non-executive Directors (“INED”)</b>						
Ms. Yang Zhou Nan	7/8	1/1	2/2	2/2	N/A	N/A
Mr. Wu Cheng	6/8	1/1	2/2	N/A	N/A	N/A
Mr. Yeung Kwok On	7/8	1/1	N/A	2/2	1/1	N/A
Mr. Gary Clark Biddle	8/8	1/1	2/2	N/A	1/1	N/A

## Corporate Governance Report

### Board Committees

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 are mainly consisted of the independent non-executive Directors and non-executive Directors.

### Audit Committee

The Audit Committee of the Company ("Audit Committee") comprises three independent non-executive Directors and one non-executive Director. The members of the Audit Committee are Ms. Yang Zhou Nan, Mr. Zhao Yong, Mr. Wu Cheng and Mr. Gary Clark Biddle. Ms. Yang Zhou Nan is the chairman of the Committee.

In particular, the Board Rules set out the scope of official duties of the Audit Committee, which include making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external Auditor, and resignation or dismissal of the auditor, reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard, reviewing financial information of the Company, reviewing the financial report system and internal control procedures, in order to check the Company's financial statements and the procedures which the Auditor audited independently and accounting policy, and supervise the Company's financial reporting system and internal control procedures.

During the financial year ended 31 December 2006, the Audit Committee has held two meetings. The Audit Committee has reviewed the Company's annual financial report for the year ended 31 December 2005 and the Company's interim financial statements of 2006.

The Audit Committee has reviewed the Company's annual financial report for the year ended 31 December 2006.

### Remuneration Committee

The Remuneration Committee of the Company ("Remuneration Committee") comprises two independent non-executive Directors and one executive Director. The members of the Remuneration Committee are Mr. Yeung Kwok On, Ms. Yang Zhou Nan and Mr. Chen Deng Kun. Mr. Yeung Kwok On is the chairman of the Committee.

The responsibilities of the Remuneration Committee set out in the Board Rules are as follows:

- (1) To make suggestions to the board on the remuneration structures of directors of board and management and to establish formal and transparent remuneration policies;
- (2) To have the delegated responsibility to draft the specific remuneration packages of all executive directors and senior management and make suggestions on the remuneration of the non-executive directors to the board;
- (3) To review and approve the performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;
- (4) To ensure that no director or any of his associates is involved in deciding his own remuneration;
- (5) A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

During the financial year ended 31 December 2006, the Committee held two meetings in March and December, for reviewing the Company's Share Incentive Plan in 2006 and the remuneration of the CEO respectively.

## **Nomination Committee**

The Nomination Committee of the Company (“Nomination Committee”) comprises two independent non-executive Directors and one non-executive Director. The members of the Nomination Committee are Mr. Yeung Kwok On, Mr. Hugo Shong and Mr. Gary Clark Biddle.

The responsibilities of Nomination Committee set out in the Board Rules are as follows:

- (1) To review the structure, size and composition of the board on a regular basis and make recommendation to the board;
- (2) Identify individuals suitably qualified to become board members;
- (3) To assess the independence of the independent directors;
- (4) To make recommendation to the board on relevant matters to the appointment or re-appointment of directors and succession planning for directors;
- (5) To audit and make recommendation on the appointment of other senior management.

During the financial year ended 31 December 2006, the Nomination Committee held a meeting in December 2006. The Nomination Committee provided constructive suggestions for the proposed appointment of the new CEO of the Company, and also recommended the appointment of Mr. Ho Ching-hua as a director and CEO of the Company.

## **Strategy Committee**

The Strategy Committee of the Company (“Strategy Committee”) comprises two executive Directors, two non-executive Directors and one independent non-executive Director. The members of the Strategic Committee are Mr. Xu Shao Chun, Mr. James Ming King, Mr. Zhao Yong, Mr. Wu Cheng and Mr. Chen Deng Kun. Mr. Xu Shao Chun is the chairman of the Strategy Committee.

The Responsibilities of Strategy Committee set out in the Board Rules are as follows:

- (1) To consider and draw out mid-term and long-term strategies of the Company;
- (2) To assess the effect of the implementation of the strategy;
- (3) To make recommendation on the critical issues prescribed in Corporate Provisions and issues must get the permission of the board, which includes investment, financing and etc.

During the year of 2006, the Strategy Committee held a meeting in October for discussing the construction project of Kingdee R&D Centre in Shenzhen. Kingdee R&D Centre will be the R&D centre and Operation Management Headquarter of the Group in PRC. The construction of Kingdee R&D Centre increases the coordinated efficiency of R&D, strengthen the synergies of business partners, and increase the competitiveness of the Group. In the meantime, it will be beneficial to the corporate image, and create an “innovative, win-win, harmonious and happy” working environment for employees of the Group, which in turn will maintain and attract outstanding personnel, and reduce present lease expenses.

## Corporate Governance Report

### Internal Control

The Company at all times places great importance on internal control and risk management. The Company's internal control and risk management system are carried out by the Board of Directors, the Audit Committee, and the Senior Management. They regularly evaluate various risks of the Company and improve the management system and processing system in order to implement the strategies of the Company effectively.

During the year of 2006, in order to further strengthen supervision and management of risks of products quality, business operation and finance, the Company actively has taken a series of measures to improve the internal control system, including:

1. In the aspect of quality control of products, the company has established Product and Technology Committee, aiming at enhancing product investment decision management and quality control, continuously improved the quality model "CMM+IPD+Kingdee Practice" and has embeddedly exercised quantity management on quality reference point that affect satisfaction degree of clients. The company has formed the quality control system that combines both dynamic test and static test and is complemented by both interior and exterior test.
2. In the aspect of business operation control, the company has promoted "business standardization, management systematization, and personnel specialization". In order to strengthen internal control on various business activities, the company has established or improved a series of management system including contract management, price management, CRM management, performance supervision and control, colleague management and distribution net, etc. At the same time, the company has improved the examining and approving systems of the corresponding working process to strengthen business process control and efficiency enhancement.
3. In the aspect of finance control, the company has further enhanced the system construction and improved internal control and audit system. In the financial year ended 31 December 2006, the financial department of the company has amended and issued a series of financial procedures and financial guidelines, and formulated handbook for various departmental financial staff, which have improved the internal control of accountant calculation, cost reimbursement, purchase, and capital and tax management. At the same time, the company has further improved organizational structure and management in the following ways, (i) strengthening the organizational structure of financial staff at the levels of the headquarter, districts and channels financial staff by reinforcing the organizational structure and the vertical management authority; (ii) strengthening the education of professional virtual of the financial staff, promoting the values of good faith, independence and justice and clearly defining their focus of work and major job responsibilities.
4. In the aspect of information system, based on Kingdee EAS, the company has implemented the integration of financial and business information by establishing an information system, in order to implement business control as well as financial control to improve working effectiveness.
5. The internal audit department has kept on conducting various internal audits in order to strengthen audit on business and finance affairs of headquarter and branches, and implementing audit on process and internal control. It has investigated, punish and rectify any act of rule-breaking in any department and to further regulate the channel internal control management.
6. In the respect of information disclosure, in compliance with the Listing Rules, the Company has formed a consummate procedure and internal control measures in internal processing and information disclosure to ensure timely, accurate and appropriate disclosure of information to shareholders and regulatory authorities.

## **Investor Relations**

The Company considers maintaining good relations with investors very important. Within the reporting period, we have issued the results announcements and other development and business of the Company through a variety of ways, such as publishing quarterly newsletters on the website of the Company. 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 understands 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 Directors' Securities Transactions**

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in Appendix 10 "Model Code for Securities Transactions by Directors of Listed Companies" to the Listing Rules. The Directors have complied with such code of conduct throughout the accounting period covered by this annual report.

## **External Auditor**

PricewaterhouseCoopers was appointed as the external auditor of the Company for the year of 2006.

A resolution for re-appointment of PricewaterhouseCoopers as the auditor of the Company will be proposed at the Forthcoming AGM.

## **Improving Corporate Governance**

The Company will regularly assess its corporate governance measures and practices to ensure that they are on par with the development of international governance structures and in light of the changing regulatory requirements and investors' needs. This will also help long term and continuous development of the Company, enhance corporate value.

## **Appreciation**

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

On behalf of the Board

**Xu Shao Chun**

*Chairman*

Shenzhen, the People's Republic of China, 30 March 2007