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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 2017**

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 2017, together with the comparative audited consolidated figures for the year ended 31 December 2016 are as follows:

**Financial highlights for the year ended 31 December 2017**

- Turnover increased by approximately 23.7% compared with 2016 to approximately RMB2,303,458,000
- Profit before income tax for the year increased by approximately 80.8% compared with 2016 to approximately RMB378,420,000
- Net cash generated from operating activities during the year increased by approximately 34.6% compared with 2016 to approximately RMB823,690,000
- Basic earnings per share attributable to owners of the Company during the year was approximately RMB11.04 cents, increased by approximately 10.6% compared with RMB9.98 cents in 2016
- The Directors recommend the payment of a final dividend of RMB1.3 cents per share in respect of the year ended 31 December 2017 (2016: nil)

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December	
		2017 RMB'000	2016 RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Land use rights		69,405	125,405
Property, plant and equipment		510,213	796,287
Intangible assets		817,284	775,223
Investment properties		1,721,690	882,620
Investments in associates		31,420	25,793
Deferred income tax assets		55	3,947
Available-for-sale financial assets		50,053	150,196
Financial assets at fair value through profit or loss		6,286	10,256
Trade and other receivables	4	-	42,677
Loans to related parties	4	59,160	158,591
Entrusted loans	4	-	49,600
Loans to third parties	4	2,910	-
		<u>3,268,476</u>	<u>3,020,595</u>
<b>Current assets</b>			
Inventories		14,057	6,252
Trade and other receivables	4	319,557	315,241
Loans to related parties	4	104,979	-
Entrusted loans	4	49,600	19,800
Loans to third parties		61,020	-
Due from customers on implementation contracts		432,802	395,705
Available-for-sale financial assets		396,818	119,659
Financial assets at fair value through profit or loss		-	12,917
Pledged bank deposits		2,254	3,274
Short-term bank deposits		1,095,820	619,102
Cash and cash equivalents		1,056,675	1,464,769
		<u>3,533,582</u>	<u>2,956,719</u>
<b>Total assets</b>		<u><u>6,802,058</u></u>	<u><u>5,977,314</u></u>

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

		<b>As at 31 December</b>	
	Note	<b>2017</b>	<b>2016</b>
		RMB'000	RMB'000
<b>Equity</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		71,599	72,552
Share premium		1,681,289	1,765,324
Other reserves		694,669	400,154
Retained earnings		<u>1,547,784</u>	<u>1,237,780</u>
		3,995,341	3,475,810
<b>Non-controlling interests</b>		<u>47,739</u>	<u>60,356</u>
<b>Total equity</b>		<u>4,043,080</u>	<u>3,536,166</u>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	5	1,193,503	1,415,596
Deferred income tax liabilities		<u>160,598</u>	<u>102,818</u>
		1,354,101	1,518,414
<b>Current liabilities</b>			
Trade and other payables	6	678,120	453,873
Due to customers on implementation contracts		323,897	220,167
Borrowings	5	155,026	80,675
Current income tax liabilities		50,007	42,652
Deferred income		<u>197,827</u>	<u>125,367</u>
		1,404,877	922,734
<b>Total liabilities</b>		<u>2,758,978</u>	<u>2,441,148</u>
<b>Total equity and liabilities</b>		<u><u>6,802,058</u></u>	<u><u>5,977,314</u></u>

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2017 RMB'000	2016 RMB'000
<b>Continuing operations</b>			
Revenue	3, 7	2,303,458	1,862,207
Cost of sales	8	<u>(426,974)</u>	<u>(347,961)</u>
<b>Gross profit</b>		<u>1,876,484</u>	<u>1,514,246</u>
Selling and marketing expenses	8	(1,235,882)	(1,002,395)
Administrative expenses	8	(320,203)	(277,648)
Research and development costs	8	(345,317)	(283,603)
Fair value gains on investment properties		96,419	33,879
Other income and gains - net	9	<u>349,258</u>	<u>264,421</u>
<b>Operating profit</b>		<u>420,759</u>	<u>248,900</u>
Finance income		40,029	35,605
Finance costs		<u>(67,141)</u>	<u>(57,617)</u>
Finance costs - net	10	(27,112)	(22,012)
Share of losses of associates		<u>(15,227)</u>	<u>(17,613)</u>
<b>Profit before income tax</b>		378,420	209,275
Income tax (expense)/credit	11	<u>(54,808)</u>	<u>5,945</u>
<b>Profit for the year from continuing operations</b>		<u>323,612</u>	<u>215,220</u>
<b>Discontinued operations</b>			
Profit for the year from discontinued operations	12	<u>-</u>	<u>73,734</u>
<b>Profit for the year</b>		<u>323,612</u>	<u>288,954</u>
<b>Profit attributable to:</b>			
Owners of the Company		310,004	288,230
Non-controlling interests		<u>13,608</u>	<u>724</u>
		<u>323,612</u>	<u>288,954</u>
<b>Profit attributable to owners of the Company arises from</b>			
Continuing operations		310,004	211,764
Discontinued operations		<u>-</u>	<u>76,466</u>
		<u>310,004</u>	<u>288,230</u>
<b>Earnings per share for profit attributable to owners of the Company</b> (expressed in RMB cents per share)			
- Basic	14	<u>11.04</u>	<u>9.98</u>
- Diluted	14	<u>10.75</u>	<u>9.74</u>

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Year ended 31 December</b>	
	<b>2017</b> RMB'000	<b>2016</b> RMB'000
<b>Profit for the year</b>	<u>323,612</u>	<u>288,954</u>
<b>Other comprehensive income:</b>		
<i>Items that may not be reclassified to profit or loss:</i>		
Revaluation gains on properties upon transfer from property, plant and equipment and land use rights to investment properties, net of tax	346,500	-
<i>Items that may be reclassified to profit or loss:</i>		
Change in value of available-for-sale financial assets, net of tax	267	1,855
Reclassify to profit or loss upon disposal of available-for-sale financial assets	(1,855)	3,886
Currency translation differences	<u>11,227</u>	<u>(8,725)</u>
<b>Other comprehensive income/(losses) for the year, net of tax</b>	<u>356,139</u>	<u>(2,984)</u>
<b>Total comprehensive income for the year</b>	<u><u>679,751</u></u>	<u><u>285,970</u></u>
<b>Total comprehensive income attributable to:</b>		
Owners of the Company	666,143	285,246
Non-controlling interests	<u>13,608</u>	<u>724</u>
	<u><u>679,751</u></u>	<u><u>285,970</u></u>
<b>Total comprehensive income attributable to owners of the Company arises from:</b>		
Continuing operations	666,143	208,780
Discontinued operations	-	<u>76,466</u>
	<u><u>666,143</u></u>	<u><u>285,246</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			
	RMB'000	RMB'000	RMB'000	RMB'000			
<b>Balance at 1 January 2017</b>	72,552	1,765,324	400,154	1,237,780	3,475,810	60,356	3,536,166
<b>Comprehensive income</b>							
Profit for the year	-	-	-	310,004	310,004	13,608	323,612
<b>Other comprehensive income/(losses)</b>							
Revaluation gains on properties upon transfer from property, plant and equipment and land use rights to investment properties, net of tax	-	-	346,500	-	346,500	-	346,500
Change in fair value of available-for-sale financial assets	-	-	267	-	267	-	267
Reclassify to profit or loss upon disposal of available-for-sale financial assets	-	-	(1,855)	-	(1,855)	-	(1,855)
Currency translation differences	-	-	11,227	-	11,227	-	11,227
<b>Total comprehensive income</b>	-	-	356,139	310,004	666,143	13,608	679,751
<b>Transactions with owners</b>							
Employees share option scheme:							
- Value of employee services received	-	20,482	-	-	20,482	-	20,482
- Proceeds from shares issued	265	17,967	-	-	18,232	-	18,232
Share award plan:							
- Value of employee services received	-	42,391	5,224	-	47,615	-	47,615
- Transfer shares to the awardees upon vesting	-	(16,056)	12,027	-	(4,029)	-	(4,029)
- Shares purchased for share award plan	-	-	(40,841)	-	(40,841)	-	(40,841)
Buy-back of shares	-	-	(133,046)	-	(133,046)	-	(133,046)
Cancellation of shares	(1,218)	(148,819)	150,037	-	-	-	-
Equity transactions with non-controlling interests	-	-	(55,025)	-	(55,025)	(26,225)	(81,250)
<b>Total transactions with owners, recognised directly in equity</b>	(953)	(84,035)	(61,624)	-	(146,612)	(26,225)	(172,837)
<b>Balance at 31 December 2017</b>	71,599	1,681,289	694,669	1,547,784	3,995,341	47,739	4,043,080

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	RMB'000	RMB'000
<b>Balance at 1 January 2016</b>	71,972	1,682,784	512,763	949,550	3,217,069	29,649	3,246,718
<b>Comprehensive income</b>							
Profit for the year	-	-	-	288,230	288,230	724	288,954
<b>Other comprehensive income /(losses)</b>							
Change in fair value of available-for-sale financial assets	-	-	1,855	-	1,855	-	1,855
Reclassify to profit or loss upon disposal of available-for-sale financial assets	-	-	3,886	-	3,886	-	3,886
Currency translation differences	-	-	(8,725)	-	(8,725)	-	(8,725)
<b>Total comprehensive (losses)/income</b>	-	-	(2,984)	288,230	285,246	724	285,970
<b>Transactions with owners</b>							
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)
<b>Total transactions with owners, recognised directly in equity</b>	580	82,540	(109,625)	-	(26,505)	29,983	3,478
<b>Balance at 31 December 2016</b>	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 CASH FLOW STATEMENT**

	<b>Year ended 31 December</b>	
	<b>2017</b>	<b>2016</b>
	RMB'000	RMB'000
<b>Cash flows from operating activities</b>		
Cash generated from operations	911,063	697,291
Interest paid	(63,093)	(69,072)
Income tax paid	(24,280)	(16,126)
<b>Net cash generated from operating activities</b>	<b>823,690</b>	<b>612,093</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(22,993)	(153,848)
Proceeds from disposals of property, plant and equipment	2,137	8,926
Purchases of intangible assets	(355,903)	(322,338)
Acquisition of a subsidiary, net of cash acquired	-	(175,884)
Pledged bank deposits and short-term bank deposits (placed)/withdrawn - net	(475,698)	24,114
Interest received	39,831	24,471
Repayments received from entrusted loans	19,800	400
Purchases of available-for-sale financial assets	(761,173)	(394,923)
Proceeds from disposal of available-for-sale financial assets	584,424	355,986
Disposal of subsidiaries, net of cash disposed of	-	77,058
Investments in associates	(1,272)	(5,000)
<b>Net cash used in investing activities</b>	<b>(970,847)</b>	<b>(561,038)</b>
<b>Cash flows from financing activities</b>		
Proceeds from share options exercised	18,232	23,793
Proceeds from borrowings	-	272,750
Repayments of borrowings	(80,324)	(310,075)
Payments for purchase of shares for share award plan	(40,841)	(93,924)
Payments for buy-back of shares	(133,046)	(16,991)
Acquisition of non-controlling interests in subsidiaries	-	(204)
<b>Net cash used in financing activities</b>	<b>(235,979)</b>	<b>(124,651)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(383,136)</b>	<b>(73,596)</b>
Effect of exchange rate changes on cash and cash equivalents	(24,958)	10,755
Cash and cash equivalents at beginning of the year	1,464,769	1,527,610
<b>Cash and cash equivalents at end of year</b>	<b>1,056,675</b>	<b>1,464,769</b>



## **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, 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 involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed.

#### (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 2017:

- Annual Improvements to IFRS Standards 2014-2016 Cycle,
- Disclosure Initiative – amendments to IAS 7,
- Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12,
- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2, and
- Transfers of Investment Property – Amendments to IAS 40.

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods. The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities.

**2. Basis of preparation(continued)**

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

Certain new accounting standards have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards is set out below.

IFRS 9, "Financial instruments"

Nature of change

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The majority of the Group's debt instruments that are currently classified as available-for-sale (AFS) will satisfy the conditions for classification at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

The other financial assets held by the Group include:

- equity instruments currently classified as AFS for which a FVOCI election is available;
- investments currently measured at fair value through profit or loss (FVPL) which will continue to be measured on the same basis under IFRS 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. However, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings. During the 2017 financial year, RMB1,855,000 of such gains were recognised in profit or loss in relation to the disposal of available-for-sale financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. The Group has not entered into any hedging activities as at 31 December 2017.

**2. Basis of preparation (continued)**

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

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 “Revenue from Contracts with Customers”, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects no significant increase in the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group’s disclosures about its financial instruments particularly in the year of the adoption of the new standard.

*Date of adoption by Group*

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 15, “Revenue from contracts with customers”

*Nature of change*

IFRS 15 will replace IAS 18 which covers contracts for goods and services, and IAS 11 which covers construction contracts and the related literature. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

*Impact*

Management has assessed the effects of applying the new standard on the Group’s financial statements and has identified the following areas that will be affected:

- The costs related directly to obtaining contracts with customer that it would not have incurred if the contracts had not been obtained, such as commission, will be eligible for capitalisation under IFRS 15 and will be amortised on a systematic basis consistent with the pattern of the transfer of the software products and software-related technical services to which the assets related.
- Presentation of contract assets and contract liabilities in the statement of financial position – IFRS 15 requires separate presentation of contract assets and contract liabilities in the statement of financial position. This will result in some reclassifications as of 1 January 2018 in relation to software implementation contracts. Due from and due to customers on implementation contracts will be reclassified to contract asset and contract liabilities, respectively.

The application of IFRS 15 may further result in the identification of separate performance obligations in relation to certain IT consulting contracts which could affect the timing of the recognition of revenue going forward.

**2. Basis of preparation (continued)**

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

*Date of adoption by the Group*

The adoption of this new standard is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption, if any, will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

IFRS 16, “Leases”

*Nature of change*

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

*Impact*

The standard will affect primarily the accounting for the Group’s operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB47,473,000. The Group estimates those related to payments for short-term and low value lease which will be recognised on straight-line basis as an expense in profit or loss are insignificant.

The Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group’s profit or loss and classification of cash flows going forward.

*Date of adoption by the Group*

The adoption of this standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and 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.

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

- |   |   |
|---|---|
| Enterprise Resource Planning ("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 services 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 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 2017 is as follows:

	<b>Continuing operations</b>			<b>The Group Total</b>
	<b>ERP business</b>	<b>Cloud services business</b>	<b>Others</b>	
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue (from external customers)	1,735,265	568,193	-	2,303,458
<b>Operating profit</b>	392,204	(136,100)	164,655	420,759
Finance costs	(66,874)	(267)	-	(67,141)
Finance income	39,287	742	-	40,029
<b>Finance costs – net</b>	(27,587)	475	-	(27,112)
Share of losses of associates	(15,227)	-	-	(15,227)
<b>Profit/(loss) before income tax</b>	349,390	(135,625)	164,655	378,420
Income tax (expense)/credit	(60,329)	21,987	(16,466)	(54,808)
<b>Segment results</b>	289,061	(113,638)	148,189	323,612
<b>Segment assets</b>	4,901,398	178,970	1,721,690	6,802,058
<b>Segment liabilities</b>	2,496,632	153,724	108,622	2,758,978
Investments in associates	31,420	-	-	31,420
Additions to non-current assets (other than financial instruments and deferred tax assets)	411,139	10,662	-	421,801
Depreciation and amortisation	359,353	2,409	-	361,762
Provision for doubtful trade and other receivables	38,923	-	-	38,923
Fair value gains on investment properties	-	-	96,419	96,419
Share-based payment	62,873	5,224	-	68,097

**KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED**

**3. Segment information (continued)**

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

	Continuing operations			Discontinued operations	The Group Total
	ERP business	Cloud services business	Others	Mobile internet hospital service, cloud software business, cloud express business	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue (from external customers)	1,521,383	340,824	-	36,570	1,898,777
<b>Operating profit</b>	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
<b>Finance costs – net</b>	(22,012)	-	-	(3,988)	(26,000)
Share of losses of associates	(17,613)	-	-	-	(17,613)
<b>Profit/(loss) before income tax</b>	193,049	(88,250)	104,476	79,980	289,255
Income tax credit/(expense)	14,530	7,086	(15,671)	(6,246)	(301)
<b>Segment results</b>	207,579	(81,164)	88,805	73,734	288,954
<b>Segment assets</b>	4,796,088	298,606	882,620	-	5,977,314
<b>Segment liabilities</b>	2,217,782	165,633	57,733	-	2,441,148
Investments in associates	25,793	-	-	-	25,793
Additions to non-current assets (other than financial instruments and deferred tax assets)	430,071	7,127	-	1,282	438,480
Depreciation and amortization	334,775	1,375	-	27,756	363,906
Provision for doubtful trade and other receivables	26,653	-	-	3,038	29,691
Fair value gains on investment properties	-	-	33,879	-	33,879
Share-based payment	59,327	-	-	-	59,327

### 3. Segment information (continued)

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 RMB2,288,423,000 (2016: RMB1,840,993,000) and RMB15,035,000 (2016: RMB21,214,000), respectively for the year ended 31 December 2017.

There is no single customer that contributed to over 10% of the Group's revenue for the years ended 31 December 2017 and 2016.

#### Additional segment information

In addition to the above mentioned segment information, the chief operating decision-maker has started to review the Group's operating results according to the internal organisation structure, which is mainly based on the business models and customer bases of each business line. Management has determined the following three main business lines:

- |  |  |
|--|--|
| Project and consultancy-based business | – Sales and implementation of customer-specific software products, and provision of related services. These products and services are mainly targeted for medium and large-sized enterprises and organisations                                     |
| Product-based business                 | – Sales of standardised and general software products or services with a simple delivery process, and provision of other related services. These products and services are mainly targeted for micro and small-sized enterprises and organisations |
| Innovation businesses                  | – Operation of innovation businesses, which are strategically synergetic to the Group's core traditional ERP business, mainly including infrastructure software internet financing, asset management and online payment businesses                 |

The operating results of the above three main business lines that the chief operating decision-maker assesses are revenue and operating profit. Assets and liabilities information are not included in this additional segment information. The additional segment information for the years ended 31 December 2017 and 2016 are as follows:



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3. Segment information (continued)

The segment information for the year ended 31 December 2017 is as follows:

	Continuing operations				The Group Total
	Project and consultancy-based business	Product-based business	Innovation businesses	Elimination	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue (from external customers)	1,750,263	493,048	60,147	-	2,303,458
<b>Operating profit</b>	457,097	244,400	(18,176)	(262,562)	420,759
Finance costs – net					(27,112)
Share of losses of associates					(15,227)
<b>Profit before income tax</b>					378,420
Income tax expense					(54,808)
<b>Profit for the year</b>					<u>323,612</u>
Depreciation and amortization	294,171	34,925	32,666	-	361,762
Provision for doubtful trade and other receivables	38,277	-	646	-	38,923
Fair value gains on investment properties	96,419	-	-	-	96,419
Share-based payment	58,059	3,605	6,433	-	68,097

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3. Segment information (continued)

	Continuing operations			Discontinued operations		Elimination	The Group Total
	Project and consultancy-based business	Product- based business	Innovation businesses	Innovation businesses - Mobile internet hospital service, cloud software business, cloud express business			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue (from external customers)	1,444,927	387,058	30,222	36,570	-		1,898,777
<b>Operating profit</b>	255,628	246,986	(37,780)	83,968	(215,934)		332,868
Finance costs – net							(26,000)
Share of losses of associates							(17,613)
<b>Profit before income tax</b>							289,255
Income tax expense							(301)
<b>Profit for the year</b>							288,954
Depreciation and amortization	262,103	56,607	17,440	27,756	-		363,906
Provision for doubtful trade and other receivables	26,653	-	-	3,038	-		29,691
Fair value gains on investment properties	33,879	-	-	-	-		33,879
Share-based payment	56,212	2,156	959	-	-		59,327

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

	<b>2017</b>	<b>2016</b>
	RMB'000	RMB'000
Trade receivables (a)	243,375	237,226
Less: allowance for impairment of trade receivables	(117,412)	(111,156)
Trade receivables – net	<u>125,963</u>	<u>126,070</u>
Notes receivable	24,751	20,921
Advances to employees	12,001	16,772
Prepayments	62,305	95,110
VAT recoverable	41,592	49,348
Interest receivables	35,298	22,099
Receivables from related parties	6,449	4,946
Other receivables	11,198	22,652
	<u>319,557</u>	<u>357,918</u>
Less: non-current portion		
Prepayments	-	(42,677)
Current portion	<u>319,557</u>	<u>315,241</u>
Loans to related parties		
– Current portion	104,979	-
– Non-current portion	59,160	158,591
	<u>164,139</u>	<u>158,591</u>
Entrusted loans		
– Current portion	49,600	19,800
– Non-current portion	-	49,600
	<u>49,600</u>	<u>69,400</u>
Loans to third parties		
– Current portion	61,020	-
– Non-current portion	2,910	-
	<u>63,930</u>	<u>-</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.

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**4. Trade and other receivables, entrusted loans and loans to related parties (continued)**

(a) Sales are generally made without prescribed credit terms in the sales contracts but customers usually take 1 to 3 months to settle the receivables. Trade receivables aged more than 3 months had been considered for impairment. At 31 December 2017 and 2016, the aging analysis of trade receivables based on invoice date were as follows:

	<b>2017</b> RMB'000	<b>2016</b> RMB'000
0 - 90 days	78,675	69,754
91 - 180 days	13,315	8,962
181 - 360 days	24,051	20,874
Over 360 days	127,334	137,636
	<u>243,375</u>	<u>237,226</u>

**5. Borrowings**

	<b>2017</b> RMB'000	<b>2016</b> RMB'000
Non-current		
Non-current portion long-term bank borrowings, unsecured	23,625	171,775
Non-current portion long-term bank borrowings, secured (a)	52,200	58,725
Convertible bond (b)	1,117,678	1,185,096
	<u>1,193,503</u>	<u>1,415,596</u>
Current		
Current portion of long-term borrowings, unsecured	148,501	74,150
Current portion of long-term borrowings, secured (a)	6,525	6,525
	<u>155,026</u>	<u>80,675</u>
	<u>1,348,529</u>	<u>1,496,271</u>

At 31 December 2017, the Group's borrowings were repayable as follows:

	<b>2017</b> RMB'000	<b>2016</b> RMB'000
Within 1 year	155,026	80,675
Between 1 and 2 years	1,193,503	154,675
Between 2 and 5 years	-	1,260,921
	<u>1,348,529</u>	<u>1,496,271</u>

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### 5. Borrowings (continued)

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

	2017 RMB'000	2016 RMB'000
RMB	230,851	311,175
USD	1,117,678	1,185,096
	<u>1,348,529</u>	<u>1,496,271</u>

The Group's bank borrowings bear average interest rate of 4.61% (2016: 4.67%) per annum.

Except the convertible bond mentioned in Note (b) below, 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 (2016: within 1 year).

The fair value of the non-current borrowings as of 31 December 2017 is RMB1,180,361,000 (2016: RMB1,398,790,000), which is based on cash flows discounted using a rate based on the average interest rate of 4.13% (2016: 4.16%) 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.

Note:

(a) As at 31 December 2017, long-term bank borrowings of RMB58,725,000 were secured by pledge of the shares of Guanyi held by the Group (2016: RMB65,250,000).

(b) The Group issued US\$175,000,000 4.0% convertible bond on 14 April 2014. The bond matures 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.

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**5. Borrowings (continued)**

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

	RMB'000
<b>Liability component at 31 December 2015</b>	1,108,018
Interest expense	47,873
Interest accrued	(46,496)
Effect of currency translation	75,701
<b>Liability component at 31 December 2016</b>	<u>1,185,096</u>
Interest expense	48,635
Interest accrued	(47,196)
Effect of currency translation	(68,857)
<b>Liability component at 31 December 2017</b>	<u><u>1,117,678</u></u>

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

**6. Trade and other payables**

	2017 RMB'000	2016 RMB'000
Trade payables (a) and (b)	18,533	19,435
Salary and staff welfare payables	169,673	110,604
Advances from customers	185,023	142,085
VAT and other taxes payable	54,310	44,120
Accrual for expenses	44,913	14,294
Construction fee payable	21,968	12,738
Unpaid business acquisition consideration	91,388	55,440
Deposits of distributors	63,908	38,667
Interest payable	9,529	10,116
Others	18,875	6,374
	<u>678,120</u>	<u>453,873</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 2017, the aging analysis of the trade payables based on invoice date is as follows:

**KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED****6. Trade and other payables (continued)**

	<b>2017</b>	<b>2016</b>
	RMB'000	RMB'000
0 - 180 days	11,573	12,024
181 - 360 days	2,720	1,041
Over 360 days	4,240	6,370
	<u>18,533</u>	<u>19,435</u>

**7. Revenue**

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

	<b>2017</b>	<b>2016</b>
	RMB'000	RMB'000
ERP business	1,735,265	1,521,383
Cloud services business	568,193	340,824
	<u>2,303,458</u>	<u>1,862,207</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:

	<b>2017</b>	<b>2016</b>
	RMB'000	RMB'000
Research and development costs		
Amounts incurred	403,697	301,519
Less: development costs capitalised	(354,837)	(288,473)
Add: amortisation	296,457	270,557
	<u>345,317</u>	<u>283,603</u>
Employee benefit expenses	1,467,793	1,144,261
Less: amount included in development costs	(334,963)	(248,804)
	<u>1,132,830</u>	<u>895,457</u>
Depreciation	44,559	41,737
Less: amount included in development costs	(5,847)	(7,005)
	<u>38,712</u>	<u>34,732</u>
Outsourcing services	231,289	163,283
Sales promotion	84,792	95,633
Advertising	77,383	72,190
Cost of inventories consumed	88,897	70,193
Rental and utilities	52,718	57,512
Traveling	49,966	45,990
Office expenses	39,128	39,951
Other taxes and surcharges	47,392	32,451
Professional service fees	21,309	27,445
Impairment provision	38,923	26,653
Training costs	20,516	16,912
Amortisation of trademarks, licences and copyrights	6,688	11,631
Amortisation of computer software for own use	5,467	4,505
Amortisation of customer relationship	5,230	4,359
Amortisation of land use rights	3,361	3,361
Auditors' remuneration	3,700	2,550
Losses/(gains) on disposals of property, plant and equipment	264	(3,371)
Others	34,494	26,567
Total	<u><u>2,328,376</u></u>	<u><u>1,911,607</u></u>



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**9. Other income and gains – net**

	<b>2017</b>	<b>2016</b>
	RMB'000	RMB'000
VAT refund (a)	171,837	147,447
Government subsidy income	52,340	45,582
Rental income - net	68,236	70,597
Gains from dilution of equity in associates	25,130	-
Gain on remeasurement of contingent consideration for business combination	25,117	-
Investment income	15,150	3,990
Change in fair value of financial assets at fair value through profit or loss	(180)	(801)
Net foreign exchange losses	(73)	(928)
Others	(8,299)	(1,466)
	<u>349,258</u>	<u>264,421</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 Council 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**

	<b>2017</b>	<b>2016</b>
	RMB'000	RMB'000
Interest income	40,029	35,605
Interest on borrowings	(62,506)	(66,525)
Bank charges	(581)	(569)
Net foreign exchange (losses)/gains on financing activities	(4,054)	9,477
	<u>(27,112)</u>	<u>(22,012)</u>

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### 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.

	2017	2016
	RMB'000	RMB'000
Current income tax		
– Current tax on profits for the year	48,429	31,683
– Adjustments in respect of prior years	(16,793)	(10,312)
Deferred income tax	23,172	(27,316)
	<u>54,808</u>	<u>(5,945)</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 Software (China) Co.,Ltd (“Kingdee China”) will meet those requirements. Therefore, Kingdee China was estimated to use a preferential corporate income tax rate of 10% for the year ended 31 December 2017 (2016: 10%). The application of preferential tax rate stated above is subject to critical estimates of the management of the Group.

(c) Kingdee Deeking Cloudcomputing Co., Ltd (“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 was estimated to use a preferential corporate income tax rate of 10% for the year ended 31 December 2017 (2016: 12.5%). The application of preferential tax rate stated above is subject to critical estimates of the management of the Group.

(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) Kingdee Tianyan Middleware was consistently qualified as a High-tech Enterprise from September 2014 and was entitled to a preferential corporate income tax rate of 15% in 2017 (2016: 15%).

(ii) 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 2017 (2016: 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% in 2017 (2016: 15%).

## KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

### 11. Income tax expense (continued)

(f) 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:

	<b>2017</b>	<b>2016</b>
	RMB'000	RMB'000
<b>Profit before tax</b>	<u>378,420</u>	<u>209,275</u>
Tax calculated at the statutory tax rate of 25% (2016: 25%)	94,605	52,319
Tax effects of:		
Preferential tax rates	(54,357)	(33,255)
Tax losses for which no deferred income tax asset was	37,356	18,508
Expenses not deductible for tax purposes	8,094	3,606
Re-measurement of deferred tax due to a change in applicable preferential tax rate	(582)	(35,246)
Additional deductible allowance for research and development expenses	(13,515)	(1,565)
Adjustments in respect of prior years		
– Change in applicable preferential tax rate	-	(7,220)
– Others	(16,793)	(3,092)
	<u>54,808</u>	<u>(5,945)</u>

### 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 a company controlled by the 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.

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**13. Dividends**

	<b>2017</b> RMB'000	<b>2016</b> RMB'000
Proposed final dividend of RMB1.3 cents (2016: nil) per ordinary share	<u>38,880</u>	<u>-</u>

A final dividend of RMB1.3 cents (equivalent to approximately HK1.6 cents) per ordinary share, totaling RMB38,880,000, for the year ended 31 December 2017, 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 2017, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2018.

**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, excluding ordinary shares purchased and held for share award plan.

	<b>2017</b> RMB'000	<b>2016</b> RMB'000
<b>Earnings</b>		
Profit attributable to owners of the Company	310,004	211,764
Profit from discontinued operation attributable to owners of the Company	-	76,466
	<u>310,004</u>	<u>288,230</u>
<b>Weighted average number of ordinary shares in issue</b> (thousands)	<u>2,806,783</u>	<u>2,888,185</u>
<b>Basic earnings per share</b> (RMB cents per share)		
From continuing operations	11.04	7.33
From discontinued operations	-	2.65
From profit for the year	<u>11.04</u>	<u>9.98</u>

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**14. 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 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 thus ignored in the calculation of diluted earnings per share.

	<b>2017</b>	<b>2016</b>
	RMB'000	RMB'000
<b>Earnings</b>		
Profit attributable to owners of the Company	310,004	211,764
Profit from discontinued operations attributable to owners of the Company	-	76,466
	<u>310,004</u>	<u>288,230</u>
<b>Weighted average number of ordinary shares in issue</b>		
(thousands)	2,806,783	2,888,185
Adjustment for:		
– Share options (thousands)	53,921	63,321
– Share awards (thousands)	24,080	7,975
	<u>2,884,784</u>	<u>2,959,481</u>
<b>Weighted average number of ordinary shares for diluted earnings per share (thousands)</b>		
	2,884,784	2,959,481
<b>Diluted earnings per share (RMB cents per share)</b>		
From continuing operations	10.75	7.16
From discontinued operations	-	2.58
From profit for the year	<u>10.75</u>	<u>9.74</u>

## Management Discussion and Analysis

### (1) Key Financial Information

The Group recorded 23.7% year-on-year revenue growth in 2017, representing the highest growth rate for six years. Moreover, it maintained its leadership in the China enterprise Cloud services market with the revenue from this segment surging 66.7% year-on-year, and gained a well-deserved reputation for its leading position. The Group's management software business maintained steady growth and recorded revenue growth of 14.1% from a year ago.

#### Revenue

For the year ended 31 December 2017, the Group recorded total revenue of RMB2,303,458,000, representing a year-on-year growth of 23.7% (2016: RMB1,862,207,000). Revenue from the management software business amounted to RMB1,735,265,000 (2016: RMB1,521,383,000), up 14.1% year-on-year. Revenue from the Cloud services operation soared 66.7% year-on-year to RMB568,193,000 (2016: RMB340,824,000).

#### Cash Flow

The Group's operating performance continued to improve due to the Cloud business model, as reflected in its cash flow. For the year ended 31 December 2017, net cash inflow generated from operating activities reached RMB823,690,000 (2016: RMB612,093,000), representing an increase of 34.6% year-on-year.

#### Gross Profit

During the reporting period, the Group recorded gross profit of RMB1,876,484,000 (2016: RMB1,514,246,000), up approximately 23.9% from a year ago. Its gross profit margin for the reporting period reached approximately 81.5% (2016: approximately 81.3%).

#### Operating Profit

For the year ended 31 December 2017, the Group recorded operating profit of RMB420,759,000 (2016: RMB248,900,000), representing a 69.0% year-on-year growth. Its operating profit margin reached approximately 18.3% (2016: approximately 13.4%), mainly due to greater economies of scale and higher revenue contribution from Cloud services.

#### Profit

For the year ended 31 December 2017, profit attributable to the owners of the Company amounted to RMB310,004,000 (2016: RMB288,230,000, which included a one-off disposal gain of RMB138,785,000). Net profit margin was approximately 13.5% (2016: approximately 15.5%). Basic earnings per share were RMB11.04 cents (2016: RMB9.98 cents).

## **(2) Report on Business Sub-segments**

Underpinned by enterprises' growing need to be more digitized and the Chinese government's strategy to promote a digital economy, the Group invested in Cloud computing, Artificial Intelligence ("AI"), Blockchain, Big Data, Internet of Things ("IoT") as the new drivers for innovation. The company positioned itself for strategic opportunities arising from Cloud services and accelerated the Cloud transition by reinforcing development of Cloud services and enhancing the ecosystem of this operation.

According to a report released by IDC, an authoritative and independent global market intelligence firm, Kingdee ranked first in five categories in China's SaaS Cloud services and application software markets for growth enterprises, including the top position for enterprise SaaS services, SaaS ERP and SaaS financial applications.

### **(I) Medium and Large-sized Enterprises Market (Project and consultancy-based business)**

During the reporting period, the Group aggressively expanded Cloud services and management software business for medium and large-sized enterprises through its subsidiary Kingdee Software (China) Co., Ltd. Remarkable achievements were made in product upgrades and market development among medium and large-sized enterprises. This segment became a major growth engine of the Group. During the reporting period, revenue from the project and consultancy-based business grew by 21.1% year-on-year to RMB1,750,263,000.

#### **1. Kingdee Cloud strengthened its distinct competitive advantages and recorded revenue growth of 87.7% year-on-year**

Kingdee Cloud delivered strong results in the reporting period. Its revenue surged 87.7% year-on-year to RMB393,459,000 and accounted for 17.1% of the Group's total revenue. The number of its customers increased by more than 120% year-on-year and the customer retention rate stayed above 90%. During the reporting period, Kingdee Cloud focused on the concept of "unmanned accounting tool to help everyone handle their finances" and launch its own AI financial assistant. The product not only incorporates traditional robotic process automation ("RPA") functions, but also integrates the latest AI technologies such as computing, cognitive computing, and self-learning capability to achieve technological breakthroughs in various areas, including conversational language (natural language processing ("NLP") for natural semantic understanding and expression) and visual recognition (face recognition and receipt recognition). User experience was thus substantially enhanced. Kingdee Cloud achieved breakthroughs in distributed computing technology for multi-tenancy as its Cloud clusters were able to handle 50,000 concurrent connections at the same time, thus enabling it to support the high-availability concurrent applications for large and very large enterprises.

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The Group maintained its leadership in intelligent finance, intelligent manufacturing, omni-channel marketing and Amoeba management system. It helped Huawei's Consumer Business Group to redevelop a customer-centric retail chain, HBIS New Material to redevelop a new customer-to-manufacturing ("C2M") model based on the "Intelligent Manufacturing + Individual-Objective Combination" concept, and Bliss Cake to connect with 172 satellite sites for delivering on the "Bliss Promise" (delivery of freshly-baked cakes on the same day of order placement). It also helped various model enterprises including SHUA, Yunnan Baiyao Group, Sichuan Tuopai Shede Wine, Susino Umbrella, Guangzhou Shangpin Home Collection and HaiNan Chunguang Foodstuff to transition to the Cloud. After the reporting period, Kingdee Cloud also signed a strategic cooperation agreement with Huawei Cloud. This marked another major strategic cooperation in the area of "IAAS + PAAS" for Kingdee Cloud, after its partnership with Amazon Web Services (AWS) that led to the accelerated development of its enterprise Cloud services. Kingdee Cloud services are delivered on the basis of annual subscription fees and generates stable long-term cash flow for the Group .

### **2. The Group's competitiveness in the high-end market substantially improved with steady growth in the management software business**

During the reporting period, Kingdee EAS, the Group's management software business for medium and large-sized enterprises, maintained stable growth, with total contract value of EAS growing 26.4% from a year ago. It renewed contracts with large and very large enterprises such as China Merchants Group and China Travel Services (HK), helping them to implement digital transformation and internal data sharing. While Kingdee further enhanced its core EAS applications, various new products were launched. New products include Shared Financial Resources Management Version 3.0, s-HR Human Resources, Digital Marketing, Intelligent Manufacturing based on the "Made in China 2025" strategy, and an AI financial assistant. Moreover, it signed agreements with a number of new customers, such as China National Oil and Gas Exploration and Development Corporation, Hailiang Group, Jointown Pharmaceutical Group and Xiwang Group. Based on the "Cloud + Terminal" model, Kingdee EAS made persistent efforts to drive innovations in its technology and applications. Meanwhile, many large customers, such as Xinjiang Tianrun Dairy, Chongqing Tianyou Dairy, Mulinsen Group, Fujian Anjoy Foods, Shenghua Group and Jinmailong became the customers of mobile marketing enterprise SaaS Cloud services. It is noteworthy that with the support of these services, Kingdee Internet Financial Services Co., Ltd. helped Xinjiang Tianrun Dairy to achieve breakthroughs in supply chain financing services for its distributors and implement "production on demand". Furthermore, Tianrun Dairy's distributors were able to utilize their financial resources more effectively and rapidly expanded their retail stores and their market shares at supermarkets.

As to its international operation, the Group closely followed the Belt and Road Initiative and the government's policy to encourage domestic enterprises to expand overseas. As its businesses in the Asia-Pacific region rapidly grew, the Group signed contracts with Jebson, CITIC Telecom and Bank of China Group Investment Ltd.



**(II) Micro and Small-sized Enterprises Market (Product-based business)**

During the reporting period, Kingdee Deeking Cloud Computing Co., Ltd., a subsidiary of the Company, further enhanced its Cloud services and management software business for micro and small-sized enterprises. Through efficient integration of the functionalities of its various products, it provided better user experience to micro and small-sized enterprises and helped them to implement the digital transition. As a result, the Group's products were widely recognized by the market and customers. During the reporting period, revenue from the business mainly driven by product-based offerings grew 27.4% year-on-year to RMB493,048,000.

**1. Jingdou Cloud helped micro and small-sized enterprises to carry out real time online operations; the benefits of its mobile-based strategy showing results**

During the reporting period, Jingdou Cloud strengthened its mobile-based services for micro and small-sized enterprises. Thanks to the launch of its innovative mobile app and successful marketing strategy, the number of paying users grew 75% from a year ago. The Jingdou Cloud app incorporates financial, procurement, sales and inventory management, as well as mobile office services for micro and small-sized enterprises. It is the first one-stop business management platform in China that enables micro and small-sized enterprises to implement real-time online operation and management, which significantly enhances their operating efficiency and external coordination. They can thus carry out their businesses at ease. Underpinned by the rapid growth of its distribution channels, Jingdou Cloud maintained its retention rate of above 70%. The ecosystem of Jingdou Cloud's services for micro and small-sized enterprises has been gradually created.

**2. Guanyi Cloud and Kingdee Cloud were further integrated to strengthen the Group's integrated online and offline solutions**

During the reporting period, Guanyi Cloud handled over 1.1 billion orders, helping more than 100,000 shops to handle transactions worth nearly RMB200 billion. This system gave strong support to JD.com's online shopping festival on 18 June and Tmall's online shopping festival on 11 November by delivering highly organized, stable and reliable Cloud services to E-commerce operators. On 11th November 2017 alone, Guanyi Cloud helped customers handle over 215 million orders, up 62% year-on-year. The total amount of these transactions exceeded RMB45.6 billion, accounting for 1/6 of Tmall's total transaction value on that day. This highlighted Kingdee's leading position in E-commerce Cloud services sector. Meanwhile, Guanyi Cloud and Kingdee Cloud were further integrated, thus enabling the Group to reinforce its one-stop financial solutions as well as integrated online and offline solutions. Many well-known brands, such as Foxconn and Zhongke Ziyuan, became customers.

### **3. Management software business for micro and small-sized enterprises maintained steady growth**

During the reporting period, the Group's management software business for micro and small-sized enterprises maintained steady growth, with revenue from this segment growing 20.7% year-on-year. This business was named one of the "Top 100 Brands in Shenzhen's Software Industry by Revenue" and was granted the intellectual property management system certification for its R&D, sales and procurement of management software for micro and small-sized enterprises.

### **(III) Innovations and Business Investments**

During the reporting period, the Group recorded revenue of RMB60,147,000 from the continuing operations of its innovation businesses, representing a 99.0% year-on-year growth.

#### **1. CloudHub further introduced new ways of business operations and retained leadership in China's mobile office market for medium and large-sized enterprises**

During the reporting period, the Group launched CloudHub Version 9, which incorporates various new functions including personalized platform, intelligent approval system and "smart worksheet" (報表秀秀). In addition to Kingdee's traditional management software, it can also be integrated with the Group's other Cloud products, thereby possessing significant product differentiation. According to IDC, CloudHub maintained the No.1 position in China's mobile office market for medium and large-sized enterprises in terms of market share for second year.

#### **2. Kingdee Tianyan continued to focus on the businesses for government-owned enterprises and the government sector**

During the reporting period, Kingdee Tianyan undertook a major demonstration project under the National 863 Program, which was approved and accepted by the Ministry of Science and Technology. Moreover, it once again received the National High-tech Enterprise certification. Remarkable breakthroughs were made in the businesses in the government sector and central government-owned enterprises. It became the sole supplier of safe and controllable middleware for China Everbright Bank for the next 3 years, and completed the delivery of Guiyang Financial Bureau's Big Data monitoring project. Furthermore, it signed contracts with a number of customers such as the National Development and Reform Commission, the Ministry of Agriculture, the Ministry of Industry and Information Technology and Shenzhen Municipal Government.

#### **3. Mobile strategy for Automobile Cloud services was fully implemented**

During the reporting period, Kingdee Vehicle Network Technology Co., Ltd. ("Cargeer") took advantage of the new "Mobile Internet + Integrated Services" model to fully implement its mobile strategy. Currently, Cargeer covers 47% of the top 100 auto-dealers in China. After the launch of the "Fast Repair Cloud Services" in the first half of 2017, it introduced the "Dealer Cloud Services" in the second half so as to aggressively expand in automotive after-sale services and explore the small-scale car dealer market. Underpinned by its Cloud products, Cargeer's revenue for the year surged 95.4% from the previous year.

#### **4. Fintech drove the growth of real economy**

During the reporting period, Kingdee Internet Financial Services Co., Ltd. (“Kingdee Financial”) actively responded to the government’s call for “the supply-side structural reform and the financial sector to better serve the real economy”. It developed a proprietary Big Data credit evaluation platform known as Jingwei Cloud and released its first Cloud-based supply chain financial product known as "Kingdee Credit Payment". Targeting the downstream operations of hundreds of its core customers, "Kingdee Credit Payment" helped micro, small and medium-sized enterprises to overcome their difficulties of obtaining affordable funding through highly efficient Cloud services.

### **(3) Organization and Talent Retention**

During the reporting period, the Group adhered to the core values of “acting with conscience, integrity and righteousness” and continued to implement the human resources strategy of “motivating, introducing and nurturing talents”. It strengthened organizational capabilities to support the implementation of Cloud strategy and recruited more high-end Cloud talents. The identification and development of high-potential talents was listed as a top priority for the management in the year. The Group increased the incentives to innovate. As a result, nearly 100 innovations were achieved during the reporting period, which effectively supported the Group’s innovation and implementation of its Cloud strategy. Moreover, it provided greater incentives to talents by issuing restricted shares of the Company to select individuals. Through the intrapreneurship and resources sharing programs, the Group forged itself into an organization of common destiny for its staff rather than merely an organization of common interest.

### **(4) Social Responsibility**

During the reporting period, the Group’s founder teamed up with Professor Chen Chunhua from the National School of Development at Peking University to host the “50+ Forum on Chinese Management Models” (“C50+ Forum”) after making consistent efforts to explore the Chinese management models over the past decade. Moreover, the Group set up an internal non-profit organization known as the “Research Institute of Chinese Management Models” to drive improvement in the Chinese enterprises’ management, thereby promoting the Chinese management model around the world. Meanwhile, it continued to support various charitable activities and made donations to the China Siyuan Foundation for Alleviating Student Poverty in Earthquake-stricken Ya’an City, Sichuan Province. The Group also announced that it would donate 0.1% of the revenue from Kingdee Cloud in the coming two years to support the charitable project "Teach for China". While leveraging its strengths in Cloud technology and resources to promote elementary education in the areas suffered from inadequate educational resources, Kingdee participated in the CEIBS-Noah Di Shui Quan Project to alleviate the financial pressure of young professionals around the world. This project is aimed to help the most creative group in China and Europe to realize their dreams and promote the improvement of management standards.

## **(5) Future Outlook**

Cloud is Kingdee's future as Kingdee Cloud is evolving to towards a new management model. While making persistent efforts to drive the development of Cloud business, the Group will continuously enhance the ecosystem of its enterprise Cloud services. Kingdee will continue to make strategic investments in innovative enterprises following its investment in companies such as PerceptIn, a startup in the Silicon Valley, and FXiaoKe, the leading CRM provider in China, to enhance solution offerings for customers' digital transformation, thereby creating greater value for customers.

2018 marks the 25th anniversary of the founding of Kingdee. While standing at a new starting point of its development, the Group will never forget its original aspirations and will make "serving customers innovatively and wholeheartedly" as its new mission. With an aim to develop Kingdee into the most trustworthy service platform for enterprises, every member of the Group will strive for excellence. Remaining steadfast in its aspirations, the Group will grow stronger and bigger. Underpinned by the "Internet Plus" strategy and the Group's core value of "acting conscientiously +", we are very confident of achieving of retaining our leading position in enterprise Cloud service sector and being No.1 in the market.

## **Final Dividends**

At the annual general meeting of the Company ("AGM") to be held on 9 May 2018, the board of Directors (the "Board") will recommend a final dividend of RMB1.3 cents (HK\$1.6 cents) per share for the year end 31 December 2017 (2016: nil). Subject to the approval of shareholders at the AGM, the final dividend is expected to be paid on or around 19 June 2018 to shareholders whose names appear on the register of members of the Company on 14 May 2018.

## **Closure of Register**

The register of members of the Company will be closed from Friday, 4 May 2018 to Wednesday, 9 May 2018 (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 AGM that is going to be held on 9 May 2018, 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, 3 May 2018.

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### **Purchase, Sale or Redemption of Shares**

During the year ended 31 December 2017, the Company purchased 13,216,000 shares of the Company on the Stock Exchange for an aggregate consideration of HK\$48,082,000 pursuant to the Company's Share Award Scheme as adopted by the Company on 4 December 2015.

During the year ended 31 December 2017 the Company repurchased 48,966,000 shares of the Company on the Stock Exchange in December 2017 for an aggregate consideration of HK\$150,783,000 (highest price per share was HK\$3.3787 and lowest price per share was HK\$2.8973, of which 10,024,000 shares were cancelled on 19 January 2017, 25,336,000 shares were cancelled on 26 April 2017 and 13,606,000 shares were cancelled on 24 October 2017. The Directors are of the view that such repurchases have the effect of enhancing the earnings per share of the Company 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 has complied with all the code provisions of the Code throughout the financial year ended 31 December 2017 except for code provisions A 2.1.

### **Audit Committee**

As at 31 December 2017, 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 2017 of the Group.

### **Auditors**

PricewaterhouseCoopers was appointed as the external auditor of the Company for the year of 2017, and there has been no change in the Company's auditor in any of the preceding three years. A resolution for the re-appointment of PricewaterhouseCoopers as the Company's auditor will be proposed at the forthcoming AGM.

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### **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 2017 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 Chief Executive Officer 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 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.

On behalf of the Board

**KINGDEE INTERNATIONAL SOFTWARE  
GROUP COMPANY LIMITED**

*Chairman*

**Xu Shao Chun**

Shenzhen, the People's Republic of China, 13 March 2018

As at the date of this report, 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. Shen Yuan Ching as non-executive directors; and Mr. Gary Clark Biddle, Mr. Liu Chia Yung and Mr. Cao Yang Feng as independent non-executive directors.