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**KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY
LIMITED**

金蝶國際軟件集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 268)

**ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019 AND PAYMENT
OF FINAL DIVIDEND OUT OF SHARE PREMIUM ACCOUNT**

The board (the “Board”) of directors (the “Directors”) of Kingdee International Software Group Company Limited (“Kingdee International” or the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2019, together with the comparative audited consolidated figures for the year ended 31 December 2018 are as follows:

Financial highlights for the year ended 31 December 2019

- Revenue increased by approximately 18.4% compared with 2018 to approximately RMB3,325,590,000.
- Profit attributable to owners of the Company decreased by approximately 9.6% compared with 2018 to approximately RMB372,580,000.
- Net cash generated from operating activities increased by approximately 6.3% compared with 2018 to approximately RMB962,927,000.
- Basic earnings per share attributable to owners of the Company during the year decreased by approximately 12.7% to approximately RMB 11.52 cents (2018: RMB13.19 cents).
- The Directors recommend the payment of a final dividend of RMB1.1 cents per share for the year ended 31 December 2019 out of the share premium account (2018: RMB1.0 cents per share).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December	
		2019 RMB'000	2018 RMB'000
Assets			
Non-current assets			
Land use rights		-	67,545
Property, plant and equipment		546,524	490,236
Right-of-use assets	4	106,869	-
Intangible assets		923,323	899,668
Investment properties		1,856,200	1,816,206
Investments in associates		282,649	234,403
Deferred income tax assets		-	49
Financial assets at fair value through profit or loss		428,791	427,456
Trade and other receivables	5	22,000	-
Loans to related parties	5	-	464,537
Loans to third parties	5	12,350	18,940
		<u>4,178,706</u>	<u>4,419,040</u>
Current assets			
Inventories		7,357	8,436
Trade and other receivables	5	308,153	286,615
Loans to related parties	5	-	256,976
Loans to third parties	5	230,869	88,720
Contract assets and contract obtaining costs	3	512,352	494,662
Financial assets at fair value through profit or loss		596,151	211,430
Pledged bank deposits		128	152
Short-term bank deposits		687,667	359,674
Cash and cash equivalents		1,898,770	1,452,848
		<u>4,241,447</u>	<u>3,159,513</u>
Total assets		<u>8,420,153</u>	<u>7,578,553</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	As at 31 December	
		2019 RMB'000	2018 RMB'000
Liabilities			
Non-current liabilities			
Lease liabilities	4	20,282	-
Trade and other payables	9	69,028	-
Deferred income tax liabilities		187,079	179,319
		<u>276,389</u>	<u>179,319</u>
Current liabilities			
Trade and other payables	9	615,596	580,716
Contract liabilities	3	996,996	846,755
Borrowings	8	199,625	301,125
Lease liabilities	4	21,341	-
Current income tax liabilities		39,085	35,890
Deferred income		125,450	102,081
		<u>1,998,093</u>	<u>1,866,567</u>
Total liabilities		<u>2,274,482</u>	<u>2,045,886</u>
Net assets		<u>6,145,671</u>	<u>5,532,667</u>
Equity			
Equity attributable to owners of the Company			
Share capital	6	80,037	79,585
Share premium	6	2,963,096	2,903,459
Other reserves	7	686,532	565,259
Retained earnings		2,257,263	1,917,757
		<u>5,986,928</u>	<u>5,466,060</u>
Non-controlling interests		<u>158,743</u>	<u>66,607</u>
Total equity		<u>6,145,671</u>	<u>5,532,667</u>

CONSOLIDATED INCOME STATEMENT

	Notes	Year ended 31 December	
		2019	2018
		RMB'000	RMB'000
Revenue from contracts with customers	3,10	3,325,590	2,808,658
Cost of sales	11	<u>(652,003)</u>	<u>(514,339)</u>
Gross profit		<u>2,673,587</u>	<u>2,294,319</u>
Selling and marketing expenses	11	(1,644,384)	(1,491,302)
Administrative expenses	11	(386,324)	(334,342)
Net impairment losses on financial assets and contract assets	11	(48,416)	(47,697)
Research and development costs	11	(586,827)	(405,158)
Fair value gains on investment properties		39,994	94,516
Other income and gains - net	12	<u>376,157</u>	<u>342,971</u>
Operating profit		<u>423,787</u>	<u>453,307</u>
Finance income		19,768	29,444
Finance costs		<u>(14,398)</u>	<u>(30,481)</u>
Finance income/(costs) - net	13	5,370	(1,037)
Share of losses of associates		<u>(33,026)</u>	<u>(4,240)</u>
Profit before income tax		396,131	448,030
Income tax expense	14	<u>(30,333)</u>	<u>(38,760)</u>
Profit for the year		<u>365,798</u>	<u>409,270</u>
Profit/(loss) attributable to:			
Owners of the Company		372,580	412,106
Non-controlling interests		<u>(6,782)</u>	<u>(2,836)</u>
		<u>365,798</u>	<u>409,270</u>
Earnings per share for profit attributable to owners of the Company (expressed in RMB cents per share)			
- Basic	16	<u>11.52</u>	<u>13.19</u>
- Diluted	16	<u>11.22</u>	<u>12.45</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit for the year	365,798	409,270
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss:</i>		
Currency translation differences	284	67,029
Other comprehensive income for the year, net of tax	284	67,029
Total comprehensive income for the year	366,082	476,299
Total comprehensive income/(losses) attributable to:		
Owners of the Company	372,864	479,135
Non-controlling interests	(6,782)	(2,836)
	366,082	476,299

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Notes	<u>Attributable to owners of the Company</u>					Non- controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
Balance at 1 January 2019	79,585	2,903,459	565,259	1,917,757	5,466,060	66,607	5,532,667
Profit for the year	-	-	-	372,580	372,580	(6,782)	365,798
Other comprehensive income							
Currency translation differences	-	-	284	-	284	-	284
Total comprehensive income	-	-	284	372,580	372,864	(6,782)	366,082
Transactions with owners							
Employees share option scheme:							
- Value of employee services received	-	1,032	-	-	1,032	-	1,032
- Proceeds from shares issued	452	53,732	-	-	54,184	-	54,184
Share award plan:							
- Value of employee services received	-	86,660	-	-	86,660	-	86,660
- Transfer shares to the awardees upon vesting	-	(81,787)	56,207	-	(25,580)	-	(25,580)
Transactions with non-controlling interests	17	-	64,782	-	64,782	45,218	110,000
Dividend distribution	-	-	-	(33,074)	(33,074)	-	(33,074)
Contribution from non-controlling interests	-	-	-	-	-	53,700	53,700
Total transactions with owners, recognised directly in equity	452	59,637	120,989	(33,074)	148,004	98,918	246,922
Balance at 31 December 2019	80,037	2,963,096	686,532	2,257,263	5,986,928	158,743	6,145,671

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Notes	Attributable to owners of the Company				Total	Non-controlling interests	Total equity
		Share capital	Share premium	Other reserves	Retained earnings			
		RMB'000	RMB'000	RMB'000	RMB'000			
Balance at 1 January 2018		71,599	1,681,289	694,402	1,548,051	3,995,341	47,739	4,043,080
Profit for the year		-	-	-	412,106	412,106	(2,836)	409,270
Other comprehensive income								
Currency translation differences		-	-	67,029	-	67,029	-	67,029
Total comprehensive income		-	-	67,029	412,106	479,135	(2,836)	476,299
Transactions with owners								
Employees share option scheme:								
- Value of employee services received		-	5,290	-	-	5,290	-	5,290
- Proceeds from shares issued		987	95,367	-	-	96,354	-	96,354
Share award plan:								
- Value of employee services received		-	81,628	-	-	81,628	-	81,628
- Transfer shares to the awardees upon vesting		-	(29,047)	14,937	-	(14,110)	-	(14,110)
- Shares purchased for share award plan	7	-	-	(224,405)	-	(224,405)	-	(224,405)
Transactions with non-controlling interests	17	-	-	13,296	-	13,296	21,704	35,000
Dividend distribution		-	-	-	(42,400)	(42,400)	-	(42,400)
Conversion of convertible bonds		6,999	1,068,932	-	-	1,075,931	-	1,075,931
Total transactions with owners, recognised directly in equity		7,986	1,222,170	(196,172)	(42,400)	991,584	21,704	1,013,288
Balance at 31 December 2018		79,585	2,903,459	565,259	1,917,757	5,466,060	66,607	5,532,667

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2019 RMB'000	2018 RMB'000
Cash flows from operating activities			
Cash generated from operations excluding net cash outflow in loans to third parties from the micro-credit business		1,092,951	1,009,904
Net cash outflow in loans to third parties from the micro-credit business		(95,318)	(44,293)
Interest paid		(15,377)	(25,946)
Income tax paid		(19,329)	(34,150)
Net cash inflow from operating activities		<u>962,927</u>	<u>905,515</u>
Cash flows from investing activities			
Purchases of property, plant and equipment		(38,612)	(34,505)
Proceeds from disposals of property, plant and equipment		6,064	941
Purchases of intangible assets		(476,145)	(372,217)
Payment for acquisition of a subsidiary		(6,200)	(2,688)
Pledged bank deposits and short-term bank deposits (placed)/withdrawn - net		(327,969)	738,248
Interest received		57,942	43,269
Repayments received from entrusted loans		-	49,600
Purchases of financial assets at fair value through profit or loss		(3,068,500)	(3,865,845)
Proceeds from disposal of financial assets at fair value through profit or loss		2,708,664	3,743,450
Loans provided to related parties		(300,000)	(587,374)
Repayments of loans from related parties		1,024,031	30,000
Investments in associates		(177,763)	(128,668)
Proceeds from disposal of an associate		45,702	-
Dividend received from an associate		50	-
Net cash outflow from investing activities		<u>(552,736)</u>	<u>(385,789)</u>
Cash flows from financing activities			
Proceeds from issue of shares as a result of exercise of options	6	54,184	96,354
Transactions with non-controlling interests		100,000	35,000
Capital contribution from non-controlling interests		41,700	-
Proceeds from borrowings		263,625	328,500
Repayments of borrowings		(365,125)	(258,226)
Principal elements of lease payments		(22,312)	-
Dividend paid		(33,056)	(42,358)
Payments for purchase of shares for share award plan	6	-	(224,405)
Payments for acquisition of non-controlling interests in subsidiaries		(6,283)	(74,530)
Net cash inflow/(outflow) from financing activities		<u>32,733</u>	<u>(139,665)</u>
Net increase in cash and cash equivalents		442,924	380,061
Effects of exchange rate changes on cash and cash equivalents		2,998	16,112
Cash and cash equivalents at beginning of the year		<u>1,452,848</u>	<u>1,056,675</u>
Cash and cash equivalents at end of year		<u>1,898,770</u>	<u>1,452,848</u>

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 place of business 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 Company and its subsidiaries (together the “Group”) are principally engaged in the enterprise resource planning (“ERP”) business, including development and sales of software products, sales of hardware products, provision of software implementation services, software solution consulting services, maintenance services, upgrade services and other supporting services; and cloud services, including enterprise cloud services, finance cloud services, industry cloud services and other cloud services.

The Company has its primary listing on the Stock Exchange of Hong Kong Limited (“Stock Exchange”) since 15 February 2001.

These financial statements are presented in Renminbi (“RMB”), unless otherwise stated.

2. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRS”). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, available-for-sale financial assets and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 Leases
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 Summary of significant accounting policies (continued)

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 *Leases* on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted IFRS 16 *Leases* retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.78%.

The Group did not enter into any leases arrangement which previously classified as finance leases.

(a) Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

2 Summary of significant accounting policies (continued)**2.2 Changes in accounting policies (continued)**

(b) Measurement of lease liabilities

	2019 RMB'000
Operating lease commitments disclosed as at 31 December 2018	39,405
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(1,896)
Less: short-term leases not recognised as a liability	(6,295)
Lease liability recognised as at 1 January 2019	31,214
Of which are:	
Current lease liabilities	15,608
Non-current lease liabilities	15,606
	31,214

(c) Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018.

(d) Adjustments recognised in the statement of financial position on 1 January 2019

The change in accounting policy affected the following items in the statement of financial position on 1 January 2019:

- right-of-use assets – increased by RMB99,322,000
- land use right – decreased by RMB67,545,000
- lease liabilities – increased by RMB31,214,000
- trade and other receivables – decreased by RMB432,000
- trade and other payables - increased by RMB131,000.

There was no impact on retained earnings on 1 January 2019.

(e) Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

3. 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. The Group has identified the following operating segments:

- ERP business – Including development and sales of software products, sales of hardware products, provision of software implementation services, software solution consulting services, maintenance services, upgrade services and other supporting services
- Cloud services business – Including enterprise cloud services, finance cloud services, industry cloud services and other cloud services
- Investment properties operating business – Operation of investment properties

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

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3. Segment information (continued)

The segment information for the year ended 31 December 2019 is as follows:

	ERP business	Cloud services business	Investment properties operating business	The Group Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue (from external customers)	2,011,995	1,313,595	-	3,325,590
- Products transferred at a point in time	945,631	-	-	945,631
- Services transferred over time	1,066,364	1,313,595	-	2,379,959
Operating profit	505,615	(195,065)	113,237	423,787
Finance income	19,080	688	-	19,768
Finance costs	(13,393)	(1,005)	-	(14,398)
Finance income/(costs) – net	5,687	(317)	-	5,370
Share of losses of associates	(33,026)	-	-	(33,026)
Profit/(loss) before income tax	478,276	(195,382)	113,237	396,131
Income tax (expense)/credit	(42,414)	23,405	(11,324)	(30,333)
Segment results	435,862	(171,977)	101,913	365,798
Segment assets	5,853,028	710,925	1,856,200	8,420,153
Segment liabilities	1,394,060	754,542	125,880	2,274,482
Investments in associates	282,649	-	-	282,649
Additions to non-current assets (other than financial instruments and deferred income tax assets)	282,177	336,431	-	618,608
Depreciation and amortisation	255,239	229,806	-	485,045
Impairment charge of goodwill	31,187	-	-	31,187
Net impairment losses on financial assets and contract assets	47,092	1,324	-	48,416
Fair value gains on investment properties	-	-	39,994	39,994
Share-based payments	103,306	642	-	103,948

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3 Segment information (continued)

The segment information for the year ended 31 December 2018 is as follows:

	ERP business	Cloud services business	Investment properties operating business	The Group Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue (from external customers)	1,959,402	849,256	-	2,808,658
- Products transferred at a point in time	936,620	-	-	936,620
- Services transferred over time	1,022,782	849,256	-	1,872,038
Operating profit	435,052	(149,202)	167,457	453,307
Finance income	28,081	1,363	-	29,444
Finance costs	(30,179)	(302)	-	(30,481)
Finance income / (costs) – net	(2,098)	1,061	-	(1,037)
Share of losses of associates	(4,240)	-	-	(4,240)
Profit/(loss) before income tax	428,714	(148,141)	167,457	448,030
Income tax (expense)/credit	(45,887)	23,873	(16,746)	(38,760)
Segment results	382,827	(124,268)	150,711	409,270
Segment assets	5,473,094	289,253	1,816,206	7,578,553
Segment liabilities	1,717,526	208,392	119,968	2,045,886
Investments in associates	234,403	-	-	234,403
Additions to non-current assets (other than financial instruments and deferred income tax assets)	365,832	50,828	-	416,660
Depreciation and amortisation	324,744	29,143	-	353,887
Net impairment losses on financial assets and contract assets	47,255	442	-	47,697
Fair value gains on investment properties	-	-	94,516	94,516
Share-based payments	90,474	1,028	-	91,502

3 Segment information (continued)

The Company is incorporated in the Cayman Islands while the Group mainly operates its business in the PRC. Revenue from external customers from the PRC and other locations were RMB3,294,756,000 (2018: RMB2,787,912,000) and RMB30,834,000(2018: RMB20,746,000), respectively, for the year ended 31 December 2019.

There was no single customer that contributed to over 10% of the Group’s revenue for the years ended 31 December 2019 and 2018.

(a) Assets and liabilities related to contracts with customers

	At 31 December	
	2019	2018
	RMB’000	RMB’000
Current contract assets relating to software implementation contracts	451,685	494,662
Costs for obtaining contracts (i)	60,667	-
Loss allowance	-	-
Total	512,352	494,662
Contract liabilities – ERP business	454,203	548,738
Contract liabilities – Cloud services business	542,793	298,017
Total	996,996	846,755

(i) Costs for obtaining contracts

Management expects the incremental costs, primarily sale commissions paid/payable, as a result of obtaining the cloud services contracts are recoverable. The Group capitalised these incremental costs and amortised them in “Sales promotion” expenses when the related revenue is recognised. There was no impairment loss in relation to the costs capitalised.

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

3 Segment information (continued)

(a) Assets and liabilities related to contracts with customers (continued)

(ii) Revenue recognised in relation to contract liabilities (continued)

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
ERP business	548,738	367,338
Cloud services business	251,698	186,406
	800,436	553,744

(iii) Unsatisfied long-term cloud services contracts

The following table shows unsatisfied performance obligations resulting from long-term fixed-price cloud services contracts.

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Aggregate amount of the transaction price allocated to long-term cloud services contracts that are partially or fully unsatisfied as at 31 December	182,274	85,543

Management expects that approximately 42% of the transaction price allocated to the unsatisfied contracts as of 31 December 2019 will be recognised as revenue during the next reporting period (RMB76,900,000). The remaining approximately 58% (RMB105,374,000) will be recognised in the 2021 financial year. The amount disclosed above does not include variable consideration which is constrained.

All other cloud services and ERP business contracts are for periods of one year or less or are billed based on time incurred. As permitted under IFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

4 Leases

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

	2019	1 January 2019*
	RMB'000	RMB'000
Right-of-use assets		
Land use rights (i)	65,685	67,545
Buildings	<u>41,184</u>	<u>31,777</u>
	<u><u>106,869</u></u>	<u><u>99,322</u></u>
Lease liabilities		
Current	21,341	15,608
Non-current	<u>20,282</u>	<u>15,606</u>
	<u><u>41,623</u></u>	<u><u>31,214</u></u>

*For adjustments recognised on adoption of IFRS16 on 1 January, please refer to Note 2.2.

Additions to the right-of-use assets during the 2019 financial year were RMB32,158,000.

(i) The Group has land lease arrangement with mainland China government. The land use rights are located in the PRC and held on leases of between 32 to 43 years, and for self-use.

(b) Amounts recognised in the income statement.

The income statement shows the following amounts relating to leases:

	2019
	RMB'000
Depreciation charge of right-of-use assets	
Land	1,860
Buildings	<u>22,751</u>
	<u><u>24,611</u></u>
Interest expense (included in finance cost)	3,019
Expense relating to short-term leases (included in cost of sales and administrative expenses)	<u>16,971</u>

The total cash outflow for leases in 2019 was RMB38,114,000.

4 Leases (continued)

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices. Rental contracts are typically made for fixed periods of 2 months to 8 years, but may have extension options as described in (d) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. Until 31 December 2019, the Group has not entered into any lease contract with variable lease payment arrangement or residual value guarantee arrangement.

(d) Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

5 Trade and other receivables, and loans to third and related parties

	2019	2018
	RMB'000	RMB'000
Trade receivables (a)	259,905	256,366
Less: allowance for impairment of trade receivables	<u>(141,952)</u>	<u>(128,599)</u>
Trade receivables – net	117,953	127,767
Notes receivable	32,039	21,643
Advances to employees (b)	11,369	4,945
Consideration receivable from disposal of an associate	28,125	-
Prepayments	61,843	42,104
VAT recoverable	35,474	49,833
Interest receivables	2,610	21,473
Receivables from related parties (c)	15,309	9,193
Others	<u>25,431</u>	<u>9,657</u>
	330,153	286,615
Less: non-current portion	<u>(22,000)</u>	<u>-</u>
Current portion	<u>308,153</u>	<u>286,615</u>
Loans to related parties		
– Current portion	-	256,976
– Non-current portion	<u>-</u>	<u>464,537</u>
	<u>-</u>	<u>721,513</u>
Loans to third parties (d)		
– Current portion	230,869	88,720
– Non-current portion	<u>12,350</u>	<u>18,940</u>
	<u>243,219</u>	<u>107,660</u>

5 Trade and other receivables, entrusted loans and loans to related parties (continued)

The carrying amounts of trade and other receivables approximate their fair value. The Group's trade and other receivables are mainly denominated in RMB.

(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. At 31 December 2019 and 2018, the aging analysis of trade receivables based on invoice date were as follows:

	2019	2018
	RMB'000	RMB'000
0 - 90 days	73,841	75,353
91 - 180 days	12,637	11,153
181 - 360 days	33,280	38,976
Over 360 days	<u>140,147</u>	<u>130,884</u>
	<u><u>259,905</u></u>	<u><u>256,366</u></u>

(b) Advances to employees

The amounts advanced to employees were restricted for business purpose only, such as advances for selling expenses. Such advances were interest-free, unsecured and repayable on demand. During the years ended on 31 December 2019 and 2018, the Group did not advance any cash to the directors for use on business activities.

(c) Receivables from related parties were unsecured, interest-free, and repayable on demand and denominated in RMB.

5 Trade and other receivables, entrusted loans and loans to related parties (continued)

(d) Loans to third parties

	2019	2018
	RMB'000	RMB'000
Loans to third parties	245,434	108,747
Less: Provision for collective impairment assessment of the loans	<u>(2,215)</u>	<u>(1,087)</u>
Loans to third parties, net of provision	243,219	107,660
Less: non-current portion	<u>(12,350)</u>	<u>(18,940)</u>
Current portion	<u><u>230,869</u></u>	<u><u>88,720</u></u>

The loans to third parties represented loans made under the micro-credit business, which bear interest from 4.28% to 24.00% (2018:4.28% to 18.00%) per annum and are repayable with fixed terms agreed with the customers, and all denominated in RMB.

As at 31 December 2019, RMB50,690,000 of loans to third parties was pledged for a short-term borrowings (Note 8).

The fair values of the loans to third parties approximated their carrying amounts and the fair value hierarchy is level 2. The interest accrued was due within 12 months and presented in interest receivables.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

As at 31 December 2019, due to the actual loss rate of loans was less than 0.1% and no significant change in credit quality, the Group performs collective impairment assessment of loans to third parties by grouping together all its loans to third parties with similar credit risk characteristics, a general provision of 1% of the principal was provided against the loan principals.

6 Share capital and share premium

	Number of shares	Share capital	Share premium	Total
	(Thousands)	RMB'000	RMB'000	RMB'000
At 1 January 2018	2,904,553	71,599	1,681,289	1,752,888
Employee share option scheme				
– Value of employee services received	-	-	5,290	5,290
– Exercise of share options	47,557	987	95,367	96,354
Share award plan				
– Value of services received	-	-	81,628	81,628
– Transfer shares to the awardees upon vesting	-	-	(29,047)	(29,047)
Conversion of convertible bonds	<u>348,075</u>	<u>6,999</u>	<u>1,068,932</u>	<u>1,075,931</u>
At 31 December 2018	<u><u>3,300,185</u></u>	<u><u>79,585</u></u>	<u><u>2,903,459</u></u>	<u><u>2,983,044</u></u>
At 1 January 2019	3,300,185	79,585	2,903,459	2,983,044
Employee share option scheme				
– Value of employee services received	-	-	1,032	1,032
– Exercise of share options	20,505	452	53,732	54,184
Share award plan				
– Value of services received	-	-	86,660	86,660
– Transfer shares to the awardees upon vesting	<u>-</u>	<u>-</u>	<u>(81,787)</u>	<u>(81,787)</u>
At 31 December 2019	<u><u>3,320,690</u></u>	<u><u>80,037</u></u>	<u><u>2,963,096</u></u>	<u><u>3,043,133</u></u>

The total authorised number of ordinary shares as at 31 December 2019 was 4,000,000,000 (2018: 4,000,000,000) shares with a par value of HKD0.025 (2018: HKD0.025) per share. All issued shares were fully paid.

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7 Other reserves

	Merger reserve	Capital reserve	Statutory surplus reserve fund	Property revaluation	Conversion option	Financial assets at FVOCI	Shares held for share award plan	Translation	Other reserves	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note (a)	Note (b)	Note (c)				Note (d)			
At 1 January 2018	6,570	253,488	138,762	476,049	8,696	-	(162,012)	(913)	(26,238)	694,402
Currency translation differences	-	-	-	-	-	-	-	67,029	-	67,029
Transactions with non-controlling interests	-	-	-	-	-	-	-	-	13,296	13,296
Transfer shares to the awardees upon vesting	-	-	-	-	-	-	14,937	-	-	14,937
Shares purchased for share award plan	-	-	-	-	-	-	(224,405)	-	-	(224,405)
Conversion of convertible bonds	-	-	-	-	(8,696)	-	-	-	8,696	-
At 31 December 2018	6,570	253,488	138,762	476,049	-	-	(371,480)	66,116	(4,246)	565,259

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7 Other reserves (continued)

	Merger reserve	Capital reserve	Statutory surplus reserve fund	Property revaluation	Shares held for share award plan	Translation	Other reserves	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note (a)	Note (b)	Note (c)		Note (d)			
At 1 January 2019	6,570	253,488	138,762	476,049	(371,480)	66,116	(4,246)	565,259
Currency translation differences	-	-	-	-	-	284	-	284
Transactions with non-controlling interests	-	-	-	-	-	-	64,782	64,782
Transfer shares to the awardees upon vesting	-	-	-	-	56,207	-	-	56,207
At 31 December 2019	<u>6,570</u>	<u>253,488</u>	<u>138,762</u>	<u>476,049</u>	<u>(315,273)</u>	<u>66,400</u>	<u>60,536</u>	<u>686,532</u>

- (a) The merger reserve represented the difference between the carrying amounts of the capital of the subsidiaries at the date on which they were acquired by the Company and the nominal amounts of the Company's shares issued as consideration for the acquisitions.
- (b) The capital reserve arose mainly from the reinvestment of dividends into the PRC subsidiaries and capitalisation of reserves of certain subsidiaries.
- (c) The Company's subsidiaries in the PRC are required to follow the laws and regulations of the PRC and their articles of association. These subsidiaries are required to allocate at least 10% of their net 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 authorities, to offset accumulated losses or increase capital.
- (d) During the year ended 31 December 2018, the Group purchased 34,579,000 ordinary shares in the Company for a consideration of HKD253,375,000, equivalent to approximately RMB224,405,000, under the share award plan. The carrying amount of the shares held under the share award plan has been presented as a deduction against equity.

8 Borrowings

	2019	2018
	RMB'000	RMB'000
Current		
Short-term borrowings, unsecured	169,625	272,500
Short-term borrowings, secured (a)	30,000	5,000
Current portion of long-term borrowings, unsecured	<u>-</u>	<u>23,625</u>
	<u>199,625</u>	<u>301,125</u>

At 31 December 2019, all the Group's borrowings were repayable within 1 year and denominated in RMB.

The Group's bank borrowings bear average interest rate of 4.69% (2018: 4.78%) per annum.

The carrying amount of the current borrowings approximate their fair value, as the impact of discounting using a current borrowing rate is not significant.

(a) As at 31 December 2019, Guangzhou Deeking Small-Loan Co., Ltd. had short-term borrowings of RMB30,000,000 with interest rate of 9.5%, which was secured by RMB50,690,000 of loans to third parties held by itself (Note 5).

8 Borrowings (continued)

(b) The Group issued US\$175,000,000 4.0% convertible bond on 14 April 2014. The bond matured in five years from the issue date. The bond could be converted into the Company's ordinary shares, at the holder's option at any time on or after 25 May 2014 up to the close of business on the 10th day prior to the maturity date (both days inclusive), at HK\$3.90 (fixed in US dollars at US\$0.50) per share. The values of the liability component and the equity conversion component were determined at issuance of the bond. The liability component was subsequently stated at amortised cost until it is extinguished on conversion or maturity of the bond. The residual amount, representing the value of the equity conversion component, was accounted for as a conversion option reserve included in equity.

During March and April 2018, the convertible bonds were fully converted into approximately 348,075,000 shares of the Company of HK\$0.025 each at a conversion price of HK\$3.90 per ordinary share.

The convertible bonds recognised in the statement of financial position were calculated as follows:

	RMB'000
Liability component at 31 December 2017	1,117,678
Interest accrued	5,259
Interest paid	(5,100)
Effect of currency translation	(41,906)
Conversion of convertible bonds	<u>(1,075,931)</u>
Liability component at 31 December 2018	<u><u>-</u></u>

Interest expense on the liability component of the bond was calculated at the effective interest rate of 4.22% per annum.

9 Trade and other payables

	2019	2018
	RMB'000	RMB'000
Trade payables (a) and (b)	15,393	20,568
Salary and staff welfare payables	218,556	183,344
Deposits payable	133,611	69,831
Accrual for expenses	73,015	61,211
Value-added tax ("VAT") and other taxes payables	71,732	89,756
Construction payable (d)	69,028	-
Government funds payable to project partners (c)	24,851	-
Unpaid business acquisition consideration	8,175	88,180
Others	70,263	67,826
	<u>684,624</u>	<u>580,716</u>
Less: non-current portion (d)	<u>(69,028)</u>	<u>-</u>
Current portion	<u>615,596</u>	<u>580,716</u>

- (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 mainly denominated in RMB.
- (b) At 31 December 2019, the aging analysis of the trade payables based on invoice date is as follows:

	2019	2018
	RMB'000	RMB'000
0 - 180 days	9,100	13,539
181 - 360 days	669	3,768
Over 360 days	<u>5,624</u>	<u>3,261</u>
	<u>15,393</u>	<u>20,568</u>

- (c) The Group entered into certain government development projects. According to the underlying contracts of these projects, the relevant government departments transfer the project funds to the Group directly and the Group is authorized to allocate the project funds to other third parties involved in the projects as the Group's partners.
- (d) It mainly represents the Group's payables to the construction company for the construction costs incurred relating to Shenzhen Kingdee Software Park Phase II project.

10 Revenue from contracts with customers

The Group's revenue includes revenues from ERP business and cloud services business. Revenue is stated net of applicable VAT in the PRC and comprises the following:

	2019	2018
	RMB'000	RMB'000
ERP business	2,011,995	1,959,402
- Sales of software and hardware products	945,631	936,620
- Software implementation services	488,476	482,209
- Software solution consulting, maintenance, upgrade and other supporting services	577,888	540,573
Cloud business	1,313,595	849,256
- Enterprise cloud services	927,375	605,095
- Finance cloud services	169,873	85,724
- Industry cloud services	142,901	107,081
- Other cloud services	73,446	51,356
	<u>3,325,590</u>	<u>2,808,658</u>

11 Expenses by nature

Expenses included in cost of sales, selling and marketing expenses, research and development costs, administrative expenses and net impairment losses on financial assets and contract assets are analysed as follows:

	2019	2018
	RMB'000	RMB'000
Research and development costs		
Amounts incurred	650,499	500,301
Less: development costs capitalised	(477,654)	(379,237)
Add: amortisation	<u>413,982</u>	<u>284,094</u>
	586,827	405,158
Employee benefit expenses	2,177,477	1,799,747
Less: amount included in development costs	<u>(584,632)</u>	<u>(442,631)</u>
	1,592,845	1,357,116
Depreciation	36,132	47,691
Less: amount included in development costs	<u>(6,031)</u>	<u>(5,994)</u>
	30,101	41,697
Outsourcing services	385,745	342,379
Sales promotion and advertising	194,728	194,617
Cost of inventories consumed	150,363	105,393
Rental and utilities	23,321	45,025
Traveling	68,876	55,056
Office expenses	30,779	47,462
Other taxes and surcharges	42,781	44,582
Impairment charge of goodwill	31,187	-
Training costs	28,032	20,989
Professional service fees	21,791	22,212
Depreciation of right-of-use assets	24,611	-
Amortisation of trademarks, licenses and copyrights	8,571	6,915
Amortisation of computer software for own use	2,550	8,097
Amortisation of customer relationship	5,230	5,230
Amortisation of land use rights	-	1,860
Auditors' remuneration	6,630	3,100
- Audit services	3,400	3,100
- Non-audit services	3,230	-
Net impairment losses on financial assets and contract assets	48,416	47,697
Others	<u>34,570</u>	<u>38,253</u>
Total	<u><u>3,317,954</u></u>	<u><u>2,792,838</u></u>

12 Other income and gains – net

	2019	2018
	RMB'000	RMB'000
Other income		
VAT refund (a)	164,308	178,529
VAT input tax surplus deduction	3,422	-
Government subsidy income	31,317	43,347
Rental income - net	73,243	72,941
Interest income from loan to related parties	19,311	-
	<u>291,601</u>	<u>294,817</u>
Other gains		
Realised and unrealised gains on financial assets at FVPL (b)	26,220	44,334
Gains from dilution of investments in associates	-	714
Revaluation gain on investment upon losing of control	-	5,318
Gains on disposal of associates (c)	47,426	-
Others	10,910	(2,212)
	<u>84,556</u>	<u>48,154</u>
	<u>376,157</u>	<u>342,971</u>

(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 16%. From 1 April 2019, according to the circular “2019 No. 39 Notice of Ministry of Finance, the General Administration of Taxation and The General Administration of Customs”, the applicable rate for software industry has been changed from 16% to 13%.

In 2011, the State Council issued a circular regarding the “Taxation Policy for Encouraging the Development of Software and Integrated Circuits Industry” (Guo Fa [2011] No.4) (the “Circular”). Pursuant to the Circular, software enterprises engaged in the sales of self-developed software in the PRC are entitled to VAT refund to the extent that the effective VAT rate of the sales of the software in the PRC exceeds 3% of the sales amounts.

(b) It mainly represented investment return from wealth management products that are measured at FVPL.

(c) It mainly represented the disposal gain of RMB47,509,000 from disposal of the Group’s 45% interest in Qingdao Xinrun Real Estate Limited (“Qingdao Xinrun”).

13 Finance income/(costs) – net

	2019	2018
	RMB'000	RMB'000
Finance income		
– Interest income	<u>19,768</u>	<u>29,444</u>
Finance costs		
– Interest on borrowings and lease liabilities	(14,398)	(17,624)
– Net foreign exchange losses on financing activities	<u>-</u>	<u>(12,857)</u>
	<u>(14,398)</u>	<u>(30,481)</u>
	<u>5,370</u>	<u>(1,037)</u>

14 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.

	2019	2018
	RMB'000	RMB'000
Current income tax		
– Current tax on profits for the year	31,017	34,600
– Over-provision in prior year	(8,493)	(14,567)
Deferred income tax	<u>7,809</u>	<u>18,727</u>
	<u>30,333</u>	<u>38,760</u>

(a) No provision for profits tax in the Cayman Islands and Hong Kong has been made as the Group has no assessable profits for the years in those jurisdictions.

(b) In 2016, a tax law [2016] No.49 has been enacted that entity can register for the National Important Software Enterprise (“NISE”) in tax bureau if the entity complies with relevant requirements. Based on management’s assessment, it is highly probable that Kingdee China will meet those requirements. Therefore, Kingdee China used a preferential corporate income tax rate of 10% for the year ended 31 December 2019 (2018: 10%) to calculate income tax. The application of preferential tax rate stated above is subject to critical estimates of the management of the Group.

(c) Kingdee Deeking was qualified as a software enterprise by Shenzhen Software Industry Association on 8 October 2015 and was entitled to tax exemption for two years and thereafter to a preferential rate at half of the corporate income tax rate for three years. In addition, based on management’s assessment, it is highly probable that Kingdee Deeking will also meet the requirements for NISE. Therefore, Kingdee Deeking used a preferential corporate income tax rate of 10% for the year ended 31 December 2019 (2018: 10%) to calculate income tax. The application of preferential tax rate stated above is subject to critical estimates of the management of the Group.

14 Income tax expense (continued)

(d) Kingdee Tianyan Middleware was consistently qualified as a High-tech Enterprise from September 2017 and was entitled to a preferential corporate income tax rate of 15% in 2019 (2018: 15%).

Beijing Kingdee Management Software Co., Ltd. was consistently qualified as High-tech Enterprise from December 2017 and were entitled to a preferential corporate income tax rate of 15% in 2019 (2018: 15%).

Guanyi was consistently qualified as High-tech Enterprise from November 2016 and were entitled to a preferential corporate income tax rate of 15% in 2019 (2018: 15%, a preferential rate at half of the corporate income tax rate for new software enterprises).

Shanghai Kingdee Deeking Cloud Computing Co., Ltd. was qualified as High-tech Enterprise from 2016 to 2019 and was entitled to a preferential corporate income tax rate of 15% in 2019 (2018: 15%).

Kingdee Vehicle was qualified as High-tech Enterprise from 2018 to 2021 and was entitled to a preferential corporate income tax rate of 15% in 2019 (2018: 15%).

(e) Other PRC subsidiaries of the Group applied the tax rate of 25%.

The taxation on the Group's profit before income tax differs from the theoretical amount that would have arisen using the principal rate of the PRC corporate income tax due to the following:

	2019 RMB'000	2018 RMB'000
Profit before tax	<u>396,131</u>	<u>448,030</u>
Tax calculated at the statutory tax rate of 25% (2018: 25%)	99,033	112,008
Tax effects of:		
Preferential tax rates	(70,095)	(67,491)
Tax losses for which no deferred income tax asset was recognised	41,538	35,703
Expenses not deductible for tax purposes	12,092	7,286
Re-measurement of deferred tax due to a change in applicable tax rate	-	(4,288)
Additional deductible allowance for research and development expenses	(43,742)	(29,891)
Over-provision in prior year	<u>(8,493)</u>	<u>(14,567)</u>
	<u><u>30,333</u></u>	<u><u>38,760</u></u>

15 Dividends

	2019 RMB'000	2018 RMB'000
Proposed final dividend	<u>37,000</u>	<u>33,000</u>

A final dividend of RMB1.1 cents (equivalent to approximately HKD1.2 cents) per ordinary share, totaling RMB37,000,000 out of the share premium account of the Company, for the year ended 31 December 2019, is to be proposed at the forthcoming annual general meeting. This proposed dividend is not reflected as a dividend payable in the consolidated financial statements for the year ended 31 December 2019.

16 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased and held for share award plan.

	2019	2018
Profit attributable to owners of the Company (RMB'000)	372,580	412,106
Weighted average number of ordinary shares in issue (thousands)	<u>3,233,638</u>	<u>3,125,266</u>
Basic earnings per share (RMB cents per share)	<u>11.52</u>	<u>13.19</u>

16 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 two categories of dilutive potential ordinary shares: share options and share awards. For the share options and share awards, the number of shares that could have been issued upon the exercise of all dilutive share options and share awards less the number of shares that could have been issued at fair value (determined as the average annual market price of the Company's shares) for the same total proceeds is added to the denominator as the number of ordinary shares issued for no consideration.

	2019	2018
Profit attributable to owners of the Company		
(RMB'000)	372,580	412,106
Interest expense on the convertible bonds (net of tax)		
(RMB'000)	-	5,259
Profit used to determine diluted earnings per share (RMB'000)	<u>372,580</u>	<u>417,365</u>
Weighted average number of ordinary shares in issue (thousands)	3,233,638	3,125,266
Adjustments for:		
– Assumed conversion of convertible bonds (thousands)	-	94,808
– Share options (thousands)	55,771	81,536
– Share awards (thousands)	<u>32,565</u>	<u>49,874</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>3,321,974</u>	<u>3,351,484</u>
Diluted earnings per share (RMB cents per share)	<u>11.22</u>	<u>12.45</u>

17 Transactions with non-controlling interests

(a) Disposal of interest in a subsidiary without loss of control in 2019

In January 2019, the Group's disposed of 20% equity interest in a wholly-owned subsidiary, Kingdee Internet Finance Co. Ltd. (the "Kingdee Internet Finance") at a cash consideration of RMB10,000,000, to a limited partnership. After the disposal, the Group's equity interest in Kingdee Internet Finance was decreased from 100% to 80%. The effect of changes in the ownership interest of Kingdee Internet Finance on the equity attributable to owners of the Company during the year is summarised as follows:

	2019
	RMB'000
Consideration receivable for the 20% equity interest	10,000
Carrying amount of non-controlling interests being disposed of	<u>(6,479)</u>
Gains on disposal recognised within equity	<u>3,521</u>

In November 2019, Kingdee Internet received a capital injection of RMB100,000,000 from an independent third party. The Group's equity interest in Kingdee Internet Finance was diluted from 80% to 64% after the above capital injection and the Group continues to retain control over Kingdee Internet Finance as the Group still has more than 50% of its voting rights. The effect of changes in the ownership interest of Kingdee Internet Finance on the equity attributable to owners of the Company during the year is summarised as follows:

	2019
	RMB'000
Deemed consideration received for the 16% equity interest	64,000
Carrying amount of non-controlling interests being disposed of	<u>(2,739)</u>
Gains on disposal recognised within equity	<u>61,261</u>

17 Transactions with non-controlling interests (continued)

(b) Disposal of interest in a subsidiary without loss of control in 2018

During the year ended 31 December 2018, the Group's subsidiary, Kingdee Vehicle, received a capital injection of RMB35,000,000 from a third party - Beijing Souche Network Technology Co, Ltd. After the transaction, the Group's equity interest in Kingdee Vehicle was diluted from 70% to 56% and the Group continues to retain control over Kingdee Vehicle as the Group still has more than 50% of its voting rights. The effect of changes in the ownership interest of Kingdee Vehicle on the equity attributable to owners of the Company during the year is summarised as follows:

	2018
	RMB'000
Deemed consideration received for the 14% equity interest	35,000
Carrying amount of non-controlling interests being disposed of	<u>(21,704)</u>
Gains on disposal recognised within equity	<u><u>13,296</u></u>

18 Event occurring after the reporting period

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the consolidated financial statements as a result of the COVID-19 outbreak.

BUSINESS REVIEW AND OUTLOOK

1. Group Financial Results

-The Group recorded total revenue of RMB3,325,590,000 (2018: RMB2,808,658,000) in 2019, up by 18.4% year-on-year. With increasing investments in the cloud services business, revenue from this segment continued to climb and grew by 54.7% year-on-year in 2019. Meanwhile, revenue from ERP business slightly increased by 2.7% year-on-year. Cloud service business accounted for 39.5% of total revenue. The migration of cloud business ecology has deepened.

-The profit attributable to owners of the Company decreased by approximately 9.6% from 2018 to RMB372,580,000 (2018: RMB412,106,000).

-Basic earnings per share attributable to owners of the Company for the reporting period decreased by approximately 12.7% year-on-year to approximately RMB11.52 cents (2018: RMB13.19 cents).

-Net cash generated from operating activities of the Company for the reporting period increased by 6.3% year-on-year to approximately RMB962,927,000 (2018: RMB905,515,000).

2. Group Strategy Review

Committed to becoming the most trusted enterprise service platform, Kingdee aims to help enterprises achieve coexistence and a win-win situation. Based on the insight into Chinese enterprise management and digital transformation, the Group continuously pushed forward Kingdee's cloud service ecosystem.

The Group developed the following strategic initiatives:

- Promoting “Cosmic Platform + Finance & HR Application + Ecosystem” to enhance Kingdee Cloud's competitiveness;
- Establishing industry's best practice for SME' sustainable growth;
- Integrating project sales and execution into a unified system to serve high-quality large enterprises' customers;
- Helping channel partners to transform into service partners to grow collaboratively;
- Building Customer Success system to enable all-around customer services.

3. Group Business Review

As a leading innovative technology company in China's enterprise service market, the Group has ranked No.1 in the enterprise application software for fast-growing enterprises for fourteen consecutive years. Kingdee held the largest market share in SaaS ERM (Cloud ERP) for three consecutive years, and was selected into Gartner's Global High-Productivity PaaS vendor list and HCM (Human Capital Management) Market guide.

Cloud Services Business Review

Revenue from the cloud business grew by 54.7% year-on-year from RMB849,256,000 in 2018 to RMB1,313,595,000 in 2019, accounting for 39.5% of total revenue.

(1) Enterprise Cloud Services

During the reporting period, Kingdee's enterprise cloud services business achieved 53.3% yoy growth, from RMB605,095,000 in 2018 to RMB927,375,000 in 2019. Kingdee Cloud Cosmic made major breakthrough in the large enterprise market, with revenue reaching RMB60 million and 130 new customers. Kingdee Cloud Galaxy also recorded robust growth in 2019, with revenue of RMB868 million representing 43.5% yoy growth.

Kingdee Cloud Cosmic achieved breakthroughs in large enterprise market, leveraging its highly competitive platform solution.

As the first local cloud-native platform solution, Kingdee Cloud Cosmic has completed compatibility check with major local upstream/downstream hardware/software solutions and was selected into Gartner's High-Productivity (low-code or no-code) PaaS global vendor list. Throughout the year, Kingdee maintained biweekly update on Cosmic and released Cosmic 2.0 version, which newly added 100 enterprise modules on 20+ cloud services, including Finance, Supply Chain Management (SCM), Human Resources (HR), Collaboration, Marketing, Taxation, AI Big Data Service, Progress Management and Program Development Service Cloud. Cosmic filed 73 invention patents and 3 design patents, 50 patents of which are under review by the State Intellectual Property Office (SIPO). These patents covered various aspects of technological innovation, including cloud-native technology, application software development and enterprise management. One of the core patents of Cosmic cloud-native architecture won the National Patent Award. Meanwhile, Kingdee Cloud Cosmic continued to increase investment in resources, and strived to attract competitive partners in the industry, with the total number of Cosmic partners increasing to 160, including 55 ISV partners, 90 developer partners and 15 content partners.

During the reporting period, Kingdee Cloud Cosmic achieved around RMB60 million in revenue. Kingdee signed 130 new Cosmic customers, including central State Owned Enterprises (SOE) such as China South Industries Group Corporation, WISDRI, Guodian

Finance Leasing, CISRI, CITIC Consumer Finance, BP PetroChina, China Mobile IoT, and large enterprises such as SF Express, Tianjin Steel, Tiantie Group, Conch Cement Info, Peak Group, Xiamen ITG, Guangdong Yihao Foodstuff and Jingye Group. Total new contract value exceeded RMB200 million. For determinants of demand were IT localization, management upgrade, value chain transformation and IT architecture upgrade. In addition, Kingdee signed strategic partnership with Delong Holdings, Hesteel Group, Hubei Jierui and Jiangsu Fu-Comme Technology to promote the reconstruction of the industry value chain.

Kingdee Cloud Galaxy Expedited to Strengthen Industry Modules, to Boost Cloud Adoption in China

Since the initial launch in 2015, Kingdee Cloud Galaxy remained focusing on product upgrade and improving service. Galaxy was chosen as a recommended cloud service vendor for 26 cities in 17 provinces. It was picked as a strategic partner of the Ministry of Industry and Information Technology and received the ITSS certification. Galaxy was also recognized by Amazon AWS as the exclusive best SaaS partner. Kingdee released the Galaxy V7.5 version, China's first intelligent manufacturing cloud with PLM+ERP+MES applications. This product was awarded as the "2019 CEIA Best Smart Factory Lite MES". Meanwhile, a high-performance & low-cost smart manufacturing solution was integrated on Galaxy MES Cloud and Huawei ROMA platform. Galaxy added a few industry leading modules, including Omni-channel management through WeChat Mini-program, Financial Shared Service Lite version, Expense Reimbursement Mobile version, Multi-language option and Smart Operating Dashboard, etc. Thanks to Galaxy, Kingdee was named as China's Top-100 Smart Maintenance Service Providers and Top-20 Cloud Computing Application Innovators.

During the reporting period, Galaxy maintained robust growth, with its revenue increased by over 43.5% year-on-year to RMB868 million. Customer dollar retention rate was 90%. By end-2019, Galaxy accumulated over 13,800 customers. Kingdee renewed with major customers including Huawei, Tencent, Samsung, Haier, LG, Bliss Cake, Oppein Home and Muwu BBQ, also signed new renowned customers including Huawei Marine, Hikvision, Fotile, Sangfor, Netease Youdao, Xiaomi Mi Stores, Chucheng, Wuzhen Travel, Jissbon and Shiseido (Guangdong). The Group continued to transform channel partners into service partners, and migrated existing customers to cloud. Indirect sales of Galaxy Public Cloud increased by nearly 98% year-on-year, with its customers accumulating to approximately 4,000.

(2) Finance Cloud Services

Kingdee's finance cloud services business recorded RMB169,873,000 in revenue, representing 98.2% yoy growth comparing to RMB85,724,000 in 2018.

Jingdou Cloud Achieved Robust Revenue Growth and Propelled the Growth of Ecological Partner

During the reporting period, Jingdou Cloud achieved revenue growth of 87.8% year-on-year. Paying customers grew by 45% yoy, bringing total number of customers to over 117,000. Dollar retention rate remained at approximately 80%. On Jingdou ecosystem, Kingdee built strategic partnership with a few SaaS players throughout the year. Through Kingdee's sales network, these SaaS partners gained over 850 customers in total. The Group made significant progress in cooperation with telecom operators. Jingdou Cloud entered China Mobile Cloud's market place and signed 13,000 new customers cumulatively.

(3) Industry Specific Cloud Services and Other Cloud Services

Industry specific cloud services recorded RMB142,901,000 revenue in 2019, representing 33.5% yoy growth comparing to RMB107,081,000 in 2018. Other cloud services recorded RMB73,446,000 revenue in 2019, up 43.0% yoy comparing to RMB51,356,000 in 2018.

Guanyi Cloud Continuously Made Optimizations and Promoted Competitiveness of its Products

During the reporting period, revenue from Guanyi Cloud increased 14.0% year-on-year with dollar retention ratio over 80%. Kingdee consistently improved user experience for C-ERP, which was connected to other Kingdee Cloud products to combine e-commerce and finance module. On the 2019's Double 11 Day, Guanyi Cloud processed over RMB69.9 billion of GMV, and 328 million transaction orders which increased 22.8% year-on-year.

Cloud Ecosystem Grew to Maturity with Cloud Businesses in Various Fields

EAS Cloud was built for the cloud transformation of large enterprises. Within two months of initial launch, Kingdee signed a few public cloud customers, including Huawei Marine, Shanghai Huangpu Urban Development and Evercan Group. **KIS Cloud** led its partners to promote SMEs' cloud migration. With 7,200 new customers, it established strategic cooperation with SaaS players, such as FXiaoKe and Yunpiaotong. **CloudHub** was strengthened by adding enterprise-grade OTA (Over-the-Air Technology) to improve mobile collaboration function, with new contracts with industry leaders such as Country Garden, Hisense and Central China. **Kingdee Finance** focused on building applications for financial scenes and data mining. In pursuit of compliance and digital loan innovation, it was awarded "2019 China Leading FinTech 50" by KPMG. Automotive cloud **Cargeer** and property management **Wojia Cloud** also registered robust growth. On the industry cloud side, Kingdee jointly established **Xinnong Interconnection** Technology with Wens Group for modern agricultural solution, and **Yundee** with China Unicom for industrial internet platform solution. China CITIC, CITIC Trust and Kingdee jointly

funded the establishment of **CITIC Consumer Finance Co., Ltd.** to stimulate domestic demand and consumption.

ERP Business Review

During the reporting period, revenue from ERP business increased by 2.7% year-on-year from RMB1,959,402,000 in 2018 to RMB2,011,995,000 in 2019.

Kingdee EAS business recorded flat revenue with financial sharing business providing a full coverage of 10 major industries; s-HR business delivered an outstanding performance in the large enterprises market with new customers from China Top 500 Enterprises and Fortune Global 500 Enterprises including CRRC Zhuzhou, Hesteel Group, Xiamen C&D, Wanxiang Group, Vanke Service, Tencent CSIG and WeSure, to achieve local substitution; Smart manufacturing business launched “The Brain of Enterprise Operation” solution to meet the rising need of on-site intelligent decisions from large manufacturing enterprises; tax management solutions achieved breakthroughs in its growth with a year-on-year increase of nearly 300%.

Kingdee K/3 WISE mainly focused on three business areas: smart finance and tax, smart supply chain and smart factory, aiming to transform traditional enterprises to digitalized enterprises. KIS recorded steady growth with over 100,000 new customers. In 2020, K/3 WISE and KIS will lead its existing customers to use cloud services of Kingdee instead of attracting new customers.

Kingdee Apusic further improved its market share in domestic middleware market and worked closely with upstream and downstream software and hardware players, now fully compatible with domestic mainstream products. Apusic remained as the top brand in the most preferred middleware survey for the 6th consecutive time.

Investment Property Business

As of 31 December 2019, the Group had carrying amount of investment properties of RMB1,856,200,000 (as of 31 December 2018: RMB1,816,206,000). During the reporting period, the Group leased available space in software parks in Beijing, Shanghai and Shenzhen. The Group generated net rental income of RMB73,243,000 in 2019 (RMB72,941,000 in 2018), and fair value gains on investment properties of RMB39,994,000 in 2019 (RMB94,516,000 in 2018).

MANAGEMENT DISCUSSION AND ANALYSIS

1. Major Financial Information

Revenue

For the year ended 31 December 2019, the Group recorded total revenue of RMB 3,325,590,000, representing a year-on-year growth of 18.4% (2018: RMB 2,808,658,000). Revenue from the ERP business amounted to RMB2,011,995,000 (2018: RMB1,959,402,000), up by 2.7% year-on-year. Revenue from Cloud services increased by 54.7% year-on-year to RMB1,313,595,000 (2018: RMB849,256,000).

Revenue included the following:

	2019	2018
	RMB'000	RMB'000
ERP business	2,011,995	1,959,402
- Sales of software and hardware products	945,631	936,620
- Software implementation services	488,476	482,209
- Software solution consulting, maintenance, upgrade and other supporting services	577,888	540,573
Cloud business	1,313,595	849,256
- Enterprise cloud services	927,375	605,095
- Finance cloud services	169,873	85,724
- Industry specific cloud services	142,901	107,081
- Other cloud services	73,446	51,356
	<u>3,325,590</u>	<u>2,808,658</u>

The abovementioned increase in revenue in ERP business was mainly attributable to the increase in sales of software license and software solution consulting, maintenance, upgrade and other supporting services. The increase in revenue from cloud services business was mainly attributable to the increase in revenue from subscription services of Kingdee Cloud Cosmic, Kingdee Cloud Galaxy and Jingdou Cloud products.

Gross profit

During the Reporting Period, the Group recorded gross profit of RMB2,673,587,000 (2018: RMB 2,294,319,000), up by 16.5% year-on-year. The gross profit margin declined 1.3 percentage point yoy to approximately 80.4% (2018: approximately 81.7%). The decline in gross profit margin was mainly attributable to the increase in IaaS cost along with the expansion of cloud customer base.

Selling and marketing expenses

During the Reporting Period, selling and marketing expenses amounted to approximately RMB1,644,384,000 (2018: RMB1,491,302,000). This represented year-on-year increase of 10.3%, mainly due to the increase in selling and marketing expenses resulted from the increase in revenue. As a percentage of revenue, the percentage of selling and marketing expenses decreased slightly from 53.1% in 2018 to 49.4% in 2019, mainly resulted from the implementation of the Group's cost control measures.

Administrative expenses and Net impairment losses on financial assets

During the reporting period, administrative expenses and net impairment losses on financial assets and contract assets were RMB434,740,000 in aggregate, representing a year-on-year increase of 13.8% (2018: RMB382,039,000). In terms of revenue percentage, the percentage of administrative expenses and net impairment losses on financial assets decreased slightly from 13.6% in 2018 to 13.1% in 2019, mainly resulted from the implementation of the Group's cost control measures.

Research and development expenses

In 2019, total research and development costs were RMB650,499,000, representing a year-on-year increase of 30.0% (2018: RMB500,301,000), the ratio of which to revenue increased from 17.8% in 2018 to 19.6% in 2019. The capitalized amount in 2019 was RMB477,654,000, up by 26.0% year-on-year (2018: RMB379,237,000). Amortisation of research and development costs was RMB413,982,000 in 2019, representing a year-on-year increase of 45.7% (2018: RMB284,094,000), and the research and development costs recognised in the consolidated income statement was RMB586,827,000 in 2019, up by 44.8% year-on-year (2018: RMB405,158,000). The Group continued to invest in the development of Cloud products, resulting in further increase in total research and development costs during the year.

Fair value gains on investment properties

In 2019, fair value gains on investment properties was RMB39,994,000, representing a year-on-year decrease of 57.7% (2018: RMB94,516,000). Fair value of investment properties are determined by management based on the valuations performed by independent professional valuer primarily using the income approach. The relevant key assumptions include term yields, reversionary yields and fair market rents.

Other income and gains-net

In 2019 other income and gains-net was RMB376,157,000, representing a slight year-on-year increase of 9.7% (2018: RMB342,971,000), mainly due to the gains on disposal of associates of RMB47,426,000.

Operating profit

In 2019, operating profit decreased 6.5% year-on-year to RMB423,787,000 (2018: RMB453,307,000). The change in operating profit margin is due to the combined effect of changes in aforementioned items. ERP business' operating profit increased 16.2% year-on-year to RMB505,615,000 (2018: RMB435,052,000). Cloud business' operating loss increased 30.7% year-on-year to RMB195,065,000 (2018: RMB149,202,000). Investment properties operating business' operating profit declined 32.4% year-on-year to RMB113,237,000 (2018: RMB167,457,000), due to the decrease in fair value gains on investment properties.

Finance income/costs -net

In 2019, the finance income - net value amounted to RMB5,370,000. In 2018, finance costs - net value was RMB1,037,000.

Income tax expense

In 2019, the income tax expense amounted to RMB30,333,000, representing a year-on-year decrease of 21.7% (2018: RMB38,760,000), mainly due to the decrease in pre-tax profit.

Net Profit and Basic Earnings per Share

In 2019, net profit attributable to owners of the Company was RMB372,580,000 (2018: RMB412,106,000). Net profit margin was 11.2% (2018: 14.7%). Basic earnings per share was RMB11.52 cents (2018: RMB13.19 cents).

Financial assets at fair value through profit or loss

As at 31 December 2019, the Group's financial assets at fair value through profit or loss amounted to RMB1,024,942,000, representing an increase of RMB386,056,000 as compared with 31 December 2018, including the non-current portion of RMB428,791,000 (31 December 2018: RMB427,456,000) and the current portion of RMB596,151,000 (31 December 2018: 211,430,000).

Financial assets at fair value through profit or loss included the following:

	2019	2018
	RMB'000	RMB'000
Investments designated at fair value through profit or loss		
Wealth management products (i)	687,312	288,347
Preferred shares (ii)	254,491	253,456
Listed stock	59,139	66,480
Unlisted equity investment	24,000	24,000
Unlisted convertible bonds	-	6,603
	<u>1,024,942</u>	<u>638,886</u>
Less: non-current portion	<u>(428,791)</u>	<u>(427,456)</u>
	<u>596,151</u>	<u>211,430</u>

- (i) This represented the Group's investments in various wealth management products issued by commercial banks and state-owned financial institutions. These products have a term ranging from 3 months to 36 months. They have an expected annual return rate ranging from 2.36% to 5.00%. No single wealth management product investment accounted for over 5% of the Group's total assets. The fair values of these investments were determined based on income approach.
- (ii) It mainly represented the Group's investment of 535,643,887 Series E Preferred Shares issued by Facishare Co., Ltd., which is mainly engaged in the business of social network working platform for precise interactive marketing and enterprise collaborative management. The fair value of the investment is determined based on market approach.

Investments in associates

The carrying amount of the Group's investments in associates as at 31 December 2018 was RMB282,649,000 (as at 31 December 2018: RMB234,403,000).

	2019	2018
	RMB'000	RMB'000
At 1 January	234,403	31,420
Additions (a)	110,241	185,191
Disposal (b)	(26,401)	-
Conversion from a subsidiary to an associate (c)	-	16,000
Dilution gain (c)	-	714
Revaluation gain upon losing of control (c)	-	5,318
Dividend received	(50)	-
Share of losses of associates (d)	(35,544)	(4,240)
At 31 December	<u>282,649</u>	<u>234,403</u>

- (a) It mainly included the following investments in associates during the year:

Name of associate	Principle activities and place of operation	Investment amount (RMB '000)	Equity interest acquired by the Group	Measurement method
Citic Consumer Finance Co., Ltd.	Provision of consumer financing service in the PRC	90,000	30.0%	Equity method
Shenzhen Kuixue Education Development Co., Ltd.	Provision of online education service in the PRC	15,000	5.0%	Equity method

- (b) It mainly represented the disposal of the Group's 45% interest in Qingdao Xinrun. In September 2019, the Group disposed of all its 45% interest in Qingdao Xinrun to an independent third party.
- (c) In December 2018, Qingdao Xinrun, a then subsidiary of the Group, received RMB17,111,000 of capital injection from certain third parties and as a result, the Group's interest in Qingdao Xinrun diluted from 80% to 45%, resulting in a dilution gain of RMB714,000; in addition, the Group lost control over Qingdao Xinrun upon the dilution and the investment had been accounted for as an associate since then. The Group's interest in Qingdao Xinrun after the dilution was re-measured to fair value upon losing of control and a revaluation gain of RMB5,318,000 was recognised accordingly.
- (d) During the year, RMB2,518,000 of the Group's share of loss of an associate in excess of its investment cost which was recognised against the loan to the associate in prior years was fully recovered as a result of the full settlement of the loan to the associate during the year.

Loans to third parties

	2019	2018
	RMB'000	RMB'000
Loans to third parties		
– Current portion	230,869	88,720
– Non-current portion	12,350	18,940
	<u>243,219</u>	<u>107,660</u>

The loans to third parties represented loans made under the micro-credit business, which bear interest from 4.28% to 24.00% (2018:4.28% to 18.00%) per annum and are repayable with fixed terms agreed with the customers, and all denominated in RMB.

As at 31 December 2019, RMB50,690,000 of loan to third parties was pledged for a short-term borrowings.

The fair values of the loans to third parties approximated their carrying amounts and the fair value hierarchy is level 2. The interest accrued was due within 12 months and presented in interest receivables.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

As at 31 December 2019, due to the actual loss rate of loans was less than 0.1% and no significant change in credit quality, the Group performs collective impairment assessment of loans to third parties by grouping together all its loans to third parties with similar credit risk characteristics, a general provision of 1% of the principal was provided against the loan principals.

Loans to related parties

As of 31 December 2019, the carrying amount of loans to related parties was nil (2018: RMB721,513,000). All loans to related parties were collected during the year.

	2019	2018
	RMB'000	RMB'000
Loans to related parties		
– Current portion	-	256,976
– Non-current portion	-	464,537
	<u>-</u>	<u>721,513</u>

Contract assets and Contract obtaining costs

Assets and related to contracts with customers

	At 31 December	
	2019	2018
	RMB'000	RMB'000
Current contract assets relating to software implementation contracts	451,685	494,662
Costs for obtaining contracts (i)	60,667	-
Loss allowance	-	-
Total contract assets	<u>512,352</u>	<u>494,662</u>

Contract liabilities

As at 31 December 2019, the Group's contract liabilities amounted to RMB996,996,000. The corresponding contract liabilities amounted to RMB846,755,000 as at 31 December 2018. The increase in contract liabilities during the year was mainly due to the growth of the Group's cloud business.

Event occurring after the reporting period

After the outbreak of Coronavirus Disease 2019 ("COVID-19 outbreak") in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on the consolidated financial statements as a result of the COVID-19 outbreak.

Liquidity, financial and capital resources

As at 31 December 2019, the Group recorded a total cash and bank deposits of RMB2,586,565,000 (31 December 2018: RMB1,812,674,000). As at 31 December 2019, the Group held wealth management products of RMB687,312,000 (31 December 2018: RMB288,347,000). A substantial part of the Group's cash, bank deposit and wealth management products were denominated in RMB and the RMB-equivalent of the part denominated in foreign currencies was RMB180,074,000 as at 31 December 2019 (31 December 2018: RMB170,579,000), which were mainly denominated in US dollar and Hong Kong dollar ("HKD").

As at 31 December 2019, the Group's net current assets amounted to approximately RMB2,243,354,000 (31 December 2018: RMB1,292,946,000). As at 31 December 2019, the current ratio being current assets over current liabilities was approximately 2.12, improving from 1.69 as at 31 December 2018.

As at 31 December 2019, the Group's borrowings amounted to RMB199,625,000 (31 December 2018: RMB301,125,000), representing a year-on-year decrease of 33.7%. Gearing ratio is calculated as net debt (representing total borrowings less cash and cash equivalents) over total capital (representing total equity plus net debt). The Group was at net cash position as of 31 December 2019 and 31 December 2018.

Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its borrowings, details of which have been disclosed in note 8. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk. However, the Group will consider hedging significant interest rate exposure should the need arise.

As at 31 December 2019, borrowings of the Group which were bearing at floating rates amounted to approximately RMB85,625,000 (2018: nil). As at 31 December 2019, if the interest rates had been 50 basis point higher/lower and all other variables were held constant, the Group's post-tax profit for the years ended 31 December 2019 would have been approximately RMB385,000 (2018: nil) lower/higher.

Foreign exchange risk

The functional currency of the Company and its major subsidiaries is RMB. The majority of the revenues of the Group are derived from operations in the PRC.

Foreign exchange risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in which the Group conducts business may affect its financial position and results of operations. The foreign exchange risk facing the Group mainly comes from movements in the US dollars ("USD")/RMB and Hong Kong dollars ("HKD")/RMB exchange rates.

The Group does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2019, 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 higher/lower by RMB 6,279,000(2018: RMB4,723,000), mainly as a result of foreign exchange gains/losses on translation of HKD denominated cash at bank and in hand.

At 31 December 2019, if the RMB had weakened/strengthened by 5% against the USD with all other variables held constant, profit before tax for the year would have been higher/lower by RMB 18,332,000 (2018: RMB7,058,000 higher/lower), mainly as a result of foreign exchange gains/losses on translation of USD denominated borrowing and cash at bank and in hand.

Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt instruments carried at amortised cost, at fair value through profit or loss (FVPL) and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

The management manages the credit risk of cash and cash equivalents, pledged and short-term bank deposits and wealth management products (classified as financial assets

at FVPL) 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 and contract assets, the Group has two kinds of distribution channels, one is sales to distributors and the other is sales to end customers.

For distributors, the Group has assessed the credit quality of the distributors, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by distributors is regularly monitored by management.

For sales to end customers, the Group has no significant concentration of credit risk in trade receivables since the balance of trade receivables is composed of numerous individual small items and the exposure spreads over a large number of customers.

The Group's investments in debt instruments, including loans to third parties and related parties are considered to be low risk investments. The credit ratings of the investments are monitored for credit deterioration.

For other receivables, management makes periodic collective assessment as well as individual assessment on the recoverability of the receivables based on historical settlement record and past experience. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balances of other receivables.

Fund and working capital management

Our funds and liquidity management are centrally carried out by our fund management department. Our fund management department is generally responsible for overall management and implementation of funds, including formulating the capital management policy for our Group, guiding, coordinating and standardizing the fund management of regional companies, making annual funding plans, reviewing and summarizing annual capital budget, overseeing and assessing fund management of each regional company. Our finance departments of regional companies are committed to implementing the fund management policies formulated by our headquarters and are responsible for making funding plans and executing capital operations at subsidiary level. We have also adopted sophisticated fund management policies and implemented a set of rules and guidelines on fund management, such as the Group Capital Internal Control Management Measures (《集團資金基礎內控管理辦法》) and Fund Settlement Of Branch Offices Management Measures (《分支機構資金結算管理辦法》), to enhance the effectiveness and efficiency of fund management, thereby ensuring our financial security and reducing cost of capital.

To manage our idle cash on hand, we purchase and redeem wealth management products using them as our "cash pool" from which we could readily access cash as needed and generate higher yield than bank deposits. The underlying financial assets of the wealth management products in which we invested primarily consist of the low-risk wealth management products issued by financial institutions. The amount of the purchase will

be determined based on our surplus funds. Our main treasury policy on fund management is the Wealth Management Administration Solution (《資金理財管理辦法》). We consistently comply with our treasury policy during the procedures of purchasing the wealth management products and managing the relevant departments, as well as in conducting business, accounting and filing.

We are committed to safeguarding overall financial security and maintaining a strong cash position and a healthy debt profile with strong repayment ability. By adopting a full, reasonable and professional assessment mechanism, preparing annual and monthly funding plans, we have established disciplined fund management principal, which allows us to efficiently manage market risks. For budget management, we have established a monthly, quarterly and annual budget management system, then seek approval from our chief financial officer. The capital budget plans should be made based on the objective basis of the Group's business plans, project schedules, and contractual payment terms to ensure that the plan accurately matches the actual business needs.

Major properties

The following table sets forth the details of the major properties held by the Group as of 31 December 2019.

Property name	Location	Existing use	Lease term	Fair value of
				Occupancy portion
				RMB'000
Beijing Kingdee Software Park Valley	No. 4 Fuxing Street, Mapo Town, Shunyi District, Beijing City, the PRC	Offices	Long-term	732,200
Shanghai Kingdee Development Center	No. 88 Chenhui Road, Zhangjiang High Technology Park, Pudong District, Shanghai City, the PRC	Offices	Long-term	371,900
Shenzhen Kingdee Development Center	No. 2, No.12 Technology Road South, High Technology Park, Nanshan District, Shenzhen City, Guangdong Province, the PRC	Offices	Long-term	680,200
Shenzhen W1-B	Level 4, Building W1, High-tech Industrial Village, No. 1 Technology Road South, Nanshan District, Shenzhen City, Guangdong Province, the PRC	Offices	Long-term	71,900
				1,856,200

2. Employee and Remuneration Policy

During the reporting period, total number of employees in the Group reached 8,903. Based on core value of “Acting in all Conscience, with Integrity and Righteousness”, the Group was committed to implementing the strategy of “talent activation, talent introduction, talent development”, to attract elite talent, top-class professionals and graduates for Kingdee's cloud transformation. Meanwhile, the Group strategically raised incentives for R&D staffs to effectively retain talents. In order to enhance platform management, product & service integration and operation & management integration, Kingdee commenced organization restructuring to strengthen its Platform-as-a-Service for its customers and partners. The Group also released *Kingdee Philosophy* to promote leadership and praise customer success-focused employees. This fortified the customer-centric value and brought benefits to all Kingdee stakeholders.

3. Social Responsibility

During the reporting period, the Group continued to support public welfare activities. Kingdee has contributed to the “Siyuan-Kingdee Education Relocation Class Project”, “Siyuan Foundation Ya’an Poor Students Phase III Project” and “China Management Model 50”, which promoted theoretical and practical dialogues, communication and cooperation.

During the epidemic of COVID-19, the Group donated RMB10 million through China Siyuan Foundation for Poverty Alleviation to support frontline medical staff fighting against COVID-19 in Wuhan and surrounding areas, also to pay tribute to these Wuhan heroes. Moreover, Kingdee provided a number of preferential policies to help affected enterprises and organized online sharing expert events on enterprise management topics to advice on business operations. During this period, Kingdee actively participated in the epidemic prevention and control, and postponed the return date after the Chinese New Year holiday. Kingdee guaranteed its phone and online customer services around the clock, and provided priority services to enterprises in affected areas.

4. Outlook

During the COVID-19 outbreak, the Group timely responded to all-sided demand and fought the virus in all-ways in the beginning of 2020. To carry out enterprise social responsibility, Kingdee utilized all kinds of technology to minimize impact on business operation. With sufficient reserves in cash and funding, the Group believes the impact remained under control.

In 2020, we see rising demand for cloud transformation in the COVID-19 epidemic, similar to the development of consumer mobile internet in the 2003 SARS crisis. Cloud

service market in China is going through leaping development with accelerating enterprise cloud transformation and mainstream adoption of mobile office, online procurement and cloud-based enterprise management. The Group will also be benefited from the rising IT localization trend. After the epidemic, “businesses will return to its basic principle, and will primarily focus on the success of customers.” The Group will further accelerate its cloud transformation, focusing on the collective strategy of “Platform + Finance & HR Application + Ecosystem” to enhance product competitiveness, setting industry best practices to enable growth for enterprise. The Group will effectively set footprint into large enterprise market and transform partners’ service-oriented business model. Kingdee will continue to build its customer success system, to bring cloud technology for Chinese enterprises and win with Kingdee in cloud. Meanwhile, 2020 is the first year of all-product cloud transformation for Kingdee, of which profitability may be under pressure. Look forward, the cloud business will greatly enhance the Group's profitability and further consolidate Company's leadership in the enterprise-grade SaaS services.

Payment of Final Dividend out of the Share Premium Account

The Board recommends the declaration and payment of the Final Dividend of RMB1.1cents (equivalent to approximately HKD1.2cents) per Share out of the share premium account of the Company (the “share premium account”) for the year ended 31 December 2019.

As at the date of this announcement, the Company had 3,326,901,071 Shares in issue. Based on that, the Final Dividend, if declared and paid, will amount to approximately RMB 37,000,000 (equivalent to approximately HK\$41,304,000).

Subject to the fulfillment of the conditions set out below, the Final Dividend is intended to be paid out of the Share Premium Account. As at 31 December 2019, based on the audited consolidated financial statements of the Group, the amount standing to the credit of the Share Premium Account was approximately RMB2,963,096,000. Following the payment of the Final Dividend, there will be a remaining balance of approximately RMB 2,926,096,000 standing to the credit of the Share Premium Account.

Conditions

The payment of the Final Dividend out of the Share Premium Account is conditional upon the satisfaction of the following conditions: (a) subject to the approval of the Shareholders at the AGM to be held on 12 May 2020 approving the declaration and payment of the Final Dividend out of the Share Premium Account by way of passing of a special resolution; and (b) the Directors being satisfied that immediately following the date on which the Final Dividend is paid, the Company is able to pay its debts as they fall due in the ordinary course of business.

Subject to the fulfillment of the above conditions, it is expected that the Final Dividend will be paid in cash on or about 1 June 2020 to those Shareholders whose names appear on the register of members of the Company at close of business on 15 May 2020, being the record date for the determination of entitlements to the Final Dividend.

The conditions set out above cannot be waived. If the conditions set out above are not satisfied, the Final Dividend will not be paid.

Reasons and Effect

As the business and operations of the Group has generated positive earnings and cash flow, the Board considers it appropriate to distribute the Final Dividend in recognition of the Shareholders’ support.

The Company is a holding company and a significant part of the Group’s business is carried out through the operating subsidiaries of the Company at which level earnings are retained. As such, the Company may not have sufficient retained earnings to pay the Final Dividend at the holding company level. Having taken into account a number of factors

including cash flow and financial condition of the Company, the Board considers it appropriate and proposes that the Final Dividend be paid out of the Share Premium Account in accordance with Articles 63(b) and 146 of the Articles of Association. The Board considers such arrangement to be in the interests of the Company and the Shareholders as a whole.

The Board believes that the payment of the Final Dividend will not have any material adverse effect on the financial position of the Group and does not involve any reduction in the authorised or issued share capital of the Company or reduction in the nominal value of the Shares or result in any change in the trading arrangements in respect of the Shares.

Closures of Register

The register of members of the Company will be closed from (i) Thursday, 7 May 2020 to Tuesday, 12 May 2020 (both days inclusive) and (ii) Monday, 18 May 2020 to Wednesday, 20 May 2020 (both days inclusive), during which periods no transfer of shares will be registered. In order to be qualified to (i) attend, participate in and vote at the AGM and (ii) receive the Final Dividend, respectively, 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, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on (i) Wednesday, 6 May 2020 and (ii) Friday, 15 May 2020, respectively.

Purchase, Sale or Redemption of Shares

During the year ended 31 December 2019, neither the Company, nor any of its subsidiaries, had repurchased, sold or redeemed any of its listed securities.

Corporate Governance

The Company had complied with all the code provisions of the Corporate Governance Code throughout the year ended 31 December 2019 except the following:

Chairman and Chief Executive Officer

Mr. Xu Shao Chun assumed the roles of both the Chairman and Chief Executive Officer of the Company which was deviated from code provision A.2.1 of the Code that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual. The Board considers that Mr. Xu Shao Chun, as one of the main founders of the Group, has abundant knowledge of the IT industry and unique strategic perspectives. The Board believes that he can lead the Group 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.

Audit Committee

As at 31 December 2019, the audit committee of the Company (the “Audit Committee”) comprised three independent non-executive Directors, namely Mr. Gary Clark Biddle, Mr. Cao Yang Feng and Mr. Liu Chia Yung. Mr. Gary Clark Biddle was the chairman of the Audit Committee. The Audit Committee has reviewed the accounting principles and practices adopted by the Company, discussed auditing, internal control, risk management and financial reporting matters, and reviewed the audited consolidated financial statements of the Group for the year ended 31 December 2019.

Auditor’s Procedures Performed on this Results Announcement

The figures in respect of the announcement of the Group’s consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and the related notes thereto for the year ended 31 December 2019 have been agreed by the Group’s auditor, PricewaterhouseCoopers, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this results announcement.

By order of the Board

Kingdee International Software Group Company Limited

Xu Shao Chun

Chairman

Shenzhen, the People’s Republic of China, 18 March 2020

As at the date of this announcement, the Board comprises Mr. Xu Shao Chun (Chairman of the Board and Chief Executive Officer) and Mr. Lin Bo (Chief Financial Officer) as executive Directors; Ms. Dong Ming Zhu and Mr. Zhou Bo Wen as non-executive Directors; and Mr. Gary Clark Biddle, Mr. Liu Chia Yung and Mr. Cao Yang Feng as independent non-executive Directors.