Kingdee International Software Group Company Limited

Stock Code: 268

ENTERPRISE
MANAGEMENT EXPERT

ANNUAL REPORT 2010

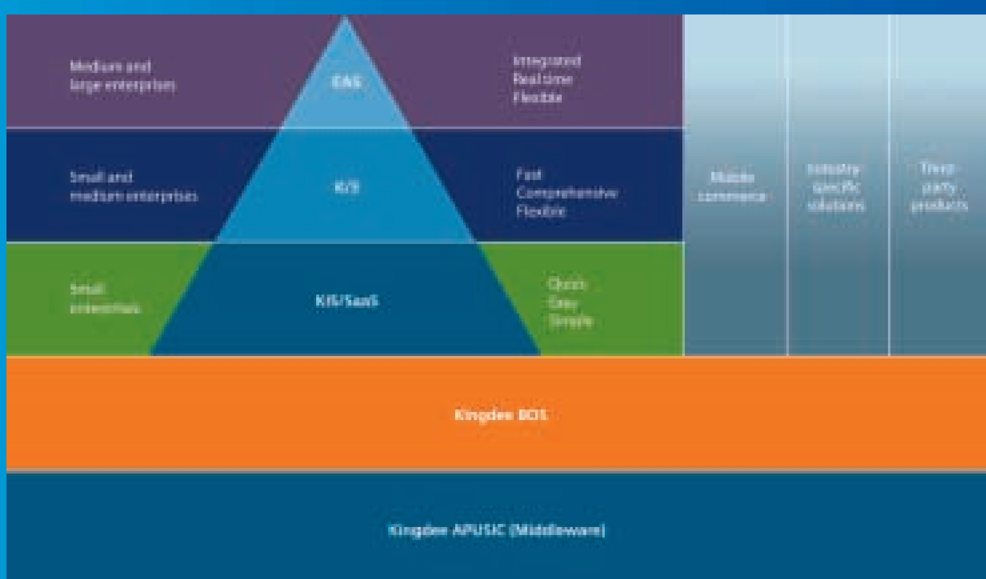
CONTENTS

ENERGETIC TEAM

CORPORATE INTRODUCTION

Kingdee International Software Group Company Limited (stock code: 0268) is a leading management and IT integration solutions provider in the Asia Pacific region specialising in delivering cutting-edge enterprise management software and middleware. Kingdee sees its mission as facilitating the creation of a successful management model, promoting e-commerce development, helping its customers to succeed, realizing employees' dream and promoting a China management model. Currently, Kingdee has 100 branches specialising in sales and services and more than 1900 cooperation partners focusing on consulting, technology implementation services and distribution. Kingdee serves the informatisation needs of more than 1 million enterprises and government organisations around the world. Kingdee was ranked by IDC as the leader in the SME ERP market in China for six consecutive years and by Forbes Asia as one of "Asia's Best Under A Billion" for four consecutive years. Kingdee was also honoured as "China's Most Capable Enterprise", "China's Most Capable Management Software", "Best Technological Innovation in Chinese Software Industry Award", and "The Most Popular Employer in the I.T. Industry 2010", and etc.

Fast Configuration, Fast Implementation, Fast Application and Result



CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Xu Shao Chun, Chairman and CEO
Mr. Chen Deng Kun , Senior Vice President and CFO

NON-EXECUTIVE DIRECTORS

Mr. James Ming King
Mr. Ho Ching Hua (re-designed from non-executive Director to Independent non-executive Director with effect from 15 March 2011)

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

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
17/F, Edinburgh Tower
The Landmark
15 Queen's 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

CORPORATE INFORMATION

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

Kingdee Software Park
No. 2 Kejinan 12 Road
South District
Hi-Tech Industrial Park
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 AND TRANSFER OFFICE

Computershare Hong Kong Investor Services
Room 1712-1716
17th 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

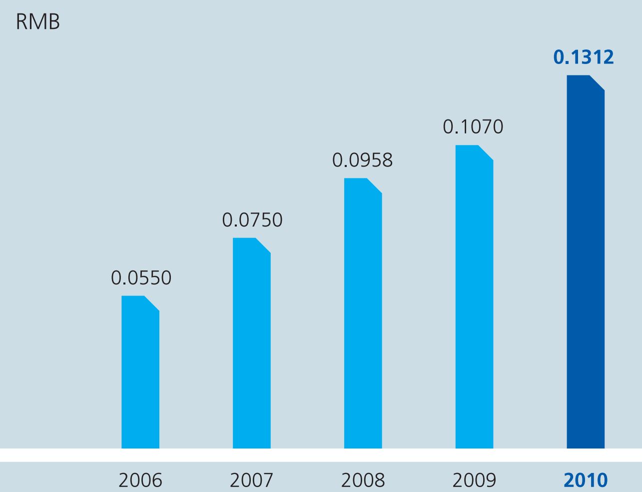
MAIN BOARD STOCK CODE

268

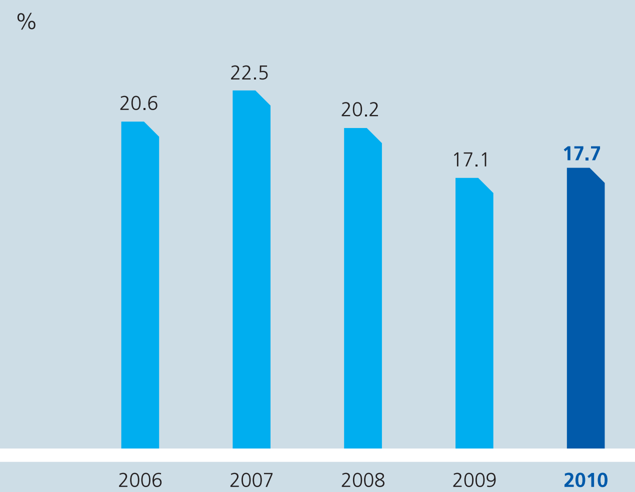
FINANCIAL HIGHLIGHTS

	2010 RMB'000	2009 RMB'000
Turnover	**1,436,621**	996,810
Profit attributable to equity holders of the Company	**271,710**	212,479
Dividends per share	**HKD 0.0340**	HKD 0.0220
Earnings per share		
– basic	**RMB 0.1312**	RMB 0.1070
– diluted	**RMB 0.1229**	RMB 0.1027

EARNINGS PER SHARE – BASIC

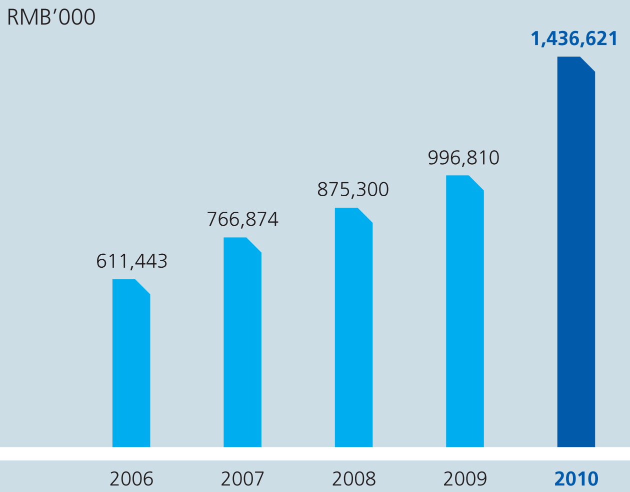


RETURN ON EQUITY

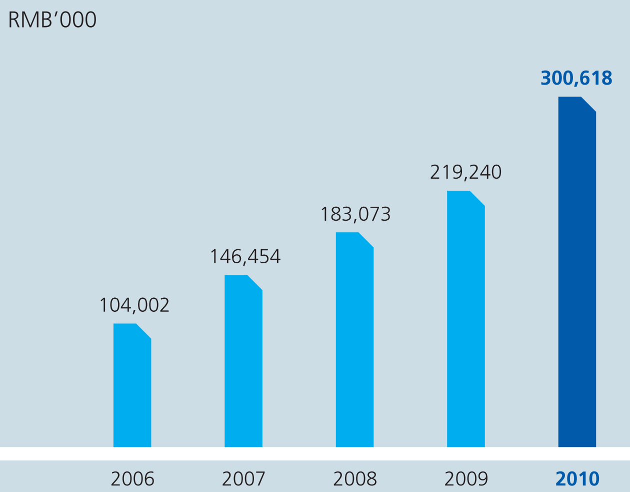


FINANCIAL HIGHLIGHTS

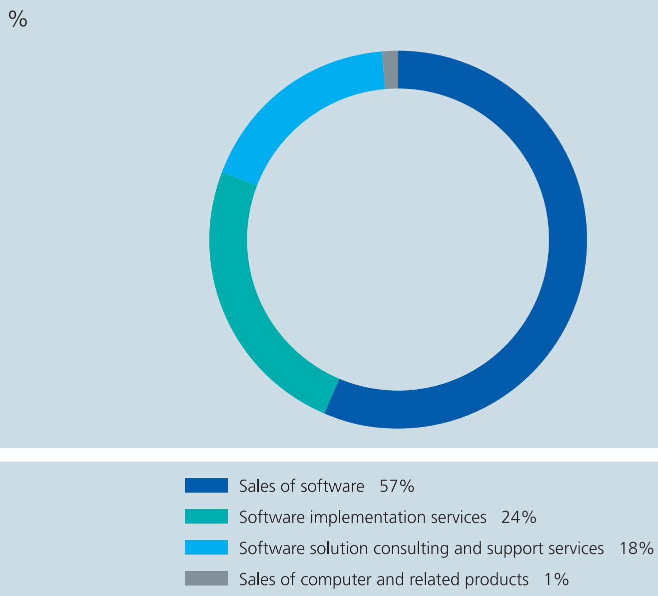
TURNOVER



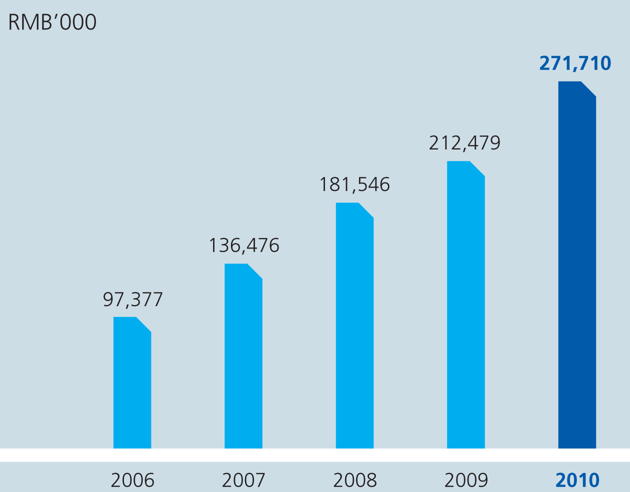
OPERATING PROFIT



TURNOVER BREAKDOWN BY BUSINESS



PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY



CHAIRMAN'S STATEMENT

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 2010 to shareholders for review.

In 2010, the Group recorded the highest growth rate and entered into a high growth era since 2003, where the net profit maintained a stable growth. Revenue of the year grew 44.1% against the previous year to approximately RMB 1,436,621,000. Profit attributable to the equity holders of the Group grew by 27.9% to approximately RMB 271,710,000. Comprehensive income attributable to equity holders increased by 19.8% compared with the last corresponding period, reaching approximately RMB 286,660,000. Basic earnings per share were about RMB 0.1312, 22.6% higher than that of the pervious year. The Board proposed a final dividend of HKD0.034 per share and share dividend of 2 shares per every 10 shares.

2010 was the first year of the Group's "New Four Year, New Journey" development strategy, and also the year of the Group's transformation into a management and IT integrated services provider. In 2010, the Group continued to innovate for the Chinese management model. Leveraging on its consultation service business and through the process of providing management software and IT services, the Group provided advanced management philosophy and methodology to more than 100,000 customers. At the same time, the Group continued to step up its fire power of its business front line: the number of direct sales branches in China was increased to 98 while the network of indirect sales distribution partners was further expanded. Followed through its industry penetration strategy, the Group set up industry business units and further penetrated into these specific industries, won more large enterprises customers in these industries and strengthened its service marketing and delivery. The Group sped up its international business development and set up R&D centre and its first branch in Singapore. By adopting forward looking and competitive human resources planning, Kingdee put in greater efforts on industry expert recruitment and cultivation. The Group also consolidated the relationship with its international strategic partners such as IBM and proceeded acquisitions actively. Business segments including management software and services, Youshang.com, e-commerce and middleware have achieved rapid growth in revenue in the reporting period.

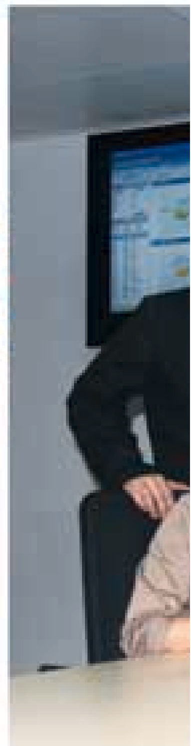
Chinese economy is transforming, while Chinese enterprises are also currently undergoing transformations in five key areas: 1) the strategic transformation of prior intuitive thinking into systematic strategic philosophy, to grasp the initiative in transformation and revolution, and turning the strategic business planning to a more mature and rational plan, 2) the operational transformation from extensive management model into the delicacy management model by adopting IT in the foundation of management, maximizing its management value and improve profitability, 3) from the role of an instrument into a strategic asset and enhance the investment value of enterprises, 4) from the paternalistic culture into a brotherhood culture, further emphasize on respecting talents and innovation of the team, 5) Chinese entrepreneur from practical worker to thought leader, pursuing the ideological influence rather than the material success. The Chinese management model and service-based company transformation that the Group promoted was in line with the trend of Chinese enterprises transformation and gradually recognized by the community. Kingdee's brand philosophy, commitment and reputation have further enhanced.

By using the "transformation, integration, high-value" approach to deepen the transformation into service-base company, Kingdee aims to be the world's leading management and IT integrated solutions service provider.

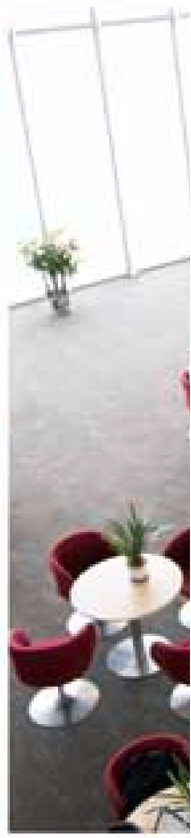
The Chinese management and IT service industry is entering the golden ages in the next decade. The software industry is recognized by the Twelve-five year plan as the new strategic industry. In 2011, seizing the opportunity of the government's unprecedented support on software industry development and the rise of cloud computing, internet of things and mobile internet, Kingdee will continue to use the "transformation, integration, high-value" approach to deepen the transformation into service-base company. Along with the rapid development of the macro-economy, Kingdee will also integrate various resources, further enhance the strategic cooperation with IBM and others, step up mergers and acquisitions, attract and nurture elite expert, accelerate the construction and application of Chinese Management Practice Think Tank, and pursue substantial growth. Kingdee aims to be the world's leading management and IT integrated solutions service provider.

In 2011, Kingdee was the 18th anniversary of establishment and the 10th anniversary of listing in HKEx. On behalf of the board, I would like to take this opportunity to extend my gratitude to our supportive clients, business partners, investors, the government and the community, as well as the outstanding contribution of our employees and their families.

Chairman of Board of Directors
XU Shao Chun



REALIZE EMPLOYEES' DREAM



"Transformation, Integration, High Value"

MANAGEMENT DISCUSSION AND ANALYSIS

I. BUSINESS REVIEW

Subsequent to the financial crisis, China's management consultancy and software service industries have entered a rapid growth stage fueled by business transformation of enterprises throughout China. In 2010, we kicked off our four-year development plan "New Four-year Plan, New Journey". The Group has been transforming from a software product company to a management and IT integrated solutions and services provider with a focus on introducing innovative management concepts and models for the purpose of supporting the business transformation of local companies and upgrading of their performance. The Group has continued to increase its penetration within different vertical industries while accelerating the establishment of branch offices and securing more distribution partners. In this way, it has strengthened its direct sales capability and extended distribution coverage, so a more localised "management consultancy + management software + IT service" package could be provided for customers to facilitate their transformation and upgrade, as well as adding value to their management.

During the reporting period, the Group entered another stage of fast growth and earned a number of accolades and achievements, including: the largest market share of the SME ERP Sector in China for the sixth straight year (IDC, May 2010); youshang.com achieving "The Largest Market Share of 2009 Online Management Service Sector" (China ComputerWorld, June 2010); our middleware subsidiary included among the "Asia Pacific Deloitte Technology Fast 500" (Deloitte, November 2010); ranking among "Asia's Top 20 ICT Enterprises" for the second straight year (MIS Asia, November 2010); 2010 Most Popular Employer in IT Industry (51job.com, December 2010); and "The Best Technological Innovation in Software Award 2010" (China Software Industry Association and China Computer Education Newspaper, June 2010), etc.

1. Management consulting and enterprise management software business

During the reporting period, the Group continued to commercialise and diversify its services. While the income of maintenance service continued to grow steadily, that of consulting service grew rapidly, placing the Group among the leaders in the consulting services sector in China. The Group's consulting service is designed to provide group management, IT planning and consulting services for customers. By applying numerous best management practices and advanced management concepts, the Group has developed outstanding diagnosis models, group management consulting methodologies, industry benchmarking analysis methodologies, and IT planning methodologies, etc. The consultancy service segment has won new contracts with China Eastern Airlines, PDA Corporation and Nanfang Media Group, etc. The Group's solutions here have set an industry benchmark as well as supporting its transformation from a product company to a management and integrated IT solutions and services provider.

During the period under review, the Group continued to enhance its core competencies by increasing the number of its branch offices in China from 52 in late 2009 to 98 in 2010. More talents were recruited and professional training was provided to strengthen the direct sales team. While it was expanding the coverage of direct sales offices, the Group also actively strengthened collaboration with partners by encouraging them into value-added service providers. By expanding the direct sales and distribution network and strengthening its capability, the Kingdee K/3 business unit has achieved rapid growth. The launch of the Kingdee K/3 WISE innovative management platform and K/3 RISE products extended the Group's coverage to the informatisation market in both domestic manufacturing and service industries and enlarged the Group's market share in the SME sector.

To further reinforce industry specific operation, the Group has set up Construction and Property Industry Department, the Retail and Circulation Industry Department, the Metallurgy and Mining Industry Department, the Transportation Department and more during the reporting period, striving to strengthen inputs in high-end markets. The Group also launched EAS V7.0 and secured many large customers including China Railway Construction Corporation, Xiwang Group, Jingya Group, Ningbo Port, Huakan Group, Tianjin Sunac and Gree Real Estate, to boost its influence in the large enterprises and industrial markets.

To tap markets elsewhere in Asia Pacific, the Group opened an R&D center in Singapore during the period to strengthen operations in Southeast Asia and initiate the development of business from this region.

2. Middleware business

During the period under review, the Group's middleware enjoyed No.1 market share in the local application server middleware market. As one of the core fundamental software applications in the internet era, Kingdee's middleware is highly regarded by the Chinese government and was granted support within the key national technology scheme "Core Electronic Parts, High-end Chips and Basic Software Products" ("核高基"). In terms of technology, Kingdee owned a complete product platform based on service-oriented architecture (SOA). In other new technology areas, the Group also made a technological breakthrough in cloud computing, with the first-ever cloud computing software with independent intellectual property right in China. The Group continued to develop innovations with an aim to deliver more integrated solutions for corporate governance and IT system consolidation. During the period under review, Kingdee has continued to rapidly develop its middleware and won contracts with the corporate application center project of China Railway Construction Corporation, the Ministry of Environmental Protection, China's Golden Auditing Project, the Shanghai Municipal Commission of Economy and Informatisation, the Guangdong Provincial Public Security Department, Shenyang Aircraft Industries Group, The Chinese Communist Party Committee of Hunan Province, Shenyang Information Center, China Telecom, Northern China Iron and Steel Trade Center, Zhongsheng Group, and more.

2010 Outstanding Employee
Li Han Jun

2010 Outstanding Employee
Yao Qi

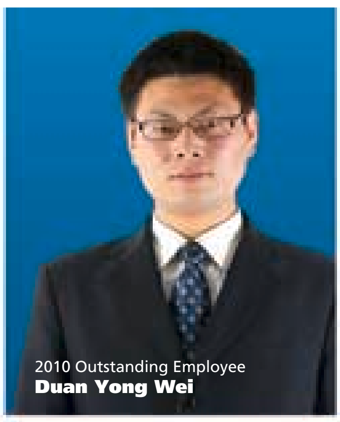
MANAGEMENT DISCUSSION AND ANALYSIS

3. Online management service and E-commerce service

Kingdee youshang.com is a leading small enterprise management software and e-commerce service platform. The youshang.com e-business unit has created an innovative business model to combine the operations of Youshang.com and Kingdee KIS (small enterprise management software) into a management software and e-commerce integrated services package for small enterprises, "Small Enterprise's Home" (小企業之家). This is a one-stop e-commerce services platform that combines software applications and professional services. At the end of the reporting period, customers of youshang.com came from throughout Greater China encompassing Mainland China, Hong Kong, Macau and Taiwan, and included over one million registered users. Kingdee KIS acheived highest growth since its debut in 2003. Also, Kingdee youshang.com collaborated with several municipal governments, including Zhuzhou, to establish SME e-business service platforms. This collaboration aimed to provide an interactive information platform that gather local governments and other civil organisations together with an upstream and downstream business chain, industrial associations and financial service providers for SMEs via a sophisticated and stable SaaS transaction model.

II. STRATEGIC COLLABORATION AND ACQUISITION

The Group continued to collaborate with IBM in implementing consulting services, product and technology development and support for distribution channels. During the reporting period, the Group and IBM have formed a specialised integrated software service team and expanded this team to provide comprehensive consultation, product and implementation solutions to Chinese enterprises in the coming four years. This initiative has led to a new business model with the combined resources of "Kingdee products" and "IBM's implementation". During the reporting period, the Group has also collaborated with IBM to provide total solutions for medical information technology systems. It has signed contracts with Guangzhou Red Cross Hospital and Beijing Chao Yang Hospital for the provision of one-stop resources management system in an effort to advance the reform of the healthcare system in China.



2010 Outstanding Employee
Duan Yong Wei

2010 Outstanding Employee
Bao Lu Ping

2010 Outstanding Employee
Zhang Hai Yong

2010 Outstanding Employee
Wang Chen Guang

MANAGEMENT DISCUSSION AND ANALYSIS

During the reporting period, the Group continued to enforce the strategy of acquisitions aggressively. The Group has completed the acquisition of Shenzhen Jiama Network Information Technology Co., Ltd, a real estate software provider to substantially enhance information management system to the dynamic real estate sector. Moreover, it has acquired Guangzhou Puwei Technology Limited, a Product Lifecycle Management (PLM) software provider to improve the capability of the manufacturing industry solution unit. In an initiative to boost its technology platform, the Group has also acquired Shenzhen Yiruan Technology Development Company Limited to strengthen the collaborative platform concept of WORK-IN-ONE, providing an integrated solution to enterprises in all sectors for facilitating management of "Information, Business and System Collaboration". The Group also acquired Zhongshan Shishen Internet Technology Co. Ltd., a catering and entertainment software provider to speed up the development of management information system solutions targeted at the catering and entertainment industry.

III. ORGANISATION AND PERSONNEL ASSURANCE

In 2010, to ensure the implementation of its industry and service transformation strategy, the Group has embarked on a strategic initiative with the launch of a training initiative for the support of the core team escalating its efforts to recruit and nurture industry experts and senior personnel. Thus, the proportion of senior personnel has risen and its overall human resource structure has been enhanced.

At the same time, the fast growing management software industry in China has driven a growing demand for professional expertise to provide pre-sale and implementation consultation to support the management information systems. During the reporting period, the Kingdee Consultancy Academy continued to recruit students from the public, attracted experts to form a taskforce, built up comprehensive operation team and designed a scientific education system. These initiatives are intended to foster an enterprise management consulting profession and to develop systematic professional training to serve the need for professional talents of Kingdee, Kingdee's partners, customers and society.

During the reporting period, the Group has also begun management reform projects to enhance its operational control, financial control, and human resources control systems under the existing group management models, and come up with the core values - "Passion, Professionalism, Teamwork and Success" and to promote the Chinese management model to the world.

IV. SOCIAL RESPONSIBILITY

During the reporting period, the Group has organised and promoted the third annual "China Outstanding Management Model Award". The award aimed to honour the enterprises in China who have created an outstanding and innovative management philosophy. In the past three years, the influence and strategic importance of the "Chinese management model" have been increasing within the business community. The Group has also organised the Kingdee Pearl Club Committee Meeting. More than 500 renowned entrepreneurs from different regions of the country were invited to participate in the Chinese Management Model - Kingdee Pearl Club Meeting 2010, announcing the establishment of the Kingdee Pearl Club. Kingdee Pearl Club was also intended to examine the innovative management philosophies of enterprises.

During the period under review, Kingdee worked together with more than 150 high schools in China to establish an "Innovative Management Laboratory" while continuing to promote the "National Student Business Start-ups Competition". By providing an opportunity for students to experience practicing what they have learned and to advance their overall professionalism, the competition helped students to learn how to start their own business and grow in their chosen career path.

V. FINANCIAL REVIEW

For the year ended 31 December 2010, the Group's turnover amounted to RMB 1,436,621,000, representing an increase of 44.1% against 2009 (2009: RMB 996,810,000). The growth was mainly because the Group strengthened the market coverage, with additional 46 sales offices in China, penetrated into main industries and recruited high-end professionals and management experts. On the other hand, as the economy has recovered from the financial crisis, enterprises have increased IT spending.

During the year, the Group realized revenue from software of RMB 812,554,000, representing an increase of 39.1% against 2009 (2009: RMB 583,975,000), and service revenue of RMB 605,994,000, representing an increase of 51.5% against 2009 (2009: RMB 400,118,000). During the year, the Group's net cash flow generated from operating activities was RMB 294,337,000, representing an increase of 36.7% over that of 2009 (2009: RMB 215,345,000).

During the reporting period, the trade receivables turnover was 40.9 days (the average of the trade receivables balance at the beginning and the end of the year divided by the total revenue of the year

MANAGEMENT DISCUSSION AND ANALYSIS

times 365 days) (2009: 52.0 days), which decreased by 11.1 days.

For the year ended 31 December 2010, profit attributable to equity holders of the Company was RMB 271,710,000, representing an increase of approximately 27.9% against 2009 (2009:RMB 212,479,000). Comprehensive income attributable to equity holders of the Company reached RMB 286,660,000, representing an increase of 19.8% compared to the same period in 2009 (2009: RMB 239,325,000). During the year, net profit margin was 18.9% (2009: 21.3%) and basic earnings per share was RMB 0.1312 (2009: RMB0.1070).

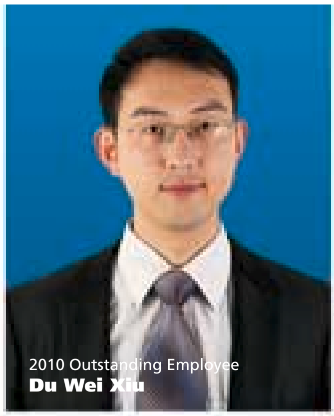
MANAGEMENT DISCUSSION AND ANALYSIS

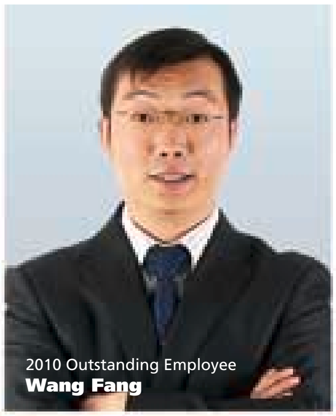
Gross Profit

Gross profit of the Group increased by approximately 41.2% from RMB 778,025,000 in 2009 to RMB 1,098,828,000 in 2010. Gross profit margin for the year was stable at approximately 76.5% (2009: 78.1%).

Selling and Marketing Expenses

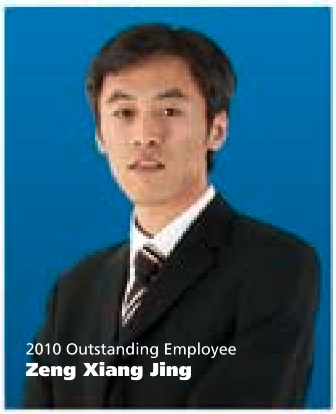
Selling and marketing expenses for the year was approximately RMB 785,715,000 (2009: RMB 523,219,000), representing an increase of 50.2% against last year. Selling and marketing expenses accounted for 54.7% of turnover, compared to 52.5% in 2009. The growth of selling and marketing expenses was mainly because the Group increased marketing spending, recruitment fees, and the number of new branches to strengthen the market coverage.

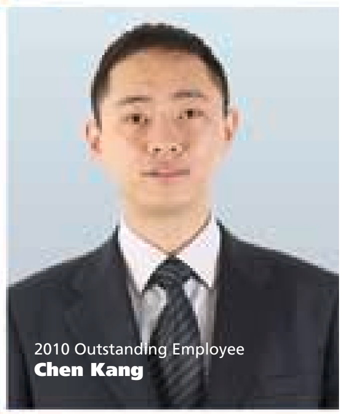

2010 Outstanding Employee
Du Wei Xiu


2010 Outstanding Employee
Wang Fang


2010 Outstanding Employee
Song Li Feng


2010 Outstanding Employee
Tang Wen


2010 Outstanding Employee
Zeng Xiang Jing


2010 Outstanding Employee
Chen Kang


2010 Outstanding Employee
Xie Xu Lian


2010 Outstanding Employee
Chen Yong

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative Expenses

Administrative expenses for 2010 amounted to RMB 162,161,000 (2009: RMB 125,249,000), representing an increase of approximately 29.5%. During the period, administrative expenses accounted for a comparable 11.3% of the turnover, compared to 12.6% in 2009. The increase was mainly due to the recruitment of high-end professionals and the improvement of staff benefits.

Capital Expenditure

For the year ended 31 December 2010, the Group's major capital expenditure mainly included R&D capitalized expenses of RMB 183,329,000 (2009: RMB 125,016,000) and purchase of computer and related equipment in the amount of RMB 24,713,000 (2009: RMB 14,046,000).

Financial Resources and Liquidity

The Group was in a healthy cash flow position. As at 31 December 2010, the Group had cash, cash equivalents and deposits amounting to approximately RMB 753,543,000 (2009: RMB 631,455,000). Current ratio was 2.2 (2009: 1.8) and gearing ratio (defined as the ratio of bank borrowings to shareholder equity) was approximately 12.3% (2009: 4.6%).

As at 31 December 2010, the Group did not have any short-term bank loan (2009: RMB 57,378,000). As at 31 December 2010, the Group had three-year bank loan amounting to RMB 190,000,000 (2009: Nil).

As at 31 December 2010, 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 2010, the Group did not have any material contingent liabilities (2009: nil).

VI. FUTURE PROSPECTS

The beginning of 2011 came with very favorable news for the software industry. "Specific Policies to Further Promote the Development of Software Industry and Integrated Circuit Industry" ("New Circular No. 18") demonstrated the Chinese Government's increased support to the software industry and its higher expectation for domestic software service providers. Continuing this trend, the Twelfth Five-Year Plan categorised the software industry as a strategic emerging industry. With the Government's strong emphasis on strategic emerging industries, the implementation of information systems is expected to continue across all industry sectors. As a result, management consultancy and enterprise management software, cloud computing and e-commerce should enter a golden decade in the years ahead.

The years from 2011 to 2013 are a critical period for the Group in its transformation into a management and integrated IT solution service provider. Currently, Kingdee has entered a new era of fast expansion and rapid growth. The Group is striving to create innovative management philosophies models to facilitate the transformation and advance of the enterprises as well as industries in China.

By pushing forward the "transformation, integration, high value" business strategy in 2011, the Group continues to strengthen transformation into a service-base company. It will increase inputs in management consultation markets and strengthen its collaboration with international leaders such as IBM, continue to open more branch offices and forge more distribution partnerships, while enhancing the recruitment of talents and leadership of managers. The Group will also integrate the resources of the industrial chain through an open mutually-beneficial approach and foster and enhance its service capabilities. It will also step up acquisition and strategic investment, speed up development of innovative products and solutions while improving the entire customer service operation and the service life cycle. All these initiatives ultimately aim to provide more professional services to enterprises, government departments and non-profit organisations, helping them to create value in their business and continue to sustain high growth. In this, the Group is guided by its aspirations to become a leading management and IT integrated solutions and service provider in the world.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

XU Shao Chun (徐少春), aged 48, founder of the Group, chairman of the Board and Chief Executive Officer of the Company. Mr.XU has been awarded the Government Special Expert Allowance by the State Council. Mr. XU graduated from Southeast University in computer science and obtained Master of Accounting from Institute of Ministry of Finance and Executive Master of Business Administration from China Europe International Business School. He is a member of 9th central committee of China National Democratic Construction Association, a member of council of China Siyuan Poverty Alleviation Foundation, deputy director of China Software Industry Association and a member of Accounting Information Technology Committee of Finance Ministry. Mr. XU, with his deep realization of business strategy and operation management and advance technology sensitivity and accurate grasp of industry trends of global software industry, has always been committed to push " the leading the progress of China management model" and to lead the company to be a global leading management and IT integrated solutions and service provider. For his outstanding achievements, he has awarded as "United Nations World Indigenous Entrepreneurs Award "," China Software Ten Outstanding Youths "," The 10 Outstanding Entrepreneurs Award"," Outstanding Leader for China's Information Industry "," Thirty Affective Economy Persons in the Thirty Years of Reform and Opening in Shenzhen "and" Shenzhen Science and Technology Innovation Mayor's Award " etc. Mr. XU is now an independent non-executive director of Global Education & Technology Group, a company listed on Nasdaq Stock Exchange in the United States.

CHEN Deng Kun (陳登坤), aged 34, an executive Director, Senior Vice President and Chief Financial Officer of the Company. Mr. CHEN graduated from Anhui Institute of Finance and Trade (currently known as Anhui University of Finance and Economics) and obtained a bachelor degree. He is a member of China Certified Public Accountant, the authorized enterprise architect of the Open Group and the fifth NPC member of Nanshan district, Shenzhen. Mr. CHEN is studying at China Europe International Business School EMBA classes, and is serving as adjunct professor at Zhongnan University of Political Science, Anhui University of Finance and adjunct social mentors for masters. Mr. CHEN joined the Company in 2000. He has been in charge of management work of audit, administration and office support, human resources, quality management, finance, investment & business development and infrastructure project of the Company.

Non-executive Directors

HO Ching Hua (何經華), aged 54, a non-executive Director (re-designated from non-executive Director to independent non-executive Director with effect from 15 March, 2011). 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 worked in Sybase Inc. in USA, Oracle Corp. East Coast Region, UFIDA Software Co. Ltd. and Siebel Systems Inc. Mr. HO has abundant experience in sales channel operation and management of international and domestic well-known information technology enterprises.Mr. HO is now an independent non-executive director of Jess-Link Products Corporation Limited, a company listed on Gre Tai Securities Market of Japan and Taiwan Securities Exchange and an executive director and Chief Operating Officer of Camelot Information System (China) Corporation Limited, a company listed on New York Stock Exchange.

James Ming KING (金明), aged 63, a non-executive Director, chairman of the Nominee Committee of the Board. Mr. KING provided strategic consulting, training for staff and business partners 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 experiences of manufacturing, sales and marketing within and outside the PRC. He had been the vice-president of sales and marketing for Dell Computer Asia Limited. He is the first person who led in the Dell model of cutting out the middleman in China. He had been the first manager in China region of Novell and Anderson Consulting company. He has also been senior manager of Hewlett-Packard Company for more than a decade, mainly in charge of strategy consultation and informatization work for customers in American and Aisa-Pacific region. Mr. KING has been collected to "A List of Celebrities in Western United States" and "A List of Celebrities of Computer in USA" for many times.

DIRECTORS AND SENIOR MANAGEMENT

Independent non-executive Directors

YANG Zhou Nan (楊周南), aged 73, 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, doctoral tutor and a people's representative to the Eighth and 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 28 years of research and teaching experience in the areas of finance, accounting and taxation.

WU Cheng (吳澄), aged 71, an independent non-executive Director of the Company, a professor of the Department of Automation of Tsinghua University and an academician of Chinese Academy of Engineering. Mr. WU is also the Dean of State CIMS Engineering Technical Research Center. Mr. WU graduated from the Department of Electrical Engineering, Tsinghua University of undergraduate course in 1962 and graduate course in 1966. He had been doing post doctorate researches in USA from 1981 to 1983. Mr. WU has participated in CIMS projects of 863 Program, and has been appointed as the leader of CIMS expert group and chief scientist in automation field. He has received a lot of awards for his contributions to the technology development in the PRC.

YEUNG Kwok On (楊國安), aged 50, an independent non-executive Director of the Company. Mr. YEUNG received a Ph.D. of Business Administration from University of Michigan. He is now Philip Chair Professor of Human Resource Management at China Europe International Business School. He is also Director of Center of Organizational and People Effectiveness and Founding President of Organizational Capability Learning Association. Mr. YEUNG had worked in Acer Group as Chief Human Resources Officer and President of Aspire Academy from early 1999 to June 2002. He had been in charge of global organizational and leadership development at Acer Group. Mr. YEUNG has published altogether eight books and more than 20 articles in China and abroad. He is also on the editorial boards of five international journals. For his outstanding contribution in the aspect of senior managers' education, Mr. YEUNG has been awarded as one of "Executive Development Guru" by magazine of "Business Horizon" of America. He is also chairman of the Judging Panel of "Best Asian Employer" held by Hewitt in Asia-Pacific region. Mr. Yeung is now an independent non-executive director of SITC International Holdings Company Limited, a company listed on Hong Kong Stock Exchange, and an independent non-executive director of Trina Solar Limited, a company listed on New York Stock Exchange.

Gary Clark BIDDLE, aged 59, an independent non-executive Director of the Company. Mr. Biddle is Chair of Accounting and PCCW Professor at the University of Hong Kong. He earned his MBA and PhD degrees at University of Chicago and has served as professor at University of Chicago, University of Washington plus Dean of the Faculty of Business and Economics at the University of Hong Kong and Associate Dean of the School of Business and Management of Hong Kong University of Science and Technology, where he was a member of the Council, Court, Senate and held the title of Synergis-Geoffrey Yeh Chair Professor. He has served or is serving as visiting professor at leading business schools globally, including Columbia University Business School (USA), London Business School (UK), IMD (Switzerland) and CEIBS (China). Mr. Biddle is a member of the American Accounting Association, American Institute of Certified Public Accountants, Hong Kong Business and Professionals Federation, Hong Kong Institute of Certified Public Accountants, Hong Kong Institute of Directors and he is past President and co-founding Council Member of the Hong Kong Academic Accounting Association. Mr. Biddle first visited China in 1984 and made Hong Kong home in 1996. His research appears in the premier academic journals globally and in financial publications including the Economist and Wall Street Journal. He is a leading expert in financial accounting, financial markets, valuation, value creation, corporate management and performance metrics, including EVAR. He has won 20 teaching awards. Mr. Biddle is also an Independent Non-Executive Director of Shui On Land Limited and a remuneration committee member at closely-held Chinachem Group.

DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

NGAN Lin Chun, Esther (顏連珍), aged 55, company secretary. Ms. NGAN is a chartered secretary. She is qualified as a Chartered Secretary in 1982 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 in Hong Kong. Ms. Ngan is a fellow member of the Hong Kong Institute of Company Secretaries.

QUALIFIED ACCOUNTANT

HO Ka Man, Barry (何嘉文), aged 48, qualified accountant, assistant president and general manager of Corporate Finance and Investor Relations Department of the Company. Mr. HO joined the Company 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 the University of Sydney in 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 accounting, 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.

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

TIAN Rong Ju (田榮舉), aged 39, senior vice president of Kingdee China and Chief Technology Officer of Kingdee China. Mr. TIAN is mainly in charge of 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 the Company in 1999, he has been in charge of products program, research, development and testing.

LI Guang Xue (李光學), aged 42, senior vice president of Kingdee China. From 2008 until now, Mr. LI has been in charge of business operation and management in China northern region of the Company. Mr. LI obtained a bachelor degree of Physics from Ocean University of Ocean University of China in 1991. After joining the Company 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 36, senior vice president of Kingdee China. Mr. ZHANG is in charge of whole business operation and management in China Eastern Region of the Company. Mr. ZHANG graduated from China Europe International Business School. 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 12th Chinese People's Political Consultative Conference of Putou District, Shanghai Municipality.

SUN Yan Fei (孫雁飛), age 37, senior vice president of Kingdee China. Mr. SUN is in charge of operation and management of small and medium-sized enterprises products of the Company. Mr. SUN graduated from Macao University of Science and Technology and gained MBA degree of General Business Management. After joining the Company in 1997, Mr. SUN has been appoint as general manager of Nanjing Branch and South China District engaged in the areas of marketing and business management. Mr. SUN is committed to using information technology to promote the establishment of modern enterprise management system. He has a wealth of marketing and management experience in the field of business management software in China.

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 2010.

Principal Activities and Geographical Analysis of Operations

The Company (www.kingdee.com) is listed on the Main Board of Hong Kong Stock Exchange of Hong Kong Limited (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-Business application solution service provider. Its mission is to lead the advancement of management model, encourage e-businesses, contribute to its customers' success and assist its customers to achieve career dream. The Group provides management consultation and informatization services to enterprises and governments all around the world.

The total revenue and profit attributable to the equity holders of the Group for the year ended 31 December 2010 were RMB1,436,621,000 and RMB271,710,000, respectively. Among which, approximately 57 % was derived from the sales of software, approximately 42 % was derived from the service income and 1% from sales of computer hardware and related products respectively. For details, please refer to the consolidated income statement set out on page 36.

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 2010, the Group had 100 branches in China, Hong Kong and Singapore and had approximately 2000 cooperation partners providing consultation, technical support, implementation services and distribution of its offering products and after-sale services to the customers of the Group. The Group's customers spread 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 2010 are set out in the consolidated income statement on page 36 and the appropriation is set out in Note 31 to the financial statements.

Distributable Reserves

As at 31 December 2010, the retained earnings of the Company attributable to equity holders were RMB626,720,000 (2009: RMB419,040,000).

Final Dividends

At the Annual General Meeting of the Company to be held on 20 April 2011 ("AGM"), the Board of Directors (the "Board") will recommend a final dividend of HK$0.034 (RMB0.029) per share (2009: HK$0.022 (RMB0.019) per share) for the year ended 31 December 2010. Subject to the approval of shareholders at the Forthcoming AGM, the final dividend will be payable on 16 June 2011 to shareholders whose name appears on the register of members of the Company on 20 April 2011.

Closure of Register

The register of members of the Company will be closed from Monday, 18 April 2011 to Wednesday, 20 April 2011 (both days inclusive), during which time no transfer of shares will be registered. In order to qualify to be shareholders of the Company to attend, act and vote at the AGM and to qualify for 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 Friday, 15 April 2011.

Interests of the Directors in Contracts

None of the 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 2010.

Pre-emptive Rights

There are no provisions regarding pre-emptive rights under the laws of Cayman Islands or the Articles of Association of the Company, which would oblige the Company to issue new shares to its existing shareholders in proportion to their existing shareholdings.

Share Award Plan

The Company will continue to implement the Share Award Plan (the "Share Award Plan") adopted on 25 March 2009 (the "Adoption Date"). All eligible persons of the Group are entitled to participate in the Share Award Plan.

Under the Share Award Plan, the Board shall select eligible persons to participate and determine the number of the award shares ("Award Shares"). The Award Shares shall be purchased by an independent trustee. Costs associated with the creation, management and implementation of the Share Award Plan shall be paid by the Company. The Share Award Plan recognizes and rewards the contribution of employees to the growth and development of the Company.

Share Capital and Options

- Share Capital
  Details of the movements in share capital of the Company for the year ended 31 December 2010 are set out in Note 17 to the financial statements.

- Purchase, Sale or Redemption of Shares
  During the year ended 31 December 2010, the Company has repurchased an aggregate of 3,868,000 shares, 3,330,000 shares of which have been cancelled on or before 29 December 2010 and the remaining 538,000 shares have been cancelled on or before 21 January 2011.

Save as disclosed, neither the Company, nor any of its subsidiaries, has purchased, sold or redeemed any of the Company's listed securities during the year.

Outstanding Share Option

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

The Share Option Scheme is to encourage and reward the contribution of eligible persons to the Company. The eligible persons include employees (include executive directors), consultants, non-executive directors, suppliers and customers of the Company.

Pursuant to the share option scheme of the Company adopted on 30 January 2001 ("2001 Scheme"), an aggregate of 6,880,000 share options were granted, of which 4,010,000 share options were exercised, 2,870,000 were cancelled and 0 remained outstanding as at 31 December 2010.

Pursuant to the share option scheme of the Company adopted on 26 April 2002 ("2002 Scheme"), an aggregate of 193,850,000 share options were granted, of which 101,581,350 share options were exercised, 84,541,895 were cancelled and 7,726,755 remained outstanding as at 31 December 2010.

Both of the 2001 Scheme and 2002 Scheme were terminated by the Company on 30 June 2005. In the extraordinary general meeting of the Company convened on 11 July 2005, the Company adopted a new Share Option Scheme ("2005 Scheme"). The validity period is ten years. As at 31 December 2010, the Company has granted 302,110,000 shares options pursuant to the 2005 Scheme, of which 56,857,888 share options were exercised, 39,168,000 were cancelled and 206,084,112 remained outstanding. Under the 2005 Scheme, the Company may further grant 50, 464,106 share options, which is approximately 2.4% of the issued share capital at 2010 year end.

The maximum number of shares issuable upon exercise of the options granted under the 2005 Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding options) to each eligible participant in any 12-month period is limited to 1% of the shares of the Company in issue as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company (and if required, the holding company) and the shareholders' approval of the Company at a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to the approval in advance by the independent non-executive directors of the Company, excluding the independent non-executive director of the Company and the holding company who is/are the grantee(s) of the options. In addition, any share option granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue as at the date of grant and with an aggregate value (based on the closing price of the shares of the Company as at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to the issue of a circular by the Company and the shareholders' approval of the Company in advance at a general meeting.

The granted options can be exercised during the valid period of the respective Share Option Scheme.

REPORT OF DIRECTORS

The exercise price of the share options is determinable by the Board, but may not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a trading day; (ii) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

Details of the share options under the 2001 Scheme, 2002 Scheme and 2005 Scheme are set out in Note 18 to the financial statements. Details of the outstanding share options are included in the table as follows:

Name or category of participants	Grant Date	Exercise price HK$	Options held at 1 January 2010	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options held at 31 December 2010
Directors							
Xu Shao Chun	23/03/2004	0.795	16,000,000	—	16,000,000	—	—
	21/04/2005	0.3875	—	—	—	—	—
	22/06/2006	0.65625	—	—	—	—	—
	19/11/2008	0.95	5,000,000	—	—	—	5,000,000
Oriental Gold Limited	23/4/2010	3.11	—	2,000,000	—	—	2,000,000
Chen Deng Kun	1/06/2004	0.6625	153,116	—	—	—	153,116
	04/05/2006	0.6575	5,600,000	—	—	—	5,600,000
	8/06/2007	1.8075	2,720,000	—	—	—	2,720,000
	01/08/2008	1.75	2,000,000	—	—	—	2,000,000
	23/4/2010	3.11	—	800,000	—	—	800,000
Ho Ching Hua	23/01/2007	0.935	2,200,000	—	—	—	2,200,000
James Ming King	8/06/2007	1.8075	400,000	—	300,000	—	100,000
Gary Clark Biddle	8/06/2007	1.8075	400,000	—	—	—	400,000
Yeung Kwok On	8/06/2007	1.8075	400,000	—	—	—	400,000
Yang Zhou Nan	8/06/2007	1.8075	400,000	—	200,000	—	200,000
Wu Cheng	8/06/2007	1.8075	400,000	—	—	—	400,000
Supplier of services	25/10/2010	4.25	—	100,000	—	—	100,000
Other employees in aggregate			195,469,329	27,200,000	25,046,517	5,885,061	191,737,751
Total			231,142,445	30,100,000	41,546,517	5,885,061	213,810,867

Note:

(1) Oriental Gold Limited is wholly owned by Mr. Xu Shao Chun.

(2) During the reporting period, the Company granted 30,000,000 share options on 23 April 2010 with exercise price of HK$3.11 and 100,000 share options on 25 October 2010 with exercise price of HK$4.25. Closing price of the Shares immediately before the two dates of grant of options was HK$3.12 and HK$4.03, respectively.

REPORT OF DIRECTORS

Directors

The compositions of the Board for the financial year ended 31 December 2010 were as follows:

Executive Directors

Mr. Xu Shao Chun
Mr. Chen Deng Kun

Non-executive Directors

Mr. Ho Ching Hua (re-designated from non-executive Director to independent non-executive Director with effect from 15 March 2011)
Mr. James Ming King

Independent Non-executive Directors

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

In accordance with Article 116 of the Company's Articles of Association, Mr. James Ming King as non-executive Director, and Mr. Wu Cheng and Mr. Gary Clark Biddle as independent non-executive Directors, would retire by rotation at the AGM, and would offer themselves for re-election as directors of the Company at the AGM.

As at 31 December 2010, no Director had a service contract with the Company which was not terminable by the Company within one year without payment of compensation other than statutory compensation.

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.

Change of Directors

Pursuant to rule 13.51B(1) of the Listing Rules, changes in the information of the directors of the Company required to be disclosed in this report after the issue of the 2010 Annual Report are as follows:

Mr. FENG Guo Hua has been appointed as executive director of the Company with effect from 15 March 2011 for a term of two years. Mr. FENG has been appointed as President of the Company and Chief Executive Officer of Kingdee Software (China) Co., Ltd, a wholly-owned subsidiary (the "Subsidiary") of the Company with effect from 17 January 2011.

Mr. HO Ching Hua has been re-designated from non-executive Director to independent non-executive Director for a term of two years with effect from 15 March 2011.

Save as disclosed above, there are no other matters that need to be disclosed pursuant to rule 13.51B(1) of the Listing Rules.

Directors' and Chief Executive's Interests or Short Positions in the Shares, Underlying Shares or Debentures

As at 31 December 2010, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities

REPORT OF DIRECTORS

Transactions by Directors of Listed Issuers"(" Model Code") as set out in Appendix 10 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)	Types of interests	Percentage of issued share capital
Xu Shao Chun	629,080,520	Interests of controlled corporation (Note 1)	
	2,486,000	Beneficial owner	
	5,000,000	Other/ Share option (Note 2)	
Oriental Gold Limited	2,000,000	Other/ Share option (Note 2)	
Aggregate:	*638,566,520*		*30.53%*
Chen Deng Kun	11,273,116	Other/ Share option (Note 2)	0.54%
Ho Ching Hua	200,000	Beneficial owner	
	2,200,000	Other/ Share option (Note 2)	
Aggregate:	*2,400,000*		*0.11%*
James Ming King	100,000	Other/ Share option (Note 2)	*0.005%*
Gary Clark Biddle	400,000	Other/ Share option (Note 2)	*0.02%*
Yeung Kwok On	400,000	Other/ Share option (Note 2)	*0.02%*
Yang Zhou Nan	200,000	Other/ Share option (Note 2)	*0.01%*
Wu Cheng	400,000	Other/ Share option (Note 2)	*0.02%*

Notes:

1. Of the 629,080,520 shares, 337,425,000 shares were held through Oriental Gold Limited and 291,655,520 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 629,080,520 shares.

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

Save as disclosed in this paragraph, as at 31 December 2010, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) , which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to Section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section headed "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 2010.

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

As at 31 December 2010, 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	337,425,000	Beneficial owner	16.42%
Billion Ocean Limited	291,655,520	Beneficial owner	13.94%
FMR LLC *(Note)*	203,000,928	Investment manager	9.71%
Matthews International Capital Management, LLC	152,482,000	Investment manager	7.29%

Note:

The 203,000,928 Shares were the total number of shares held through FMR LLC and its wholly owned/controlled subsidiaries.

Save as disclosed above, as at 31 December 2010, 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.

REPORT OF DIRECTORS

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.

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 2010, 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	1.09%
– five largest customers combined	3.76%
Purchases	
– the largest supplier	8.86%
– five largest suppliers combined	26.69%

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.

CORPORATE GOVERNANCE REPORT

Governance of Practices

The Group consistently promotes good corporate governance, pursuing the five principles of ensuring the rights and interests of shareholders, abiding by the directives of the Board and management, promoting full disclosure and transparency, supporting the equal treatment of stakeholders, and strengthening internal controls and supervision. The Company always endeavors to enhance its enterprise value, ensure the Company's long-term and stable development and benefit its shareholders. The following summarizes the Company's detailed corporate governance practices.

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 2010 except A 2.1. Please refer to the section of "the Chairman and Chief Executive Officer" below for details.

Board of Directors

I. THE RESPONSIBILITIES OF THE BOARD

The Board is the core of corporate governance. Its major responsibilities are as follows:

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

(2) To review and approve the mid and long-term strategic plans and management strategies of the Group;

(3) To review and approve critical investment and acquisition projects, the issuance and repurchase of securities, other financings, and plans for consolidation, compensation, hirings and dismissals;

(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;

(6) To approve directors' remuneration plans authorized by shareholders;

(7) To listen to the working report of the CEO and to review the work of the CEO; and

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

The Board shall empower the senior management team to implement the decisions of the Board and all senior management team members shall be appointed by the Board. The CEO will be responsible for operational management and report to the Board. In entrusting management and administrative functions to the management team, the Board provides clear instructions regarding the powers delegated to management, and requires the prior approvals of the Board before reporting or making keys decision and commitments on behalf of the Company.

II. COMPOSITION OF THE BOARD

For the year ended 31 December 2010, the Board consists of eight members, with two executive directors, two non-executive directors and four independent non-executive directors. The number of independent non-executive directors exceeds 1/3 of the Board. The Directors of the Company have professional financial, technology and management. They have extensive experience and independent views in their respective areas of expertise so that they can provide professional advice for the long-term development of the Company. Names and biography of the Directors are set out in "Directors and Senior Management" section on Page 16 of this Annual Report.

The term of service of the Directors is two years. According to the articles of association, each director shall retire by rotation at least once every three years and all the retiring directors can be re-elected on the AGM in that year. At the Forthcoming AGM, four directors of the Company, Mr. James Ming King, Mr. Wu Cheng, Mr. Gary Clark Biddle and Mr. Feng Guo Hua who has been appointed as executive director with effect from 15 March 2010 will be retired by rotation and proposed for re-election.

III. BOARD MEETING

For the year ended 31 December 2010, the Company has convened seven Board meetings. Directors were consulted in advance regarding the agenda items and the Company provided advance notices of meetings in accordance with the Company's Articles of Association and the Listing Rules. The agenda and relevant documents were sent to the Directors at least three days before each meeting. Minutes of Board meetings are recorded in detail, edited by members and are well kept by the Secretary of the Board.

Each Director is aware of their need to allocate adequate time to deal with the Company's affairs. The rate for attending Board meetings and Board committee meetings of majority of the directors is satisfactory. All Directors are entitled to consult the agendas, papers

CORPORATE GOVERNANCE REPORT

and minutes of meetings and all other relevant documents. During the financial year ended 31 December 2010, the Board has held seven meetings which principally dealt with the following affairs of the Company: reviewing the Company's 2009 annual report and the 2010 interim report; approving the Grant of options;approving the share repurchase; and discussing the potential acquisition projects.

IV. MEASURES TO ENSURE THE FULFILLMENT OF THE RESPONSIBILITIES OF DIRECTORS

(1) The Company has arranged regular training for Directors to assist them to understand the Listing Rules and other related laws and regulations in relation to the duties of directors through real case study; and to ensure the Directors are timely and completely informed of on the operations of the Company.

(2) When Directors are asked to express their views to the Company regarding related transactions, award programs, internal controls, etc., the Company retains auditors, financial advisers and lawyers and other relevant independent professionals to provide independent professional advice to assist Directors in fulfilling their responsibilities.

(3). With regard to legal actions to be faced by the Directors when they perform their Directors duties, the Board entered into a "Liability Insurance Contract of Directors, Supervisors and Officers" for a period of one year with Huatai Insurance on 24 May 2010.

Board Committees

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

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 Audit Committee.

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

During the financial year ended 31 December 2010, the Audit Committee held three meetings, at which:

(1) The Audit Committee reviewed the Company's annual financial report and internal control report for fiscal year 2009, and submitted them to the Board for approval.

(2) The Audit Committee reviewed the Company's half-year financial report of 2010 and internal control report, and submitted them to the Board for approval.

(3) The Audit Committee communicated with the auditor regarding the 2010 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. 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 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) To ensure that a significant proportion of executive directors' remuneration is structured so as to link rewards to corporate and individual performance.

During the financial year ended 31 December 2010, the Committee held two meetings to review the remuneration of the senior management for 2010, the Company's Share Award Plan and the Share Option Scheme. Details have been set out in the sections entitled "Share Award Plan" and "Share Capital and Options" of page 20 of "Report of Directors" in this Annual Report.

Nomination Committee

The Nomination Committee of the Company ("Nomination Committee") comprises one non-executive Director and two independent non-executive Directors. The members of the Nomination Committee are Mr. James Ming King, Mr. Yeung Kwok On and Ms. Wu Cheng. 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 recommendations to the Board;

(2) Identify individuals suitably qualified to become board members;

(3) To assess the independence of the independent directors;

(4) To make recommendations to the Board on relevant matters related to the appointment or re-appointment of Directors and succession planning for directors;

(5) To audit and make recommendation on the appointment of other members of senior management.

During the financial year ended 31 December 2010, the Nomination Committee did not convene any meeting. The Group will review the organization of the Board and consider nominees as and when necessary.

Strategy Committee

The Strategy Committee of the Company ("Strategy Committee") comprises two executive Directors and two non-executive Directors. The members of the Strategy Committee are Mr. Xu Shao Chun, Mr. Chen Deng Kun, Mr. James Ming King and Mr. Ho Ching Hua. 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 effects of the strategy implementations.

(3) To make recommendations regarding critical issues prescribed in the articles of association and other issues requiring permissions from the Board, including those related to investments, financings, etc.

CORPORATE GOVERNANCE REPORT

Chairman and Chief Executive Officer

During the reporting period, Mr. Xu Shao Chun held the roles of both Chairman and CEO of the Company. The Board feels that Mr. Xu Shao Chun, as one of the main founders of the Company, has abundant knowledge of IT industry and unique strategic perspective. The Board feels that he can lead the Company to formulate effective strategies and react promptly to market changes. His continual service in both roles is beneficial to the stable and healthy development of the Company. However, the Board will review and make appropriate changes when necessary in order to enhance the level of corporate governance.

Adoption of Code of Conduct Regarding Director's Securities Transactions

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

The details relating to the securities of the Company held by Directors are set out in "Directors' and Chief Executive's Interests or Short Positions in the Shares, Underlying Shares or Debentures" of the "Report of Directors" on page 22 of this annual report.

Internal Control

In 2010, in accordance with the problems found in the internal control checks and that in actual practice in the last year, the Company has improved and amended the relevant control rules, and has paid more attention to the feasibility and enforcement, and more emphasis on the guidelines of business and operation of the branches, which have ensured the normal operation of the Company and authenticity, accuracy and completeness of information disclosure. They have effectively controlled financial and operation risks, and played a key role of asset security, improvement of standardized operation and scientific decision-making.

Besides, with the development of the Internet, IT information security has increasingly become the focus of internal control. The Company attaches great importance to information security. In 2010, the Company has introduced an external consulting firm to conduct a comprehensive diagnosis to the internal information security. After guided by ISO27001 Information Security Management System, the Company has perfected its IT governance structure and improved its ability to information security risk control.

In accordance with the Listing Rules, and applying prudent principles regarding the flow and management of price-sensitive information, the Company has abided by the "Guide on Disclosure of Price-Sensitive Information" of the Stock Exchange, and has implemented a system of internal processing and internal control measures to ensure the timely, accurate and appropriate disclosure of relevant information to shareholders and regulatory agencies.

Investor Relations

The Company pays close attention to maintaining good relations with investors. The Company has set up a specialized department to deal with investor relations affairs. The Company actively participated in various investor forums in personal or via conference calls and provided investors with the information necessary to form their own judgments and provide feedback to management in order to improve operations and corporate governance of the Company. To promote transparency, the Company has reported measures of operational status to shareholders and other persons of interest. These disclosures include: (1) publishing interim and annual reports; (2) publishing press release; (3) sending out news letters quarterly to shareholders; (4) meeting regularly with investors; (5) disclosing the Company's analyst research reports; and (6) conducting market consultation.

The Company understands that increasing transparency in capital market participants will improve corporate governance and be beneficial to the long-term development of the Company. The Company welcomes investors and shareholders to share opinions and suggestions for the development of the Company to the Company's investor relation team via email or telephone.

CORPORATE GOVERNANCE REPORT

External Auditors

PricewaterhouseCoopers was appointed as the external auditors of the Company for the year of 2010. During this year, the Company has paid RMB 1,500,000 for the audit fee to the PricewaterhouseCoopers. A resolution for re-appointment of PricewaterhouseCoopers as the auditors of the Company will be proposed at the AGM.

Improving Corporate Governance

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

Appreciation

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

On behalf of the Board
Xu Shao Chun
Chairman

Shenzhen, the People's Republic of China, 15 March 2011

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

INDEPENDENT AUDITOR'S REPORT
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 33 to 100, which comprise the consolidated and Company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit 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, 15 March 2011

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Land use rights	6	**79,449**	81,785
Property, plant and equipment	7	**350,632**	327,045
Intangible assets	8	**377,236**	193,916
Investment properties	9	**289,162**	236,511
Available-for-sale financial assets	11	**10,000**	—
Other non-current assets	14(f)	**3,520**	—
		1,109,999	839,257
Current assets			
Inventories	13	**1,987**	2,023
Trade and other receivables	14	**272,895**	200,692
Due from customers on implementation contracts	15	**119,834**	89,696
Pledged bank deposits	16	**5,070**	175
Short-term bank deposits	16	**117,017**	111,490
Cash and cash equivalents	16	**631,456**	519,790
		1,148,259	923,866
Total assets		**2,258,258**	1,763,123

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	**54,653**	53,812
Share premium	17	**425,358**	381,374
Other reserves	19	**427,323**	388,119
Retained earnings			
- Proposed final dividend	31	**60,320**	39,776
- Others		**566,400**	379,264
		1,534,054	1,242,345
Non-controlling interest		**14,271**	9,715
Total equity		**1,548,325**	1,252,060
LIABILITIES			
Non-current liabilities			
Borrowings	21	**190,000**	—
		190,000	—
Current liabilities			
Trade and other payables	20	**315,238**	283,982
Borrowings	21	**—**	57,378
Due to customers on implementation contracts	15	**60,359**	82,002
Deferred income	22	**115,499**	78,091
Deferred income tax liabilities	12	**28,837**	9,610
		519,933	511,063
Total liabilities		**709,933**	511,063
Total equity and liabilities		**2,258,258**	1,763,123
Net current assets		**628,326**	412,803
Total assets less current liabilities		**1,738,325**	1,252,060

The notes on pages 40 to 100 are an integral part of these consolidated financial statements.

The financial statements on pages 33 to 100 were approved by the board of directors on 15 March 2011 and were signed on its behalf.

Xu, Shao Chun	**Chen, Deng Kun**
Director	*Director*

BALANCE SHEET

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Investments in subsidiaries	10	**349,506**	328,604
		349,506	328,604
Current assets			
Trade and other receivables	14	**105,484**	105,095
Short-term bank deposits	16	**60,527**	—
Cash and cash equivalents	16	**36,520**	126,852
		202,531	231,947
Total assets		**552,037**	560,551
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	17	**54,653**	53,812
Share premium	17	**425,358**	381,374
Other reserves	19	**116**	43
Retained earnings			
- Proposed final dividend	31	**60,320**	39,776
- Others		**11,575**	85,092
Total equity		**552,022**	560,097
LIABILITIES			
Current liabilities			
Trade and other payables	20	**15**	454
Total equity and liabilities		**552,037**	560,551
Net current assets		**202,516**	231,493
Total assets less current liabilities		**552,022**	560,097

The notes on pages 40 to 100 are an integral part of these consolidated financial statements.

The financial statements on pages 33 to 100 were approved by the board of directors on 15 March 2011 and were signed on its behalf.

Xu, Shao Chun
Director

Chen, Deng Kun
Director

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Turnover	23	**1,436,621**	996,810
Cost of sales	25	**(337,793)**	(218,785)
Gross profit		**1,098,828**	778,025
Selling and marketing expenses	25	**(785,715)**	(523,219)
Administrative expenses	25	**(162,161)**	(125,249)
Research and development costs	25	**(121,325)**	(90,581)
Other gains, net	24	**270,991**	180,264
Operating profit		**300,618**	219,240
Finance income	27	**3,085**	4,614
Finance costs	27	**(8,682)**	(761)
Finance (cost)/income – net	27	**(5,597)**	3,853
Profit before income tax		**295,021**	223,093
Income tax expense	28	**(18,755)**	(9,679)
Profit for the year		**276,266**	213,414
Attributable to:			
Equity holders of the Company	30	**271,710**	212,479
Non-controlling interest		**4,556**	935
		276,266	213,414
Earnings per share for profit attributable to the equity holders of the Company during the year			
- basic	30	**RMB0.1312**	RMB0.1070
- diluted	30	**RMB0.1229**	RMB0.1027
Dividends	31	**60,320**	39,776

The notes on pages 40 to 100 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December **2010** **RMB'000**	2009 RMB'000
Profit for the year		**276,266**	213,414
Fair value change of owner-occupied land and buildings before transferred to investment properties, net of tax	19	**14,950**	26,846
Total comprehensive income for the year		**291,216**	240,260
Total comprehensive income attributable to:			
Equity holders of the Company		**286,660**	239,325
Non-controlling interest		**4,556**	935
		291,216	240,260

The notes on pages 40 to 100 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	Non-controlling interest RMB'000	Total equity RMB'000
Balance at 1 January 2009		50,923	241,194	343,160	261,887	897,164	8,780	905,944
Comprehensive income								
Profit for the year		—	—	—	212,479	212,479	935	213,414
Other comprehensive income		—	—	26,846	—	26,846	—	26,846
Total comprehensive income		—	—	26,846	212,479	239,325	935	240,260
Transactions with owners								
Employees share option scheme:								
- value of employee services	17	—	15,859	—	—	15,859	—	15,859
- proceeds from shares issued	17	909	20,628	—	—	21,537	—	21,537
Issue of shares		1,980	103,693	—	—	105,673	—	105,673
Appropriation to reserve funds		—	—	18,113	(18,113)	—	—	—
Dividend relating to 2008		—	—	—	(37,213)	(37,213)	—	(37,213)
Total transactions with owners		2,889	140,180	18,113	(55,326)	105,856	—	105,856
Balance at 31 December 2009		53,812	381,374	388,119	419,040	1,242,345	9,715	1,252,060
Balance at 1 January 2010		**53,812**	**381,374**	**388,119**	**419,040**	**1,242,345**	**9,715**	**1,252,060**
Comprehensive income								
Profit for the year		**—**	**—**	**—**	**271,710**	**271,710**	**4,556**	**276,266**
Other comprehensive income		**—**	**—**	**14,950**	**—**	**14,950**	**—**	**14,950**
Total comprehensive income		**—**	**—**	**14,950**	**271,710**	**286,660**	**4,556**	**291,216**
Transactions with owners								
Employees share option scheme:								
- value of employee services	17	**—**	**21,830**	**—**	**—**	**21,830**	**—**	**21,830**
- proceeds from shares issued	17	**914**	**34,794**	**—**	**—**	**35,708**	**—**	**35,708**
Repurchase and cancellation of own shares		**(73)**	**(12,640)**	**73**	**(73)**	**(12,713)**	**—**	**(12,713)**
Appropriation to reserve funds		**—**	**—**	**24,181**	**(24,181)**	**—**	**—**	**—**
Dividend relating to 2009	31	**—**	**—**	**—**	**(39,776)**	**(39,776)**	**—**	**(39,776)**
Total transactions with owners		**841**	**43,984**	**24,254**	**(64,030)**	**5,049**	**—**	**5,049**
Balance at 31 December 2010		**54,653**	**425,358**	**427,323**	**626,720**	**1,534,054**	**14,271**	**1,548,325**

The notes on pages 40 to 100 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Cash generated from operations	32	**302,384**	221,702
Interest paid		**(6,858)**	(660)
Income tax paid		**(1,189)**	(5,697)
Net cash generated from operating activities		**294,337**	215,345
Cash flows from investing activities			
Purchase of property, plant and equipment		**(61,848)**	(104,856)
Proceeds from sales of property, plant and equipment	32	**854**	9,364
Payments for land use rights		**—**	(2,111)
Increase in other non-current assets		**(3,520)**	—
Additions of intangible assets		**(186,201)**	(149,876)
Cash paid for business combination		**(30,460)**	—
Purchases of available-for-sale financial assets		**(10,000)**	—
Pledged bank deposits withdrawn		**175**	2,171
Pledged bank deposits placed		**(5,070)**	(133)
Short-term bank deposits withdrawn		**66,984**	50,741
Short-term bank deposits placed		**(72,511)**	(66,984)
Interest received		**3,085**	4,614
Net cash used in investing activities		**(298,512)**	(257,070)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	17	**—**	105,673
Proceeds from options exercised	17	**35,708**	21,537
Repurchase of own shares	17	**(12,713)**	—
Proceeds from borrowings		**190,000**	57,378
Repayments of borrowings		**(57,378)**	(9,500)
Dividends paid to the Company's shareholders	31	**(39,776)**	(37,213)
Net cash generated from financing activities		**115,841**	137,875
Net increase in cash and cash equivalents		**111,666**	96,150
Cash and cash equivalents at beginning of year	16	**519,790**	423,640
Cash and cash equivalents at end of year	16	**631,456**	519,790

The notes on pages 40 to 100 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

1 GENERAL INFORMATION

Kingdee International Software Group Company Limited (the "Company") was incorporated in the Cayman Islands in 1999 as an exempted company with limited liability. The address of its office is Kingdee Software Park, 2 Keji 12th Road South, Hi-tech industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China (the "PRC").

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (the "Group") are developing, manufacturing and selling of enterprise management 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 financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors on 15 March 2011.

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 Group have been prepared in accordance with International Financial Reporting Standards (''IFRS''). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties and available-for-sale financial assets, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group:

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- Business Combination and transaction with non-controlling interests

  IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements', IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures', are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. 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 are expensed.

  IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. IAS 27 (revised) has had no impact on the year ended 31 December 2010, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

- Lease of land

  IAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of IAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Leasehold land and land use rights", and amortised over the lease term.

  IAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 January 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 January 2010 on the basis of information existing at the inception of those leases. As a result of the reassessment, the Group has not reclassified any leasehold lands. All lands held by the Group are in the PRC and are classified as operating lease, which is the same to the Group's accounting policy before the adoption of IAS 17 (amendment).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events)

- IFRIC 17. 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable.

- IFRIC 18 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services (or to do both).

- IFRIC 9 'Reassessment of embedded derivatives and IAS 39 Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. If the entity is unable to make this assessment, the hybrid instrument must remains classified as at fair value through profit or loss in its entirety.

- IFRIC 16 Hedges of a net investment in a foreign operation' effective 1 July 2009. This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the Group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied. In particular, the Group should clearly document its hedging strategy because of the possibility of different designations at different levels of the Group.

- IAS, 38 'Intangible assets', effective 1 January 2010. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and permits the Grouping of intangible assets as a single asset if each asset has similar useful economic lives.

- IAS 1, 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Group (although they may affect the accounting for future transactions and events) *(Continued)*

- IAS 36 (amendment) 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, ' Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

- IFRS 2 (amendment) 'Group cash-settled share-based payment transactions', effective form 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2- Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

- IFRS 5, 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1.

2.2 Consolidation

(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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any 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.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. When this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income (Note 2.9).

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend and receivable.

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.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Changes in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when revised IAS 27, 'Consolidated and separate financial statements', became effective. The revision to IAS 27 contained consequential amendments to IAS 28, 'Investments in associates', and IAS 31, 'Interests in joint ventures'.

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the steering committee that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's 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 RMB, which is the Company's functional and the Group's presentation currency. All the companies in the Group also have RMB as their functional 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 re-measured. 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 income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.5 Property, plant and equipment

Buildings comprise mainly offices. Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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	15-40 years
—	Computer and related equipment	5 years
—	Office equipment	5 years
—	Motor vehicles	5 years
—	Leasehold improvements	over the lease term (unless greater than useful lives)

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

Construction in progress represents property 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.

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 2.9).

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within 'Other gains - net' in the consolidated 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. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs. After initial recognition at cost investment properties are carried at fair value, representing open market value determined at each reporting date 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. Fair value change of own occupied land and buildings before transferred to investments property are recorded in the statement of changes in equity as "other reserves". Subsequent changes in fair values are recorded in the income statement as valuation gain or loss in "other gains."

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.7 Land-use rights

Land-use rights 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 or business at the date of acquisition (Note 2.2(a)). Goodwill on acquisitions of subsidiaries or businesses is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. 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.

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

Research expenditure 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.

Directly attributable costs that are capitalised include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised 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 not exceeding 3 years.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.8 Intangible assets *(Continued)*

(c) Acquired licenses and copyrights

Separately acquired licenses and copyrights are shown at historical cost. Licenses and copyrights acquired in a business combination are recognised at fair value at the acquisition date. Licenses and copyrights have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licenses over their estimated useful lives not exceeding 5 years.

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 of three to five years.

(d) Computer software for own use

Computer software licenses for own use 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 5 years.

2.9 Impairment of investments in subsidiaries 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 purpose 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.

Impairment testing of trade and other receivables is described in Note 2.11.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.10 Financial assets

2.10.1 Loans and Receivables

The group classifies its financial assets in the following categories: loans and receivables, 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.

(a) Loans and receivables

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. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the balance sheet (Note 2.13).

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the 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 for all financial assets not carried at fair value through profit or loss. 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 subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a Group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – 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 separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on weighted average basis. 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.

2.13 Trade and other receivables

Trade receivables are amounts due from customers for software sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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.

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.

2.15 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 any group companies purchases the Company's share capital (treasury shares), 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. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, are included in equity attributable to the Company's equity holders.

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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 in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

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 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. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group and Company's 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.

Deferred income tax assets are recognised only 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, 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.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxed assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) 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.

2.20 Share-based payment

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:

- including any market performance conditions
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- excluding the impact of any non-vesting conditions (for example, the requirement for employees to save.)

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, 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 to original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

When the options are exercised, the company issues new shares. 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.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.21 Provision

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.22 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.

The Group's turnover includes, separately or in combination, the sales of software, sales of hardware, the provision of implementation services (including sales of software with significant modification or customisation), maintenance services, customer support services, upgrade services and other services.

(a) Sales of standard software and hardware

Sales of standard software, hardware and related products, including those distributed via distributors, are recognised when a group entity has delivered the products to a end customer; the customer has accepted the products and collectibility of the related receivables is reasonably assured.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.22 Revenue recognition *(Continued)*

(b) Software implementation contracts

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

The Group uses the 'percentage of completion method' to determine the appropriate amount of revenue 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 on 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.

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

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.

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 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).

(c) Software solution consulting and other supporting services.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.22 Revenue recognition *(Continued)*

(d) Multiple element arrangements

The Group offers certain arrangements whereby a customer can purchase software together with certain of the related implementation or other services as discussed above. When such multiple element arrangements exist, the total arrangement consideration is allocated to each element based on their relative fair values, as determined based on the current market price of each of the elements when sold separately. The revenue relating to the service elements, which represent their relative fair value in relation to the fair value of each of the elements in the arrangement, are recognised on a percentage-of-completion basis over the service period.

Where the Group is unable to determine the fair value of each of the elements in an arrangement, it uses the residual value method. Under this method, the Group determines the fair value of the delivered element by deducting the fair value of the undelivered element from the total contract consideration.

To the extent that there is a discount on the arrangement, such discount is allocated between the elements of the contract in such a manner as to reflect the fair value of the elements.

(e) Interest income

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

(f) Rental income

Rental income from investment properties is recognised in the income statement on a straight-line basis over the term of the lease.

2.23 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.

2.24 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 that they are intended to compensate.

Government grants relating to 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.

2.25 Dividend distribution

Dividends distribution to the Company's shareholders is recognised as a liability in the Group's and the Company'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 activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise 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. As at 31 December 2010, cash and cash equivalents of RMB106,772,000 (2009: RMB131,649,000) were denominated in Hong Kong Dollar ("HKD"). Apart from this, the Group does not have significant exposure 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.

At 31 December 2010, if the RMB had weakened/strengthened by 5% against the HKD with all other variables held constant, profit before tax for the year would have been RMB5,151,000 higher/lower (2009: RMB6,582,000 higher/lower), mainly as a result of foreign exchange gains/losses on translation of HKD-denominated cash and cash equivalents.

Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk which is partially offset by cash held at variable rates. The management of the Group believes the cash flow interest rate is immaterial.

Apart from cash and cash equivalents, the Group has no significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Fluctuation of market rates does not have significant impact to operating cash flows.

The Group's interest rate risk arises from long-term borrowings. All the borrowings issued at variable rates expose the Group to cash flow interest rate risk. During 2010, the Group's long-term borrowings at variable rate were denominated in RMB. The directors are of the opinion the interest risk is not material as at 31 December 2010.

Price risk

The Group is exposed to security price risk because of the investment held by the Group and classified on the consolidated balance sheet as available-for-sale. The Group is not exposed to commodity price risk. The comprehensive incomes of the Group increase/decrease as a result of the fair gain/loss of the available-for-sale assets. To manage the price risk, the Group limits the type and the directors are of the opinion the price risk is not material as at 31 December 2010.

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

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

The management manages the credit risk of cash and cash equivalents, pledged bank deposits and available for sale financial assets by transacting with state-owned financial institutions and reputable commercial banks which are all high-credit-quality financial institutions in the PRC and Hong Kong.

In relation to trade receivables, the Group has policies in place to ensure that a certain percentage of the contracted sales amounts have been received as deposits upon agreeing the related sales contracts with customers. The credit quality of the counterparties is assessed by taking into account their financial position, credit history and other factors. Individual credit limits are set based on the assessment of credit quality. It also undertakes certain monitoring procedures on an individual customer basis to ensure that proper follow-up action is taken to recover overdue debts. Nevertheless, certain amounts of trade receivables cannot be recovered due to default and unexpected financial difficulties suffered by 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 exercises prudent liquidity risk management by reviewing forecasted cash balances on a quarterly basis to maintain sufficient cash levels and the availability of an 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	Between1 and 2 year RMB'000	Between2 and 5 year RMB'000
Group			
At 31 December 2010			
Bank borrowings	**9,747**	**9,747**	**194,874**
Trade and other payables	**315,238**	**—**	**—**
At 31 December 2009			
Bank borrowings	57,378	—	—
Trade and other payables	283,982	—	—
Company			
At 31 December 2010			
Trade and other payables	**15**	**—**	**—**
At 31 December 2009			
Trade and other payables	454	—	—

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 2010, the Group's strategy, which was unchanged from 2009, was to maintain gearing ratio below 15%. The gearing ratios at 31 December 2010 and 2009 were as follows:

	2010	2009
	RMB'000	RMB'000
Total borrowings (Note 21)	**190,000**	57,378
Total equity	**1,548,325**	1,252,060
Total capital	**1,738,325**	1,309,438
Gearing ratio	**10.93%**	4.38%

3.3 Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques, such as estimated discounted cash flows. The Group uses its judgment to select 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.

For financial instruments that are measured in the balance sheet at fair value, IFRS7 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3 FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(Continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2010.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets	—	—	10,000	10,000
Total assets	—	—	10,000	10,000

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) Fair value of investment properties

The Group carries its investment properties at fair value with changes in the fair values recognised in profit or loss. It obtains independent valuations at least annually. At the end of each reporting period, the management updates their assessment of the fair value of each property, taking into account the most recent independent valuations. The key assumptions used in this determination and the sensitivity of the directors' estimates of these assumptions to the carrying amount of the investment properties are set out in Note 9.

(b) 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/decreased by approximately RMB37,614,000.

(c) Estimated impairment of trade receivables

Determination of impairment of trade receivables requires management to 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 positions of customers. The impairment of trade receivables would be approximately RMB4,415,000 lower/higher were the actual present value of expected cash flows arising from settlement of receivables to differ by 5% from management's estimates.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(d) Estimated useful lives of internally generated software

The useful lives of internally generated software are estimated based on historical experience, which include actual useful lives of similar assets and changes in technology. Were the estimated useful lives of internally generated software to differ by 20% from management's estimates, the amortisation charge of the year would be approximately RMB22,897,000 higher or RMB15,265,000 lower.

(e) Share-based payments

The fair value of options granted is estimated by management based on various assumptions on volatility, life of options, dividend paid out rate and annual risk-free interest rate, excluding the impact of any non-market vesting conditions, which generally represent the best estimate of the fair value of share options at the date of grant.

Should the estimated fair value of the options granted to differ by 10% from management's estimates, the administrative expense and the change in equity will differ by approximately RMB2,183,000.

(f) Fair value of intangible assets acquired in the business combination of Yiruan and Shishen (see definition below)

The fair value of the intangible assets acquired in the business combination of Shenzhen Yiruan Technology and Development Co., Ltd. ("Yiruan") and Zhongshan Shishen Network Technology Co., Ltd. ("Shishen") (Note 36) at their respective acquisition dates have been determined based on discounted future cash flow calculations. These calculations require the use of certain key assumptions. Changing such key assumptions selected by management, including the discount rate, the growth rate or profit margin rate, could materially affect the fair value of the acquired intangible assets and the gain on bargain purchases.

The key assumptions used for future cash flow calculations are as follows:

	Yiruan	**Shishen**
Profit margin rate	34%	49%
Growth rate in the beneficial period	33.4%~40%	35%~40%
Discount rate (after tax discount rate applied to the cash flow projections)	13%	13%

Management determined profit margin based on past performance of similar businesses and its expectations for the market development. The growth rate was determined based on estimates of the general market growth rate of the niche markets that the aquired businesses focus on. The discount rates used are after tax and reflect specific risks relating to the relevant businesses.

If the profit margin rate of Yiruan is 10% lower than the management's estimate (i.e. 24% instead of 34%) the fair value of the intangible asset and the gain on bargain purchases added to the profit before tax at the acquisition date would be lower by RMB9,473,000.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(f) Fair value of intangible assets acquired in the business combination of Yiruan and Shishen (see definition below) *(Continued)*

If the profit margin rate of Shishen is 10% lower than the management's estimate (i.e. 39% instead of 49%) the fair value of the intangible asset and the gain on bargain purchases added to the profit before tax at the acquisition date would be lower by RMB7,969,000.

If the growth rate in the beneficial period of Yiruan is 10% lower than the management's estimate (i.e. 23.4%~30% instead of 33.4%~40%) the fair value of the intangible asset and the gain on bargain purchases added to the profit before tax at the acquisition date would be lower by RMB4,947,000.

If the growth rate in the beneficial period of Shishen is 10% lower than the management's estimate (i.e. 25%~30% instead of 35%~40%) the fair value of the intangible asset and the gain on bargain purchases added to the profit before tax at the acquisition date would be lower by RMB6,144,000.

If the discount rate of Yiruan is 3% higher than the management's estimate (i.e 16% instead of 13%) the fair value of the intangible asset and the gain on bargain purchases added to the profit before tax at the acquisition date would be lower by RMB2,777,000.

If the discount rate of Shishen is 3% higher than the management's estimate (i.e. 16% instead of 13%) the fair value of the intangible asset and the gain on bargain purchases added to the profit before tax at the acquisition date would be lower by RMB3,390,000.

4.2 Critical judgment in applying the entity's accounting policies

Capitalisation of development costs incurred on upgrading of existing software products

Costs incurred in upgrading existing software products (primarily relating to upgrade of the existing features or additions of new features/ modules) are capitalised as intangible assets when recognition criteria as detailed in Note 2.8 (b) are fulfilled. Management has applied its professional judgement in determining whether these software products could generate probable future economic benefits to the Group based on the historical experience of the success of the existing products and the prospects of the markets. Any severe change in market performance or technology advancement will have an impact on capitalisation of the development costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

5 SEGMENT INFORMATION

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

The executive directors consider the business from product perspective. Upon the first-time adoption of IFRS 8 'Operating Segments', the Group has determined that the operating segments:

Enterprise Management Software Business	—	sales and implementation of enterprise management software, provision of other related services and sales of hardware related to enterprise management software arrangements.
Others	—	sales of middleware software business and provision online management services

The chief operating decision-maker assesses the performance of the operating segments based on the operating profit of each segment. Substantially all of the businesses of the Group are carried out in the PRC.

The segment information for the year ended 31 December 2009 had been restated to conform to current year presentation in accordance with IFRS 8.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

5 SEGMENT INFORMATION *(CONTINUED)*

The segment information for the year ended 31 December 2010 is as follows:

	Enterprise management software business RMB'000	Others RMB'000	Unallocated RMB'000	The Group Total RMB'000
Revenue (from external customers)	1,371,770	64,851	—	1,436,621
Operating profit	332,973	(19,236)	(13,119)	300,618
Finance costs	(8,635)	(42)	(5)	(8,682)
Finance income	2,670	415	—	3,085
Finance income/(cost) – net	(5,965)	373	(5)	(5,597)
Profit before income tax	327,008	(18,863)	(13,124)	295,021
Income tax expense	(18,284)	(471)	—	(18,755)
Segment results	308,724	(19,334)	(13,124)	276,266
Segment assets	1,595,240	100,981	562,037	2,258,258
Segment liabilities	629,575	51,506	28,852	709,933
Additions to non-current assets (other than financial instruments and deferred tax assets)	252,784	(2,944)	10,902	260,742
Material non-cash expenses/(income)				
Gain on bargain purchases	(39,370)	—	—	(39,370)
Depreciation and amortisation	140,876	294	—	141,170
Provision for doubtful trade and other receivables	87,565	2,176	—	89,741

5 SEGMENT INFORMATION *(CONTINUED)*

The segment information for the year ended 31 December 2009 is as follows:

	Enterprise management software business RMB'000	Others RMB'000	Unallocated RMB'000	The Group Total RMB'000
Revenue (from external customers)	968,163	28,647	—	996,810
Operating profit	231,811	(6,100)	(6,471)	219,240
Finance costs	(702)	(55)	(4)	(761)
Finance income	4,005	607	2	4,614
Finance income/(cost) – net	3,303	552	(2)	3,853
Profit before income tax	235,114	(5,548)	(6,473)	223,093
Income tax expense	(10,388)	709	—	(9,679)
Segment results	224,726	(4,839)	(6,473)	213,414
Segment assets	1,334,571	60,111	368,441	1,763,123
Segment liabilities	494,189	6,810	10,064	511,063
Additions to non-current assets (other than financial instruments and deferred tax assets)	249,579	7,264	107,417	364,260
Material non-cash expenses				
Depreciation and amortisation	98,090	318	—	98,408
Provision for doubtful trade and other receivables	2,147	749	—	2,896

The entity is domiciled in China. The result of its total revenue from external customers is RMB1,436,621,000 (2009: RMB996,810,000), and the total of revenue from external customers from other countries is RMB20,692,000 (2009: RMB10,802,000) inclusive. The breakdown of the major component of the total of revenue from external customers from other countries is disclosed above.

Revenues of approximately RMB42,416,000 (2009: RMB35,609,000) are derived from the 10 largest external customers. These revenues are attributable to the enterprise management software business segments. There is no single customer that attribute for over 10% of the Group's revenue for the year end 31 December 2010 and 2009.

6 LAND USE RIGHTS – GROUP

	2010	2009
	RMB'000	RMB'000
Opening net book amount	**81,785**	84,951
Additions	**—**	2,111
Transfer to buildings (Note 7)	**—**	(2,921)
Transfer to investment properties (Note 9)	**—**	(1,482)
Amortisation charge (Note 25)	**(2,336)**	(874)
	79,449	81,785
Represented by:		
Cost	**85,295**	85,295
Accumulated amortisation charges	**(5,846)**	(3,510)
	79,449	81,785

The Group's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2010	2009
	RMB'000	RMB'000
In the PRC, held on:		
Leases of between 10 to 50 years	**79,449**	81,785

7 PROPERTY, PLANT AND EQUIPMENT - GROUP

	Buildings	Computer and related equipment	Office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2009							
Opening net book amount	80,477	32,322	346	11,099	5,261	199,255	328,760
Additions	49,567	14,046	11,725	2,193	744	26,581	104,856
Transfer from land use rights(Note 6)	2,921	—	—	—	—	—	2,921
Revaluation surplus before transferred to investment properties, credited to reserve (Note 19)	29,830	—	—	—	—	—	29,830
Disposals (Note 32)	(6,806)	(2,189)	(69)	(603)	—	—	(9,667)
Reclassifications	173,778	—	—	—	—	(173,778)	—
Transfer to investment properties (Note 9)	(54,986)	—	—	—	—	(48,553)	(103,539)
Depreciation (Note 25)	(8,264)	(11,079)	(953)	(4,072)	(1,748)	—	(26,116)
Closing net book amount	266,517	33,100	11,049	8,617	4,257	3,505	327,045
At 31 December 2009							
Cost	278,574	73,455	12,505	20,410	9,591	3,505	398,040
Accumulated depreciation	(12,057)	(40,355)	(1,456)	(11,793)	(5,334)	—	(70,995)
Net book amount	266,517	33,100	11,049	8,617	4,257	3,505	327,045

7 PROPERTY, PLANT AND EQUIPMENT - GROUP *(CONTINUED)*

	Buildings	Computer and related equipment	Office equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2010							
Opening net book amount	266,517	33,100	11,049	8,617	4,257	3,505	327,045
Additions	218	24,713	3,376	13,845	5,668	14,221	62,041
Revaluation surplus before transferred to investment properties, credited to reserve (Note 19)	16,611	—	—	—	—	—	16,611
Disposals (Note 32)	—	(715)	(9)	(247)	(32)	—	(1,003)
Transferred to investment properties (Note 9)	(23,479)	—	—	—	—	—	(23,479)
Depreciation (Note 25)	(10,562)	(10,597)	(2,286)	(3,214)	(3,924)	—	(30,583)
Closing net book amount	249,305	46,501	12,130	19,001	5,969	17,726	350,632
At 31 December 2010							—
Cost	268,389	95,542	15,828	33,870	14,884	17,726	446,239
Accumulated depreciation	(19,084)	(49,041)	(3,698)	(14,869)	(8,915)	—	(95,607)
Net book amount	249,305	46,501	12,130	19,001	5,969	17,726	350,632

Depreciation expense of approximately RMB14,923,000 (2009: RMB11,594,000) has been charged in selling and marketing expenses, RMB7,575,000 (2009: RMB6,725,000) in research and development costs, and RMB8,085,000 (2009: RMB7,797,000) in administrative expenses.

8 INTANGIBLE ASSETS

	Group					Company
	Goodwill RMB'000	Development costs RMB'000	Acquired licenses and copyrights RMB'000	Computer software for own use RMB'000	Total RMB'000	Computer software RMB'000
Year ended 31 December 2009						
Opening net book amount	—	110,243	5,000	215	115,458	—
Additions	—	125,016	22,000	2,860	149,876	—
Amortisation charge (Note 25)	—	(66,958)	(4,012)	(448)	(71,418)	—
Closing net book amount	—	168,301	22,988	2,627	193,916	—
At 31 December 2009						
Cost	25,560	379,514	27,000	8,263	440,337	2,411
Accumulated amortisation	(11,542)	(211,213)	(4,012)	(5,636)	(232,403)	(2,411)
Accumulated impairment	(14,018)	—	—	—	(14,018)	—
Net book amount	—	168,301	22,988	2,627	193,916	—
Year ended 31 December 2010						
Opening net book amount	**—**	**168,301**	**22,988**	**2,627**	**193,916**	**—**
Additions	**—**	**183,329**	**—**	**2,872**	**186,201**	**—**
Acquired in business combination (Note 36)	**—**	**—**	**105,370**	**—**	**105,370**	**—**
Amortisation charge (Note 25)	**—**	**(91,590)**	**(14,760)**	**(1,901)**	**(108,251)**	**—**
Closing net book amount	**—**	**260,040**	**113,598**	**3,598**	**377,236**	**—**
At 31 December 2010						
Cost	**25,560**	**562,843**	**132,370**	**11,135**	**731,908**	**2,411**
Accumulated amortisation	**(11,542)**	**(302,803)**	**(18,772)**	**(7,537)**	**(340,654)**	**(2,411)**
Accumulated impairment	**(14,018)**	**—**	**—**	**—**	**(14,018)**	**—**
Net book amount	**—**	**260,040**	**113,598**	**3,598**	**377,236**	**—**

Amortisation charge of RMB16,661,000 (2009:RMB4,460,000) has been included in administrative expenses, and RMB91,590,000 (2009:RMB66,958,000) in research and development costs.

9 INVESTMENT PROPERTIES – GROUP

	2010 **RMB'000**	2009 RMB'000
At 1 January	**236,511**	53,903
Transfer from construction in progress (Note 7)	—	48,553
Transfer from owner-occupied buildings (Note 7)	**23,479**	54,986
Transfer from land use rights (Note 6)	—	1,482
Fair value gains (Note 24)	**29,172**	77,587
At 31 December	**289,162**	236,511

The investment properties represent the whole Block 2 and Block 3 of the Group's research and development center located in Shanghai, the south area on second floor of Block B, the sixth, seventh and eighth floors of Block B of the Group's research and development center located in Shenzhen, B1 on 4th floor of W1 building located in Hi-Tech Industrial Park of Shenzhen.

The Group obtains an independent valuation for its investment properties at least annually and at the date of the owner-occupied properties being transferred to investment properties. At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent independent valuations. The directors determine a property's value within a range of reasonable fair value estimates.

The best evidence of fair value is current prices in an active market for similar investment properties. Where such information is not available the directors consider information from a variety of sources including:

(i) current prices in an active market for properties of different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences

(ii) discounted cash flow projections based on reliable estimates of future cash flows

(iii) capitalised income projections based upon a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence

9 INVESTMENT PROPERTIES – GROUP *(CONTINUED)*

At the end of the reporting period the key assumptions used by the directors in determining fair value were in the following ranges for the Group's portfolio of properties:

	2010	2009
	RMB'000	RMB'000
Capitalisation rate	**6.5%~6.8%**	6.5~6.8%
Expected vacancy rate	**5%**	5%

All of the above key assumptions have been taken from the last independent valuation report for the assets in the portfolio.

The following tables show the sensitivity of the fair value of the investment properties to the key assumptions were the director's estimates to increase or decrease by 10%.

	2010	
	Favourable change by 10%	**Unfavourable change by 10%**
	RMB'000	**RMB'000**
Capitalisation rate	**25,390**	**22,079**
Expected vacancy rate	**1,522**	**1,522**

	2009	
	Favourable change by 10%	Unfavourable change by 10%
	RMB'000	RMB'000
Capitalisation rate	20,993	18,227
Expected vacancy rate	1,245	1,245

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

	2010	2009
	RMB'000	RMB'000
In the PRC, held on:		
Leases of between 10 to 50 years	**289,162**	236,511

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

9 INVESTMENT PROPERTIES – GROUP *(CONTINUED)*

The following amounts have been recognised in the income statements of the Group:

	2010	2009
	RMB'000	RMB'000
Rental income	**22,026**	5,306
Direct operating expenses that generate rental income	**(1,555)**	—
	20,471	5,306

The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	2010	2009
	RMB'000	RMB'000
Not later than 1 year	**23,266**	21,559
Later than 1 year and not later than 5 years	**21,592**	19,141
	44,858	40,700

10 INVESTMENTS IN AND LOANS TO SUBSIDIARIES - COMPANY

	Company	
	2010	2009
	RMB'000	RMB'000
Unlisted shares (a)		
Cost	**339,806**	318,904
Provision for impairment	**(5,300)**	(5,300)
	334,506	313,604
Loans to subsidiaries (b)	**15,000**	15,000
	349,506	328,604

10 INVESTMENTS IN AND LOANS TO SUBSIDIARIES - COMPANY *(CONTINUED)*

(a) The following is a list of the principal subsidiaries at 31 December 2010, 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	RMB280,000,000	100%
Kingdee International Software Group (H.K.) Co., Ltd. ("Kingdee HK")	Hong Kong	HKD1,000,000	100%
Caterton Group Limited	BVI	USD100	80.2%
Kingdee International Software Group (Singapore) PTE Ltd.	Singapore	SGD100,000	100%
Indirectly held			
Shenzhen Kingdee Middleware Co., Ltd.	The PRC	RMB10,000,000	65%
Shanghai Kingdee Software Co., Ltd.	The PRC	RMB20,000,000	100%
Beijng Kingdee System Technology Co., Ltd.	The PRC	USD540,000	100%
Kingdee E-commerce Service (Shenzhen) Co., Ltd. (formerly known as Shenzhen Kingdee Mobile Internet Technology Co., Ltd) (i)	The PRC	RMB12,000,000	N/A
Xiamen Kingdee Software Co., Ltd.	The PRC	RMB300,000	100%
Shanghai Kingdee Software Technology Co., Ltd.	The PRC	RMB10,000,000	90%
Sichuan Kingdee Software Co., Ltd.	The PRC	RMB10,000,000	100%
Chongqing Kingdee Software Co., Ltd.	The PRC	RMB10,000,000	100%
Beijing Kingdee Middleware Software System Co., Ltd.	The PRC	RMB2,000,000	65%
Kingdee E-commerce Technology (Shenzhen) Co., Ltd.	The PRC	RMB30,000,000	80.2%
Xuzhou Kingdee Software Co.,Ltd.	The PRC	RMB300,000	100%
Jiangsu Kingdee Software Co., Ltd.	The PRC	RMB20,000,000	100%
Shanghai Kingdee Middleware Software Systems Co., Ltd.	The PRC	RMB2,000,000	100%
Beijing Kingdee Government and Public Software Co., Ltd. (ii)	The PRC	RMB50,500,000	N/A
Guangdong Kingdee Software Technology Co.,Ltd. (iii)	The PRC	RMB29,500,000	100%
Beijing Kingdee Management Software Co.,Ltd (iii)	The PRC	RMB20,000,000	100%
Zhuzhou Kingdee Software Co.,Ltd (iii)	The PRC	RMB10,000,000	100%
Zhongshan Kingdee Business and Management Consulting Co.,Ltd (iii)	The PRC	RMB10,000,000	100%
Shaanxi Kingdee Software Co.,Ltd (iii)	The PRC	RMB10,000,000	100%
Tianjin Kingdee Software Co.,Ltd (iii)	The PRC	RMB10,000,000	100%
Zhuhai Kingdee Software Co.,Ltd (iii)	The PRC	RMB10,000,000	100%
Luoyang Kingdee Management Software Co., Ltd. (iv)	The PRC	RMB10,000,000	100%

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.

10 INVESTMENTS IN AND LOANS TO SUBSIDIARIES - COMPANY *(CONTINUED)*

(a) The following is a list of the principal subsidiaries at 31 December 2010, all of which are limited liability companies:*(Continued)*

(i) In 2009, the Group established a Kingdee E-commerce Service (Shenzhen) Co., Ltd. ("E-commerce Service") for providing value-added telecommunication services in the PRC which the Group does not hold any equity ownership. Nevertheless, under certain contractual arrangements enacted among E-commerce Service, the registered owners of E-commerce Service, and another subsidiary of the Company, the Group controls E-commerce Service by way of controlling more than one half of the voting rights of it, governing its financial and operating policies and appointing or removing the majority of the members of its 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 E-commerce Service to the Group. As a result, E-commerce Service is presented as consolidating subsidiary of the Company.

(ii) In current year, the Group established Beijing Kingdee Government and Public Software Co., Ltd. ("Kingdee GPS") for providing government management software service in the PRC which the Group does not hold any equity ownership. Contractual arrangements similar to those related to E-commerce Service discussed in (i) above have been executed and as a result, Kingdee GPS is presented as consolidating subsidiary of the Company.

(iii) These subsidiaries were newly incorporated during the year.

(iv) The subsidiary was acquired during the year (Note 36(e)).

(b) The loans to subsidiaries are unsecured and interest-free.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	Group RMB'000
At 1 January 2009 and 2010	—
Addition	**10,000**
At 31 December 2010	**10,000**

The available-for-sale financial assets of the Group represented the Group's investment in a trust investment through a third party trust company. The underlying assets of the trust are loans extended to a real estate company located in northern China. The investment has a maturity date in 1 May 2012 with a fixed beneficial rate of 8.1% per annum, subject to deduction of 0.83% management fee per annum. The fair values of the investment in the trust are determined based on cash flows discounted using market interest rate and the risk premium specific to the trust investment. The maximum exposure to credit risk at the reporting date is the carrying value of the investment. The financial asset is not past due or impaired.

12 DEFERRED INCOME TAX- GROUP

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2010 RMB'000	2009 RMB'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	**8,327**	6,273
– Deferred tax asset to be recovered within 12 months	**8,027**	10,688
	16,354	16,961
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	**(30,282)**	(17,734)
– Deferred tax liabilities to be recovered within 12 months	**(14,909)**	(8,837)
	(45,191)	(26,571)
Deferred tax liabilities	**(28,837)**	(9,610)

12 DEFERRED INCOME TAX- GROUP *(CONTINUED)*

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

	At 1 January 2009 RMB'000	Credited/ (Charged) to the income statement (Note 28) RMB'000	Transferred from current income tax liabilities RMB'000	Credited/ (Charged) to Reserves (Note 19) RMB'000	At 31 December 2009 RMB'000	Credited/ (Charged) to the income statement (Note 28) RMB'000	Credited/ (Charged) to Reserves (Note 19) RMB'000	**At 31 December 2010 RMB'000**
Deferred tax assets								
– Provision for bad and doubtful debts	7,004	3,182	—	—	10,186	(3,484)	—	**6,702**
– Deferred income	5,827	446	—	—	6,273	2,054	—	**8,327**
– Amortisation of computer software	122	380	—	—	502	823	—	**1,325**
	12,953	4,008	—	—	16,961	(607)	—	**16,354**
Deferred tax liabilities								
– Deferred development costs	(3,338)	(4,759)	(3,865)	—	(11,962)	(14,042)	—	**(26,004)**
– Fair value gain of investment properties	(3,866)	(7,759)	—	(2,984)	(14,609)	(2,917)	(1,661)	**(19,187)**
	(7,204)	(12,518)	(3,865)	(2,984)	(26,571)	(16,959)	(1,661)	**(45,191)**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. Due to the fact that the directors are not certain of whether future taxable profit would be available, the Group did not recognise deferred income tax assets of approximately RMB29,089,000 (2009: RMB17,762,000) in respect of tax losses amounting to RMB154,406,000 (2009: RMB89,651,000) that can be carried forward to offset against future taxable income. Losses of RMB15,618,000, RMB9,013,000, RMB23,599,000, RMB21,974,000 and RMB84,202,000 will expire in 2011, 2012, 2013, 2014 and 2015 respectively.

Deferred income tax liabilities of RMB58,037,000 (2009: RMB36,274,000) had not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries in PRC. The directors of the Company believe that the Group has sufficient fund in overseas companies and therefore the Company will not require its PRC subsidiaries to declare dividends out of their profits earned from 1 January 2008 onwards to 31 December 2010, in the foreseeable future. Accordingly, the Group consider that there was no need to provide tax liability for profits of its PRC subsidiaries earned for the years of 2008, 2009 and 2010. The directors of the Company will regularly review the dividend distribution policy of its subsidiaries from time to time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

13 INVENTORIES - GROUP

	2010 RMB'000	2009 RMB'000
Raw materials	**754**	954
Finished goods	**1,233**	1,069
	1,987	2,023

The cost of inventories recognised as expense and included in cost of sales amounted to approximately RMB41,952,000 (2009: RMB34,924,000) (Note 25).

14 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Trade receivables (a)	**164,394**	157,474	**—**	—
Less: provision for impairment of receivables (b)	**(75,990)**	(79,363)	**—**	—
Trade receivables – net	**88,404**	78,111	**—**	—
Notes receivable	**3,597**	4,187	**—**	—
Advances to employees (c)	**21,774**	6,273	**—**	—
Amount due from a director (d)	**—**	18	**—**	—
Prepayments	**79,594**	61,553	**—**	—
VAT recoverable	**63,664**	32,322	**—**	—
Amounts due from subsidiaries (e)	**—**	—	**99,824**	100,018
Other receivables	**19,382**	18,228	**5,660**	5,077
Less: non-current portion (f)	**(3,520)**	—	**—**	—
	272,895	200,692	**105,484**	105,095

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

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

The credit quality of financial assets that are neither past due nor impaired are assessed by making reference to historical information about counterparty default rates, reputation, liquidity and other financial information.

14 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(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. Trade receivables aged more than 3 months had been considered for impairment. The ageing analysis of trade receivables is as follows:

	2010	2009
	RMB'000	RMB'000
0 - 90 days	**64,389**	41,797
91 - 180 days	**14,264**	34,241
181 - 360 days	**19,661**	14,041
Over 360 days	**66,080**	67,395
	164,394	157,474

All trade receivables were past due as at 31 December 2010 and they had been considered for impairment.

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

	2010	2009
	RMB'000	RMB'000
At 1 January	**(79,363)**	(81,662)
Provision for impairment (Note 25)	**(1,782)**	(2,896)
Written off as uncollectible	**5,155**	5,195
At 31 December	**(75,990)**	(79,363)

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**	**Maximum outstanding during the year**	**Term**	**Interest rate**
	RMB'000	RMB'000		
2010				
Mr. Xu Shao Chun	—	490	Repayable on demand	0%
2009				
Mr. Xu Shao Chun	18	1,230	Repayable on demand	0%

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

14 TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(e) Amounts due from subsidiaries are unsecured, interest free, repayable on demand and denominated in RMB. The fair values of the amounts due from subsidiaries approximate their carrying value.

(f) This other non-current assets of the Group as at 31 December 2010 represented prepaid consideration for the acquisition of Kehua Qixiao Computer Technology Co. Ltd. of RMB3,520,000. Details of this acquisition were disclosed in Note 35 of the financial statements.

15 IMPLEMENTATION CONTRACTS - GROUP

	2010 **RMB'000**	2009 RMB'000
Contract costs incurred	**138,337**	93,290
Contract profit recognised	**221,665**	157,713
Progress billings	**(300,527)**	(243,309)
Net balance sheet position for ongoing contracts	**59,475**	7,694
Represented by:		
Due to customers on implementation contracts	**(60,359)**	(82,002)
Due from customers on implementation contracts	**119,834**	89,696
	59,475	7,694
Amounts received on implementation contracts included in advances from customers	**597**	906
Due from customers on implementation contracts covered by progress billings, included in trade receivables before impairment provision	**50,963**	35,431

16 CASH AND CASH EQUIVALENTS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand (a)	**753,543**	631,455	**97,047**	126,852
Less: Short-term bank deposits (b)	**(117,017)**	(111,490)	**(60,527)**	—
Pledged bank deposits (c)	**(5,070)**	(175)	**—**	—
	631,456	519,790	**36,520**	126,852

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
RMB	**650,225**	498,777	**35,000**	—
HKD	**102,774**	131,649	**61,986**	126,789
US Dollar	**525**	85	**61**	63
Singapore Dollar	**19**	944	**—**	—
	753,543	631,455	**97,047**	126,852

(b) The effective interest rate on short-term bank deposits was 1.70 % (2009: 2.10%). These deposits have an average maturity of 7 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

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 2009	1,922,065	50,923	241,194	292,117
Issue of shares (a)	90,000	1,980	103,693	105,673
Employee share option scheme				
– Value of services provided (Note 26)	—	—	15,859	15,859
– Exercise of share options (Note 18)	41,327	909	20,628	21,537
At 31 December 2009	2,053,392	53,812	381,374	435,186
Employee share option scheme				
– Value of services provided (Note 26)	—	—	21,830	21,830
– Exercise of share options (Note 18)	41,547	914	34,794	35,708
Repurchase and cancellation of own shares (b)	(3,330)	(73)	(12,640)	(12,713)
At 31 December 2010	**2,091,609**	**54,653**	**425,358**	**480,011**

The total authorised number of ordinary shares as at 31 December 2010 is 4,000,000,000 shares (2009: 4,000,000,000 shares) with a par value of HKD 0.025 per share (2009: HKD 0.025 per share). All issued shares are fully paid.

(a) On 11 June 2009, the issued share capital of the Company increased by approximately RMB1,980,000 by issuing 90,000,000 ordinary shares at a price of HKD1.37 per share through placement of shares to certain institutional investors under a placing and subscription agreement. These shares rank pari passu with the existing shares.

(b) During 2010, 3,330,000 shares were repurchased by the Company on the Hong Kong Stock Exchange at an aggregate consideration of approximately RMB12,713,000 before expenses and they were then cancelled. The nominal value of these shares of RMB73,000 was credited to the capital redemption reserve. The nominal value of these shares of approximately RMB73,000 and the premium arising from such purchase of approximately RMB12,640,000 were paid out of the Company's retained earnings and share premium account respectively.

18 SHARE-BASED PAYMENT

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 (Rounded to cent)	Granted to	Exercisable period	Note
27/09/2001	0.37	33 employees	10 years	(a)
15/05/2002	0.45	2 directors and 20 employees	10 years	(a)
20/02/2003	0.35	2 directors and 74 employees	10 years	(a)
08/08/2003	0.51	2370 employees	10 years	(a)
23/03/2004	0.80	1 director	10 years	(a)
01/06/2004	0.66	1 director and 177 employees	10 years	(b)
27/12/2004	0.51	1 director and 154 employees	10 years	(c)
21/04/2005	0.39	1 director and 3 business partners	5 years	(d)
15/02/2006	0.58	1 employee	10 years	(e)
28/04/2006	0.65	75 employees	10 years	(f)
04/05/2006	0.66	1 director	10 years	(f)
22/06/2006	0.66	1 director	10 years	(f)
22/06/2006	0.66	2 related parties	10 years	(f)
18/07/2006	0.72	3 employees	10 years	(g)
23/01/2007	0.94	1 director	10 years	(h)
05/06/2007	1.71	357 employees	10 years	(i)
08/06/2007	1.81	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)
14/04/2009	1.16	3 employees	10 years	(h)
17/09/2009	1.37	373 employees	10 years	(j)
23/04/2010	3.11	1 director, 1 related party* and 243 employees	10 years	(k)
25/10/2010	4.25	1 supplier of service	10 years	(h)

18 SHARE-BASED PAYMENT *(CONTINUED)*

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

	2010		2009	
	Average exercise price in HKD per share	**Options (thousands)**	Average exercise price in HKD per share	Options (thousands)
At 1 January	**1.07**	**231,143**	0.60	256,403
Granted	**3.11**	**30,100**	1.35	33,000
Exercised	**0.98**	**(41,547)**	0.59	(41,327)
Lapsed	**0.65**	**(5,885)**	0.95	(16,933)
At 31 December	**1.38**	**213,811**	1.07	231,143

Out of the 213,811,000 outstanding options (2009: 231,143,000 options after the sub-division of shares), 78,928,000 options (2009: 79,196,000 options after the sub-division of shares) were exercisable as at 31 December 2010. Options exercised in 2010 resulted in 41,547,000 shares (2009: 41,327,000 shares after the sub-division of shares) being issued at a weighted average price of HKD0.98 (2009: HKD0.59 per share after the sub-division of shares).

(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 ratio 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 ratio 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 ratio for the financial years of 2004, 2005, 2006 and 2008.

"Revenue Ratio" is calculated as the actual revenue of the Group divided by the estimated revenue of the Group as determined by the Board for a particular financial year. The requirement to achieve a pre-determined revenue ratio was a performance condition that was included in the determination of the fair value of the options.

(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.

18 SHARE-BASED PAYMENT *(CONTINUED)*

(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 terms 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 terms 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 terms of 10 years from the date of grant, and the options can be exercised from 2 year after the date of grant.

(j) All of these options have terms of 10 years from the date of grant. Up to 50% of the options may be exercised after 24 months and 100% of the options may be exercised after 48 months.

(k) All of these options have terms of 10 years from the date of grant. 2,000,000 of these options can be exercised without any limitation. And for the left 28,000,000 share options, 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.

* These options were granted to a related party, which is a company wholly owned by Mr. Xu Shaochun, the chairman and executive director of the company.

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

		Number of Shares	
Expiry date within	**Range of exercise prices after the sub-division of shares** (HKD per share)	**2010 (thousands)**	2009 (thousands)
2011	0.37	—	220
2013	0.35-0.51	**1,710**	2,826
2014	0.51-0.80	**6,017**	25,181
2016	0.56-0.72	**83,642**	99,954
2017	0.94-1.81	**15,914**	20,492
2018	0.95-1.75	**43,428**	49,470
2019	1.16-1.37	**33,000**	33,000
2020	3.11-4.25	**30,100**	—
		213,811	231,143

The weighted average fair value of options granted during the year determined using the Binomial valuation model was HKD1.21 per option (2009: HKD0.59 per option). The significant inputs into the model were weighted average share price of HKD3.11 (2009: HKD1.35) at the grant date, the exercise price shown above, volatility of 53% (2009: 53%), expected dividend paid out of HKD0.046 per share (2009: HKD0.027), an expected option life of 10 years (2009: 5 years) and an annual risk-free interest rate of 0.18% (2009: 0.31%). 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 AND RETAINED EARNINGS

(a) Other reserves

Group

	Merger reserve RMB'000 Note (i)	Capital reserve RMB'000	Statutory surplus reserve fund RMB'000 Note (ii)	Revaluation reserve RMB'000	Capital redemption reserve RMB'000	Total RMB'000
Balance at 1 January 2009	6,570	247,382	89,165	—	43	343,160
Fair value surplus of properties, plant and equipment (Note 7)	—	—	—	29,830	—	29,830
Deferred tax relating to revaluation reserve (Note 12)	—	—	—	(2,984)	—	(2,984)
Appropriation to reserve funds	—	—	18,113	—	—	18,113
Balance at 31 December 2009 and 1 January 2010	**6,570**	**247,382**	**107,278**	**26,846**	**43**	**388,119**
Fair value surplus of properties, plant and equipment (Note 7)	—	—	—	16,611	—	16,611
Deferred tax relating to revaluation reserve (Note 12)	—	—	—	(1,661)	—	(1,661)
Appropriation to reserve funds	—	—	24,181	—	—	24,181
Repurchase of own shares (Note 17)	—	—	—	—	73	73
Balance at 31 December 2010	**6,570**	**247,382**	**131,459**	**41,796**	**116**	**427,323**

Company

	Share Redemption reserve RMB'000
Balance at 1 January 2009, 31 December 2009 and 1 January 2010	**43**
Repurchase of own shares (Note 17)	73
Balance at 31 December 2010	**116**

(i) 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.

(ii) 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 profits 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 shareholders' meeting or similar authorities, to offset accumulated losses or increase capital.

19 OTHER RESERVES AND RETAINED EARNINGS *(CONTINUED)*

(b) Retained earnings

	Group	Company
	RMB'000	RMB'000
At 1 January 2009	261,887	132,797
Profit for the year	212,479	29,284
Dividends paid relating to 2008	(37,213)	(37,213)
Appropriation to reserve funds	(18,113)	—
At 1 December 2009	419,040	124,868
At 1 January 2010	**419,040**	124,868
Profit/(Loss) for the year	**271,710**	(13,124)
Dividends relating to 2009	**(39,776)**	(39,776)
Appropriation to reserve funds	**(24,181)**	—
Repurchase of own shares (Note 17)	**(73)**	(73)
At 31 December 2010	**626,720**	71,895

20 TRADE AND OTHER PAYABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (a)(b)	**15,605**	20,428	**—**	—
Salary and staff welfare payables	**39,511**	27,807	**—**	—
Advances from customers	**72,239**	109,686	**—**	—
VAT and business tax payable	**37,420**	26,906	**—**	—
Accrued expenses	**41,062**	16,010	**—**	—
Construction fee payable	**22,703**	41,249	**—**	—
Land use rights fee payable	**3,840**	3,840	**—**	—
Outstanding consideration for business combination	**39,200**	10,100	**—**	—
Deposits of distributors	**16,647**	9,500	**—**	—
Others	**27,011**	18,456	**15**	454
	315,238	283,982	**15**	454

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

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

20 TRADE AND OTHER PAYABLES *(CONTINUED)*

(b) At 31 December 2010, the ageing analysis of the trade payables based on invoice date is as follows:

	2010 RMB'000	2009 RMB'000
0 - 180 days	**14,973**	19,629
181 - 360 days	**314**	110
Over 360 days	**318**	689
	15,605	20,428

21 BORROWINGS- GROUP

	2010 RMB'000	2009 RMB'000
Non-current		
Bank borrowings, unsecured	**190,000**	—
Current		
Bank borrowings, unsecured	**—**	57,378
	190,000	57,378

Bank borrowings mature until 2013 and bear average interest rate of 5.13% annually (2009:4.51% annually).

At 31 December 2010, the Group's borrowings were repayable as follows:

	Bank borrowings	
	2010 RMB'000	2009 RMB'000
Within 1 year	**—**	57,378
Between 1 and 2 years	**—**	—
Between 2 and 5 years	**190,000**	—
	190,000	57,378

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates at the balance sheet dates are within 1 year (2009: within 3 months).

The fair value of the non-current borrowings as of 31 December 2010 is RMB185,737,000, which is based on cash flows discounted using a rate based on the borrowing rate 6.10% (2009: Not applicable).

The fair value of the current borrowings equal their carry amount as the impact of discount is not significant.

The Group's borrowings are all denominated in RMB.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

22 DEFERRED INCOME - GROUP

	2010	2009
	RMB'000	RMB'000
Deferred service fee income (a)	**83,268**	62,731
Deferred government grant (b)	**32,231**	15,360
	115,499	78,091

(a) The amount represents aggregate revenue billed to and 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:

	2010	2009
	RMB'000	RMB'000
At 1 January	**15,360**	9,221
Additions	**38,416**	9,751
Recognised in the income statement	**(21,545)**	(3,612)
At 31 December	**32,231**	15,360

Amount represents various subsidies granted by and received from local government authorities for financing various research and development projects conducted by the Group. These subsidies will be recognised as income when the conditions of the grant are met (usually when 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:

	2010	2009
	RMB'000	RMB'000
Sales of software	**812,554**	583,975
Software implementation services	**352,307**	235,077
Software solution consulting and support services	**253,687**	165,041
Sales of computers and related products	**18,073**	12,717
	1,436,621	996,810

24 OTHER GAINS - NET

	2010 **RMB'000**	2009 RMB'000
VAT refund (a)	**151,605**	88,463
Government grant	**27,187**	7,744
Fair value gain on investment properties (Note 9)	**29,172**	77,587
Rental income - net (Note 9)	**20,471**	5,306
Gain on bargain purchases of business combination (Note 36)	**39,370**	—
Others	**3,186**	1,164
	270,991	180,264

(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 VAT refund to the extend that the effective VAT rate of the sales of the software in the PRC does not exceed 3% of the sales amounts.

25 EXPENSES BY NATURE

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

	2010 **RMB'000**	2009 RMB'000
Research and development costs		
Amounts incurred	**213,064**	148,639
Less: development costs capitalised	**(183,329)**	(125,016)
Add: amortisation (Note 8)	**91,590**	66,958
	121,325	90,581
Employee benefit expenses (Note 26)	**865,066**	592,043
Less: amount included in development costs	**(180,848)**	(121,027)
	684,218	471,016
Depreciation (Note 7)	**30,583**	26,116
Less: amount included in development costs	**(7,575)**	(6,725)
	23,008	19,391

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

25 EXPENSES BY NATURE *(CONTINUED)*

Expenses included in cost of sales, selling and marketing expenses, research and development costs and administrative expenses are analysed as follows: *(Continued)*

	2010 **RMB'000**	2009 RMB'000
Cost of inventories consumed (Note 13)	**41,952**	34,924
Amortisation of acquired licenses and copyrights (Note 8)	**14,760**	4,012
Amortisation of computer software for own use (Note 8)	**1,901**	448
Amortisation of land use rights (Note 6)	**2,336**	874
Impairment of receivables (Note 14)	**1,782**	2,896
Loss on disposals of property, plant and equipment (Note 32)	**149**	303
Auditors' remuneration	**1,500**	1,380
Advertising costs	**134,546**	86,519
Sales promotion costs	**62,846**	47,824
Professional service costs	**16,429**	11,429
Traveling costs	**65,868**	40,463
Rental and utilities	**43,431**	43,942
Outsourcing services	**82,709**	48,439
Office expenses	**29,841**	24,491
Training expenses	**16,852**	9,626
Tax and surcharge	**20,266**	10,976
Others	**41,275**	8,300
Total cost of sales, selling and marketing expenses, research and development costs and administrative expenses	**1,406,994**	957,834

26 EMPLOYEE BENEFIT EXPENSES

	2010 **RMB'000**	2009 RMB'000
Wages, salaries and bonus	**630,901**	426,352
Commissions	**87,222**	62,738
Staff welfare	**23,060**	13,943
Pension scheme contributions (a)	**102,053**	73,151
Share options granted to directors and employees	**21,830**	15,859
	865,066	592,043

(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 schemes at rates ranging from 8% to 22.5%, depending on the location of the subsidiaries, based on the basic salaries of eligible employees. 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 cannot be used by the employer to reduce the existing level of contributions.

26 EMPLOYEE BENEFIT EXPENSES *(CONTINUED)*

(b) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2010 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**	**1,049**	**636**	**—**	**19**
Mr. Chen Deng Kun	**100**	**604**	**279**	**282**	**19**
Mr. Ho Ching Hua	**150**	**—**	**—**	**—**	**—**
Mr. James Ming King	**150**	**—**	**—**	**—**	**—**
Ms. Yang Zhou Nan *	**150**	**—**	**—**	**—**	**—**
Mr. Wu Cheng *	**100**	**—**	**—**	**—**	**—**
Mr. Yeung Kwok On *	**150**	**—**	**—**	**—**	**—**
Mr. Gary Clark Biddle *	**128**	**—**	**—**	**—**	**—**

During 2010, no director or supervisor of the Company (1) received any emolument from the Group as an inducement to join or upon joining the Group; or (2) received any compensation for loss of office as a director or management of any member of the Group; or (3) waived or agreed to waive any emoluments (2009: Nil).

Those directors marked asterisk(*) are independent non-executive directors of the Company as at 31 December 2010 and 2009.

The remuneration of every Director for the year ended 31 December 2009 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	974	501	—	19
Mr. Chen Deng Kun	100	453	230	—	19
Mr. Ho Ching Hua	100	800	369	—	—
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 EXPENSES *(CONTINUED)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2009: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2009: three) individuals during the year are as follows:

	2010 **RMB'000**	2009 RMB'000
Basic salaries, housing allowances, other allowances and benefits in kind	**2,127**	2,210
Bonuses	**1,000**	898
Pension scheme contributions	**92**	80
Share options	**—**	700
	3,219	3,888

The emoluments fell within the following bands:

	Number of individuals	
	2010	2009
Emolument bands		
HKD0 - HKD1,000,000	**1**	1
HKD1,000,001 - HKD1,500,000	**2**	2

27 FINANCE COSTS - NET

	2010 **RMB'000**	2009 RMB'000
Interest income (Note 32)	**3,085**	4,614
Bank charges (Note 32)	**(489)**	(320)
Interest expenses(Note 32)	**(6,369)**	(340)
Net foreign exchange loss	**(1,824)**	(101)
	(5,597)	3,853

28 INCOME TAX EXPENSE

Taxation on the PRC profits is calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC.

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the principal rate of the PRC enterprise income tax as follows:

	2010	2009
	RMB'000	RMB'000
PRC income tax		
– Current income tax	**—**	—
– Under-provision in previous year	**1,189**	1,169
– Deferred income tax (Note 12)	**17,566**	8,510
	18,755	9,679

(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) Effective from 1 January 2009, the subsidiaries of the Group are subject to the corporate income tax in accordance with the Corporate Income Tax Law of the People's Republic of China (hereinafter "the new CIT Law") as approved by the National People's Congress on 16 March 2008. According to the new CIT Law and the relevant regulations, the enterprise income tax rate applicable to the subsidiaries of the Group is 25%. Preferential rates are applicable for foreign investment enterprise established in Special Economic Zone in the PRC for transitional period of 5 years from 2009 in which the income tax rate will be changed to 18%, 20%, 22% 24% and 25% from the five years from 2008 to 2012 respectively. Accordingly, the applicable income tax rate of the subsidiaries of the Group established in Shenzhen Special Economic Zone, Xiamen Special Economic Zone and Pudong New Zone for the year ended 2010 was 22%(2009: 20%).

(c) According to Cai Shui Zi [2008] No.1, Fa Gai Gao Ji [2009] No 3357 and Fa Gai Gao Ji [2011] No 342 issued by related tax authorities in the PRC, Kingdee China is qualified as national important software enterprises and it is entitled to a preferential enterprise income tax rate of 10% for the years ended 31 December 2009 and 2010 respectively.

28 INCOME TAX EXPENSE *(CONTINUED)*

(d) According to Cai Shui Zi [2009] No.1 issued by related tax authorities in the PRC, Shanghai Kingdee Software Co., Ltd. was qualified as an approved software enterprise and was entitled to be exempted from enterprise income tax from year 2009 to year 2010 and a 50% deduction of income tax rate from year 2011 to year 2013.

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

	2010	2009
	RMB'000	RMB'000
Profit before tax	**295,021**	223,093
Tax at the statutory tax rate of 25% (2009: 25%)	**73,755**	55,773
– Effect of preferential tax rates	**(54,770)**	(39,066)
– Tax losses not recognised	**21,473**	5,547
– Expenses not deductible for tax purposes	**3,233**	2,017
– Income not subject to tax (a)	**(18,141)**	(10,610)
– Additional deductible allowance for research and development expenses	**(7,984)**	(5,151)
– Under-provision of income tax in previous year	**1,189**	1,169
	18,755	9,679

(a) Income not subject to tax includes the VAT refund and certain government grants which are not subject to tax.

29 PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company dealt with in the financial statements of the Company to the extent of RMB13,124,000 (2009: profit of RMB29,284,000)

30 EARNINGS PER SHARE

(a) Basic

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

	2010	2009
Profit attributable to equity holders of the Company (RMB'000)	**271,710**	212,479
Weighted average number of ordinary shares in issue (thousands)	**2,071,049**	1,986,245
Basic earnings per share (RMB per share)	**0.1312**	0.1070

30 EARNINGS PER SHARE *(CONTINUED)*

(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 above is compared with the number of shares that would have been issued assuming the exercise of the share options. The exercises of share options which would result in an anti-dilutive impact would not been taken into account in the diluted earnings per share calculation.

	2010	2009
Profit attributable to equity holders of the Company (RMB'000)	**271,710**	212,479
Weighted average number of ordinary shares in issue (thousands)	**2,071,049**	1,986,245
Adjustments for– share options (thousands)	**139,048**	82,822
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**2,210,097**	2,069,067
Diluted earnings per share (RMB per share)	**0.1229**	0.1027

31 DIVIDENDS

The directors recommend the payment of a final dividend in respect of the year ended 31 December 2010 of RMB0.029 (HKD 0.034) per ordinary share, totaling RMB60,320,000 (HKD71,106,000). Such dividend is to be approved by the shareholders at the Annual General Meeting on 20 April 2011. These financial statements do not reflect this dividend payable.

	2010 **RMB'000**	2009 RMB'000
Proposed final dividend of RMB0.029 (2009: RMB0.019) per ordinary share	**60,320**	39,776

32 CASH GENERATED FROM OPERATIONS

	2010 RMB'000	2009 RMB'000
Profit before income tax	**295,021**	223,093
Adjustments for:		
– Depreciation (Note 7)	**30,583**	26,116
– Loss on disposals of property, plant and equipment (Note 25)	**149**	303
– Amortisation of land use rights (Note 6)	**2,336**	874
– Amortisation of intangible assets (Note 8)	**108,251**	71,418
– Finance costs – net (Note 27)	**3,773**	(3,954)
– Share option expenses	**21,830**	15,859
– Gain on bargain purchases (Note 24)	**(39,370)**	—
– Fair value gain of investment property (Note 24)	**(29,172)**	(77,587)
	393,401	256,122
Changes in working capital:		
– Inventories	**2,807**	750
– Trade and other receivables	**(71,055)**	(68,675)
– Deferred income	**37,408**	(1,799)
– Trade and other payables	**(8,396)**	27,071
– Due from/to customers on implementation contracts	**(51,781)**	8,233
Cash generated from operations	**302,384**	221,702

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

	2010 RMB'000	2009 RMB'000
Net book amount (Note 7)	**1,003**	9,667
Loss on disposals of property, plant and equipment (Note 25)	**(149)**	(303)
Proceeds from disposal of property, plant and equipment	**854**	9,364

33 COMMITMENTS - GROUP

(a) Capital commitments

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

	2010 RMB'000	2009 RMB'000
– Property, plant and equipment	**14,568**	15,098
– Acqusition of subsidiaries	**5,280**	—
	19,848	15,098

(b) Operating lease commitments

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

	2010 RMB'000	2009 RMB'000
Not later than one year	**16,160**	18,118
Later than one year and not later than five years	**9,219**	12,700
	25,379	30,818

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 transactions with related parties for the year ended 31 December 2010.

35 EVENTS AFTER THE BALANCE SHEET DATE

On 15 March 2011, the board of the Company proposed a conditional bonus issue to the shareholders of the Company, subject to certain potential exceptions for the holders of shares whose addresses as shown on the register of members are outside Hong Kong. The bonus issue is proposed to be made on the basis of two bonus shares for every ten existing ordinary shares held by the qualifying shareholders. The bonus issue will be credited as fully paid by way of capitalisation of an amount in the share premium account of the Company. The proposed bonus issue is conditional upon, among other conditions, the approval by the shareholders of the Company at the Annual General Meeting on 20 April 2011. The earnings per share information in this financial statement has not taken into effect of the proposed bonus issue.

36 BUSINESS COMBINATION

For the year ended 31 December 2010, the Group acquired certain businesses. The particulars including the consideration paid, the fair value at the acquisition date are summarised as follows.

	Puwei	Jiama	Yiruan	Shishen	Luoyang Kingdee	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Consideration:	**(a)**	**(b)**	**(c)**	**(d)**	**(e)**	**(f)**	
– Cash	6,500	4,800	3,000	11,000	1,100	2,490	28,890
– Contingent consideration	8,000	11,200	5,000	15,000	—	1,570	40,770
Total consideration	14,500	16,000	8,000	26,000	1,100	4,060	69,660
Fair value of identifiable assets acquired							
Property, plant and equipment	—	—	—	—	31	162	193
Inventories	—	—	—	—	976	1,795	2,771
Trade and other receivables	—	—	—	—	93	603	696
licenses and copyrights (included in intangible assets) (Note 8)	14,500	16,000	33,100	40,270	—	1,500	105,370
Total identifiable net assets	14,500	16,000	33,100	40,270	1,100	4,060	109,030
Gain on bargain purchases (Note 24)	—	—	(25,100)	(14,270)	—	—	(39,370)

(a) On 11 February 2010, the Group acquired certain software copyrights from a third party software vendor Guangzhou Puwei Technology Co., Ltd. and Zhongshan Puwei Technology Co., Ltd. ("Puwei"), in order to acquire a product life management software business. The fair value of the identifiable assets acquired is RMB14,500,000, which approximates the purchase consideration, and no goodwill is recognised. There is RMB8,000,000 contingent consideration which links to future performance indicators.

(b) On 19 January 2010, the Group acquired certain software copyrights from a third party software vendor Shenzhen Jiama Information System Co., Ltd. ("Jiama"), in order to acquire a real estate management software business. The fair value of identifiable assets acquired is RMB16,000,000, which approximates the purchase consideration. No goodwill is recongised. There is RMB11,200,000 contingent consideration which links to future performance indicators.

(c) On 18 May 2010, the Group acquired certain software copyrights from a third party software vendor Shenzhen Yiruan Technology and Development Co., Ltd. ("Yiruan"), in order to acquire an office automation software business. There is RMB5,000,000 contingent consideration which links to future performance indicators.

The total consideration for this purchase is lower than the fair value of licenses and copyrights the acquired. The gain on bargain purchases of RMB25,100,000, being the excess of the fair value of licences and copyrights acquired over the consideration, is recognised in the income statement (Note 24). The fair value of these intangible assets acquired from Yiruan at its acquisition date has been determined based on discounted future cash-flow calculations. These calculations require the use of certain key assumptions. Changing such key assumptions selected by management, including the discount rate, the growth rate or profit margin rate, could materially affect the fair value of the acquired intangible assets and the gain on bargain purchases. Please refer to Note 4.1 (f) for the key assumptions and the sensitivity analysis.

36 BUSINESS COMBINATION *(CONTINUED)*

(d) On 23 November 2010, the Group acquired certain software copyrights from a third party software vendor Zhongshan Shishen Network Technology Co., Ltd. ("Shishen"), in order to acquire a catering industry software business. There is RMB15,000,000 contingent consideration which links to future performance indicators.

The total consideration for this purchase is lower than the fair value of licenses and copyrights the acquired. The gain on bargain purchases of RMB14,270,000, being the excess of the fair value of licences and copyrights acquired over the consideration, is recognised in the income statement (Note 24). The fair value of these intangible assets acquired from Shishen at its acquisition date has been determined based on discounted future cash-flow calculations. These calculations require the use of certain key assumptions. Changing such key assumptions selected by management, including the discount rate, the growth rate or profit margin rate, could materially affect the fair value of the acquired intangible assets and the gain on bargain purchases. Please refer to Note 4.1 (f) for the key assumptions and the sensitivity analysis.

(e) During 2010, the Group acquired the software distribution business from a software vendor in PRC, namely Luoyang Kingdee Management Software Co., Ltd., at an consideration of approximately RMB1,100,000, which approximates the purchase consideration.

(f) During 2010, the Group acquired businesses from six other third party software vendors in PRC, namely Shenzhen Baisifu Software Co., Ltd., Kingdee Software Business Department (Nanyang), Xining Kingdee Software Co., Ltd., Changde Weisheng Technology Software Co., Ltd., Yiyang Weisheng Technology Software Co., Ltd. and Xinxiang Yuhong Technology Management consultation Co., Ltd. respectively, at an aggregated consideration of approximately RMB4,060,000 to acquire various management software businesses. The fair value of the identifiable assets acquired from the business combination approximate the purchase considerations. There is RMB1,570,000 contingent consideration which links to future performance indicators.

(g) On 15 November 2010, the Group entered into an acquisition agreement with third party vendors to acquire 100% equity interest of Kehua Qixiao Computer Technology Co. Ltd., a company which operates management software business. The total consideration payable for the transaction is RMB8,800,000 in cash. The acquisition was completed on 13 January 2011. As of the date of approval of these financial statements, the directors of the Company were still assessing the accounting implication of the transaction to the financial statements.