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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 2016**

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 2016, together with the comparative audited consolidated figures for the year ended 31 December 2015 are as follows:

Financial highlights for the year ended 31 December 2016

- Turnover increased by approximately 22.8% compared with 2015 to approximately RMB1,862,207,000.
- Profit attributable to owners of the Company during the year was approximately RMB288,230,000, increased by approximately 172.5% compared with RMB105,766,000 in 2015.
- Basic earnings per share attributable to owners of the Company during the year was approximately RMB0.0998, increased by approximately 161.3% compared with RMB0.0382 in 2015.
- The board of directors did not recommend the payment of a final dividend in respect of the year ended 31 December 2016. (2015: nil)

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December	
		2016 RMB'000	2015 RMB'000
Assets			
Non-current assets			
Land use rights		125,405	128,766
Property, plant and equipment		796,287	731,783
Intangible assets		775,223	601,218
Investment properties		882,620	848,741
Investments in associates		25,793	24,222
Deferred income tax assets		3,947	19,268
Available-for-sale financial assets		150,196	-
Financial assets at fair value through profit or loss		10,256	6,000
Entrusted loans	4	49,600	69,500
Loans to related parties	4	158,591	-
Trade and other receivables	4	42,677	-
		<u>3,020,595</u>	<u>2,429,498</u>
Current assets			
Inventories		6,252	4,047
Trade and other receivables	4	315,241	277,875
Entrusted loans	4	19,800	300
Due from customers on implementation contracts		395,705	391,193
Available-for-sale financial assets		119,659	225,177
Financial assets at fair value through profit or loss		12,917	1,267
Pledged bank deposits		3,274	102,832
Short-term bank deposits		619,102	543,658
Cash and cash equivalents		1,464,769	1,527,610
		<u>2,956,719</u>	<u>3,073,959</u>
Total assets		<u><u>5,977,314</u></u>	<u><u>5,503,457</u></u>

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		As at 31 December	
	Note	2016	2015
		RMB'000	RMB'000
Equity			
Equity attributable to owners of the Company			
Share capital		72,552	71,972
Share premium		1,765,324	1,682,784
Other reserves		400,154	512,763
Retained earnings		1,237,780	949,550
		<u>3,475,810</u>	<u>3,217,069</u>
Non-controlling interests		<u>60,356</u>	<u>29,649</u>
Total equity		<u>3,536,166</u>	<u>3,246,718</u>
Liabilities			
Non-current liabilities			
Borrowings	5	1,415,596	1,213,018
Deferred income tax liabilities		102,818	125,006
		<u>1,518,414</u>	<u>1,338,024</u>
Current liabilities			
Trade and other payables	6	453,873	357,390
Due to customers on implementation contracts		220,167	183,991
Borrowings	5	80,675	243,500
Current income tax liabilities		42,652	37,262
Deferred income		125,367	96,572
		<u>922,734</u>	<u>918,715</u>
Total liabilities		<u>2,441,148</u>	<u>2,256,739</u>
Total equity and liabilities		<u>5,977,314</u>	<u>5,503,457</u>

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2016 RMB'000	2015 RMB'000 (Restated)
Continuing operations			
Revenue	7	1,862,207	1,516,773
Cost of sales	8	(347,961)	(290,156)
Gross profit		<u>1,514,246</u>	<u>1,226,617</u>
Selling and marketing expenses	8	(1,002,395)	(766,259)
Administrative expenses	8	(277,648)	(201,983)
Research and development costs	8	(283,603)	(196,368)
Fair value gains on investment properties		33,879	17,582
Other gains - net	9	264,421	261,845
Operating profit		<u>248,900</u>	<u>341,434</u>
Finance income		35,605	34,706
Finance costs		(57,617)	(94,228)
Finance costs - net	10	(22,012)	(59,522)
Share of losses in associates		(17,613)	(2,215)
Profit before income tax		<u>209,275</u>	<u>279,697</u>
Income tax credit/(expense)	11	5,945	(62,259)
Profit for the year from continuing operations		<u>215,220</u>	<u>217,438</u>
Discontinued operations			
Profit/(loss) for the year from discontinued operations		<u>73,734</u>	<u>(111,921)</u>
Profit for the year		<u>288,954</u>	<u>105,517</u>
Profit attributable to:			
Owners of the Company		288,230	105,766
Non-controlling interests		724	(249)
		<u>288,954</u>	<u>105,517</u>
Profit attributable to owners of the Company arises from:			
Continuing operations		211,764	215,033
Discontinued operations		76,466	(109,267)
		<u>288,230</u>	<u>105,766</u>
Earnings per share for profit attributable to owners of the Company (expressed in RMB cents per share)			
– Basic	14	<u>9.98</u>	<u>3.82</u>
– Diluted	14	<u>9.74</u>	<u>3.60</u>

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000 (Restated)
Profit for the year	<u>288,954</u>	<u>105,517</u>
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss</i>		
Change in value of available-for-sale financial assets	5,741	(3,886)
Currency translation differences	<u>(8,725)</u>	<u>1,214</u>
Other comprehensive losses for the year, net of tax	<u>(2,984)</u>	<u>(2,672)</u>
Total comprehensive income for the year	<u><u>285,970</u></u>	<u><u>102,845</u></u>
Total comprehensive income attributable to:		
Owners of the Company	285,246	103,094
Non-controlling interests	<u>724</u>	<u>(249)</u>
	<u><u>285,970</u></u>	<u><u>102,845</u></u>
Total comprehensive income attributable to owners of the Company arises from:		
Continuing operations	208,780	212,361
Discontinued operations	<u>76,466</u>	<u>(109,267)</u>
	<u><u>285,246</u></u>	<u><u>103,094</u></u>

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company					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 2016	71,972	1,682,784	512,763	949,550	3,217,069	29,649	3,246,718
Comprehensive income							
Profit for the year	-	-	-	288,230	288,230	724	288,954
Other comprehensive income/(losses)							
Available-for-sale financial assets	-	-	5,741	-	5,741	-	5,741
Currency translation differences	-	-	(8,725)	-	(8,725)	-	(8,725)
Total comprehensive (losses)/income	-	-	(2,984)	288,230	285,246	724	285,970
Transactions with owners							
Employees share option scheme:							
- Value of employee services received	-	34,678	-	-	34,678	-	34,678
- Proceeds from shares issued	580	23,213	-	-	23,793	-	23,793
Share award plan:							
- Value of employee services received	-	24,649	-	-	24,649	-	24,649
- Shares purchased for share award plan	-	-	(93,924)	-	(93,924)	-	(93,924)
Buy-back of shares	-	-	(16,991)	-	(16,991)	-	(16,991)
Equity transactions with non-controlling interests	-	-	1,290	-	1,290	(1,494)	(204)
Non-controlling interests arising on business combination	-	-	-	-	-	35,772	35,772
Disposal of subsidiaries	-	-	-	-	-	(4,295)	(4,295)
Total transactions with owners, recognised directly in equity	580	82,540	(109,625)	-	(26,505)	29,983	3,478
Balance at 31 December 2016	72,552	1,765,324	400,154	1,237,780	3,475,810	60,356	3,536,166

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

	Attributable to owners of the Company					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 2015	65,155	537,920	512,113	873,784	1,988,972	9,246	1,998,218
Comprehensive income							
Profit for the year	-	-	-	105,766	105,766	(249)	105,517
Other comprehensive (losses)/income							
Available-for-sale financial assets	-	-	(3,886)	-	(3,886)	-	(3,886)
Currency translation differences	-	-	1,214	-	1,214	-	1,214
Total comprehensive (losses)/income	-	-	(2,672)	105,766	103,094	(249)	102,845
Transactions with owners							
Issue of ordinary shares	5,714	1,045,369	-	-	1,051,083	-	1,051,083
Employees share option scheme:							
- Value of employee services received	-	42,528	-	-	42,528	-	42,528
- Proceeds from shares issued	1,103	56,225	-	-	57,328	-	57,328
Share award plan:							
- Value of employee services received	-	742	-	-	742	-	742
- Shares purchased for share award plan	-	-	(24,832)	-	(24,832)	-	(24,832)
Equity transactions with non-controlling interests	-	-	28,154	-	28,154	8,652	36,806
Dividend declared	-	-	-	(30,000)	(30,000)	-	(30,000)
Set up new company with non-controlling interests	-	-	-	-	-	12,000	12,000
Total transactions with owners, recognised directly in equity	6,817	1,144,864	3,322	(30,000)	1,125,003	20,652	1,145,655
Balance at 31 December 2015	71,972	1,682,784	512,763	949,550	3,217,069	29,649	3,246,718

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	697,291	662,019
Interest paid	(69,072)	(94,448)
Income tax paid	(16,126)	(11,131)
Net cash generated from operating activities	612,093	556,440
Cash flows from investing activities		
Purchases of property, plant and equipment	(153,848)	(43,968)
Proceeds from disposals of property, plant and equipment	8,926	1,876
Purchases of intangible assets	(322,338)	(258,448)
Contingent consideration transferred	-	(4,288)
Acquisition of a subsidiary, net of cash acquired	(175,884)	-
Pledged bank deposits and Short-term bank deposits withdrawn/(placed) - net	24,114	(380,169)
Interest received	24,471	28,517
Repayments received from entrusted loans	400	25,800
Payments for entrusted loans	-	(50,000)
Purchases of other investments - net	(38,937)	(218,880)
Disposal of subsidiaries, net of cash disposed of	77,058	-
Investments in associates	(5,000)	(24,900)
Net cash used in investing activities	(561,038)	(924,460)
Cash flows from financing activities		
Proceeds from issuing new shares	-	1,051,083
Proceeds from share options exercised	23,793	57,328
Proceeds from borrowings	272,750	450,000
Repayments of borrowings	(310,075)	(896,600)
Payments for purchase of shares for share award plan	(93,924)	(24,832)
Payments for buy-back of shares	(16,991)	-
Dividends paid	-	(30,000)
Acquisition of non-controlling interests in subsidiaries	(204)	-
Disposal of interest in a subsidiary without loss of control	-	36,806
Net cash (used in)/ generated from financing activities	(124,651)	643,785
Net (decrease)/increase in cash and cash equivalents	(73,596)	275,765
Currency translation differences on cash and cash equivalents	10,755	(9,789)
Cash and cash equivalents at beginning of year	1,527,610	1,261,634
Cash and cash equivalents at end of year	1,464,769	1,527,610

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

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 principal activities of the Company and its subsidiaries (together the “Group”) are the developing, manufacturing and selling of enterprise management software products and the provision of software-related technical services in the PRC.

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. 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 available-for-sale financial assets and financial assets at fair value through profit or loss 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. The areas involved a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements.

(a) New and amended standards adopted by the Group

During the year ended 31 December 2016, the Group has adopted the following new standards and amendments to existing standards which are mandatory for accounting periods beginning on 1 January 2016:

IAS 1	Disclosure Initiative
IAS16 and IAS38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortization
IAS 16 and IAS 41 (Amendment)	Agriculture: Bearer Plants
IAS 27	Equity Method in Separate Financial Statements
IFRS 10, 12 and IAS 28 (Amendment)	Investment Entities: Applying the Consolidation Exception
IFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations
IFRS 14	Regulatory Deferral Accounts
IFRSs (Amendment)	Annual Improvements 2012-2014 Cycle

The adoption of these new standards and amendments to existing standards does not have significant impact to the Group’s results of operation and financial position.

2. Basis of preparation(continued)

(b) New standards, amendments and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations to be adopted in future reporting periods, and have not been applied in preparing this consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (“OCI”) and fair value through profit and loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the “hedged ratio” to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9’s full impact.

IFRS 15, “Revenue from contracts with customers” deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 “Revenue” and IAS 11 “Construction contracts” and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted.

Management is currently assessing the effects of applying the new standard on the Group’s financial statements and has identified the following areas that are likely to be affected:

- revenue from service - the application of IFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.

At this stage, the Group is reviewing the contracts and will make more detailed assessments of the impact over the next twelve months.

On 13 January 2016, the International Accounting Standards Board (IASB) published a new standard for the accounting of leases, International Financial Reporting Standard 16 — Leases (“IFRS 16”). The Group is a lessee of various offices, warehouses and apartments which are currently classified as operating leases.

2. Basis of preparation (continued)

(b) New standards, amendments and interpretations not yet adopted (continued)

IFRS 16 provides new provisions for the accounting treatment of leases and will in the future no longer allow lessees to recognise certain leases outside of the statement of financial position. Instead, all non-current leases must be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Thus each lease will be mapped in the Group's consolidated statement of financial position. Short-term leases of less than twelve months and leases of low value assets are exempt from the reporting obligation. The new standard will therefore result in an increase in property, plant and equipment and an increase in financial liabilities in the consolidated statement of financial position. In the income statement, leases will be recognised in the future as capital expenditure on the purchasing side and will no longer be recorded as an operating expense. As a result, the operating expense under otherwise identical circumstances will decrease, while depreciation and amortisation and the interest expense will increase. This will lead to an improvement in EBITDA. The new standard is not expected to apply until the financial year 2019, including the adjustment of prior years.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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.

With the acquisition of Shanghai Guanyi Cloudcomputing Software Co., Ltd ("Guanyi") in February 2016, the cloud services business has been expanding and management has concluded that this segment should be separately reported and the comparatives have been restated.

The executive directors consider the business from product perspective. The Group has identified the following operating segments:

ERP business	– Sales and implementation of enterprise management software, provision of other related services, sales of hardware related to enterprise management software arrangements and sales of middleware software business.
Cloud services business	– Provision of online service related to cloud service, provision of E-commerce and other online management services
Others	– Operation of investment properties
Discontinued operations	– Operation related to mobile internet hospital business and related products, express delivery business and cloudhub network

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

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3. Segment information (continued)

The segment information for the year ended 31 December 2016 is as follows:

	Continuing operations			Discontinued operations	The Group Total RMB'000
	ERP business RMB'000	Cloud services business RMB'000	Others RMB'000	Mobile internet hospital service, cloud software business, cloud express business RMB'000	
Revenue (from external customers)	1,521,383	340,824	-	36,570	1,898,777
Operating profit	232,674	(88,250)	104,476	83,968	332,868
Finance costs	(57,617)	-	-	(4,045)	(61,662)
Finance income	35,605	-	-	57	35,662
Finance costs – net	(22,012)	-	-	(3,988)	(26,000)
Share of losses in associates	(17,613)	-	-	-	(17,613)
Profit/(loss) before income tax	193,049	(88,250)	104,476	79,980	289,255
Income tax credit/(expense)	14,530	7,086	(15,671)	(6,246)	(301)
Segment results	207,579	(81,164)	88,805	73,734	288,954
Segment assets	4,796,088	298,606	882,620	-	5,977,314
Segment liabilities	2,217,782	165,633	57,733	-	2,441,148
Additions to non-current assets (other than financial instruments and deferred tax assets)	430,071	7,127	33,879	1,282	472,359
Depreciation and amortisation	334,775	1,375	-	27,756	363,906
Provision for doubtful trade and other receivables	26,653	-	-	3,038	29,691
Share-based payment	59,327	-	-	-	59,327

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

3. Segment information (continued)

The segment information for the year ended 31 December 2015 is as follows: (restated)

	Continuing operations			Discontinued operations	The Group Total RMB'000
	ERP business RMB'000	Cloud services business RMB'000	Others RMB'000	Mobile internet hospital service, cloud software business, cloud express business RMB'000	
Revenue (from external customers)	1,348,739	168,034	-	69,451	1,586,224
Operating profit	307,785	(52,059)	85,708	(112,607)	228,827
Finance costs	(94,228)	-	-	(5,008)	(99,236)
Finance income	34,706	-	-	183	34,889
Finance costs – net	(59,522)	-	-	(4,825)	(64,347)
Share of losses in associates	(2,215)	-	-	-	(2,215)
Profit/(loss) before income tax	246,048	(52,059)	85,708	(117,432)	162,265
Income tax (expense)/credit	(55,510)	6,107	(12,856)	5,511	(56,748)
Segment results	190,538	(45,952)	72,852	(111,921)	105,517
Segment assets	4,475,015	28,469	848,741	151,232	5,503,457
Segment liabilities	1,863,422	72,082	82,618	238,617	2,256,739
Additions to non-current assets (other than financial instruments and deferred tax assets)	296,712	1,511	17,582	4,193	319,998
Depreciation and amortisation	239,041	181	-	35,315	274,537
Provision for doubtful trade and other receivables	62,088	-	-	715	62,803
Share-based payment	43,270	-	-	-	43,270

The Company is incorporated in the Cayman Islands while the Group mainly operates its businesses in the PRC. Revenue from continuing operations from external customers from the PRC and other locations is RMB1,840,993,000 (2015: RMB1,495,297,000) and RMB21,214,000 (2015: RMB21,476,000), respectively for the year ended 31 December 2016.

There is no single customer that contributed to over 10% of the Group's revenue for the years ended 31 December 2016 and 2015.

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

4. Trade and other receivables, entrusted loans and loans to related parties

	2016	2015
	RMB'000	RMB'000
Trade receivables (a)	237,226	244,964
Less: allowance for impairment of trade receivables	(111,156)	(112,703)
Trade receivables – net	<u>126,070</u>	<u>132,261</u>
Notes receivable	20,921	9,149
Advances to employees	16,772	21,567
Prepayments	95,110	55,671
VAT recoverable	49,348	41,299
Interest receivables	22,099	10,965
Receivables from related parties	4,946	1,408
Loans to related parties	158,591	-
Other receivables	<u>22,652</u>	<u>5,555</u>
	<u>516,509</u>	<u>277,875</u>
Less: non-current portion		
Loans to related parties	(158,591)	-
Prepayments	(42,677)	-
Current portion	<u>315,241</u>	<u>277,875</u>
Entrusted loans		
– Current portion	19,800	300
– Non-current portion	<u>49,600</u>	<u>69,500</u>
	<u>69,400</u>	<u>69,800</u>

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

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

(a) Sales are generally made without prescribed credit terms in the sales contracts but customers usually take 1 to 3 months to settle the receivables. Trade receivables aged more than 3 months had been considered for impairment. At 31 December 2016 and 2015, the aging analysis of trade receivables based on invoice date were as follows:

	2016	2015
	RMB'000	RMB'000
0 - 90 days	69,754	85,641
91 - 180 days	8,962	17,388
181 - 360 days	20,874	11,294
Over 360 days	<u>137,636</u>	<u>130,641</u>
	<u>237,226</u>	<u>244,964</u>

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

5. Borrowings

	2016	2015
	RMB'000	RMB'000
Non-current		
Long-term bank borrowings, unsecured	171,775	105,000
Long-term bank borrowings, secured (a)	58,725	-
Convertible bond (b)	1,185,096	1,108,018
	<u>1,415,596</u>	<u>1,213,018</u>
Current		
Current portion of long-term borrowings, unsecured	74,150	243,500
Current portion of long-term borrowings, secured (a)	6,525	-
	<u>80,675</u>	<u>243,500</u>
	<u>1,496,271</u>	<u>1,456,518</u>

At 31 December 2016, the Group's borrowings were repayable as follows:

	2016	2015
	RMB'000	RMB'000
Within 1 year	80,675	243,500
Between 1 and 2 years	154,675	65,000
Between 2 and 5 years	1,260,921	1,148,018
	<u>1,496,271</u>	<u>1,456,518</u>

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	2016	2015
	RMB'000	RMB'000
RMB	311,175	348,500
USD	1,185,096	1,108,018
	<u>1,496,271</u>	<u>1,456,518</u>

The Group's bank borrowings bear average interest rate of 4.67% (2015: 4.52%) per annum and are fully repayable upon maturity.

Except the convertible bond mentioned in Note (b), borrowings are at floating rates and the exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates at the balance sheet dates are within 1 year (2015: within 1 year).

The fair value of the non-current borrowings as of 31 December 2016 is RMB1,398,790,000 (2015: RMB1,215,729,000), which is based on cash flows discounted using a rate based on the average interest rate of 4.16% (2015: 4.29%) and this is within level 2 of the fair value hierarchy.

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

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED**5. Borrowings (continued)**

Note:

- (a) As at 31 December 2016, long-term bank borrowings of RMB65,250,000 were secured by pledge of the shares in certain subsidiaries of the Group (2015: nil).
- (b) The Group issued US\$175,000,000 4.0% convertible bond on 14 April 2014. The bond mature in five years from the issue date. The bond can 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 is 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, is accounted for as a conversion option reserve included in equity.

The convertible bond recognised in the statement of financial position is calculated as follows:

	RMB'000
Liability component at 31 December 2014	1,042,897
Interest expense	46,730
Interest accrued	(45,455)
Effect of currency translation	63,846
Liability component at 31 December 2015	<u>1,108,018</u>
Interest expense	47,873
Interest accrued	(46,496)
Effect of currency translation	75,701
Liability component at 31 December 2016	<u>1,185,096</u>

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

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6. Trade and other payables

	2016	2015
	RMB'000	RMB'000
Trade payables (a) and (b)	19,435	22,322
Amounts due to related parties	374	333
Salary and staff welfare payables	110,604	77,034
Advances from customers	141,711	119,277
VAT and business tax payable	44,120	34,821
Accrual for expenses	14,294	37,348
Construction fee payable	12,738	7,767
Unpaid business acquisition consideration	55,440	-
Deposits of distributors	38,667	39,136
Interest payable	10,116	12,663
Others	6,374	6,689
	<u>453,873</u>	<u>357,390</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 2016, the aging analysis of the trade payables based on invoice date is as follows:

	2016	2015
	RMB'000	RMB'000
0 - 180 days	12,024	18,718
181 - 360 days	1,041	582
Over 360 days	6,370	3,022
	<u>19,435</u>	<u>22,322</u>

7. Revenue

The Group's turnover includes, separately or in combination, revenues from Enterprise Resource Planning ("ERP") business and Cloud services business. Revenue is stated net of applicable value-added tax ("VAT") in the PRC and comprises the following:

	2016	2015
	RMB'000	RMB'000 (Restated)
ERP business	1,521,383	1,348,739
Cloud services business	340,824	168,034
	<u>1,862,207</u>	<u>1,516,773</u>

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8. Expenses by nature

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

	2016	2015
	RMB'000	RMB'000 (Restated)
Research and development costs		
Amounts incurred	301,519	197,502
Less: development costs capitalised	(288,473)	(189,969)
Add: amortisation	270,557	188,835
	<u>283,603</u>	<u>196,368</u>
Employee benefit expenses	1,144,261	924,328
Less: amount included in development costs	(248,804)	(224,071)
	<u>895,457</u>	<u>700,257</u>
Depreciation	41,737	35,686
Less: amount included in development costs	(7,005)	(6,832)
	<u>34,732</u>	<u>28,854</u>
Outsourcing services	163,283	125,657
Sales promotion	95,633	72,231
Impairment provision	26,653	62,088
Advertising	72,190	34,402
Cost of inventories consumed	70,193	55,463
Rental and utilities	57,512	40,723
Traveling	45,990	31,201
Office expenses	39,951	25,852
Other tax and surcharge	32,451	26,149
Amortisation of trademarks, licences and copyrights	11,631	9,619
Professional service	27,445	11,048
Training costs	16,912	9,142
Amortisation of land use rights	3,361	3,361
Auditors' remuneration	2,550	1,800
Amortisation of computer software for own use	4,505	1,721
(Gain)/loss on disposals of property, plant and equipment	(3,371)	1,646
Amortisation of customer relationship	4,359	-
Others	26,567	17,184
	<u>1,911,607</u>	<u>1,454,766</u>

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9. Other gains – net

	2016	2015
	RMB'000	RMB'000 (Restated)
VAT refund (a)	147,447	149,256
Government grants	45,582	43,424
Rental income - net	70,597	68,126
Investment income	3,990	2,339
Financial assets at fair value through profit or loss	(801)	1,267
Net foreign exchange losses	(928)	(4,513)
Others	(1,466)	1,946
	<u>264,421</u>	<u>261,845</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 17%. In 2011, the State Department issued a circular regarding the “Taxation Policy for Encouraging the Development of Software and Integrated Circuits Industry” (Guo Fa [2011] No.4). Pursuant to the Circular, software enterprises engaged in the sales of self-developed software in the PRC and pay VAT at a rate of 17% are entitled to VAT refund to the extent that the effective VAT rate of the sales of the software in the PRC exceeds 3% of the sales amounts.

10. Finance costs – net

	2016	2015
	RMB'000	RMB'000 (Restated)
Interest income	35,605	34,706
Interest on borrowings	(66,525)	(83,785)
Bank charges	(569)	(654)
Net foreign exchange gain/(loss) on financing activities	9,477	(9,789)
	<u>(22,012)</u>	<u>(59,522)</u>

11. 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.

	2016	2015
	RMB'000	RMB'000 (Restated)
Current income tax		
– Current tax on profits for the year	31,683	26,133
– Adjustments in respect of prior years	(10,312)	(1,703)
Deferred income tax	(27,316)	37,829
	<u>(5,945)</u>	<u>62,259</u>

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11. Income tax expense (continued)

- (a) No provision for profits tax in the Cayman Islands and Hong Kong has been made as the Group has no income assessable for profits tax for the years in those jurisdictions.
- (b) In 2016, a tax law [2016] No.49 has been enacted that entity can register for the National important software corporate in tax bureau if the entity complies with relevant requirements. Kingdee Software (China) Co., Ltd. (“Kingdee China”) was considered to meet those requirements and also has registered in tax bureau. Therefore Kingdee China was estimated to use a preferential corporate income tax rate of 10% (2015: High-tech Enterprise income tax rate of 15%) for the year ended 31 December 2016. The application of preferential tax rate stated above is subject to critical estimates of the management of the Group.
- (c) Shenzhen Kingdee Qisi Technology Co., Ltd. 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.
- (d) Guanyi was qualified as New Software Enterprises and was entitled to tax exemption for 2015 and thereafter to a preferential rate at half of the corporate income tax rate for two years (2016 and 2017).
- (e) Subsidiaries below obtained valid qualification certificates but not yet registered with tax authority. The application of preferential tax rate stated below are subject to critical estimates of the management of the Group.
 - (i) Shenzhen Kingdee Tianyan Middleware Corp., Ltd. was qualified as a High-tech Enterprise from September 2014 and was entitled to a preferential corporate income tax rate of 15% (2015: 15%).
 - (ii) Shanghai Kingdee Software Technology Co., Ltd. and Beijing Kingdee Management Software Co., Ltd. were each qualified as High-tech Enterprise from October 2014 and were entitled to a preferential corporate income tax rate of 15% (2015: 15%).
 - (iii) 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% (2015: 15%).
- (f) Other PRC subsidiaries of the Group applied the tax rate of 25%.

12. Discontinued operations

On 28 July 2016, the Group terminated the contractual arrangements (VIEs) in respect of Shenzhen Qianhai Baidi Network Co., Ltd (“Qianhai Baidi”) and Shenzhen CloudHub Network Co., Ltd (“Kingdee CloudHub”) and disposed of the entire equity interest in Shanghai Kingdee Medical Software Co., Ltd (“Shanghai Kingdee Medical”) to the company controlled by ultimate shareholder at a total consideration of RMB107,401,000.

As a result of the above transactions, RMB166,657,000 due from Kingdee CloudHub and Shanghai Kingdee Medical to the Group was recognized as loans to related parties. The financial results of Qianhai Baidi, Kingdee CloudHub and Shanghai Kingdee Medical for the period ended 28 July 2016 were presented as discontinued operations and comparatives for the year ended 31 December 2015 has been restated accordingly.

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13. Dividends

	2016 RMB'000	2015 RMB'000
Final dividend of HK\$ nil (2015: HK\$0.015 relating to 2014) per ordinary share	-	30,000

14. 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.

	2016 RMB'000	2015 RMB'000 (Restated)
Earnings		
Profit attributable to owners of the Company	211,764	215,033
Profit from discontinued operation attributable to owners of the Company	76,466	(109,267)
	<u>288,230</u>	<u>105,766</u>
Weighted average number of ordinary shares in issue (thousands)	<u>2,888,185</u>	<u>2,767,368</u>
Basic earnings per share (RMB cents per share)		
From continuing operations	7.33	7.77
From discontinued operations	2.65	(3.95)
From profit for the year	<u>9.98</u>	<u>3.82</u>

(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 three categories of dilutive potential ordinary shares: convertible bond, share options and share awards. The convertible bond is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. 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 share 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. Since diluted earnings per share would have been higher if the convertible bond had been converted, the convertible bond is anti-dilutive and is ignored in the calculation of diluted earnings per share.

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14. Earnings per share (continued)

(b) Diluted (continued)

	2016	2015
	RMB'000	RMB'000 (Restated)
Earnings		
Profit attributable to owners of the Company	211,764	215,033
Profit from discontinued operations attributable to owners of the Company	76,466	(109,267)
	<u>288,230</u>	<u>105,766</u>
Weighted average number of ordinary shares in issue (thousands)		
	2,888,185	2,767,368
Adjustment for:		
– Share options (thousands)	63,321	171,299
– Share awards (thousands)	7,975	2
	<u>2,959,481</u>	<u>2,938,669</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)		
	2,959,481	2,938,669
Diluted earnings per share (RMB cents per share)		
From continuing operations	7.16	7.32
From discontinued operations	2.58	(3.72)
From profit for the year	<u>9.74</u>	<u>3.60</u>

Management Discussion and Analysis

(1) Key Financial Information

In 2016, the Group achieved remarkable progress in its transition towards Cloud Services, while its core operations maintained steady growth. The group's revenue for the period grew at the fastest pace in five years on both a consolidated and continued operational basis. During the reporting period, the Management Software business maintained steady growth with revenue from this segment increasing by 12.8% year-on-year. Meanwhile, its Cloud Services continued to expand rapidly due to the significant growth in Cloud ERP services, greater brand power of Jingdou Cloud together with the acquisition and integration of Guanyi Cloud. Revenue from Cloud Services climbed 102.8% from the previous year and accounted for 18.3% of the Group's total revenue.

While the Chinese government further drove the supply-side reform, there was increasing demand for new technologies, new types of operations and new business models to implement enterprise management reform. Therefore, the potential and scope for the enterprise sector to grow was enormous and the Group's expansion gained further momentum. With strategic planning of its business transformation and optimization over the past few years, Kingdee has further solidified its advantages in Cloud Services, and boosted its profitability.

Revenue

For the year ended December 31, 2016, the Group recorded total revenue of RMB1,862,207,000, representing an increase of 22.8% year-on-year (2015: RMB1,516,773,000). Revenue from the ERP business was RMB1,521,383,000, up 12.8% year-on-year (2015: RMB1,348,739,000). Meanwhile, revenue from the Cloud Services business surged by 102.8% year-on-year to RMB340,824,000 (2015: RMB168,034,000).

Gross Profit

During the reporting period, the Group's gross profit increased by approximately 23.4% to RMB1,514,246,000 (2015: RMB1,226,617,000). Gross profit margin reached approximately 81.3% (2015: approximately 80.9%).

Profit

For the year ended December 31, 2016, profit attributable to equity holders of the Company amounted to RMB288,230,000 (2015: RMB105,766,000). Net profit margin grew to 15.5% as compared to 7.0% in 2015. Basic earnings per share were RMB9.98 cents (2015: RMB3.82 cents).

Cash Flow

For the year ended 31 December 31, 2016, net cash inflow generated from operating activities reached RMB612,093,000, representing an increase of 10.0% year-on-year (2015: RMB556,440,000).

(2) Report on Business Sub-segments

During the reporting period, the Group capitalized on the digitalization trends among enterprises and benefited significantly from the digitized economy. It accelerated the development of Cloud services and

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created a business ecosystem based on them. At the same time, the Group further cultivated its core business - enterprise management software so as to enhance users' experience and ensure its steady business growth.

According to the "PRC Semi-annual Enterprise Applications Tracker (2H 2015)" released by IDC, an internationally recognized third-party research institute, Kingdee retained the No.1 position in China's application software market for small and medium-sized enterprises for 12 consecutive years.

(I) Medium and Large-sized Enterprises Market

During the reporting period, the Group vigorously expanded its Cloud Services and Management Software businesses for medium and large-sized enterprises through Kingdee Software (China) Co., Ltd.

1. Stellar growth in Cloud services for medium and large-sized enterprises

Kingdee's Cloud ERP business saw robust growth in the reporting period and achieved solid financial performance. Underpinned by a 150% year-on-year increase in the number of customers, it generated revenue of more than RMB200 million, representing a 90% growth from the previous year and accounting for over 10% of the Group's total revenue. Meanwhile, the retention rate of customers stayed above 90% as innovative self-service delivery of Cloud ERP services was introduced. A number of well-known enterprises, including Huawei, Tencent, Vanke and the New Development Bank in China, as well as Hyvision, Golden Wayford and CDD International in overseas markets, have signed contracts with the Group for its Cloud ERP services. Kingdee Cloud ERP commanded the largest share in China's market. As customers pay annual fees for using Kingdee's Cloud ERP services, they generate stable cash inflow to the Group in the long term.

2. Management Software for medium and large-sized enterprises returned to double-digit growth

Despite intense competition in the market, the Group still achieved double-digit growth in the sales of management software for medium and large-sized enterprises during the reporting period. Sales of financial resources management solutions accelerated to more than 70% year-on-year. The Group stepped up cooperation with strategic partners and social organizations and extended its reach to high-value added customers, such as China Travel International Investment Hong Kong Ltd., CRRC Zhuzhou Locomotive, Chow Tai Fook, Cheong Shing Property and Yingkou Port Group. As for its international businesses, the Group signed an agreement with China National Travel Service Group for its financial resources management project. The Group's financial resources and human resources management solutions reinforced the competitive strengths of its core solutions and enabled it to enlarge its share in the medium and large-sized enterprises market.

During the reporting period, the Group capitalized on the opportunities arising from the national policy of "Made in China 2025" and offered its equipment manufacturing solutions to CRRC so as to meet its needs for intelligent manufacturing and management resulting from its acquisition of RMB30 billion in overseas contracts. Moreover, it forged a strategic cooperation with industrial automation services provider Kinco to launch the "Smart Factory Solution", which was showcased in Hannover Messe and received various awards, including the "2016 Outstanding Solution Award for Integration of Informationization and Industrialization" from China Service Alliance for Integration of Informationization and Industrialization.

Meanwhile, the Group achieved breakthroughs in its distribution channels during the reporting period, with the number of customers and registered end-users grew by 20% from the previous year.

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(II) Micro and Small-sized Enterprises Market

During the reporting period, Shanghai Kingdee Deeking Cloud Computing Co., Ltd. enhanced its Cloud services and management software for micro and small-sized enterprises.

1. Jingdou Cloud – Reinforced brand power of its Cloud services for micro and small-sized enterprises

During the reporting period, the Group further strengthened SaaS Cloud services for micro and small-sized enterprises. Youshang.com was fully upgraded to a one-stop Cloud management platform - Jingdou Cloud, which enables clients to carry out financial accounting, stocktaking and business management more efficiently. With stronger brand power and enhanced services, the number of Jingdou Cloud's registered users surged by more than 50%, while its services revenue climbed by more than 65% and the retention rate of paid customers stayed above 75%.

Meanwhile, the Group further expanded Cloud-based E-commerce services during the reporting period. On the Single's Day in 2016 (11 November) alone, Kingdee's Guanyi Cloud helped customers handle 133 million orders worth RMB21.3 billion with zero defects. As a result, it was named the best enterprise internal management software in the list of quality service providers on the Single's Day released by Taobao. Moreover, Guanyi Cloud was presented the "JD.com Golden Services Award" and the "Outstanding National New ERP Service Providers for Retail Sector" by Ebrun.com.

2. Steady growth in sales of the management software for micro and small-sized enterprises

During the reporting period, the Group provided one-stop IT solutions for small and medium-sized enterprises to implement omni-channel marketing and carry out management of their E-commerce businesses, retail sales, supply chains, manufacturing and financial accounts. Revenue from the sales of management software products for micro and small-sized enterprises in the reporting period increased by 12.1% from the previous year. It was named the "Most Competitive Product in China's Software and IT Services Industry", the "Most Exciting New ERP Service Provider for Retail Sector in 2016", one of "China's Top 50 Enterprises in Services Innovation" by Cyzone, and one of "China's Top 50 E-commerce Service Providers in 2016".

(III) Retaining the Largest Market Share in Mobile Office Business

During the reporting period, the Group further cultivated Cloud services for enterprise mobility through the CloudHub platform. It significantly expanded cooperation with channel partners, with number of partners increasing to more than 600. Furthermore, the number of enterprises and organizations registered with CloudHub exceeded 2.8 million and the number of registered users topped 30 million. Various well-known institutions, including LeTV.com, Beijing Genomics Institute, PetroChina, China State Construction, China Resources Group and Huawei, became its users. Meanwhile, Mr. Wang Shi, a business magnate in China, was engaged as the spokesperson for CloudHub. According to IDC, CloudHub ranked No.1 in China's mobile office sector in terms of its sophistication, share in medium and large-sized enterprises market, and overall rankings.

(IV) Application for Listing of Infrastructure Software Business

During the reporting period, Shenzhen Kingdee Tianyan Middleware Corp., Ltd. ("Kingdee Tianyan") stepped up efforts in the development of its next generation of proprietary infrastructure software, thereby promoting data co-sharing between the government and central state-owned enterprises. It launched the

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ADP Big Data platform and the solutions for co-sharing of government data. During the reporting period, Kingdee Tianyan was named one of the "Top 10 Most Influential Brands in Infrastructure Software" at the 20th China International Software Expo and was chosen as the "Most Preferred Middleware Brand" again. In order to enhance the competitiveness and value of its infrastructure software business and to better manage its business and operation, Kingdee Tianyan applied for a listing on the National SME Share Transfer System and received approval in the reporting period.

(V) Launch into New Automobile Cloud Services

During the reporting period, Kingdee Vehicle Network Technology Co., Ltd. launched the innovative automobile ERP + Cloud services to help traditional car dealers implement their transformation towards the mobile Internet business model. Furthermore, the Group launched a one-stop Cloud services platform "Happy Car Dealers" and "Fast Repair SaaS Cloud Services", extending its business scope to the entire value chain of the car distribution industry and after-sale stores. With the support of greater brand power and upgraded services, the Group covered 40% of the top 100 auto-dealers in China. Meanwhile, its public Cloud products achieved major breakthroughs with the number of car owner users growing by 633% from the previous year.

(VI) Received Approval of 2 Major Licenses for Internet Finance Business

In the face of the diverse requirements for financial services from small and medium-sized enterprises, Kingdee Internet Financial Services Co., Ltd. continued to explore the applications of Big Data technology in financial services and carried out innovative cooperation with financial institutions. The Big-Data based loan services jointly launched with MyBank enable lenders to get access to a variety of enterprise data extracted from enterprise ERP software, which not only enhances their risk management capability, but also helps them to evaluate the creditworthiness of borrowers in a more objective manner. Therefore, micro and small-sized enterprises finance business can be carried out more effectively. During the reporting period, Kingdee Credit Company Limited received the approval for its application for the credit investigation license, while Guangzhou Deeking Small Loan Company got the approval for the commencement of its operation.

(3) Organization and Talent Retention

During the reporting period, the Group reinforced its organizational management, drove business growth through innovations and optimized operations according to different business nature. Sticking to its core values of "acting in all conscience, with integrity and righteousness", Kingdee continued to implement the human resources strategy of "motivating, introducing and developing" talents. It provided greater incentive to talents by issuing restricted stock units to select employees. At the same time, the Group continued to recruit fresh graduates born after 1985 and 1990 and top management from around the world, thereby facilitating the implementation of the Group's Cloud Services strategy. During the reporting period, the Group's incentive measures bore fruitful results as evidenced by the successful development of nearly 60 innovation works.

(4) Social Responsibility

During the reporting period, the Group made significant efforts to promote China's management model. An expert committee, led by well-known management scholar Ms. Chen Chunhua and comprising of 22 experts and scholars from a number of famed domestic universities, conducted an in-depth study over a period of over 6 months and picked a number of enterprises in recognition of their outstanding management. They

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included LeEco, Xiaomi Inc., Yili Group, CCRC Zhuzhou Locomotive and Publicis Groupe. They were presented the awards at the "China Management - Global Forum".

Moreover, the Group continued to strengthen cooperation with various government departments, industrial associations and educational institutions. It helped tertiary institutions to introduce more practical university courses for the cultivation of multi-skilled talents for society. As the Vice President Unit of the School-Enterprise Cooperation Committee of the Graduate School of Education, the Group successfully held the first "Kingdee Cloud Management Innovation Award", a nationwide competition among various tertiary institutions, and jointly promoted the "Program for Talents Exchange between Enterprises and Universities".

During the reporting period, the Group continued to support charitable activities and projects. The "classes for immigrants" sponsored by Kingdee and China Siyuan Foundation was successfully held. Moreover, it continued to make donations to the "Siyuan Foundation for Impoverished Students in Ya'an Phase II" and the "Teach for China - Rural Education and Public Welfare Project", with a vision to "let all children have equal access to quality education".

(5) Future outlook

The Group attributed its achievements over the past five years to its focus on the provision of Cloud services to enterprises and related investments and contributions. During the meetings of the National People's Congress and the Chinese People's Political Consultative Conference, the Chinese government called for accelerating the development of Big Data and Cloud computing technology, and exploring the applications of Internet of Things. The emergence of new technologies, new types of operations and new business models will push traditional industries to reform their production, management and marketing models. A new era of digital economy is imminent and Kingdee is set to ride on the trend to move ahead.

Looking ahead into the future, the Group will adhere to its established strategy of "new model, new Kingdee" and speed up the development of Cloud services to complete the transformation towards digitalization and the reform of its business model. It aims to evolve to be one of the most trusted Internet companies and Cloud services and Big Data services providers. While attaching great importance to users' experience, the Group will develop the best products to customers and help them to redefine their management concepts. Kingdee will strive to retain its leadership in enterprise Cloud services sector and become the top player in the market.

Final Dividends

The Board of Directors does not recommend the distribution of a final dividend of the year ended 31 December 2016 (2015: nil).

Closure of Register

The register of members of the Company will be closed from Friday, 5 May 2017 to Wednesday, 10 May 2017 (both days inclusive), during which time no transfer of shares will be registered. In order to be qualified to attend, participate in and vote at the annual general meeting of the Company (the “AGM”) that is going to be held on 10 May 2017, all transfer documents accompanied by the relevant share certificates must be lodged with the Company’s branch share registration and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not later than 4:30 p.m. on Thursday, 4 May 2017.

Purchase, Sale or Redemption of Shares

During the year ended 31 December 2016, the Company purchased 37,878,000 shares of the Company on the Stock Exchange for an aggregate consideration of HK\$108,007,000 pursuant to the Company’s Share Award Scheme as adopted by the Company on 4 December 2015.

During the year ended 31 December 2016, the Company repurchased 6,600,000 shares of the Company on the Stock Exchange in December 2016 for an aggregate consideration of HK\$18,980,000 (highest price per share was HK\$2.94 and lowest price per share was HK\$2.80, which were cancelled on 19 January 2017). The Directors are of the view that such repurchases have the effect of enhancing the earnings per share of the Group and would benefit the shareholders as a whole. Depending on the market circumstances, the Company may undertake further share repurchases as the Directors may consider to be appropriate.

Save for the disclosed above, 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 Code throughout the financial year ended 31 December 2016 except for code provision A 2.1.

Audit Committee

As at 31 December 2016, the audit committee of the Company (“Audit Committee”) comprised three independent non-executive Directors, namely Mr. Gary Clark Biddle, Mr. Wu Cheng 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 financial statements for the year ended 31 December 2016 of the Group.

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

Auditor's Procedures Performed on this Results Announcement

The figures in respect of the announcement of the Group's results for the year ended 31 December 2016 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 the results announcement.

Chairman and Chief Executive Officer

During the reporting period, Mr. Xu Shao Chun assumed the roles of both the Chairman and CEO of the Company which was deviated from Code A.2.1 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 Company, has abundant knowledge of the IT industry and unique strategic perspectives. The Board believes that he can lead the Company to formulate effective strategies and react promptly to market changes. His continual service in both roles is beneficial to the stable and healthy development of the Company. However, the Board will review and make appropriate changes when necessary in order to enhance the level of corporate governance.

On behalf of the Board

**KINGDEE INTERNATIONAL SOFTWARE
GROUP COMPANY LIMITED**

Chairman

Xu Shao Chun

Shenzhen, the People's Republic of China, 15 March 2017

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. Chen Zhang as non-executive directors; and Mr. Gary Clark Biddle, Mr. Wu Cheng and Mr. Liu Chia Yung as independent non-executive directors.