Kingdee

Kingdee International Software Group Company Limited

Stock Code: 268

KINGDEE, ENTERPRISE MANAGEMENT EXPERT

ANNUAL REPORT 2008

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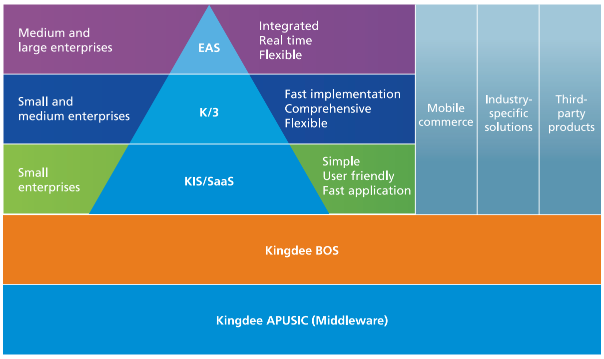
CORPORATE INTRODUCTION

Kingdee International Software Group Co., Ltd. (HK Stock Code: 268) is a leader in the China software industry. It is also at the forefront among suppliers of enterprise management software and middleware enterprises in Asia Pacific and an e-commerce application solutions expert. Dedicated to setting the management trend and promoting development of e-commerce and helping customers, the Group serves the informatization needs of over 600,000 corporate clients and government organizations around the world leveraging on its 44 branches focusing on marketing and services and about 1,400 partners involved in the areas of consultation, technology, implementation and distribution. Kingdee International was named by IDC as the leader in the SME ERP market for four consecutive years, by Forbes Asia magazine as among "Asia's 200 Best Under a Billion Companies" and "Top 500 Most Valuable Brands in China" for three consecutive years. In 2007, it was on Gartner's list of 19 manufacturers with capability to provide next generation SOA services in the world. In the same year, IBM invested in the Group and became a strategic shareholder. The two companies also formed a global alliance to facilitate cooperation in areas including SOA, marketing and sales, consultation and application management services (AMS) and Software as a service (SaaS), etc.

Fast Configuration, Fast Implementation, Fast Application and Result



CORPORATE INFORMATION

Executive Directors

Mr. Xu Shao Chun, Chairman
Mr. Ho Ching Hua, CEO
(resigned as CEO on 31 December 2008, and re-designated from Executive Director to Non-Executive Director on 31 December 2008)
Mr. Chen Deng Kun , vice-president and CFO

Non-executive Directors

Mr. James Ming King
Mr. Hugo Shong (resigned on 31 March 2008)
Mr. Charles Po-Shun Wu (appointed on 31 March 2008, resigned on 10 September 2008)

Independent Non-executive Directors

Ms. Yang Zhou Nan
Mr. Wu Cheng
Mr. Yeung Kwok On
Mr. Gary Clark BIDDLE

Company Secretary

Ms. Ngan Lin Chun, Esther ACS

Qualified Accountant

Mr. Ho, Ka Man Barry CPA

Audit Committee of the Board

Ms. Yang Zhou Nan (Chairman)
Mr. Wu Cheng
Mr. Gary Clark BIDDLE

Authorised Representative

Mr. Xu Shao Chun
Mr. Chen Deng Kun

Auditor

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

Legal Advisors

Hong Kong:–
DLA Piper
40/F, Bank of China Tower
1 Garden Road
Central
Hong Kong
Cayman Islands: –
Maples and Calder Asia
Suite 1002, One Exchange Square
8 Connaught Place
Central, Hong Kong

Principal Bankers

PRC:–
China Merchants Bank
Bank of China
Industrial and Commercial Bank of China
Bank of Communications
Shenzhen Development Bank
Hong Kong:–
The Hongkong and Shanghai Banking Corporation Limited

Registered Office

P.O. Box 309
Ugland House
George Town
Grand Cayman
Cayman Islands
British West Indies

Head Office and Principal Place of Business in the PRC

4th Level, Zone B, Block W1
Hi-Tech Industrial Park
Shennan Highway, Nanshan District
Shenzhen, Guangdong Province
The PRC

Principal Place of Business in Hong Kong

1902 MassMutual Tower
38 Gloucester Road
Wanchai
Hong Kong

Company Website

www.kingdee.com

Principal Share Registrar

Bank of Butterfield International (Cayman) Ltd.
P.O. Box 705
Butterfield House
Fort Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Hong Kong Branch Share Registrar

Computershare Hong Kong Investor Services
registrar and transfer office Shops 1806-1807
18th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Public Relations

Strategic Financial Relations (China) Limited
Unit A, 29/F., Admiralty Centre I
18 Harcourt Road
Hong Kong

Main Board Stock Code

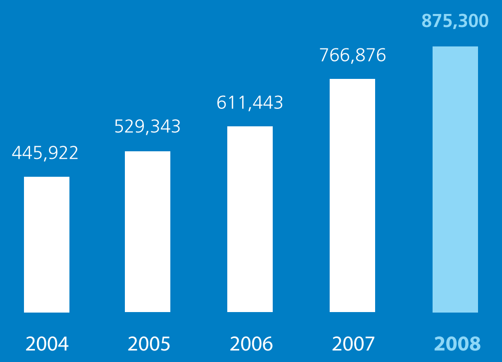
268

FINANCIAL HIGHLIGHTS

	2008 RMB'000	2007 RMB'000
Turnover	**875,300**	766,874
Profit attributable to equity holders of the Company	**181,546**	136,476
Dividends per share	**HKD 0.0220**	HKD 0.0213
Earnings per share		
– basic	**RMB 0.0958**	RMB 0.0750
– diluted	**RMB 0.0906**	RMB 0.0700

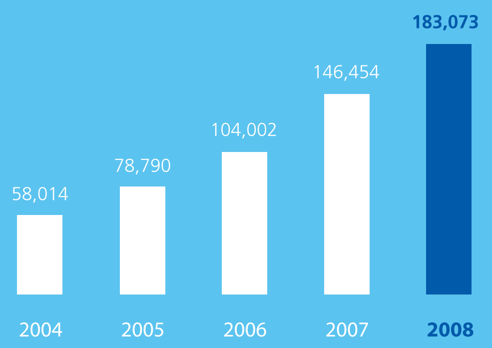
Turnover

RMB'000



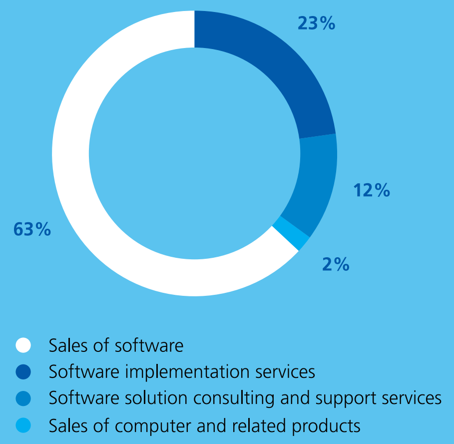
Operating Profit

RMB'000



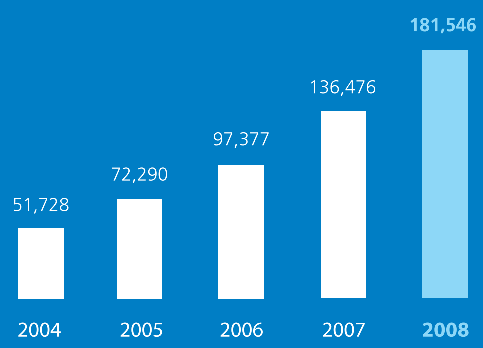
Turnover Breakdown by Business

RMB'000



Profit Attributable to Equity Holders of the Company

RMB'000



CHAIRMAN'S STATEMENT

Confidence and shrewd management will make the difference for an enterprise in challenging times

On behalf of the Board, I hereby present the financial and operating results of Kingdee International Software Group Company Limited for the year ended 31 December 2008 to shareholders for review.

Income and net profit of the Group for the first half of 2008 continued to surge. However, with the China economy affected by the global financial crisis in the second half of the year, income of the Group fell short of expectation. Since the second half is the traditional peak season for sales, the decline dragged down income growth of the Group for the entire year. Turnover of the Group had a 14% increase against the previous year to approximately RMB 875,300,000. Profit attributable to the equity holders of the Company grew by 33% to approximately RMB 181,546,000. Basic earnings per share was about RMB 0.0958, 28% higher than that of the pervious year. The Board proposed to pay a final dividend of HKD 0.022 per share.

Kingdee celebrated its 15th anniversary in 2008. The Company has grown over the years from a small and unknown business into a leading software corporation in the China software industry, a leading enterprise management software and middleware enterprise in the Asia Pacific Region and also a leading online management and e-commerce service provider by world standard. The past year also saw the China economy slow down notably facing the most severe global financial crisis since the country secured WTO membership. The economic downturn dampened the confidence of many companies and in turn slowed down the rapid growth of the economy. However, riding on its abundant management experience, the Group managed to achieve steady growth. We believed the short-term economic shake up would not change the overall industry trend and dwarf the growth momentum of the China management software market. With informatization of enterprises still in initial stage, the demand for related products will continue to be strong. It is only when an enterprise can overcome hardship and learn from the experience that it will grow strong and certain outstanding management models in the China will become the classic reference and be widely emulated. The Group expects to return on the fast growth track when the China economy improves.

Stepping into 2009, the economy will remain difficult in the first half year, but signs of revival are expected to show not too long after. In the meantime, the Group will strive to boost its innate strengths adhering to several major principles:

Stepping up service transformation and expanding distribution channels

Establish a professional service team and provide service products of consistent standard so as to enhance customer satisfaction and loyalty; develop more distribution channels to serve specific product and solution segments and raise the quality and number of core partners;

Responding promptly to the market and building up management expert image

Integrate R&D and marketing effort so as to quickly respond to market needs and by grooming model customers in different industries and refining management modes, reinforce our influence on the community and project an expert image;

Striving to broaden income sources and trim cost to assure steady growth

Commands effort in cost control, boosting efficiency to support stable growth of enterprise management software operation and rapid growth of middleware, online management service and e-commerce (SaaS) operations.

In addition, the Group will speed up M&A in the industry to effect expansion on top of striving for organic growth. We are confident of continuing to bring satisfactory returns to our shareholders.

Last but not least, I would like to express my gratitude to our customers, business partners and investors for their continuous support. My thanks also go to our dedicated staff and the Board for its shrewd guidance.

Chairman of Board of Directors
Xu Shaochun

MANAGEMENT DISCUSSION AND ANALYSIS

Stepping up service transformation and expanding distribution channels; Responding promptly to the market and building up management expert image; Striving to broaden income sources and trim cost to assure steady growth

Business Review

I. Enterprise Management Software

(1) Industry Overview

Backed by the determination and efforts of the PRC in reforming its economy in the past 30 years, the competitiveness of Chinese enterprise management have been growing continuously, and enterprise management software industry has been a key contributor. In the second half of 2008, as the global financial crisis spread, the Chinese economy and in turn Chinese enterprises were affected differently. Some export companies have been pushed to the verge of collapse because of the difficult operational environment and tight capital supply. Other enterprises that have not experienced great operational difficulties are not sure how to respond in the crisis and have started to lose confidence. Nevertheless some other enterprises, which have strong innovative technology and innovative management capabilities, not only were unaffected, but have been able to actually speed up growth in the adverse business environment. Although the growth of enterprise management software industry has started to slow since the second half of 2008, demand for enterprise management upgrade and transformation continues, the trend of growth of the overall enterprise management software industry has not been altered.

(2) Market Position

During the reporting period, the Group executed its service transformation strategy to cover the needs of customers throughout the entire lifecycle of their business, building its enterprise management expert image and promoting the "China management model". Such efforts, which were widely recognized by the community, have helped to consolidate the Group's leading presence in the enterprise management software market and brought a number of awards, including:

(1) 2008 "Shenzhen Mayor's Quality Award" from the Shenzhen Municipal Government (December 2008)

(2) 2008 "Extraordinary Contribution for Management Award" from Sino Foreign Management (November 2008)

(3) Named the third time among "Asia's Top 200 SME" by Forbes Asia (September 2008)

(4) IBM Websphere Beacon Award Finalist from IBM (April 2008)

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

(6) Chairman of the Group Mr. Xu Shaochun named among the "30 Economy People Influencing Shenzhen during the 30 years reform and opening-up" jointly by Shenzhen General Chamber of Commerce and other organizations (December 2008)

(3) Business Review

During the reporting period, the Group embarked on a service transformation strategy and made a number of achievements. It made a breakthrough in channel expansion and focused on the high-end market and service business, resulting in rapid growth of income from distribution income, high-end product and services.

(1) Enlarged channel coverage and share in SME market

During the period under review, the Group continued to enlarge its distribution coverage so as to increase its share in the SME market. It kept expanding the nationwide network of distribution partners and accredited and nurtured many implementation partners. It also actively forged partnership in key sectors, such as building a strategic alliance with the China Mobile Shanxi branch to facilitate informatization of SMEs. Income of the distribution segment for 2008 increased by 19% year-on-year, reflecting stronger ability and productivity of its partners.

Our operating concept is to be a completely localized international company in China and to satisfy the needs of customers
I found Kingdee
They provide management informatization services to more than 600,000 local enterprises which is a guarantee we seek for our success

Kingdee　my management consultant
Trevor Ness
General Manager, GSI Group Precision Technologies (Suzhou) Co., Ltd.

(2) *Stepped up development of large enterprise and industry markets and strengthened management expert image*

During the reporting period, riding on the outstanding corporate management capabilities of EAS product, the Group was able to expand the large enterprise segment including state owned enterprises and industry market. Sales of EAS products continued to grow rapidly, generating an income 43% higher year-on-year. EAS solutions made major breakthroughs in various industries including general construction, construction of port, transportation, furniture manufacturing, energy and mining, properties and financial services, etc. Contracts were signed with customers of strategic importance including Guangzhou Port Group, Chengdu QuanU Furniture (Group) Co., Ltd., Guangdong Province Changda Highway Engineering Limited, Shanxi Province Local Power (Group) Corporation, China Orient Asset Management Corporation and Shanghai Lujiazui (Group) Limited, etc.

In the reporting period, the Group seized the opportunities bred by the government financial reform and government effort to boost domestic demand to develop the government financial management market. It launched Kingdee GAS 3.0 which is a solution platform to meet the needs of government and public service departments in financial reform and management. The Group signed a number of project contracts including one for a central government owned enterprise safe production emergency platform and the central government owned enterprise performance assessment and management system with the Stated-Owned Assets Supervision and Administration Commission of the State Council, and the taxation bureau of Gansu Province, etc.

(3) *Pushed forward with service transformation aiming to boost customer loyalty and sustainable income*

During the reporting period, the Group pushed ahead in business transformation with strategies tailored to meet the needs of customers during the entire lifecycle of their businesses and operations. It has put out innovative service products and set up service systems covering aspects including consultation, implementation, maintenance, and training, etc. This move has allowed the Group to lay down initial service standards and parameters for its professional services and optimize its call center services, online services, remote and on-site services, to support customers and provide them with diverse and customized value-added services. As a result, the Group was able to boost customer satisfaction and receive contracts in steadily increasing numbers. The Group's newly established consultation department had provided management and IT consultation services to around 20 enterprises including Perfect (China) Limited, Xinjiang Daming Mining Group Limited and Hong Kong Golden Hans so far, which has greatly enhanced its management expert image. During the year, service income grew by 31% year-on-year, accounting for 35% of the total income of the Group, 4% more year-on-year.

Liang Miao
Project management expert

II. Middleware

During the reporting period, the middleware business of the Group continued to hold the leading position in local application server middleware market. It also launched the next generation enterprise integration middleware product Apusic ESB, which reinforced the leadership of the Group in the SOA service sector. The Group also made continuous effort to expand the distribution channel network and market share of the segment. It has been appointed by China Telecom System Integration LLC Xinjiang Branch, Guangzhou Lianyi Information Technology Co., Ltd. and Beijing E-motion Technology Co., Ltd. as their provincial agents and signed cooperative agreements with various industry independent software vendors regarding bundling Kingdee middleware products with their software products.

During the year, the Group secured contracts for its middleware business in the e-agriculture project, e-quality project and the national e-government infrastructure information database project of the national "Four Databases and Twelve Operation Systems". It also completed two Olympic projects – an operational organization and scheduling system project for Beijing Pubic Transport Holdings, Ltd. and an application system project for the Beijing Tourism Bureau, and other key provincial level projects including Safety Guangdong and e-government internet of Hunan Province.

III. Online Management Service and e-Business

During the year, the youshang.com of Kingdee, in SaaS strategic and technological partnership with IBM, launched online management and e-commerce services for China SMEs. youshang.com also established strategic cooperative relationship with partners such as IDC, Intel, ICBC, Guangdong Telecom, the China Association of Small and Medium Enterprises and China Accountancy Industry Association to offer e-commerce service solutions in the areas of marketing, service and technological collaboration to SMEs on an open platform. The youshang.com also won the tender for a "provincial SME public service platform" project from the Department of Information Industry of Guangdong Province and continued to receive funding and support from the government to grow its operations. Youshang online management service passed the stringent assessment of the Accounting Society of China and, as such, has laid down the security and technological benchmarks for application of SaaS management services by enterprises and established Kingdee as a pioneer and leader in the area. Youshang online accounting service received the "SaaS Product Innovation Award" from CCW, making it the only SaaS service product in the financial category in China to earn the honor. As at the end of the reporting period, the online management services provided on youshang.com were applied in many industries, including electronic technology, consultation service, trading, investment, logistics, property agency, etc. in the Asia-Pacific region and Hong Kong, Taiwan and China. The youshang.com boosted an annual accumulated page view exceeding 10,000,000 and more than 1,800,000 visitors and has over 100,000 registered users.

Our dream is to become an enterprise with global influence
Apparently this is a great challenge
Yet, I have more confidence with the help of Kingdee
As a good partner of a growing enterprise
I trust them

Kingdee my management consultant
Chen Yuxin
Chairman, Huaxi Hope Group

IV. International Business

During the year, despite impact from the global financial crisis, the Group achieved rapid growth for its business in Hong Kong and became one of the largest software and service providers in the city. It forged a loyal customer base comprising foreign enterprises, local traders and multinational manufacturers, and large enterprises under the State-owned Assets Supervision and Administration Commission of the State Council. The Group also actively expanded markets in Singapore, Malaysia and Thailand to develop and enhance its capabilities in internationalized implementation services.

V. Strategic Cooperation and Business Development

(1) Global Strategic Alliance

The Group stepped up cooperation with IBM during the year. In addition to working together in the area of SaaS servicing, the partnership also set up a SOA Innovation Center to nurture SOA software architects and develop the EAS WebSphere Adaptor prototype to optimize the SOA structure of next generation ERP products. As for its high-end consultation service, the Group combined strengths with IBM and, together with IBM's management consultation team, provided software and implementation support to companies such as Beijing Jingya Group.

Ge Dong
Information management expert

(2) Business Development

The Group always emphasizes on whole process application of different industries. The Group has been active in acquiring software suppliers and establishing strategic partnership with industry IT enterprises focusing on different industries. During the period under review, the Group completed the negotiation regarding the acquisition of Shenzhen Sunsoft Technology Co,. Ltd., the most active software vendor for retail chains in Guangdong.

Also, the Group acquired the rights to use an approximately 140,000 sq. m. plot of land from the Beijing Shunyi District Government at approximately RMB 70,000,000. The Group plans to invest in building a software park in Beijing in the next few years to take advantage of the geographical merits of the capital city to attract high caliber software and management talents who can help the Group to expand markets in Northern China.

VI. Social Responsibility

The Group has been steadfast in operating its business with integrity and fulfilling its social responsibility. After the disastrous earthquake hit Wenchuan in Sichuan province on 12 May 2008, the Group and its staff raised donations totaling over RMB 1,800,000 for the region. Chairman of the Group, Mr. Xu Shaochun, personally donated RMB 1,000,000 to set up a "Kingdee Education Aid Fund for Mao Xian" to subsidize poor primary and secondary school students and dedicated teachers.

During the year, the Group sponsored the council comprising the Chinese Society for Management Modernization, the China Europe International Business School, the Guanghua School of Management of Beijing University, the School of Economics and Management of Tsinghua University, the School of Business of Remin University, the Antai College of Economics & Management of Shanghai Jiao Tong University and the School of Management of the Graduate University of Chinese Academy of Sciences to organize the first "China Outstanding Management Model Award". The aim of the award is to encourage innovation in management among Chinese enterprises, facilitate modernization of enterprise management in China and promote the China management model to the world.

Financial Review

For the year ended 31 December 2008, the Group's turnover amounted to RMB 875,300,000, representing an increase of 14% against 2007 (2007: RMB 766,874,000). The revenue growth was stable but lower than that of last year. This was because with the China economy affected by the global financial crisis in the second half of the year, the traditional peak season for sales, the slowdown in revenue dragged down income growth of the Group for the entire year.

During the year, the Group realized revenue from software of RMB 555,254,000, representing an increase of 7% against 2007 (2007: RMB 520,197,000), and service revenue of RMB 307,567,000, representing an increase of 31% against 2007 (2007: RMB 234,256,000). During the year, the Group's cash flow generated from operating activities was RMB 285,675,000, representing an increase of 6% over that of 2007 (2007: RMB 268,715,000).

During the reporting period, the debtor turnover days was 57 days (the average of the debtor balance at the beginning and the end of the year divided by the total revenue of the year times 365 days) (2007: 70 days). During the reporting period, the Group made efforts to manage and recover receivables and hence maintained account receivables turnover at a reasonable level.

For the year ended 31 December 2008, profit attributable to equity holders of the Company was RMB 181,546,000, representing an increase of 33% against 2007 (2007:RMB 136,476,000). During the year, net profit margin was 21% (2007: 18%) and basic earnings per share were RMB 0.0958 (2007: RMB 0.075).

Gross Profit

Gross profit of the Group increased by approximately 14% from RMB 607,175,000 for the year 2007 to RMB 690,845,000 for 2008. Gross profit margin for the year was stable at approximately 79% (2007: approximately 79%).

Selling and Marketing Expenses

Selling and marketing expenses for the year was approximately RMB 428,466,000 (2007: RMB 327,981,000), representing an increase of 31% against last year. Selling and marketing expenses accounted for a comparable 49% of turnover, compared to 43% in 2007. The higher proportion was attributable to the Group's execution of the aggressive strategy made at beginning of the year.

Administrative Expenses

Administrative expenses for 2008 amounted to RMB 226,930,000 (2007: RMB 224,502,000), representing an increase of approximately 1%. During the period, administrative expenses accounted for a comparable 26% of the turnover, compared to 29% in 2007. This was because the cost of R&D was approximately RMB 90,971,000, representing an increase of only 5% as compared with 2007 (2007: RMB 86,363,000) while other administrative expenses were effectively controlled.

Capital Expenditure

For the year ended 31 December 2008, the Group's major capital expenditure mainly included cost of leasehold land and land use right of RMB 70,512,000 (2007: RMB 235,000), construction cost of the Shanghai and Shenzhen Research Centers of RMB 132,430,000 (2007: RMB 53,437,000), R&D capitalized expenses of RMB 80,318,000 (2007: RMB 58,721,000), and purchase of computer and related equipment in the amount of RMB 17,099,000 (2007: RMB 7,085,000).

Wang Yan
Channel management expert

Financial Resources and Liquidity

The Group was in a healthy cash flow position. As at 31 December 2008, the Group had cash and cash equivalents plus deposits amounting to approximately RMB 521,100,000 (2007: RMB 438,595,000). Current ratio was 1.80 (2007: 2.02) and gearing ratio (defined as the ratio of bank borrowings to shareholder equity) was approximately 1% (2007: 0%).

As at 31 December 2008, the Group's short-term bank loan amounted to RMB 9,500,000 (2007: nil). As at 31 December 2008, the Group did not have any long-term bank loan (2007: nil).

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

Future Prospects

Amid the global financial and economic crisis, the Group will continue to operate their businesses with prudence in the first half of 2009. The management of Kingdee firmly believes confidence and shrewd management will make the difference for an enterprise in challenging times. The business environment has prompted more large enterprises to choose local enterprise management software solutions that have higher performance to price ratio and many SMEs have come to realize the importance of boosting their management competitiveness in helping them overcome external crisis. These phenomena have presented to the Group opportunities and product demand. In the larger environment, the Chinese Government has not only continued to support the development of the local software industry, but has also launched financial and monetary policies to stimulate domestic demand, assisted SMEs to transform or upgrade their businesses and encouraged enterprises to adopt relevant information technologies to improve management and enhance competitiveness. In the country's plan to invigorate the electronics and information industry, the government offers tax benefits, encourages enterprises to use locally-developed software, provides financial subsidies for industry development, supports industry integration and mergers and acquisitions, etc. to foster development of software enterprises.

In 2009, the Group will uphold the strategic direction of stepping up service transformation, expanding distribution channels, responding promptly to market, building up management expert image, expanding profit and saving costs, as well as ensuring steady growth. It will also continue to strengthen services to meet the needs of customers throughout their business lifecycle and explore the value of strategic and industry customers. Furthermore, it will strive to enlarge its marketing and sales service channel network, expand income from the distribution and service segments, speed up product and service innovation, reinforce its management expert image and provide customers with better value added services. To maintain profitability, it will also push on with improving risk management, internal control, and cost management and to improve its cost structure. Capitalizing on the opportunities presented by the economic crisis, the Group will actively identify and pursue merger and acquisition of industry software vendors and small to medium size software enterprises to consolidate its market leadership. In addition, the Group will continue to fulfill its social responsibility, assist Chinese enterprises in improving their capabilities, drive the embrace of the China management model and help more Chinese enterprises cope more effectively in the current economic downturn.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

XU Shao Chun (徐少春), aged 46, chairman, Chief Software Architect and founder of the Company. Mr.XU was appointed as Chief Executive Officer of the Company with effect from 31 December 2008. Mr. XU is a member of 9th central committee of China National Democratic Construction Association. Mr. XU has been awarded the Government Special Expert Allowance by the State Council and a senior economist of the PRC. Mr. XU graduated from Southeast University in computer science and obtained Master of the Science and Research from Institute of Ministry of Finance and Master Business Administration from China Europe International Business School. Since the Company was founded by Mr. XU in 1991, he has been devoted himself to the enterprise application software careers. He has profound comprehension in the strategy and management of enterprise operation. Moreover, he has led the company achieve three-time technology revolutions in Chinese management software by his advanced technological sensibility and accurate understanding in tendency of global management software industry. Mr. XU has been highly awarded for his outstanding innovation as well as technological transform to the development of Chinese software industry.

HO Ching Hua (何經華), aged 52, an executive Director, Chief Executive Officer of the Company. Mr. HO has resigned as the Chief Executive Officer and has been re-designated from an executive director to a non-executive director for personal and family reasons and appointed as the Chief Strategy Consultant of the Strategy Committee of the Board as well with effect from 31 December 2008. Mr. HO was responsible for the comprehensive operation management of the Company. Mr. HO graduated from National Taiwan University in political science and obtained Master of Arts from National Chenchi University of Taiwan and Master of Science from University of Maryland of the United States. Prior to joining the Company, Mr. HO had been the major account director of Sybase Inc., the technical sales director of Oracle East Central Europe Limited, the managing director of Oracle Taiwan Inc, the CEO of UFIDA Software Co. Ltd. and the vice president and general manager of Greater China & East Asia of Siebel Systems Inc. Mr. HO has abundant experience in sales channel operation and management of international and domestic well-known IT enterprises.

CHEN Deng Kun (陳登坤), aged 32, an executive Director, vice president and Chief Financial Officer of the Company. He is mainly responsible for financial, investment & business development and administration management of the Company. Mr. CHEN graduated from Anhui Institute of Finance and Trade (currently known as Anhui University of Finance and Economics) and a member of China Certified Public Accountant. Since Mr. CHEN joined the Company in 2000, he has been responsible for audit, administration, human resources and financial matters of the Company.

Non-executive Directors

James Ming KING (金明), aged 61, a non-executive Director. Mr. KING provided strategic consulting, training for staff and business partner of the Company and training and consulting services for strategic clients. Mr. KING obtained master of science degree in institutional engineering in 1973 from Mississippi State University in the United States. Mr. KING has nearly thirty years extensive sales and marketing experiences within and outside the PRC. Prior to joining the Company, he had been the vice-president of sales and marketing for Dell Computer Asia Limited and he had been employed as the Director Sales/Country Manager by Novell, China. He has also worked with Hewlett-Packard Company for many years.

Charles Po-Shun WU (吳寶淳), aged 53, Mr. WU was appointed as a non-executive Director of the Company on 31 March 2008 and has resigned as a non-executive Director of the Company with effect from 10 September 2008. Mr. WU is a vice president of IBM and managing partner of China Investment Fund in Great China area, an expansion fund created by IBM and Lehman Brothers. He graduated from University of Houston with a Bachelor of Business Administration degree in Finance. He joined International Business Machines Corporation in the U.S. in 1978. In 1994, Mr. WU went to work in China by mission. Prior to his current position, he had been successively appointed as general manager of IBM East and Central China, general manager of e-commerce Solution and Rising Enterprise department in Great China area, general manager of Software Group of IBM Greater China, and general manager of Strategy and Development department. Mr. WU has abundant experience in areas of banking, insurance, circulating, manufacturing, medical treatment and public sectors.

Hugo SHONG (熊曉鴿), aged 53, a non-executive Director of the Company. Mr.SHONG has resigned as a non-executive Director of the Company with effect from 31 March 2008. He is the senior vice-president of IDG, president of IDG Asia, Inc and vice-chairman of IDGVC. Mr. SHONG graduated from Hunan University majored in English in 1981 and obtained master degree in journalism from Boston University of the U.S. in 1987. Mr. SHONG has also completed the Advanced Management Program, the International Senior Managers' Program organized by the Graduate School of Business Administration of Harvard University in 1996.

Independent non-executive Directors

YANG Zhou Nan (楊周南), aged 71, an independent non-executive Director of the Company, a professor of the graduate school of the Institute of Fiscal Science of the Ministry of Finance and a people's representative to the Ninth National People's Congress of the PRC. Ms. YANG graduated from Nan Kai University with a master degree in mathematics. After graduation, Ms. YANG worked in Beijing Computing Centre as a researcher. Ms. YANG has approximately 20 years of research and teaching experience in the areas of finance, accounting and taxation.

WU Cheng (吳澄), aged 69, an independent non-executive Director of the Company, a professor of the Department of Automation, Tsinghua University, and an academician of Chinese Academy of Engineering. Mr. WU is also the director of State CIMS Engineering Technical Research Center. Mr. WU graduated from the Department of Electrical Engineering, Tsinghua University with bachelor degree in 1963 and master degree in 1967. Mr. WU has participated in CIMS projects of 863 Programme, and appointed as the leader of CIMS expert group and chief scientist in automation field. He received a number of awards for his contributions to the technology development in the PRC.

YEUNG Kwok On (楊國安), aged 48, an independent non-executive Director of the Company, a professor of business administration and executive director of organizational effectiveness lab at the Ross School of Business at the University of Michigan, and also a professor of China Europe International Business School. Mr. YEUNG received a Ph.D. of Business Administration from University of Michigan in 1990. Mr. YEUNG worked in Acer Inc. as Chief Learning Officer and Chief Human Resources Officer from early 1999 to June 2002. During the same period of time, he simultaneously served as president of Aspire Academy under Acer Foundation. Mr. YEUNG is a member of editorial advisory board of Harvard Business Review (China) and an associate editor of Human Resource Management Journal of America. Mr. YEUNG is experienced in enterprises organizational construction, human resources strategy and human resources training. Mr. YEUNG was awarded the "2002 China Human Resources Annual Person" by SmartFortune Magazine of China and the "2004 China Human Resources Outstanding Achievement Award" jointly by Asia-Pacific Human Resources Research Association and SmartFortune Magazine (China) Co., Ltd.

Gary Clark BIDDLE, aged 58, an independent non-executive Director of the Company. Mr. BIDDLE is a PCCW Chair Professor, and Dean of Faculty of Business and Economics of University of Hong Kong. Mr. BIDDLE received his Ph.D. degrees from University of Chicago. Mr. BIDDLE has also served as professor at University of Chicago and University of Washington, and as visiting professor at China Europe International Business School. Mr. BIDDLE is a member of American Chamber of Commerce in Hong Kong, American Institute of Certified Public Accountants, Hong Kong Society of Accountants, and Washington Society of Certified Public Accountants. Mr. BIDDLE published research articles on topics including performance measurement, valuation, and value creation were published in the world's leading journals and he has offered executive seminars around the region and world.

COMPANY SECRETARY

NGAN Lin Chun, Esther (顏連珍), aged 53, company secretary of the Company. Ms. Ngan is a chartered secretary and has over 20 years experience in the company secretarial field. Ms. Ngan is a director of WBC Secretaries Limited, which is a secretarial service company and has acted as company secretary of a few listed companies, which are Cosco International Holdings Limited (from January 1992 to June 1997), Star Cruise Limited (from October 2000 to May 2001) and VXL Capital Limited (from May to July 2005). Ms. Ngan is a fellow member of the Hong Kong Institute of Company Secretaries.

QUALIFIED ACCOUNTANT

HO, Ka Man Barry (何嘉文), aged 46, qualified accountant and General Manager of Corporate Finance and Business Development of the Company. Mr. HO joined us in June 2005. Mr. HO received a bachelor degree of Business Administration from the Chinese University of Hong Kong, a master degree of Applied Finance from Macquarie University of Australia and a master degree of Business Administration from Sydney University of Australia. Mr. HO is a member of the U.S. Institute of Chartered Financial Analysts, the Hong Kong Institute of Financial Planners, the Hong Kong Institute of Certified Public Accountants, Hong Kong Securities Institute and the Australian Institute of Banking and Finance. Mr. HO has rich experience in the financial industry, including in the areas of treasury, fund management and securities. He has worked for local and foreign banks, fund houses, securities firm and Hong Kong Monetary Authority.

SENIOR MANAGEMENT

XU Shao Chun (徐少春) – see the paragraph under "Executive Directors" above.

HO Ching-hua (何經華) – see the paragraph under "Executive Directors" above

CHEN Deng Kun (陳登坤) – see the paragraph under "Executive Directors" above.

TIAN Rong Ju (田榮舉), aged 38, senior vice president and Chief Technology Officer of the Company. Mr. TIAN is responsible for products and R&D of the Company. Mr. TIAN graduated from Chongqing Yuzhou University. He has abundant experience in program, design, research and relevant profession in Chinese management software. After Mr. TIAN joined us in 1999, he has been responsible for products program, research and development and testing.

ZENG Liang (曾良), aged 36, vice president of the Company and general manager of Hong Kong branch. Mr. ZENG is responsible for international business development and operation management. Mr. ZENG obtained MBA degree and Master degree of Science in Engineering from Georgia Institute of Technology of the United States. Prior to his joining us in 2003, he worked for MicroStrategy in the United States. Mr. ZENG was appointed as the general manager of marketing department, Central South District and Asia Pacific of the Company.

LI Guang Xue (李光學), aged 40, senior vice president of the Company. Mr. LI is responsible for whole business operation and management in China northern area of the Company. Mr. LI obtained a bachelor degree of Physics from Ocean University of Qingdao (currently known as Ocean University of China) in 1991. After joining us in 1995, Mr. LI has been engaged in the areas of research and development, service, sales, human resources and information management.

ZHANG Yong (章勇), aged 34, vice president of the Company. Mr. ZHANG is responsible for whole business operation and management in China Eastern area of the Company. Mr. ZHANG graduated from Shandong Jinan University. After joining the Company in 1995, Mr. ZHANG has been appointed as the general manager of Shanghai Branch and East China District and engaged in the areas of marketing and business management. He has extensive experience in marketing, sales and team work management. Mr. ZHANG is a committee member of the 10th Chinese People's Political Consultative Conference of Putou Region, Shanghai Municipality.

HO, Ka Man Barry (何嘉文) – see the paragraph under "QUALIFIED ACCOUNTANT" above.

REPORT OF DIRECTORS

The directors of the Company ("Directors") are pleased to present to the shareholders their report together with the audited financial statements of Kingdee International Software Group Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2008.

Principal Activities and Geographical Analysis of Operations

Kingdee International Software Group Company Limited (www.kingdee.com) is listed on the Main Board of Hong Kong Exchanges and Clearing Limited (HK Stock Code: 268). It is a leader in China's software industry, a leading enterprise management software and middleware provider in the Asia-Pacific region, and a world-leading online management and e-commerce application solution service provider. Its mission is to lead the advancement of management model, encourage e-commerce and contribute to customers' success. The Group provides informatization services to over 600,000 enterprises and government departments and organizations all around the world.

The total revenue and profit attributable to the equity holders of the Company for the year ended 31 December 2008 were RMB 875,300,000 and RMB 181,546,000 respectively. Among which, approximately 63% was derived from the sales of software, approximately 35% was derived from the service income and 2% from sales of computer hardware and related products respectively. For details, please refer to the consolidated income statement set out on page 44.

During the reporting period, the sales and distribution network of the Group continued to expand, covering most of the provinces, autonomous regions and centrally administered municipalities in the PRC. As at 31 December 2008, the Group had 44 branches and nationwide sales agents and 1,400 distributors offering products and after-sale services to the customers of the Group. The total number of customers has exceeded 600,000, spreading all over Asia-Pacific region, including mainland China, Hong Kong, Taiwan, Singapore, Malaysia, Indonesia, Thailand, etc.

Results and Appropriations

The results for the year ended 31 December 2008 are set out in the consolidated income statement on page 44 and the appropriation is set out in Note 31 to the financial statements.

Distributable reserves

As at 31 December 2008, the Company's distributable reserves available for distribution to shareholders amounted to approximately RMB132,797,000 (2007: RMB182,142,000).

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 HKD 0.10 each in the share capital of the Company had been subdivided into four shares of par value HKD 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.

Final Dividends

At the Annual General Meeting ('AGM') of the Company to be held on 12 May 2009 ("Forthcoming AGM"), the board of Directors (the "Board") will recommend a final dividend of HKD 0.022 per share (2007: HKD 0.02125 per share) for the year ended 31 December 2008. Subject to the approval of shareholders at the Forthcoming AGM, the final dividend will be payable on 26 June 2009 to shareholders whose names appear on the register of members of the Company on 12 May 2009, (date of AGM).

Closure of Register

The register of members of the Company will be closed from Thursday, 7 May 2009 to Tuesday, 12 May 2009 (both days inclusive), and during which no transfer of shares will be affected. In order to qualify the shareholders of the Company to attend, act and vote at the Forthcoming AGM and to qualify the entitlement of the final dividends, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 6 May 2009.

Material Investment and Acquisition

The Company, through Kingdee China, entered into the Project Agreement on 3 April 2008 with Beijing Shunyi New City Regulatory Commission and the Land-use Rights Transfer Agreement on 29 April 2008 with the Beijing Shun'ao Investment Centre. Pursuant to these two agreements, Kingdee China will acquire the Land-use Rights of the Land with an area of approximately 213.6725 Mu (142,434.0885 square meters) from Beijing Shun'ao Investment Centre in consideration of RMB 70,512,000 in cash by Kingdee China.

Bank Borrowings

Details of the bank borrowings of the Group as at 31 December 2008 are set out in Note 21 to the financial statements.

Reserves

Details of movements in the reserves of the Group and the Company for the year ended 31 December 2008 are set out in the consolidated statement of changes in equity on page 45.

Fixed Assets

Details of the movements in the fixed assets of the Group for the year ended 31 December 2008 are set out in Note 7 to the financial statements.

Interests of the Directors in Contracts

No Directors had any direct or indirect material interests in any contracts of significance to the business of the Group to which the Company or any of its subsidiaries or fellow subsidiaries was a party at the end of the year or at any time during the year ended 31 December 2008.

Share Capital and Options

- Share Capital

  Details of the movements in share capital of the Company for the year ended 31 December 2008 are set out in Note 17 to the financial statements.

- 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 HKD 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.

- Purchase, Sale or Redemption of Shares

  During the year ended 31 December 2008, the Company has repurchased 1,958,000 shares in aggregation, which have been cancelled with effect from 17 November 2008.

- Outstanding Share Option

  Outstanding share options under the 2001 Scheme, 2002 Scheme and Share Option 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, of which 3,790,000 share options were exercised, 2,870,000 were cancelled and 220,000 remained outstanding as at 31 December 2008.

  Pursuant to the share option scheme of the Company adopted on 26 April 2002 ("2002 Scheme"), an aggregate of193,850,000 share options were granted, of which 65,110,679 share options were exercised, 82,952,723 were cancelled and 45,786,598 remained outstanding as at 31 December 2008.

  Both of the 2001 Scheme and 2002 Scheme were terminated by the Company. In the extraordinary general meeting of the Company convened on 11 July 2005, the Company adopted the Share Option Scheme. As at 31 December 2008, the Company has granted 239,010,000 shares options pursuant to the Share Option Scheme, of which 10,670,000 share options were exercised, 17,944,000 were cancelled and 210,396,000 remained outstanding.

As at 31 December 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 31 December 2008 after the Subdivision of Share which took effect on 9 May 2008.

Table 1:

Grant Date	Exercise price HKD	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):

Name of Directors	Grant Date	Exercise price HKD	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 HKD	Options held at 8 May 2008	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options held at 31 December 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	—	280,000	—	2,704,000
23/03/2004(4)	0.795	16,000,000	—	—	—	16,000,000
01/06/2004(5)	0.6625	14,974,372	—	2,075,839	45,935	12,852,598
27/12/2004(6)	0.5125	1,170,000	—	150,000	—	1,020,000
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	—	840,000	520,000	18,440,000
28/04/2006(9)	0.6525	40,600,000	—	2,500,000	—	38,100,000
28/04/2006(9)	0.6525	13,800,000	—	470,000	—	13,330,000
04/05/2006(9)	0.6575	7,600,000	—	1,000,000	—	6,600,000
22/06/2006(9)	0.65625	42,800,000	—	—	—	42,800,000
18/07/2006(10)	0.72375	4,480,000	—	1,920,000	—	2,560,000
23/01/2007(11)	0.935	17,600,000	—	—	—	17,600,000
05/06/2007(11)	1.7075	14,016,000	—	20,000	—	13,996,000
08/06/2007(11)	1.8075	4,720,000	—	—	—	4,720,000
01/08/2008(8)	1.75	—	45,450,000	—	200,000	45,250,000
19/11/2008(12)	0.95	—	5,000,000	—	—	5,000,000
Total		216,014,372	50,450,000	9,295,839	765,935	256,402,598

Table 2 (Directors' share options):

Name of Directors	Grant Date	Exercise price HKD	Options held at 8 May 2008	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options held at 31 December 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	—	—	—	—	—
	19/11/2008[12]	0.95	—	5,000,000	—	—	5,000,000
Chen Deng Kun	08/06/2007[11]	1.8075	2,720,000	—	—	—	2,720,000
	04/05/2006[9]	0.6575	7,600,000	—	1,000,000	—	6,600,000
	01/06/2004[5]	0.6625	520,616	—	367,000	—	153,616
	01/08/2008[8]	1.75	—	2,000,000	—	—	2,000,000
Ho Ching Hua	23/01/2007[11]	0.935	17,600,000	—	—	—	17,600,000
Non-executive directors	8/06/2007[11]	1.8075	2,000,000	—	—	—	2,000,000
Total			66,040,616	7,000,000	1,367,000	—	71,673,616

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) 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 24 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 36 months, 48 months and 60 months respectively from 1 year after the date of grant.

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

Directors and Service Contracts of Directors

The compositions of the Board for the financial year ended 31 December 2008 were as follows:

Executive Directors and Managing Directors

Mr. Xu Shao Chun
Mr. Ho Ching Hua (re-designated from executive director to non-executive director with effect from 31 December 2008)
Mr. Chen Deng Kun

Non-executive Directors

Mr. Hugo Shong (resigned on 31 March 2008)
Mr. James Ming King
Mr. Charles Po-Shun Wu (appointed on 31 March 2008 and resigned on 10 September 2008)

Independent Non-executive Directors

Ms. Yang Zhou Nan
Mr. Wu Cheng
Mr. Yeung Kwok On
Mr. Gary Clark Biddle

In accordance with Article 116 of the Company's Articles of Association, Mr. Ho Ching Hua, non-executive Director, and Mr. Wu Cheng, Mr. Yeung Kwok On, independent non-executive Directors, would retire by rotation at the Forthcoming AGM, and would offer themselves for re-election as directors of the Company at the Forthcoming AGM.

Mr. Hugo Shong resigned from directorship as a non-executive director of the Company with effect from 31 March 2008.

Mr. Charles Po-Shun Wu had been appointed as non-executive director of the Company with effect from 31 March 2008. Mr. Wu has resigned as a non-executive director of the Company with effect from 10 September 2008 for the reason that he was busy with his business engagements.

Mr. Ho Ching Hua had entered into a letter of appointment as executive director and was re-designated from an executive director to a non-executive of the Company for a term of two years with effect from 31 December 2008.

Save as aforesaid, no Director had entered into any service contract with the Company.

The Company has received a written confirmation from each independent non-executive Director of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"). The Company considers all the independent non-executive Directors are independent.

Directors' and chief executive's interests or short positions in the shares, underlying shares or debentures

As at 31 December 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 ("SFO")), which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the 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)	
		33,011,520	Beneficial owner	
		40,600,000	Other/Share option (Note 2)	
	Aggregate:	641,276,520		33.36%
Ho Ching Hua (Re-designated to non-executive director with effect from 31 December 2008)		17,600,000	Other/Share Option (Note 2)	
	Aggregate:	17,600,000		0.92%
Chen Deng Kun		91,500	Beneficial owner	
		11,473,116	Other/Share Option (Note 2)	
	Aggregate:	11,564,616		0.60%
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%

Directors' and chief executive's interests or short positions in the shares, underlying shares or debentures – *Continued*

Long positions in shares/ underlying shares of the Company – *Continued*

Name of Directors		Number of Shares/ underlying shares (where appropriate)	Capacity	Percentage of issued share capital
Yeung Kwok On		200,000	Beneficial owner	
		400,000	Other/Share Option (Note 2)	
	Aggregate:	600,000		0.03%
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)		—	Other/Share Option (Note 2)	
	Aggregate:	—		—

Notes:

(1) Of the 641,276,520 shares, 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 "Share Capital and Options".

Save as disclosed in this paragraph, as at 31 December 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 the Company and its associated corporations (within the meaning of Part XV of the SFO) , which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Par XV of the SFO or which will be required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Listing Rules.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section headed "Share Capital and Options" above, none of the Directors or their respective associates (as defined under the Listing Rules) was granted by the Company, or any of its subsidiaries to any rights or options to acquire shares or debentures in the Company during the year ended 31 December 2008.

Substantial shareholders' and other persons' interests and short positions in the shares, underlying shares and debentures

As at 31 December 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 which would fall to be disclosed to the Company under the provisions of Part XV of the SFO and required to be recorded in the register required to be kept under Section 336 of the SFO:

Long positions in shares/underlying shares of the Company

Name	Number of Shares/underlying shares (where appropriate)	Capacity	Percentage of issued share capital
Oriental Gold Limited	334,425,000	Beneficial owner	17.40%
Billion Ocean Limited	233,240,000	Beneficial owner	12.13%

Save as disclosed above, as at 31 December 2008, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest and short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Public Float

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

Purchase, Sale or Redemption of Shares

At the 2007 annual general meeting of the Company held on 8 May 2008, an ordinary resolution was passed to grant a general mandate to the Directors to exercise the powers of the Company to purchase Shares up to a maximum of 10% of the issued share capital of the Company as at the date of passing the resolution.

During the year ended 31 December 2008, the Company has repurchased 1,958,000 shares in aggregation, which have been cancelled with effect from 17 November 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.

Connected Transactions

During the year ended 31 December 2008, there was no transaction which needs to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

Major Customers and Suppliers

The percentages of sales and purchases for the year attributable to the Group's major customers and supplies are as follows:

Sales	
– the largest customer	1.07%
– five largest customers combined	4.09%
Purchases	
– the largest supplier	18.78%
– five largest suppliers combined	38.01%

None of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

Change of Directors

Mr. Hugo Shong had tendered his resignation as a non-executive director of the Company with effect from the conclusion of the Board Meeting on 31 March 2008 due to personal concerns.

Mr. Charles Po-Shun Wu had been appointed as non-executive director of the Company with effect from 31 March 2008. Mr. Wu had tendered his resignation as a non-executive director of the Company with effect from the conclusion of the Board Meeting on 10 September 2008 due to the reason of his business engagements.

Mr. Ho Ching Hua has tendered his resignation as the Chief Executive Officer due to his personal and family reasons, and has been re-designated from an executive director to a non-executive director, and appointed as the Chief Strategy Consultant of the Strategy Committee of the Board with effect from the conclusion of the Board Meeting on 31 December 2008.

In accordance with Article 116 of the Company's Articles of Association, Mr. Ho Ching Hua, a non-executive Director, Mr. Wu Cheng and Mr. Yeung Kwok On, independent non-executive Directors, would retire by rotation, and would offer themselves for re-election as directors of the Company at the Forthcoming AGM.

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 2008.

Provisions A.2.1 requires for the segregation of the roles of Chairman of the Board (the "Chairman") and Chief Executive Officer ("CEO") of the Code. On 31 December 2008, Mr. Ho Ching Hua has tendered his resignation as the Chief Executive Officer due to his personal and family reasons. Mr. Xu Shao Chun has been appointed as the Chief Executive Officer on the same day. Therefore, since 31 December 2008, Mr. Xu Shao Chun has been performed both roles of the Chairman and CEO. The Board considers that Mr. Xu Shao Chun has the experience of performing as both the chairman and CEO before. He is able to differentiate his responsibilities under each role and act accordingly. Mr. Xu Shao Chun is proficient in IT knowledge and is able to manage the fast and myriad changes in the business. Facing the enormous challenges under the current financial crisis and economic environment, he can lead the Company to react swiftly and make timely decision in this fast-moving IT industry and ensure sustainable development of the Company. Notwithstanding the above, the Board will review the current organization structure from time to time and will make appropriate changes when necessary.

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 seven Board meetings during the financial year ended 31 December 2008. The Directors have been consulted to advise 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 27 of this report. Non-executive Directors of the Company have 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 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 on page 35 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 2008 on 10 September 2008. 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 2008.

To ensure strict adherence to the Code, the Company has perfected the Board structure and standardized the rules of procedure of the Board (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, and effectively implement the duties and responsibilities conferred by the shareholders on the Board and board committees, the Board adopted and implemented the "Rules and Procedures of Board Meetings".

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

(1) To convene the shareholders' meetings, report to the shareholders and implement the resolutions of the meetings;

(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 budget plans, profit distribution plans and loss remedy plans of the Group;

(5) To draft amendments to the articles of association, registered capital changes and the issuance of bonds and the Listing Rules;

(6) To approve the directors remuneration plan authorized by shareholders;

(7) To hear the working report of the CEO and to review the work of the CEO.

(8) To review and approve Share Award Plan of employees and Share Option Scheme.

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.

II. Consistence of the Board

The Board consists of 10 members, with three executive directors (including Mr. Ho Ching Hua, re-designated from executive director to non-executive director on 31 December 2008), three non-executive directors (including Mr. Hugo Shong, a non-executive Director and resigned on 31 March 2008, Charles Po-Shun Wu, a non-executive Director and resigned on 10 September 2008) and four independent non-executive directors.

III. Board Meeting

The attendance of individual Directors at Board meeting and Board Committee meeting for the year ended 31 December 2008 are as follows:

Directors during the financial year ended 31 December 2008	Times of Attendance/Meetings Board	Board Committees Audit Committee	Remuneration Committee	Nomination Committee	Strategy Committee
Executive Directors					
Mr. Xu Shao Chun	6/7	N/A	N/A	N/A	2/2
Mr. Ho Ching Hua (re-designated from executive director to non-executive director on 31 December 2008)	6/7	N/A	N/A	N/A	2/2
Mr. Chen Deng Kun	7/7	N/A	3/3	N/A	2/2
Non-executive Directors					
Mr. Hugo Shong (resigned on 31 March 2008)	N/A	N/A	N/A	N/A	N/A
Charles Po-shun Wu (resigned on 10 September 2008)	1/7	N/A	N/A	N/A	1/2
Mr. James Ming King	7/7	N/A	N/A	2/2	1/2
Independent Non-executive Directors ("INED")					
Ms. Yang Zhou Nan	6/7	3/3	3/3	N/A	N/A
Mr. Wu Cheng	5/7	2/3	N/A	1/2	N/A
Mr. Yeung Kwok On	7/7	N/A	3/3	2/2	N/A
Mr. Gary Clark Biddle	5/7	3/3	N/A	N/A	N/A

IV. Measures to ensure Directors Responsibilities

(1) When appointing director of the Company, the Company will arrange for a liability training to directors by a professional lawyer to assist the directors fully understand the Listing Rules and other related laws and regulations in relation to the liability of directors. The Company would also make directors timely and fully know the operation of the Company.

(2) When directors expressed their views to the Company in relation to related transactions, award programs, internal controls, etc, the Company has hired auditors, financial advisers and lawyers and other relevant independent professionals to provide independent professional advice to help directors to fulfill their responsibilities.

(3) With regard to legal actions which the Company may face in relation to directors' fulfillment of responsibilities, on 22 May 2008, the Board of Directors has signed a "Liability Insurance Contract of Directors, Supervisors and Officers" for a period of one year with AIG Insurance Company (the Hong Kong branch).

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. The meeting held on 31 March 2008 considered and approved the adjustment of organization of the Board and re-appointed the members of the committees. These committees mainly consist of the independent non-executive Directors and non-executive Directors. Meetings of the committees should be held in accordance with the Board Rules.

Audit Committee

The Audit Committee of the Company ("Audit Committee") comprises three independent non-executive Directors. The members of the Audit Committee are Ms. Yang Zhou Nan, Mr. Wu Cheng, and Mr. Gary Clark Biddle. Ms. Yang Zhou Nan is 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 auditors and approving the remuneration and terms of engagement of the external auditors, and resignation or dismissal of the external auditors, 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 auditors audited independently and accounting policy, and supervise the Company's financial reporting system and internal control procedures.

During the financial year ended 31 December 2008, the Audit Committee has held three meetings, which including:

(1) The Audit Committee has reviewed the Company's annual financial report and Internal Control Report for the year ended 31 December 2007 approved by the Board.

(2) The Audit Committee has reviewed the Company's interim financial statements of 2008 and Internal Control Report, approved by the Board.

(3) The Audit Committee has communicated with the auditor of the 2008 annual audit work and audit plans.

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 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 2008, the Committee held three meetings, for reviewing the remuneration of the senior management and the Company's Share Award Plan in 2008 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. James Ming King, Mr. Yeung Kwok On and Ms. Yang Zhou Nan. Mr. James Ming King is chairman of the Committee.

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 2008, the Nomination Committee had held two meetings, for reviewing the appointment and resignation of Mr. Charles Po-Shun Wu as a Director, and re-designation of Mr. Ho Ching Hua from executive director to non-executive director and resignation as CEO.

Strategy Committee

The Strategy Committee of the Company ("Strategy Committee") comprises three executive Directors, two non-executive Directors and one independent non-executive Director. The members of the Strategic Committee are Mr. Xu Shao Chun, Mr. Ho Ching Hua, (re-designated from executive director to non-executive director) Mr. Chen Deng Kun, Mr. James Ming King, and Mr. Charles Po-Shun Wu (resigned on 10 September 2008). Mr. Xu Shao Chun is 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 financial year ended 31 December 2008, the Strategy Committee has held two meetings. Its major work includes:

(1) Reviewed the financing plan. 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 HKD 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. The net proceeds was approximately HKD 135,087,080.

(2) Started a 2009 strategic study meeting to identify new development strategies in 2009: stepping up service transformation, expanding distribution channels, responding promptly to the market, building up management expert image, striving to broaden income sources and trim cost to assure steady growth.

Internal Control

The Company has always placed importance to internal control and risk management. The Company has established a system of internal control and risk management through the Board of Directors and its Audit Committee, the Audit Department and quality management department under the management. The system would periodically evaluate the implementation of the strategic objectives, continue to improve and optimize the system to ensure implementation of strategic goals. Based on fair internal control and management, the Company has been honored "Shenzhen Mayor Quality Award" on 2008.

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

(1) The Board of Directors is fully in charge of the Company's internal control system and review its effectiveness through the audit committee. The management is in charge of the operation of enterprises, as well as business strategy development and implementation. The Audit Committee of the Board would conduct an inspection to the strategy implementation and internal monitoring system every six months.

(2) The Company continues to strengthen the independent monitor function of the audit department. It intends to implement the transfer from the financial-oriented model to risk-oriented model. The focus of internal audit work has been transferred from financial and results audit to strategy and business performance audit. The audit department can report directly to the Audit Committee of the Board.

(3) The Company strengthens communication between auditors and the Audit Committee of the Board. Before annual audit work, auditors will audit work plans, audit methods, accounting standards, and audit scope with members of the Audit Committee.

II. Effective control activities

(1) In order to cope with the enormous challenges caused by the global financial crisis in 2008 and economic recession, the Company's management has been timely adjusting strategies: stepping up service strategy transformation, and expanding distribution channels, responding promptly to the market, building up management expert image, striving to broaden income sources and trim cost to assure steady growth.

(2) The Company has been strengthening the internal authorization system; defining a clear mandate of different positions, work flows, rights and duties and other related content. In order to form a system of mutual checks and balances, the Company has been strengthening the control of division of responsibility.

(3) The Company has been making full use of resource-sharing. It has effectively established information exchange channels and feedback mechanisms through intranet to maximize information sharing. The Company has also provided adequate human and financial resources to ensure normal communication of information and effective operation could be maintained.

(4) The Company has been strengthening internal risk evaluation and risk management. Through daily operation audit and strategic audit, the Company has discovered existing deficiencies of systems and operations. Semi-annually, the audit department would do a self-assessment of internal control, and report to the management its recommendations and rectification measures based on the results of the assessment.

(5) The Company has fulfilled the information disclosure requirements. It 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 procedures, as well as internal control measures to ensure the disclosure of relevant information to its shareholders and regulatory authorities timely, accurately and appropriately.

Investor Relations

The Company has been always paying much attention to maintaining good relations with investors. Within the reporting period, the Company actively participates in various forms of investor forums and provides its investors with the information necessary for them to form their own judgment and to provide feedback to the management in order to improve operation and corporate governance of the Company. The Company has continually issued the results, announcements, important news and other development and business information of the Company to investors in order to keep transparency. The management of the Company also attaches great importance to the chance of communication with shareholders on the Annual General Meeting. They have been attending the meetings and communicate with shareholders face-to-face. The Company understands that increasing transparency in the capital market will improve corporate governance and be beneficial to the long-term development of the Company.

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 Auditors

PricewaterhouseCoopers was appointed as the external auditors of the Company for the year of 2008.

A resolution for re-appointment of PricewaterhouseCoopers as the auditors 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, and 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 Company. The Board also wishes to thank the Company's management and staff for achieving remarkable progress in the Company's business and their dedication and commitment for improving the Company's management.

On behalf of the Board
Xu Shao Chun
Chairman

Shenzhen, the People's Republic of China, 25 March 2009

INDEPENDENT AUDITOR'S REPORT

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TO THE SHAREHOLDERS OF
KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Kingdee International Software Group Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 41 to 95, which comprise the consolidated and company balance sheets as of 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31 December 2008, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 25 March 2009

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Leasehold land and land use right	6	**84,951**	18,211
Property, plant and equipment	7	**328,760**	206,992
Intangible assets	8	**115,458**	86,918
Investment properties	9	**53,903**	—
Investments in associates	11	**—**	—
Deferred income tax assets	12	**5,749**	3,841
		588,821	315,962
Current assets			
Inventories	13	**2,773**	2,313
Trade and other receivables	14	**136,875**	117,928
Due from customers on implementation contracts	15	**57,827**	27,852
Pledged bank deposits	16	**2,213**	6,777
Short-term bank deposits	16	**95,247**	39,633
Cash and cash equivalents	16	**423,640**	392,185
		718,575	586,688
Total assets		**1,307,396**	902,650

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	**50,923**	48,773
Share premium	17	**241,194**	98,786
Other reserves	19	**343,160**	321,835
Retained earnings			
– Proposed final dividend	31	**37,213**	36,470
– Others		**224,674**	101,666
		897,164	607,530
Minority interest in equity		**8,780**	5,299
Total equity		**905,944**	612,829
LIABILITIES			
Current liabilities			
Trade and other payables	20	**263,091**	159,106
Current income tax liabilities	28	**7,071**	11,227
Borrowings	21	**9,500**	—
Due to customers on implementation contracts	15	**41,900**	44,714
Deferred income	22	**79,890**	74,774
		401,452	289,821
Total equity and liabilities		**1,307,396**	902,650
Net current assets		**317,123**	296,867
Total assets less current liabilities		**905,944**	612,829

Director *Director*

The notes on pages 47 to 95 are an integral part of these consolidated financial statements.

BALANCE SHEET

	Note	As at 31 December 2008 RMB'000	2007 RMB'000
ASSETS			
Non-current assets			
Intangible assets	8	—	663
Investments in subsidiaries	10	**314,359**	261,294
		314,359	261,957
Current assets			
Trade and other receivables	14	**92,148**	62,222
Cash and cash equivalents	16	**18,465**	5,537
		110,613	67,759
Total assets		**424,972**	329,716
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	**50,923**	48,773
Share premium	17	**241,194**	98,786
Other reserves	19	**43**	—
Retained earnings			
– Proposed final dividend	31	**37,213**	36,470
– Others		**95,584**	145,672
Total equity		**424,957**	329,701
LIABILITIES			
Current liabilities			
Trade and other payables	20	**15**	15
Total equity and liabilities		**424,972**	329,716

Director　　　　*Director*

The notes on pages 47 to 95 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December **2008** RMB'000	2007 RMB'000
Turnover	23	**875,300**	766,874
Cost of sales	25	**(184,455)**	(159,699)
Gross profit		**690,845**	607,175
Selling and marketing expenses	25	**(428,466)**	(327,981)
Administrative expenses	25	**(226,930)**	(224,502)
Other gain, net	24	**147,624**	91,762
Operating profit		**183,073**	146,454
Finance income	27	**6,315**	5,136
Finance costs	27	**(97)**	(904)
Finance costs – net	27	**6,218**	4,232
Share of loss of associates		**—**	(607)
Profit before income tax		**189,291**	150,079
Income tax expense	28	**(4,264)**	(11,344)
Profit for the year		**185,027**	138,735
Attributable to:			
Equity holders of the Company	30	**181,546**	136,476
Minority interest		**3,481**	2,259
		185,027	138,735
Earnings per share for profit attributable to the equity holders of the Company during the year			
– basic	30	**RMB 0.0958**	RMB 0.0750
– diluted	30	**RMB 0.0906**	RMB 0.0700
Dividends	31	**37,213**	36,470

The notes on pages 47 to 95 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Company						
	Note	Share capital RMB'000	Share premium RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Minority interest RMB'000	Total equity RMB'000
Balance at 1 January 2007		48,282	75,005	232,080	116,569	471,936	3,040	474,976
Profit for the year		—	—	—	136,476	136,476	2,259	138,735
Capitalisation of retained earnings of a subsidiary		—	—	65,000	(65,000)	—	—	—
Employees share option scheme:								
- value of employee services	17	—	10,968	—	—	10,968	—	10,968
- proceeds from shares issued	17	491	10,333	—	—	10,824	—	10,824
Share options granted to related parties	17	—	2,480	—	—	2,480	—	2,480
Appropriation to reserve funds		—	—	20,759	(20,759)	—	—	—
Dividend relating to 2006	31	—	—	—	(29,150)	(29,150)	—	(29,150)
Currency translation difference		—	—	3,996	—	3,996	—	3,996
Balance at 31 December 2007		48,773	98,786	321,835	138,136	607,530	5,299	612,829
Balance at 1 January 2008		**48,773**	**98,786**	**321,835**	**138,136**	**607,530**	**5,299**	**612,829**
Profit for the year		**—**	**—**	**—**	**181,546**	**181,546**	**3,481**	**185,027**
Employees share option scheme:								
- value of employee services	17	**—**	**16,100**	**—**	**—**	**16,100**	**—**	**16,100**
- proceeds from shares issued	17	**397**	**8,661**	**—**	**—**	**9,058**	**—**	**9,058**
Issue of shares		**1,796**	**119,482**	**—**	**—**	**121,278**	**—**	**121,278**
Repurchase of own shares	17	**(43)**	**(1,835)**	**43**	**(43)**	**(1,878)**	**—**	**(1,878)**
Appropriation to reserve funds		**—**	**—**	**21,282**	**(21,282)**	**—**	**—**	**—**
Dividend relating to 2007	31	**—**	**—**	**—**	**(36,470)**	**(36,470)**	**—**	**(36,470)**
Balance at 31 December 2008		**50,923**	**241,194**	**343,160**	**261,887**	**897,164**	**8,780**	**905,944**

The notes on pages 47 to 95 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash generated from operations	32	**297,537**	277,246
Interest paid		**(312)**	(140)
Income tax paid		**(11,550)**	(8,391)
Net cash generated from operating activities		**285,675**	268,715
Cash flows from investing activities			
Purchase of property, plant and equipment ("PPE")		**(161,800)**	(108,965)
Proceeds from sales of PPE	32	**6,657**	404
Payments for land use right		**(70,512)**	(235)
Addition of intangible assets		**(85,318)**	(59,221)
Pledged bank deposits withdrawn		**4,564**	16
Short-term bank deposits placed		**(55,614)**	(15,000)
Interest received		**6,315**	3,835
Net cash used in investing activities		**(355,708)**	(179,166)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	17	**121,278**	—
Proceeds from exercised options	17	**9,058**	10,824
Repurchase of own shares	17	**(1,878)**	—
Proceeds from borrowings		**9,500**	—
Repayments of borrowings		**—**	(37,150)
Dividends paid to the Company's shareholders	31	**(36,470)**	(29,150)
Net cash generated/(used in) from financing activities		**101,488**	(55,476)
Net increase in cash and cash equivalents		**31,455**	34,073
Cash and cash equivalents at beginning of year	16	**392,185**	358,845
Exchange losses on cash and cash equivalents		**—**	(733)
Cash and cash equivalents at end of year	16	**423,640**	392,185

The notes on pages 47 to 95 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 General information

Kingdee International Software Group Company Limited (the "Company") was incorporated in the Cayman Islands in 1999 as an exempted company with limited liability. The address of its office is 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 shares listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2009.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the company have been prepared in accordance with International Financial Reporting Standards ("IFRS"). They have been prepared under the historical cost convention, as modified by the revaluation of investment properties, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) Amendments and interpretations effective in 2008

- The IAS39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to IFRS7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets
- IFRIC - Int 11, 'IFRS 2 – Group and treasury share transactions, 'provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.
- IFRIC - Int 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements, as the Group has a pension deficit and is not subject to any minimum funding requirements.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

- IFRIC – Int 12, 'Service Concession arrangements'

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group:

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and statement of comprehensive income will be presented as performance statements.

- IAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Revised) retrospectively from 1 January 2009 but is not expected to result in substantial impact on the Group's financial statements.

- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009 but it is not expected to have any impact on the Group's financial statements.

- IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from annual period beginning on or after 1 July 2009).The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this result in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognized. Any gain or loss is recognized in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply IAS 27 (Revised) from 1 January 2010.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group: *(Continued)*

- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the IAS 32 (Amendment) and IAS 1(Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

- IFRS 1 (Amendment), 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply IAS 27 (Amendment) prospectively from 1 January 2009 in its separate financial statements. This amendment is not relevant to the Group.

- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply IFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- IFRIC – Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). IFRIC - Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply IFRIC - Int 16 from 1 January 2009. It is not expected to have a material impact on the Group's financial statements.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group: *(Continued)*

- IASB's annual improvements project published in May 2008

  - IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the IAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

  - IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).

    — The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

    — The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

    — The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

    — IAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

    The Group will apply the IAS 19 (Amendment) from 1 January 2009.

  - IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

  - IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the IAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

  - IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group: *(Continued)*

- IASB's annual improvements project published in May 2008 *(Continued)*

  - IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the IAS 38 (Amendment) from 1 January 2009,but it is not expected to have a material impact on the Group's financial statements.

  - IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).

    — This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

    — The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

    — The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that IAS 39 is consistent with IFRS 8, 'Operating segments' which requires disclosure for segments to be based on information reported to the chief operating decision maker.

    — When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

    The Group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated income statement.

  - IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

  - There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the balance sheet date', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- IFRIC - Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC - Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC - Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

- IFRIC - Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009). IFRIC - Int 15 clarifies whether IAS 18, 'Revenue' or IAS 11, 'Construction contracts' should be applied to particular transactions. It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC - Int 15 is not relevant to the Group's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.

- IASB's annual improvements project published in May 2008:

  - IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009). Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the Group's operations because none of the group companies' ordinary activities comprise selling of property plant and equipment.

  - IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009). The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39, 'Financial instruments: Recognition and measurement' and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment will not have an impact on the Group's operations as there are no loans received from the government.

  - IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009). Where an investment in a subsidiary that is accounted for under IAS 39, Financial instruments: recognition and measurement, is classified as held for sale under IFRS 5, 'Non-current assets held for sale and discontinued operations', IAS 39 would continue to be applied. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of each entity.

  - IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). Where an investment in associate is accounted for in accordance with IAS 39 Financial instruments: recognition and measurement' only certain rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32, 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in an associate to be equity accounted in the consolidated financial statements.

2 Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(d) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations *(Continued)*

- IASB's annual improvements project published in May 2008: *(Continued)*

  - IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009). The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment will not have an impact on the Group's operations, as none of the Group's subsidiaries or associates operate in hyperinflationary economies.

  - IAS 31 (Amendment) , 'Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009). Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'. The amendment will not have an impact on the Group's operations as there are no interests held in joint ventures.

  - IAS 38 (Amendment), 'Intangible assets'(effective from 1 January 2009). The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The amendment will not currently have an impact on the Group's operations as all intangible assets are amortised using the straight line method.

  - IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009). Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The amendment will not have an impact on the Group's operations, as no investment properties are under construction by the Group.

  - IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009). It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment will not have an impact on the Group's operations as no agricultural activities are undertaken.

  - The minor amendments to IAS 20 'Accounting for government grants and disclosure of government assistance', IAS 29, 'Financial reporting in hyperinflationary economies', IAS 40, 'Investment property' and IAS 41, 'Agriculture', which are not addressed above. These amendments will not have an impact on the Group's operations as described above.

2 Summary of significant accounting policies *(Continued)*

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.(Note 2.9)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group and are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2 Summary of significant accounting policies *(Continued)*

2.2 Consolidation *(Continued)*

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill, net of any accumulated impairment loss. See note 2.9 for the impairment of non-financial assets include goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (Note 2.9). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Groups entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other (losses)/gains' net.

2 Summary of significant accounting policies *(Continued)*

2.4 Foreign currency translation *(Continued)*

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

— assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

— income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

— all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

– Buildings	15-30 years
– Computer and related equipment	5 years
– Other office equipment	5 years
– Motor vehicles	5 years
– Leasehold improvements	over the lease term

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Construction in progress represents properties and plant under construction and is stated at cost. This includes cost of construction and other direct costs. Construction in progress is not depreciated until the relevant assets are completed and put into operational use.

2 Summary of significant accounting policies *(Continued)*

2.5 Property, plant and equipment *(Continued)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount, and included in the income statement.

2.6 Investment property

Investment property, principally comprising leasehold land and office buildings, is held for long-term rental yields and is not occupied by the Group. Investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by an external valuer, changes in fair values are recorded in the income statement as part of other income.

2.7 Leasehold land and Land-use right

Leasehold land and Land-use right represent lease payments paid or payable for the land use rights less accumulated charges and are recognised as an expense in the income statement on a straight-line basis over the lease period of the land use rights.

2.8 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

2 Summary of significant accounting policies *(Continued)*

2.8 Intangible assets *(Continued)*

(b) Research and development expenditure and web site development cost

Research expenditures is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new and improved products) or expenditures incurred in the development of a web site related to the application and infrastructure development are recognised as intangible assets when the following criteria are met:

– it is technically feasible to complete the software product so that it will be available for use;

– management intends to complete the software product and use or sell it;

– there is an ability to use or sell the software product;

– it can be demonstrated how the software product will generate probable future economic benefits;

– adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

– the expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development cost previously recongised as an expense is not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over their estimated useful lives.

(c) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives, not exceeding 2 years.

2.9 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of significant accounting policies *(Continued)*

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group only has financial assets classified as "loans and receivables" during the year.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet (Note 2.13).

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the investees.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade and other receivables is described in Note 2.13.

2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on weighted average basis. The cost of finished goods comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

2 Summary of significant accounting policies *(Continued)*

2.12 Implementation contracts

An implementation contract is a contract specifically negotiated for the implementation of a software or a combination of software that are closely interrelated or interdependent in terms of their design, technology and functions or their ultimate purpose or use.

Contract costs are recognised as expenses in the period in which they are incurred.

When the outcome of an implementation contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of an implementation contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity in a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2.13 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "selling and marketing expenses". When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "selling and marketing expenses" in the income statement.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2 Summary of significant accounting policies *(Continued)*

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company redeems or purchases its own equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. The shares redeemed or purchased shall be transferred to the capital redemption reserve.

2.16 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between proceeds (net of transaction cost) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs.

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax, is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 Summary of significant accounting policies *(Continued)*

2.18 Current and deferred income tax *(Continued)*

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.19 Employee benefits

(a) Retirement benefits

The Group provides defined contribution retirement plans based on local laws and regulations. The plans cover full-time employees and provide for contributions at certain percentage of salary as determined by the respective local government authorities. The Group's contributions to defined contribution plans are charged to the income statement in the year to which they relate.

(b) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2 Summary of significant accounting policies *(Continued)*

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Sales of software, hardware and related products are recognised when a group entity has delivered products to the customer; the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Sales of services

(i) Software implementation services

Sales of software implementation services are recognised under percentage-of-completion method (Note 2.12).

(ii) Software solution consulting, maintenance, online management services and other supporting services.

Software solution consulting, maintenance, online management services and other supporting services are provided in the form of fixed-price contracts. Sales of these services are recognised in the period that the services are being provided, using a straight-line basis over the term of the contract.

(c) Multiple element arrangements

The Group offers certain arrangements whereby a customer can purchase software together with related implementation service. When such multiple element arrangements exist, the amont recognised as revenue upon the sale of the software is the fair value of the software in relation to the fair value of the arrangements taken as a whole. The revenue relating to the implementation service element, which represents the fair value of the implementation service in relation to the fair value of the arrangements, is recognised under percentage-of-completion method. The fair values of each element are determined based on the current market price of each of the elements when sold separately.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(e) Rental income

Rental income from investment properties is recognised on the income statement basis over the term of the lease.

2 Summary of significant accounting policies *(Continued)*

2.21 Operating leases

Lease in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating lease (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

2.23 Dividend distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3 Financial risk management

3.1 Financial risk factors

The Group's financial instruments include trade and other receivables, cash and cash equivalents, pledged and short-term bank deposits, trade and other payables and bank loans. Details of these financial instruments are disclosed in respective notes. The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(a) Market risk

Foreign exchange risk

The functional currency of the Company and major subsidiaries is RMB. Majority of the revenues of the Group are derived from operations in the PRC. The financial instruments of the Group are mainly denominated in RMB. The Group is not significantly exposed to currency risk. However the conversion of RMB into foreign currencies for the purpose of dividends is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

Interest rate risk

The Group has no significant interest bearing financial instruments. It has no significant exposure to interest rate risk.

Price risk

The Group is not exposed to commodity price risk and also does not hold equity securities traded publicly and that did not expose to equity security price risk.

(b) Credit risk

The Group is exposed to credit risk in its cash and cash equivalents, pledged and short-term bank deposits and trade and other receivables.

The carrying amount of cash and cash equivalents, pledged and short-term bank deposits, trade and other receivables, represent the Group's maximum exposure to credit risk in relation to its financial assets.

To manage this risk, deposits are mainly placed in banks with high credit rankings in the PRC and Hong Kong.

In relation to trade receivables, the Group has policies in place to ensure that certain percentage of the contracted sales amounts as deposit is received upon the related sales contracts are agreed with customers. It also undertakes certain monitoring procedures to ensure that proper follow-up action is taken to recover overdue debts. Nevertheless, certain amounts of the trade receivables cannot be recovered due to default and unexpected financial difficulties suffered by the customers from time to time. The Group has no significant concentration of credit risk in trade receivables and the balance of trade receivables is composed of numerous small items and the exposure spreads over a large number of customers. The Group regularly performs ageing analysis, assesses credit risks and estimates the recoverability of groups of trade receivables bearing similar credit risk based on historical data and cash collection history. The estimates are assessed at each year end in order to ensure that adequate impairment provision is made.

No other financial assets bear a significant exposure to credit risk.

3 Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

The Group exercised prudent liquidity risk management policy by maintaining sufficient cash level and the availability of adequate amount of committed credit facilities to ensure the availability of sufficient cash flows to meet any unexpected and material cash requirements in the course of ordinary business.

The Group has no significant exposure to liquidity risk.

The table below analyses the Group's financial liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year RMB$'000
Group	
At 31 December 2008	
Bank borrowings	**9,500**
Trade and other payables	**263,091**
At 31 December 2007	
Bank borrowings	—
Trade and other payables	159,106
Company	
At 31 December 2008	
Trade and other payables	**15**
At 31 December 2007	
Trade and other payables	15

3 Financial risk management *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for equity holders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to equity holders, issue new shares or sell assets to reduce debt.

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain a low gearing ratio. The gearing ratios at 31 December 2008 and 2007 were as follows:

	2008 **RMB'000**	2007 RMB'000
Total borrowings (Note 21)	**9,500**	—
Total equity	**905,944**	612,829
Total capital	**915,444**	612,829
Gearing ratio	**1.04%**	0%

3.3 Fair value estimation

The fair value of financial instruments and investment properties that are not traded in an active market is determined by using valuation techniques, such as estimated discounted cash flows. The Group was a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimated impairment of trade receivables

Determination of impairment of trade receivables requires management estimate the present value of future cash flows. This estimate is made on group basis and based on the credit history of its customers and the current market condition. It could change significantly as a result of change in financial position of customers. The impairment of trade receivables would be appximately RMB 4,462,000 lower or RMB 4,462,000 higher were the actual present value of expected cash flows arising from settlement of the receivables to differ by 10% from management's estimates.

(b) Estimated future economic benefits from internally developed software and web site

Capitalisation of internal software and web site development cost requires management to estimate the discounted cash flow of the probable future economic benefits from selling the developed software and operating of the web site. The discounted cash flow were determined based on sales forecast and discount rates estimated by management. There would be no change to the carrying amount of the capitalised internal software development cost and web site development cost if the estimated discount rates differ by 10% from management's estimates.

(c) Estimated useful lives of internally generated software

The useful lives of internally generated software are estimated based on historical experiences, which include actual useful lives of similar assets and changes in technology. Were the estimated useful lives of internally generated software differ by 10% from management's estimates the amortization charges of the year would be approximately RMB 6,036,000 higher or RMB 5,107,000 lower.

(d) Revenue recognition

The Group uses the percentage-of-completion method in accounting for its fixed-price contracts to deliver software implementation services. Use of the percentage-of-completion method requires the Group to estimate the services performed to date as a proportion of the total services to be performed. Were the proportion of services performed to total services to be performed to differ by 10% from management's estimates, the amount of revenue recognised in the year would be increased by approximately RMB 28,000,000 if the proportion performed was increased, or would be decreased by approximately RMB 28,000,000 if the proportion performed was decreased, while the corresponding changes to cost of sales would not be significant.

4 Critical accounting estimates and judgments *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(e) Fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgment, the Group considers information from a variety of sources including:

(i) Current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(ii) Recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) Discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The fair value of the investment properties of the Group were estimated as reported by a firm of independent qualified valuers.

Should the estimated future rental income differ by 10% from management's estimates, the carrying value of the investment properties and the related fair value gain will differ by approximately RMB 5,390,000.

4.2 Critical judgement in applying the entity's accounting policies

(a) Consolidation of on non-legally owned subsidiary

The Group have established a subsidiary, Shenzhen Kingdee Mobile Internet Technology Co., Ltd ("Kingdee Mobile") for providing value-added telecommunications services in the PRC which the Group does not have any equity ownership. On the other hand, the Group entered into certain contractual agreements Kingdee Mobile and its registered shareholders in order that the decision-making rights and operating and financing activities of Kingdee Mobile are ultimately controlled by the Group. Under such agreements, the directors of the Company consider that the Group have control over Kingdee Mobile and as a result, Kingdee Mobile is accounted for as a subsidiary of the Group. This approach was adopted because in management's belief it best reflects the substance of the formation.

5 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.

6 Leasehold land and land use right – Group

	2008 RMB'000	2007 RMB'000
Opening net book amount	**18,211**	18,367
Additions	**70,512**	235
Transfer to investment properties (Note 9)	**(1,971)**	—
Amortisation charge (Note 25)	**(1,801)**	(391)
	84,951	18,211
Represented by:		
Cost	**88,068**	19,527
Accumulated amortisation charges	**(3,117)**	(1,316)
	84,951	18,211

Amounts were paid for obtaining land use rights in the PRC, which were granted for a period of 40 years. The addition for this year represented the land use right acquired by the Group in Beijing for construction of a new software park. The related ownership certificates have not yet been obtained from the governing authority.

7 Property, plant and equipment - Group

	Buildings RMB'000	Computer and related equipment RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2007							
Cost	12,164	67,498	1,805	14,458	11,699	50,123	157,747
Accumulated depreciation	(3,878)	(37,258)	(1,230)	(4,324)	(11,699)	—	(58,389)
Net book amount	8,286	30,240	575	10,134	—	50,123	99,358
Year ended 31 December 2007							
Opening net book amount	8,286	30,240	575	10,134	—	50,123	99,358
Additions	52,365	7,085	989	5,192	2,873	53,437	121,941
Disposals (Note 32)	—	(20)	(136)	(601)	—	—	(757)
Depreciation (Note 25)	(1,599)	(7,302)	(1,128)	(2,992)	(529)	—	(13,550)
Closing net book amount	59,052	30,003	300	11,733	2,344	103,560	206,992
At 31 December 2007							
Cost	64,529	74,305	1,279	18,506	2,873	103,560	265,052
Accumulated depreciation	(5,477)	(44,302)	(979)	(6,773)	(529)	—	(58,060)
Net book amount	59,052	30,003	300	11,733	2,344	103,560	206,992
Year ended 31 December 2008							
Opening net book amount	**59,052**	**30,003**	**300**	**11,733**	**2,344**	**103,560**	**206,992**
Additions	**2,223**	**17,099**	**187**	**3,888**	**5,973**	**132,430**	**161,800**
Disposals (Note 32)	**(1,434)**	**(5,517)**	**(88)**	**(1,223)**	**—**	**—**	**(8,262)**
Transfer	**23,465**	**—**	**—**	**—**	**—**	**(23,465)**	**—**
Transfer to investment properties (Note 9)	**—**	**—**	**—**	**—**	**—**	**(13,270)**	**(13,270)**
Depreciation (Note 25)	**(2,829)**	**(9,263)**	**(53)**	**(3,299)**	**(3,056)**	**—**	**(18,500)**
Closing net book amount	**80,477**	**32,322**	**346**	**11,099**	**5,261**	**199,255**	**328,760**
At 31 December 2008							
Cost	**88,783**	**68,203**	**934**	**20,051**	**8,847**	**199,255**	**386,073**
Accumulated depreciation	**(8,306)**	**(35,881)**	**(588)**	**(8,952)**	**(3,586)**	**—**	**(57,313)**
Net book amount	**80,477**	**32,322**	**346**	**11,099**	**5,261**	**199,255**	**328,760**

Depreciation expense of approximately RMB 8,628,000 (2007: RMB 6,320,000) has been charged in selling and marketing expenses and RMB 9,872,000 (2007: RMB 7,230,000) in administrative expenses.

8 Intangible assets

	Group				Company
	Goodwill RMB'000	Development costs RMB'000	Computer software RMB'000	Total RMB'000	Computer software RMB'000
At 1 January 2007					
Cost	25,560	197,849	9,415	232,824	2,411
Accumulated amortisation and impairment	(11,542)	(125,985)	(6,361)	(143,888)	(603)
Net book amount	14,018	71,864	3,054	88,936	1,808
Year ended 31 December 2007					
Opening net book amount	14,018	71,864	3,054	88,936	1,808
Additions	—	58,721	1,000	59,721	—
Impairment of goodwill (Note 25)	(14,018)	—	—	(14,018)	—
Amortisation charge (Note 25)	—	(45,412)	(2,309)	(47,721)	(1,145)
Closing net book amount	—	85,173	1,745	86,918	663
At 31 December 2007					
Cost	25,560	174,180	5,403	205,143	2,411
Accumulated amortisation	(11,542)	(89,007)	(3,658)	(104,207)	(1,748)
Accumulated impairment	(14,018)	—	—	(14,018)	—
Net book amount	—	85,173	1,745	86,918	663
Year ended 31 December 2008					
Opening net book amount	**—**	**85,173**	**1,745**	**86,918**	**663**
Additions	**—**	**80,318**	**5,000**	**85,318**	**—**
Amortisation charge (Note 25)	**—**	**(55,248)**	**(1,530)**	**(56,778)**	**(663)**
Closing net book amount	**—**	**110,243**	**5,215**	**115,458**	**—**
At 31 December 2008					
Cost	**25,560**	**254,498**	**10,403**	**290,461**	**2,411**
Accumulated amortisation	**(11,542)**	**(144,255)**	**(5,188)**	**(160,985)**	**(2,411)**
Accumulated impairment	**(14,018)**	**—**	**—**	**(14,018)**	**—**
Net book amount	**—**	**110,243**	**5,215**	**115,458**	**—**

Amortisation charge of RMB 56,778,000 (2007: RMB 47,721,000) and impairment charge of RMB Nil (2007: RMB 14,018,000) are included in administrative expenses.

9 Investment Properties – Group

	2008 RMB'000	2007 RMB'000
At 1 January	**—**	—
Transfer from PPE (Note 7)	**13,270**	—
Transfer from leasehold land and land use right (Note 6)	**1,971**	—
Fair value gains (Note 24)	**38,662**	—
At 31 December	**53,903**	—

The investment properties are valued annually on 31 December at fair value, comprising market value by an independent, professionally qualified valuer from the PRC.

The Group's interests in investment properties at their net book values are analysed as follows:

	2008 RMB'000	2007 RMB'000
In the PRC, held on:		
Leases of over 50 years	**53,903**	—

The investment properties represent the first and second floors of Block 2 in the Group's research and development center located in Shanghai.

10 Investments in and loans to subsidiaries – Company

	Company	
	2008 RMB'000	2007 RMB'000
Unlisted shares (a)		
Cost	**304,659**	251,594
Provision for impairment	**(5,300)**	(5,300)
	299,359	246,294
Loans to subsidiaries (b)	**15,000**	15,000
	314,359	261,294

10 Investments in and loans to subsidiaries – Company *(Continued)*

(a) The following is a list of the principal subsidiaries at 31 December 2008, all of which are limited liability companies:

Name	Place of incorporation	Registered and paid-up capital	Interest held
Directly held			
Kingdee Software (China) Co., Ltd. ("Kingdee China")	the PRC	RMB 280,000,000	100%
Kingdee International Software Group (H.K.) Co., Ltd. ("Kingdee HK")	Hong Kong	HKD 1,000,000	100%
Caterton Group Limited	BVI	USD100	80.2%
Indirectly held			
Shenzhen Kingdee Middleware Co., Ltd.	the PRC	RMB 10,000,000	65%
Shanghai Kingdee Software Co., Ltd.	the PRC	RMB 20,000,000	100%
Beijng Kingdee System Technology Co., Ltd.	the PRC	USD540,000	100%
Shenzhen Kingdee Mobile Internet Technology Co., Ltd (i)	the PRC	RMB 12,000,000	N/A
Xiamen Kingdee Software Co., Ltd.	the PRC	RMB 300,000	100%
Shanghai Kingdee Software Technology Co., Ltd.	the PRC	RMB 10,000,000	90%
Sichuan Kingdee Software Co., Ltd.	the PRC	RMB 10,000,000	100%
Chongqing Kingdee Software Co., Ltd.	the PRC	RMB 10,000,000	100%
Beijing Kingdee Middleware Software System Co., Ltd.	the PRC	RMB 2,000,000	65%
Kingdee E-commerce Technology (Shenzhen) Co., Ltd.	the PRC	RMB 30,000,000	80.2%

The above subsidiaries operate in their respective places of incorporation and are engaged in development, manufacturing and selling of software and hardware products and provision of software-related services.

(i) As described in Note 4.2 (a) the Group lacks equity ownership Kingdee Mobile. Nevertheless, under certain contractual agreements enacted among the Kingdee Mobile, the registered owners of Kingdee Mobile, and another subsidiary of the Company, the Group controls Kingdee Mobile by way of controlling more than one half of the voting rights of them, governing their financial and operating policies and appointing or removing the majority of the members of their controlling authorities, and casting the majority of votes at meetings of such authorities. In addition, such contractual agreements also transfer the risks and rewards of Kingdee Mobile to the Group. As a result, they are presented as consolidated subsidiary of the Company.

(b) The loans to subsidiaries are unsecured, interest-free and made as a part of the owner's fund.

11 Investments in associates – Group

	2008 RMB'000	2007 RMB'000
At beginning of year	—	607
Share of loss	—	(607)
At end of year	—	—
Represented by:		
Share of net assets		
Goodwill		
– Cost	**1,920**	1,920
– Impairment provision	**(1,920)**	(1,920)
	—	—

The amount represented the investment of 37% equity interest in an unlisted associate incorporated in Hong Kong. The principal activities of the associate are selling of software and computer products. The associate is dormant during the year.

12 Deferred income tax – Group

	2008 RMB'000	2007 RMB'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**6,975**	6,734
– Deferred tax asset to be recovered within 12 months	**5,978**	5,498
	12,953	12,232
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	**(4,701)**	(4,789)
– Deferred tax liabilities to be recovered within 12 months	**(2,503)**	(3,602)
	(7,204)	(8,391)
Deferred tax assets (net)	**5,749**	3,841

12 Deferred income tax – Group *(Continued)*

The movements in deferred tax assets and liabilities during the year are as follows:

	At 1 January 2007 RMB'000	Credited/ (Charged) to the income statement RMB'000	At 31 December 2007 RMB'000	Credited/ (Charged) to the income statement (Note 28) RMB'000	**At 31 December 2008 RMB'000**
Deferred tax assets					
– Provision for bad and doubtful debts	6,088	767	6,855	149	**7,004**
– Deferred income	4,631	739	5,370	457	**5,827**
– Accelerated accounting depreciation	—	7	7	(7)	**—**
– Amortization of computer software	—	—	—	122	**122**
	10,719	1,513	12,232	721	**12,953**
Deferred tax liabilities					
– Deferred development costs	(7,186)	(1,205)	(8,391)	5,053	**(3,338)**
– Fair value gain of investment properties	—	—	—	(3,866)	**(3,866)**
	(7,186)	(1,205)	(8,391)	1,187	**(7,204)**

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefits through the future taxable profits is probable. Due to the fact that the directors are not certain on whether future taxable profit would be available. The Group did not recognise deferred income tax assets of approximately RMB 25,332,000 (2007: RMB 24,557,000) in respect of tax losses amounting to RMB 103,767,000 (2007: RMB 99,142,000) that can be carried forward to offset against future taxable income.

13 Inventories – Group

	2008 RMB'000	2007 RMB'000
Raw materials	**977**	1,182
Finished goods	**1,796**	1,131
	2,773	2,313

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB 18,625,000 (2007: RMB 27,361,000) (Note 25).

14 Trade and other receivables

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables (Note (a))	**126,277**	149,489	**—**	—
Less: provision for impairment of receivables (Note (b))	**(81,662)**	(86,202)	**—**	—
Trade receivables – net	**44,615**	63,287	**—**	—
Notes receivable	**3,169**	2,456	**—**	—
Advances to employees (Note (c))	**7,229**	5,450	**75**	80
Amount due from a director (Note (d))	**124**	812	**—**	—
Prepayments	**39,855**	5,942	**—**	—
VAT recoverable (Note 24)	**29,807**	27,930	**—**	—
Re-investment refund receivable	**—**	3,993	**—**	—
Amounts due from subsidiaries (Note (e))	**—**	—	**88,078**	54,754
Other Receivables	**12,076**	8,058	**3,995**	7,388
	136,875	117,928	**92,148**	62,222

The fair values of trade and other receivables approximate their carrying amounts.

The carrying amounts of the Group's trade and other receivables are mainly denominated in RMB.

The credit quality of financial assets that are neither past due nor impaired can be assessed by making reference to historical information about counterparty default rates.

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

	2008	2007
	RMB'000	RMB'000
0 - 180 days	**18,415**	58,852
181 - 360 days	**19,214**	16,356
Over 360 days	**88,648**	74,281
	126,277	149,489

All trade receivables were past due as at 31 December 2008 and they had been considered for impairment.

14 Trade and other receivables *(Continued)*

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

	2008 RMB'000	2007 RMB'000
At 1 January	**(86,202)**	(77,084)
Provision for impairment (Note 25)	**(793)**	(16,621)
Written off as uncollectible	**5,333**	7,503
At 31 December	**(81,662)**	(86,202)

The provision for impaired receivables has been included in administrative expenses. The other classes within the trade and other receivables balance do not contain any significant impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. The Group does not hold any collaterals as security.

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

(d) Amounts due from a director:

Name of key management	**Amount** RMB'000	**Maximum outstanding during the year** RMB'000	**Term**	**Interest rate**
2008				
Mr. Xu Shao Chun	124	1,816	Repayable on demand	0%
2007				
Mr. Xu Shao Chun	812	812	Repayable on demand	0%

The amount due from a director is advance for business activities.

(e) Amounts due from subsidiaries are unsecured, interest free and repayable on demand.

15 Implementation contracts – Group

	2008 RMB'000	2007 RMB'000
Contract costs incurred	**88,870**	55,207
Contract profit recognised	**93,074**	84,054
Progress Billings	**(166,017)**	(156,123)
Net balance sheet position for ongoing contracts	**15,927**	(16,862)
Represented by:		
Due to customers on implementation contracts	**(41,900)**	(44,714)
Due from customers on implementation contracts	**57,827**	27,852
	15,927	(16,862)
Amount received on implementation contracts included in advance from customers	**928**	8,802
Due from customers on implementation contracts covered by progress billings, included in trade receivables before impairment provision	**28,412**	31,998

16 Cash and cash equivalents

	Group		**Company**	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
Cash at bank and in hand (Note (a))	**521,100**	438,595	**18,465**	5,537
Less: Short-term bank deposits (Note (b))	**(95,247)**	(39,633)	**—**	—
Pledged bank deposits (Note (c))	**(2,213)**	(6,777)	**—**	—
	423,640	392,185	**18,465**	5,537

(a) Cash at bank and in hand denominated in the following currencies:

	Group		**Company**	
	2008 RMB'000	2007 RMB'000	**2008 RMB'000**	2007 RMB'000
RMB	**499,709**	426,392	**—**	—
HKD	**21,290**	11,943	**18,465**	5,537
USD	**101**	260	**—**	—
	521,100	438,595	**18,465**	5,537

(b) The effective interest rate on short-term bank deposits was 2.86% (2007: 2.25%). These deposits have an average maturity of six months.

(c) The bank deposits were pledged to banks as performance guarantee provided in certain job tenders. Such pledged deposits will be released upon the closure of the processes.

17 Share capital and premium – Group and Company

	Number of issued shares (thousands)	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2007	451,606	48,282	75,005	123,287
Employee share option scheme				
– Value of services provided	—	—	10,968	10,968
– Exercise of share options	5,006	491	10,333	10,824
Share options granted to related parties	—	—	2,480	2,480
At 31 December 2007	456,612	48,773	98,786	147,559
Issue of shares (a)	20,000	1,796	119,482	121,278
Sub-division of shares (b)	1,429,836	—	—	—
Employee share option scheme				
– Value of services provided	—	—	16,100	16,100
– Exercise of share options (Note 18)	17,575	397	8,661	9,058
Repurchase of own shares (c)	(1,958)	(43)	(1,835)	(1,878)
At 31 December 2008	**1,922,065**	**50,923**	**241,194**	**292,117**

(a) On 15 April 2008, the issue share capital of the Company increased by approximately RMB 1,796,000 by issuing 20,000,000 ordinary shares at a price of HK$6.90 per share through a placing and subscription agreement. These shares rank pari passu with the existing shares.

(b) On 9 May 2008, every one of the then existing issued and unissued shares of HKD 0.10 each in the capital of the Company was subdivided into four shares of HKD 0.025 each (the "Subdivided Shares") and the Subdivided Shares shall rank pari passu in all respects with each other and have the rights and privileges and be subject to the restrictions contained in the Articles of Association of the Company.

The total number of ordinary shares of the authorised share capital after this sub-division is 4,000 million shares (2007: 1,000 million shares) with a par value of per share HKD 0.025 (2007: HKD 0.1 per share).

(c) During the year, 1,958,000 shares were repurchased by the Company on the Hong Kong Stock Exchange at an aggregate consideration of approximately RMB 1,878,000 before expenses and they were cancelled during the year. The nominal value of these shares of 0.025 was credited to capital redemption reserve. The nominal value of these shares of approximately RMB 43,000 and the premium on purchase of approximately RMB 1,835,000 were paid out of the Company's retained earnings and share premium account, respectively.

18 Share options

Details of the share options granted and movements in the number of share options outstanding are as follows:

Date of grant	Exercise price after the sub-division of shares in HKD	Granted to	Exercisable period	Note
27/09/2001	0.3725	33 employees	10 years	(a)
15/05/2002	0.445	2 directors and 20 employees	10 years	(a)
20/02/2003	0.3475	2 directors and 74 employees	10 years	(a)
08/08/2003	0.5125	2,370 employees	10 years	(a)
23/03/2004	0.795	1 director	10 years	(a)
01/06/2004	0.6625	1 director and 177 employees	10 years	(b)
27/12/2004	0.5125	1 director and 154 employees	10 years	(c)
21/04/2005	0.3875	1 director and 3 business partners	5 years	(d)
15/02/2006	0.58125	1 employee	10 years	(e)
28/04/2006	0.6525	75 employees	10 years	(f)
04/05/2006	0.6575	1 director	10 years	(f)
22/06/2006	0.65625	1 director	10 years	(f)
22/06/2006	0.65625	2 related parties	10 years	(f)
18/07/2006	0.72375	3 employees	10 years	(g)
23/01/2007	0.935	1 director	10 years	(h)
05/06/2007	1.7075	357 employees	10 years	(i)
08/06/2007	1.8075	6 directors	10 years	(h)
01/08/2008	1.75	936 employees	10 years	(e)
19/11/2008	0.95	1 director	10 years	(f)

Movement in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2008		2007	
	Average exercise price in HKD per share	**Options (thousands)**	Average exercise price in HKD per share	Options (thousands)
At 1 January	**0.75**	**237,478**	0.63	226,493
Granted	**1.67**	**50,450**	1.36	37,360
Exercised	**0.57**	**(17,575)**	0.55	(20,025)
Lapsed	**0.83**	**(13,950)**	0.67	(6,350)
At 31 December	**0.60**	**256,403**	0.75	237,478

Out of the outstanding 256,403,000 options (2007: 237,478,000 options after the sub-division of shares), 205,953,000 options (2007: 200,118,000 options after the sub-division of shares) were exercisable as at 31 December 2008. Options exercised in 2008 result in 17,575,000 shares (2007: 20,025,000 shares after the sub-division of shares) being issued at a weighted average price of HKD 0.57 (2007: HKD 0.55 per share after the sub-division of shares). The related weighted average exercise price was HKD 0.79 (2007: HKD 0.73) per share.

18 Share options *(Continued)*

(a) All of these options have duration of 10 years from the date of grant, and are exercisable based on certain percentage as described in respective share option contracts.

(b) All of these options have duration of 10 years from the date of grant, provided that

(1) The options cannot be exercised within 1 year from the date of grant.

(2) The number of options that can be exercised within 2 years from the date of grant cannot be more than 25% of the revenue ratio for the financial year of 2004.

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

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

(5) 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, 2005, 2006 and 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.

(c) 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.

(d) 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.

(e) 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.

(f) These options include three batches with duration of 10 years from the date of grant and with different exercise conditions.

(g) 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%, 60% of the options within 12 months and 24 months respectively from 1 year after the date of grant.

(h) 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 24 months, 36 months and 48 months respectively from the date of grant.

(i) These options have duration of 10 years from the date of grant, and the options can be exercised from 1 year after the date of grant.

18 Share options *(Continued)*

Share options outstanding at the end of the year have the following expiry date and exercise prices:

Expiry date within	Range of exercise prices after the sub-division of shares (HKD per share)	Number of Shares 2008 (thousands)	2007 (thousands)
2010	0.39	**12,000**	12,000
2011	0.37	**220**	220
2012	0.45	**—**	6,000
2013	0.35 - 0.51	**3,914**	5,450
2014	0.51 - 0.80	**29,873**	33,008
2016	0.56 - 0.72	**123,830**	143,680
2017	0.94 - 1.81	**36,316**	37,120
2018	0.95 - 1.75	**50,250**	—
		256,403	237,478

The weighted average fair value of options granted during the year determined using the Binomial valuation model was HKD 0.63 per option (2007: HKD 2.01 per option). The significant inputs into the model were a weighted average share price of HKD 1.67 (2007: HKD 5.39) at the grant date, the exercise price shown above, volatility of 49% (2007: 46%), expected dividend paid out of HKD 0.022 per share (2007: HKD 0.085), an expected option life of 5 years (2007: 5 years) and an annual risk-free interest rate of 1.60% (2007: 4.10%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the period from the ending of the locking period to the grant date of share options.

19 Other reserves

Group

	Merger reserve RMB'000 Note (a)	Capital reserve RMB'000 Note (b)	Statutory surplus reserve fund RMB'000 Note (c)	Currency translation reserve RMB'000	Capital Redemption reserve RMB'000	Total RMB'000
Balance at 1 January 2007	6,570	182,197	47,124	(3,811)	—	232,080
Capitalisation of retained earnings of a subsidiary	—	65,000	—	—	—	65,000
Appropriation to reserve funds	—	—	20,759	—	—	20,759
Currency translation difference	—	185	—	3,811	—	3,996
Balance at 31 December 2007 and 1 January 2008	6,570	247,382	67,883	—	—	321,835
Appropriation to reserve funds	—	—	21,282	—	—	21,282
Repurchase of own shares (Note 17)	—	—	—	—	43	43
Balance at 31 December 2008	**6,570**	**247,382**	**89,165**	**—**	**43**	**343,160**

Company

	Currency translation reserve RMB'000	Share redemption reserve RMB'000
Balance at 1 January 2007	(3,727)	—
Currency translation difference	3,727	—
Balance at 31 December 2007 and 1 January 2008	**—**	—
Repurchase of own shares (Note 17)	—	43
Balance at 31 December 2008	**—**	**43**

(a) The merger reserve represents the difference between the carry amounts of the capital of the subsidiaries at the date on which they were acquired by the Company and the nominal amounts of the Company's shares issued as consideration for the acquisitions.

(b) The capital reserve mainly represents the amounts of retained earnings capitalised upon re-investment made in subsidiaries.

(c) The Company's subsidiaries in the PRC are required to follow the laws and regulations of the PRC and their articles of association. These subsidiaries are required to allocate at least 10% of their net profit to the reserve fund until the balance of such fund has reached 50% of their registered capital. The reserve fund can only be used, upon approval by the relevant authorities, to offset accumulated losses or increase capital.

20 Trade and other payables

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (Note (a))	**19,626**	20,097	**—**	—
Salary and staff welfare payable	**24,869**	21,245	**—**	—
Advance from customers	**112,303**	55,034	**—**	—
VAT and business tax payable	**26,091**	27,392	**—**	—
Accrued expenses	**22,168**	17,188	**—**	—
Construction fee payable	**30,108**	12,315	**—**	—
Leasehold land and land use right fee payable	**14,102**	—	**—**	—
Others	**13,824**	5,835	**15**	15
	263,091	159,106	**15**	15

The fair values of trade and other payables approximate their carrying amounts.

The carrying amounts of the Group's trade and other payables are mainly denominated in RMB.

(a) At 31 December 2008, the ageing analysis of the trade payables is as follows:

	2008	2007
	RMB'000	RMB'000
Within 180 days	**18,960**	18,452
181 - 360 days	**288**	972
Over 360 days	**378**	673
	19,626	20,097

21 Borrowings – Group

	2008	2007
	RMB'000	RMB'000
Unsecured bank borrowings wholly due within 1 year	**9,500**	—

The effective interest rate of the borrowing at 31 Dec 2008 was 4.51%. The fair values of current borrowings approximates their carrying amount.

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates at the balance sheet dates are within 3 months.

22 Deferred income – Group

	2008 RMB'000	2007 RMB'000
Deferred service fee income (Note (a))	**70,669**	65,174
Deferred government grant (Note (b))	**9,221**	9,600
	79,890	74,774

(a) The amount represents amounts revenues billed to or received from customers in relation to software maintenance services which had not yet been recognised by the Group as the service periods extend beyond the financial year end.

(b) Movement of deferred government grant is as follows:

	2008 RMB'000	2007 RMB'000
At 1 January	**9,600**	3,200
Additions	**12,329**	8,826
Recognised in the income statement (Note 24)	**(12,708)**	(2,426)
At 31 December	**9,221**	9,600

Amount represents various subsidies granted by and received from local government authorities for financing of various research and development projects conducted by the Group. These subsidies will be recognised as income after the related development project is completed.

23 Turnover

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

	2008 RMB'000	2007 RMB'000
Sales of software	**555,254**	520,197
Software implementation services	**198,806**	153,833
Software solution consulting and support services	**108,761**	80,423
Sales of computer and related products	**12,479**	12,421
	875,300	766,874

24 Other gains – net

	2008	2007
	RMB'000	RMB'000
VAT refund (Note (a))	**89,548**	79,495
Government Grant (Note 22)	**12,708**	2,426
Tax refund for re-investments in a subsidiary	**—**	3,993
Fair value gain on investment properties (Note 9)	**38,662**	—
Others	**6,706**	5,848
	147,624	91,762

(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 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 sales of self-developed software in the PRC and pay VAT at a rate of 17% are entitled to a preferential taxation treatment that there will be VAT refund for the sales of the software in the PRC to the extent that the effective VAT rate does not exceed 3% of the sales amounts.

25 Expenses by nature

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

	2008 RMB'000	2007 RMB'000
Research and development costs		
Amounts incurred	**116,041**	99,672
Less: development costs capitalised (Note 8)	**(80,318)**	(58,721)
Add: amortisation (Note 8)	**55,248**	45,412
	90,971	86,363
Employee benefit expenses (Note 26)	**490,262**	385,579
Less: amount included in development costs	**(91,928)**	(82,653)
	398,334	302,926
Cost of inventories consumed (Note 13)	**18,625**	27,361
Depreciation (Note 7)	**18,500**	13,550
Amortisation of computer software (Note 8)	**1,530**	2,309
Amortisation charge of leasehold land and land use right (Note 6)	**1,801**	391
Impairment of goodwill (Note 8)	**—**	14,018
Impairment of receivables (Note 14)	**793**	16,621
Impairment of available-for-sale financial assets	**—**	66
Loss on disposals of PPE (Note 32)	**1,605**	353
Auditors' remuneration	**1,600**	1,750
Advertising costs	**54,875**	41,911
Sales promotion costs	**50,320**	38,140
Professional service costs	**12,766**	11,766
Traveling costs	**30,587**	25,953
Rental and utilities	**38,332**	31,373
Outsourcing services	**41,810**	32,570
Others	**77,402**	64,761
Total cost of sales, selling and marketing expenses and administrative expenses	**839,851**	712,182

26 Employee benefit expense

	2008 RMB'000	2007 RMB'000
Wages, salaries and bonus	**343,576**	284,878
Commissions	**61,913**	48,526
Staff welfare	**16,927**	10,365
Pension scheme contributions (Note (a))	**51,746**	28,362
Share options granted to directors and employees (Note 17)	**16,100**	13,448
	490,262	385,579

(a) The Group participates in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. The Group is required to make monthly contributions to the retirement scheme at rates ranging from 8% to 22.5%, depending on the location of the subsidiaries, based on the eligible employees' basic salaries. The local government authorities are responsible for the pension liabilities to retired employees. Forfeited contributions made by the Group on behalf of employees who leave the scheme prior to full vesting of the contributions may not be used by the employer to reduce the existing level of contributions.

(b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2008 is set out below:

Name of Directors	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Share options RMB'000	Employer's contribution to pension scheme RMB'000
Mr. Xu Shao Chun	100	1,095	515	36	19
Mr. Ho Ching Hua (i)	100	2,948	427	—	—
Mr. Chen Deng Kun	100	550	221	—	19
Mr. James Ming King	150	—	—	—	—
Ms. Yang Zhou Nan	150	—	—	—	—
Mr. Wu Cheng	100	—	—	—	—
Mr. Yeung Kwok On	132	—	—	—	—
Mr. Gary Clark Biddle	132	—	—	—	—

26 Employee benefit expense *(Continued)*

(b) Directors' and senior management's emoluments *(Continued)*

The remuneration of every Director for the year ended 31 December 2007 is set out below:

Name of Directors	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Share options RMB'000	Employer's contribution to pension scheme RMB'000
Mr. Xu Shao Chun	100	949	468	—	18
Mr. Ho Ching Hua (i)	40	2,873	—	1,681	—
Mr. Chen Deng Kun	50	458	194	726	18
Mr. James Ming King	50	—	—	—	—
Mr. Zhao Yong (ii)	40	—	—	—	—
Mr. Hugo Shong (iii)	50	—	—	—	—
Ms. Yang Zhou Nan	100	—	—	—	—
Mr. Wu Cheng	50	—	—	—	—
Mr. Yeung Kwok On	100	—	—	—	—
Mr. Gary Clark Biddle	100	—	—	—	—

(i) Re-designed from an executive director to a non-executive director on 31 December, 2008.

(ii) Resigned on 12 September, 2007

(iii) Resigned on 31 March, 2008

26 Employee benefit expense *(Continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2007: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2007: three) individuals during the year are as follows:

	2008 **RMB'000**	2007 RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**2,125**	2,170
Bonuses	**1,511**	834
Pension scheme contributions	**82**	40
Share options	**1,862**	2,294
	5,580	5,338

The emoluments fell within the following bands:

	2008	2007
Emolument bands		
HKD 0 - HKD 1,000,000	**2**	1
HKD 1,000,001 - HKD 1,500,000	**1**	2
HKD 1,500,001 - HKD 2,000,000	**—**	—

27 Finance costs – net

	2008 **RMB'000**	2007 RMB'000
Interest income (Note 32)	**6,315**	5,136
Bank charges (Note 32)	**(312)**	(140)
Net foreign exchange gains/(loss)	**215**	(764)
	6,218	4,232

28 Income tax expense

	2008 **RMB'000**	2007 RMB'000
PRC income tax		
– Current income tax	**7,075**	10,239
– (Over-provision) / under-provision in previous year	**(903)**	1,413
– Deferred income tax (Note 12)	**(1,908)**	(308)
	4,264	11,344

(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 years in those jurisdictions.

(b) Pursuant to the relevant income tax law of the PRC, before the effective of the Corporate Income Tax Law of the People's Republic of China (hereinafter "the new CIT Law") the subsidiaries of the Group established in the PRC are subject to income tax at a rate of 33% unless preferential rates are applicable in the cities where the subsidiaries are located.

Effective from 1 January 2008, the subsidiaries of the Group determined and paid the corporate income tax in accordance with the new CIT Law as approved by the National People's Congress on 16 March 2007. According to the new CIT Law and the relevant regulations, the new enterprise income tax rate applicable to the subsidiaries of the Group is 25% unless preferential rates are applicable in the cities where the subsidiaries are located.

(c) According to Cai Shui [2008] No.1 issued by related tax authorities in the PRC, subsidiaries of the Group which are qualified as national important software enterprises which are not in their tax holiday period. They are entitled to a preferential enterprise income tax rate of 10%.

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

	2008 **RMB'000**	2007 RMB'000
Profit before tax	**189,291**	150,079
Tax at the statutory tax rate of 25% (2007: 33%)	**47,323**	49,525
– Effect of preferential tax rates	**(33,061)**	(34,518)
– Tax losses not recognised	**1,971**	2,412
– Expenses not deductible for tax purposes	**1,195**	3,937
– Income not subject to tax	**(10,302)**	(6,441)
– Additional deductible allowance for research and development expenses	**(1,959)**	(4,984)
– (Over-provision)/under-provision of income tax in previous year	**(903)**	1,413
	4,264	11,344

29 (Loss)/profit attributable to equity holders of the Company

The (loss)/profit attributable to equity holders of the Company dealt within the financial statements of the Company is as follows.

	2008	2007
	RMB'000	RMB'000
(Loss)/profit attributable to equity holders of the Company	**(12,837)**	77,132

30 Earnings per share

As described in Note 17 (b), the Company undertook a share subdivision during 2008. The calculation of the 2007 and 2008 earning per share had been restated/computed as if the ordinary share had always been subdivided to a par value of HK$ 0.025 each as at the beginning of 1 January 2007.

(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 year.

	2008	2007
		Restated
Profit attributable to equity holders of the Company (RMB'000)	**181,546**	136,476
Weighted average number of ordinary shares in issue (thousands)	**1,894,201**	1,818,512
Basic earnings per share (RMB per share)	**0.0958**	0.0750

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has just 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.

	2008	2007
		Restated
Profit attributable to equity holders of the Company (RMB'000)	**181,546**	136,476
Weighted average number of ordinary shares in issue (thousands)	**1,894,201**	1,818,512
Adjustments for – share options (thousands)	**109,468**	131,516
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,003,669**	1,950,028
Diluted earnings per share (RMB per share)	**0.0906**	0.0700

31 Dividends

The dividends paid in 2008 and 2007 were approximately RMB 36,470,000 (HKD 38,951,000) ((RMB 0.075 per share) (HKD 0.085 per share) and approximately RMB 29,150,000 (HKD 29,447,000) (RMB 0.064 per share (RMB 0.065 per share) respectively. The directors recommend the payment of a final dividend of RMB 0.019 (HKD 0.022) per ordinary share, totally RMB 37,213,000(HKD 42,288,000) Such dividend is to be approved by the shareholders at the Annual General Meeting on 12 May, 2009. These financial statements do not reflect this dividend payable.

	2008	2007
	RMB'000	RMB'000
Proposed final dividend of RMB 0.019 (2007: RMB 0.020, after restatement of share sub-division) per ordinary share	**37,213**	36,470

32 Cash generated from operations

	2008	2007
	RMB'000	RMB'000
Profit before income tax	**189,291**	150,079
Adjustments for:		
– Depreciation (Note 7)	**18,500**	13,550
– Loss on disposal of PPE (Note 25)	**1,605**	353
– Share of loss/(profit) from associates (Note 11)	**—**	607
– Amortisation of Leasehold land and land use right (Note 6)	**1,801**	391
– Amortisation of intangible assets (Note 8)	**56,778**	47,721
– Goodwill impairment charge (Note 8)	**—**	14,018
– Interest income (Note 27)	**(6,315)**	(5,136)
– Interest expense (Note 27)	**312**	140
– Share option expenses	**16,100**	13,448
– Fair value gain of investment property (Note 9)	**(38,662)**	—
– Impairment of available-for-sale financial assets	**—**	66
	239,410	235,237
Changes in working capital:		
– Inventories	**(460)**	1,346
– Trade and other receivables	**(14,407)**	(3,654)
– Deferred income	**5,116**	14,358
– Trade and other payables	**100,668**	27,668
– Due from/to customers on implementation contracts	**(32,790)**	2,291
Cash generated from operations	**297,537**	277,246

32 Cash generated from operations *(Continued)*

In the cash flow statement, proceeds from disposal of PPE comprise:

	2008 RMB'000	2007 RMB'000
Net book amount (Note 7)	**8,262**	757
Loss on disposal of PPE (Note 25)	**(1,605)**	(353)
Proceeds from disposal of PPE	**6,657**	404

33 Commitments – Group

(a) Capital commitments

The Group had capital expenditure contracted for but not recognised in the accounts as follows:

	2008 RMB'000	2007 RMB'000
Contracted but not provided for		
– Property, plant and equipment	**64,429**	55,417
– Lease Prepayment	**14,102**	—
	78,531	55,417

(b) Operating lease commitments

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

	2008 RMB'000	2007 RMB'000
Not later than one year	**11,918**	13,387
Later than one year and not later than five years	**10,209**	14,944
	22,127	28,331

34 Related parties transactions

Except as disclosed in Note 14 (Amount due from a director), Note 18 (share option) and Note 26 (Director's emoluments), to the consolidated financial statements, the Group had no other material transaction with related parties for the year ended 31 December 2008.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting ("Meeting") of Kingdee International Software Group Company Limited (the "Company") will be held at 4th Level, Zone B, Block W1, High-Tech Industrial Park, Shennan Highway, Nanshan District, Shenzhen, Guangdong Province, The People's Republic of China ("P.R.C.") on Tuesday, 12 May 2009 at 9:30 a.m. for the following purposes:

1. To receive and adopt the audited consolidated accounts, the report of the directors of the Company (the "Directors") and the report of the auditors of the Company for the year ended 31 December 2008;

2. To declare a final dividend for the year ended 31 December 2008;

3. (A) To re-elect Mr. Ho Ching Hua as a Director;

   (B) To re-elect Mr. Wu Cheng as a Director;

   (C) To re-elect Mr. Yeung Kwok On as a Director;

4. To authorize the board of Directors ("the Board") to fix the remuneration of the Directors;

5. To consider and approve the re-appointment of PricewaterhouseCoopers, the retiring auditor of the Company and to authorize the Board to fix their remuneration;

6. To consider and, if thought fit, pass the following resolutions with or without amendments as ordinary resolutions of the Company:

   (A) **"THAT**

   (i) subject to sub-paragraph (iii) of this resolution, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules"), the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue or otherwise deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including bonds, warrants and securities or debentures convertible into such shares or options) which might require the exercise of such powers either during or after the Relevant Period, be and is hereby generally and unconditionally approved;

   (ii) the approval in sub-paragraph (i) of this resolution shall authorize the Directors during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

   (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in sub-paragraph (i) of this resolution, otherwise than pursuant to (a) a Rights Issue (as defined below); (b) the exercise of warrants to subscribe for shares of the Company or any securities which are convertible into shares of the Company or the exercise of options granted under any share option schemes adopted by the Company; or (c) an issue of shares of the Company in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and this approval shall be limited accordingly; and

   (iv) for the purpose of this resolution:

   "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:

   (a) the conclusion of the next annual general meeting of the Company;

   (b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and

   (c) the date on which the authority sets out in this resolution is revoked or varied by an ordinary resolution in general meeting of the Company.

"Rights Issue" means the allotment, issue, or grant of shares pursuant to an offer of shares of the Company open for a period fixed by the Directors to holders of shares in the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares as at that date (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to overseas shareholders or fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the company)."

(B) **"THAT**

(i) subject to sub-paragraph (ii) below, the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to repurchase issued shares in the capital of the Company on the Stock Exchange or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, subject to and in accordance with all applicable laws and the requirements of the Listing Rules or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

(ii) the aggregate nominal amount of shares of the Company which the Company is authorized to repurchase pursuant to the approval in sub-paragraph (i) above shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution, and this approval shall be limited accordingly; and

(iii) for the purpose of this resolution:

"Relevant Period" means the period from the date of passing of this resolution until whichever is the earliest of:

(a) the conclusion of the next annual general meeting of the Company;

(b) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held; and

(c) the date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution in general meeting of the Company."

(C) **"THAT** conditional upon ordinary resolutions nos.6(A) and 6(B) above being passed, the aggregate nominal amount of shares of the Company which are repurchased by the Company under the authority granted to the Directors as mentioned in ordinary resolution no.6(B) above shall be added to the aggregate nominal amount of share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to ordinary resolution no.6(A) above."

By order of the Board
KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED
Xu Shao Chun
Chairman

Shenzhen, the P.R.C., 3 April 2009

Registered Office:	*Principal place of business in the P.R.C.:*
Ugland House	4th Level, Zone B, Block W1
P.O. Box 309	High-Tech Industrial Park
George Town	Shennan Highway, Nanshan District
Grand Cayman	Shenzhen, Guangdong Province
Cayman Islands	The P.R.C.
British West Indies	

Notes:

(i) A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote on his/her/its behalf. A proxy need not be a member of the Company.

(ii) In order to be valid, the proxy form together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of such power or authority), must be delivered to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the Meeting or any adjournment thereof.

(iii) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the Meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.

(iv) The register of members of the Company will be closed from Thursday, 7 May 2009 to Tuesday, 12 May 2009 (both days inclusive), during which period no transfer of Shares will be effected. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Wednesday, 6 May 2009.

(v) An explanatory statement containing further details regarding ordinary resolution no. 6(B) as required by the Listing Rules will be dispatched to the members of the Company together with the Company's 2008 Annual Report.

As at the date hereof, the executive Directors are Mr. Xu Shao Chun (Chairman and CEO of the Company) and Mr. Chen Deng Kun; the non-executive Directors are Mr. Ho Ching-hua and Mr. James Ming King; and the independent non-executive Directors are Ms. Yang Zhou Nan, Mr. Wu Cheng, Mr. Yeung Kwok On and Mr. Gary Clark Biddle.

The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.