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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)

ANNOUNCEMENT OF THE RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

Financial highlights for the six months ended 30 June 2018

- Revenue increased by approximately 21.3% over the same period in 2017 to approximately RMB1,279,103,000
- Profit attributable to owners of the company for the period increased by approximately 59.5% over the same period in 2017 to approximately RMB169,777,000
- Net cash generated from operating activities during the period increased by approximately 14.6% over the same period in 2017 to approximately RMB268,123,000
- Basic earnings per share for profit attributable to owners of the Company during the period increased by RMB1.82 cents over that of the same period in 2017 to approximately RMB5.54 cents

The board (the “Board”) of directors (the “Directors”) of Kingdee International Software Group Company Limited (the “Company”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2018 are as follows:

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
	<i>Notes</i>		
ASSETS			
Non-current assets			
Land use rights	7	68,479	69,405
Property, plant and equipment	8	495,068	510,213
Investment properties		1,721,690	1,721,690
Intangible assets	8	895,925	817,284
Investments in associates		30,752	31,420
Deferred income tax assets		55	55
Available-for-sale financial assets		-	50,053
Financial assets at fair value through profit or loss	10	321,843	6,286
Loans to related parties	9	-	59,160
Loans to third parties	9	4,287	2,910
Total non-current assets		3,538,099	3,268,476
Current assets			
Inventories		14,827	14,057
Trade and other receivables	9	317,951	319,557
Loans to related parties	9	134,139	104,979
Entrusted loans	9	-	49,600
Loans to third parties	9	121,369	61,020
Contract assets		477,643	-
Due from customers on implementation contracts		-	432,802
Available-for-sale financial assets		-	396,818
Financial assets at fair value through profit or loss	10	1,154,358	-
Pledged bank deposits		4,969	2,254
Short-term bank deposits		488,212	1,095,820
Cash and cash equivalents		744,052	1,056,675
Total current assets		3,457,520	3,533,582
Total assets		6,995,619	6,802,058

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (Continued)

As at 30 June 2018

	Notes	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	11	79,298	71,599
Share premium	11	2,819,533	1,681,289
Other reserves		720,924	694,669
Retained earnings		1,674,881	1,547,784
		<u>5,294,636</u>	<u>3,995,341</u>
Non-controlling interests		<u>59,625</u>	<u>47,739</u>
Total equity		<u>5,354,261</u>	<u>4,043,080</u>
LIABILITIES			
Non-current liabilities			
Borrowings	12	7,500	1,193,503
Deferred income tax liabilities		166,915	160,598
Total non-current liabilities		<u>174,415</u>	<u>1,354,101</u>
Current liabilities			
Trade and other payables	13	384,962	678,120
Contract liabilities		738,087	-
Advances from customers on implementation contracts		-	323,897
Borrowings	12	216,463	155,026
Current income tax liabilities		27,727	50,007
Deferred income		99,704	197,827
Total current liabilities		<u>1,466,943</u>	<u>1,404,877</u>
Total liabilities		<u>1,641,358</u>	<u>2,758,978</u>
Total equity and liabilities		<u>6,995,619</u>	<u>6,802,058</u>

The notes on pages 9 to 34 are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT*For the six months ended 30 June 2018*

		Unaudited	
		Six months ended 30 June	
	<i>Notes</i>	2018	2017
		RMB'000	RMB'000
Revenue	14	1,279,103	1,054,658
Cost of sales	15	(253,230)	(209,712)
Gross profit		1,025,873	844,946
Selling and marketing expenses	15	(645,731)	(523,481)
Administrative expenses	15	(146,082)	(129,123)
Net impairment losses on financial assets	15	(19,153)	(15,130)
Research and development costs	15	(199,423)	(178,964)
Other gains-net	16	151,966	127,252
Operating profit		167,450	125,500
Finance income		13,006	17,801
Finance costs		(10,260)	(31,858)
Finance costs-net		2,746	(14,057)
Share of losses of associates		(668)	(1,509)
Profit before income tax		169,528	109,934
Income tax expense	17	(11,139)	(5,206)
Profit for the period		158,389	104,728
Attributable to:			
Owners of the Company		169,777	106,435
Non-controlling interests		(11,388)	(1,707)
		158,389	104,728
Earnings per share for profit attributable to owners of the Company			
-Basic	18	RMB5.54 cents	RMB3.72 cents
-Diluted	18	RMB5.32 cents	RMB3.64 cents

The notes on pages 9 to 34 are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2018*

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Profit for the period	158,389	104,728
<i>Items that may be reclassified to profit or loss</i>		
-Available-for-sale financial assets	-	(560)
-Currency translation differences	(3,982)	4,466
Other comprehensive income for the period	(3,982)	3,906
Total comprehensive income for the period, net of tax	154,407	108,634
Total comprehensive income attributable to:		
-Owners of the Company	165,795	110,341
-Non-controlling interests	(11,388)	(1,707)
	154,407	108,634

The notes on pages 9 to 34 are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2018**(All amounts in Renminbi thousand unless otherwise stated)*

		Unaudited						
		Attributable to owners of the Company				Non-		
						controlling		
Notes	Share capital	Share premium	Other reserves	Retained earnings	Total	interests	Total equity	
	Balance at 31 December 2017(as previously reported)	71,599	1,681,289	694,669	1,547,784	3,995,341	47,739	4,043,080
	Adjustment on adoption of IFRS 9	-	-	(267)	267	-	-	-
	Balance at 1 January 2018	71,599	1,681,289	694,402	1,548,051	3,995,341	47,739	4,043,080
	Comprehensive income							
	Profit/(loss) for the period	-	-	-	169,777	169,777	(11,388)	158,389
	Other comprehensive loss							
	Currency translation differences	-	-	(3,982)	-	(3,982)	-	(3,982)
	Total comprehensive income	-	-	(3,982)	169,777	165,795	(11,388)	154,407
	Transactions with owners							
	Employees share option scheme:							
	-Value of employee services received	-	2,562	(1,570)	-	992	1,570	2,562
	-Proceeds from shares issued	700	69,167	-	-	69,867	-	69,867
	Share award plan:							
	- Value of employee services received	-	46,803	-	-	46,803	-	46,803
	- Transfer shares to the awardees upon vesting	-	(29,047)	18,778	-	(10,269)	-	(10,269)
	Equity transactions with non-controlling interests	-	-	13,296	-	13,296	21,704	35,000
	Conversion of convertible bonds	6,999	1,048,759	-	-	1,055,758	-	1,055,758
	Dividend declared	-	-	-	(42,947)	(42,947)	-	(42,947)
	Total transactions with owners	7,699	1,138,244	30,504	(42,947)	1,133,500	23,274	1,156,774
	Balance at 30 June 2018	79,298	2,819,533	720,924	1,674,881	5,294,636	59,625	5,354,261

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY *(Continued)**For the six months ended 30 June 2017**(All amounts in Renminbi thousand unless otherwise stated)*

	Notes	Unaudited						
		Attributable to owners of the Company					Non-	
		Share capital	Share premium	Other reserves	Retained earnings	Total	controlling interests	Total equity
Balance at 1 January 2017		72,552	1,765,324	400,154	1,237,780	3,475,810	60,356	3,536,166
Comprehensive income								
Profit/(loss) for the period		-	-	-	106,435	106,435	(1,707)	104,728
Other comprehensive loss								
Change in fair value of available-for-sale financial assets		-	-	(560)	-	(560)	-	(560)
Currency translation differences		-	-	4,466	-	4,466	-	4,466
Total comprehensive income		-	-	3,906	106,435	110,341	(1,707)	108,634
Transactions with owners								
Employees share option scheme:								
-Value of employee services received	11	-	10,399	-	-	10,399	-	10,399
-Proceeds from shares issued	11	149	9,658	-	-	9,807	-	9,807
Share award plan:								
-Value of employee services received	11	-	428	15,514	-	15,942	-	15,942
- Shares purchased for share award plan		-	-	(4,343)	-	(4,343)	-	(4,343)
Buy-back of shares		-	-	(124,712)	-	(124,712)	-	(124,712)
Cancellation of shares	11	(911)	(110,151)	111,062	-	-	-	-
Total transactions with owners		(762)	(89,666)	(2,479)	-	(92,907)	-	(92,907)
Balance at 30 June 2017		71,790	1,675,658	401,581	1,344,215	3,493,244	58,649	3,551,893

The notes on pages 9 to 34 are an integral part of these consolidated financial statements.

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT*For the six months ended 30 June 2018*

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Cash flows from operating activities:		
Cash generated from operations excluding net cash outflow in loans to third parties from the micro-credit business	376,319	298,706
Net cash outflow in loans to third parties from the micro-credit business	(62,348)	(10,652)
Interest paid	(20,294)	(33,001)
Income tax paid	(25,554)	(20,994)
Net cash generated from operating activities	268,123	234,059
Cash flows from investing activities:		
Purchases of property, plant and equipment	(16,663)	(24,538)
Proceeds from disposals of property, plant and equipment	41	752
Purchase of intangible assets	(222,331)	(189,015)
Acquisition of a subsidiary, net of cash acquired	(2,688)	-
Pledged bank deposits withdrawn/(placed) - net	604,893	(164,479)
Interest received	8,170	17,801
Repayments received from entrusted loans	49,600	200
Purchases of financial assets at fair value through profit or loss	(2,227,460)	(43,603)
Proceeds from disposal of financial assets at fair value through profit or loss	1,244,020	30,631
Repayments received from related parties	30,000	-
Net cash used in investing activities	(532,418)	(372,251)
Cash flows from financing activities:		
Proceeds from share options exercised	71,338	9,807
Proceeds from borrowings	105,000	-
Repayments of borrowings	(111,538)	(20,338)
Dividends paid	(42,947)	-
Payments for purchase of shares for share award plan	-	(4,344)
Payment for buy-back of shares	-	(129,017)
Acquisition of non-controlling interests in subsidiaries	(74,530)	-
Net cash used in financing activities	(52,677)	(143,892)
Net decrease in cash and cash equivalents	(316,972)	(282,084)
Effect of exchange rate changes on cash and cash equivalents	4,349	(6,755)
Cash and cash equivalents at beginning of the period	1,056,675	1,464,769
Cash and cash equivalents at end of the period	744,052	1,175,930

The notes on pages 9 to 34 are an integral part of these consolidated financial statements.

Notes to the condensed consolidated interim financial information

1. General information

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

The Company is an investment holding company. The principal activities of its subsidiaries (the “Group”) are developing, manufacturing and selling of software products and provision of software-related technical services in the PRC.

The shares of the Company have been listed on the Stock Exchange of Hong Kong Limited since 15 February 2001.

These condensed consolidated interim financial statements are presented in thousands of Renminbi (RMB’000), unless otherwise stated. These condensed consolidated interim financial statements have been approved for issue by the Board of Directors on 15 August 2018.

This condensed consolidated interim financial information has not been audited.

All the convertible bonds have been converted by the Bondholders during March and April 2018 refer to note 12.

2. Basis of preparation

This unaudited condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with IAS 34, ‘Interim financial reporting’. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

3. Significant accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

- IFRS 9 *Financial Instrument*, and
- IFRS 15 *Revenue from Contracts with Customers*.

The impact of the adoption of these standards and the new accounting policies are disclosed in note 4 below.

(b) The other new or amended standards, amendments and interpretations to existing standards that are effective for the financial year beginning on 1 January 2018 do not have a material impact on or are not relevant to the Group.

Taxes on income for the interim period are accrued using the tax rates that would be applicable to expected total annual assessable profits.

Notes to the condensed consolidated interim financial information

4. Changes in Accounting Policies

(a) IFRS 9 Financial Instruments – Impact of adoption

IFRS 9 Financial Instruments replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transitional provision under IFRS 9, comparative figures are not required to be restated. As a result, any adjustments to carrying amounts of financial assets or financial liabilities are recognised at the beginning of the current reporting period, with the difference recognised in opening retained earnings.

(i) Classification and measurement

On 1 January 2018, the Group's management has assessed the business model and the terms relating to the collection of contractual cash flows applicable to the financial assets held by the Group at the date of initial application of IFRS 9 (1 January 2018) and has classified its financial instruments into the appropriate IFRS 9 categories, which are those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and those to be measured at amortised cost. The main effects resulting from this reclassification are as follows:

	Available-for-sale (AFS) RMB'000	Fair value through profit or loss(FVPL) RMB'000	Total RMB'000
At 1 January 2018			
Opening balance — IAS 39	446,871	6,286	453,157
Reclassification of AFS to FVPL	(446,871)	446,871	-
Opening balance — IFRS 9	<u>-</u>	<u>453,157</u>	<u>453,157</u>

The main effects resulting from this reclassification on the Group's equity are as follows:

	Effect on AFS reserves RMB'000	Effect on retained earnings RMB'000
At 1 January 2018		
Opening balance — IAS 39	267	-
Reclassification of AFS to FVPL	(267)	267
Opening balance — IFRS 9	<u>-</u>	<u>267</u>

There was 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, while the Group does not have any such liabilities.

Notes to the condensed consolidated interim financial information

4. Changes in Accounting Policies (Continued)

(a) IFRS 9 Financial Instruments – Impact of adoption (Continued)

(ii) Impairment of financial assets

The new impairment model requires the recognition of impairment provisions based on expected credit losses 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 fair value through other comprehensive income, contract assets under IFRS 15, lease receivables, loan commitments and certain financial guarantee contracts. The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings and equity is disclosed in the table below.

(1) Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

On that basis, the loss allowance as at 1 January 2018 was determined as follows for trade receivables:

Trade receivables	0-1 year	1-2 years	2-3 years	Over 3 years	Total
Expected loss rate	4%	26%	71%	100%	
Gross carrying amount	116,041	15,175	11,763	100,396	243,375
Loss allowance	4,660	3,952	8,404	100,396	117,412

Expected loss rate of contract assets is immaterial. As at 1 January 2018, the loss allowance provision for contract assets was not material.

The loss allowances for trade receivables and contract assets as at 31 December 2017 reconcile to the opening loss allowances on 1 January 2018 as follows:

	Contract assets RMB'000	Trade receivables RMB'000
At 31 December 2017 – calculated under IAS 39	-	117,412
Amounts restated through opening retained earnings	-	-
Opening loss allowance as at 1 January 2018		
- calculated under IFRS 9	-	117,412

(2) Loan receivables

All of the Group's loan receivables at amortised cost are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. Applying the expected credit risk model resulted in the recognition of a loss allowance of approximately to RMB 646,000 on 1 January 2018 (previous loss allowance was approximately to RMB 646,000) and a further increase in the allowance by approximately to RMB 623,000 in the six months ended 30 June 2018.

Notes to the condensed consolidated interim financial information

4. Changes in Accounting Policies (Continued)

(a) IFRS 9 Financial Instruments – Impact of adoption (Continued)

(3) Other financial assets

Other financial assets include other receivables and cash and cash equivalents also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

(b) IFRS 15 Revenue from contracts with customers– Impact of adoption

The group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group elected a modified retrospective approach for the adoption. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018):

	IAS 18			IFRS 15
	carrying amount			carrying amount
	31 Dec 2017	Reclassification	Remeasurements	1 January 2018
	RMB'000	RMB'000	RMB'000	RMB'000
Due from customers on implementation contracts	432,802	(432,802)	-	-
Contract assets	-	432,802	-	432,802
Trade and other payables	678,120	(185,023)	-	493,097
Advances from customers on implementation contracts	323,897	(323,897)	-	-
Deferred income	197,827	(113,313)	-	84,514
Contract liabilities	-	622,233	-	622,233

Presentation of assets and liabilities related to contracts with customers

The group has also changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15:

- Contract assets recognised in relation to implementation contracts were previously presented as due from customers on implementation contracts (RMB432,802 as at 1 January 2018).
- Contract liabilities in relation to software implementation and cloud services contracts were previously included in deferred income (RMB113,313 as at 1 January 2018).
- Contract liabilities in relation to implementation contracts were previously presented as advances from customers on implementation contracts (RMB323,897 as at 1 January 2018).
- Contract liabilities in relation to advances from customers were previously presented as trade and other payables (RMB185,023 as at 1 January 2018).

Notes to the condensed consolidated interim financial information

5. Estimates

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

Notes to the condensed consolidated interim financial information

6. 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 service related to cloud service, provision of E-commerce and other online management services
Others	—	Operation of investment properties

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

Notes to the condensed consolidated interim financial information

6. Segment information (Continued)

The unaudited segment information for the six months ended 30 June 2018 is as follows:

	ERP business	Cloud services business	Others	The Group Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue (from external customers)	923,955	355,148	-	1,279,103
Operating profit	200,216	(67,643)	34,877	167,450
Finance costs	(10,104)	(156)	-	(10,260)
Finance income	12,414	592	-	13,006
Finance costs – net	2,310	436	-	2,746
Share of losses of associates	(668)	-	-	(668)
Profit/(loss) before income tax	201,858	(67,207)	34,877	169,528
Income tax (expense)/credit	(19,465)	11,814	(3,488)	(11,139)
Segment results	182,393	(55,393)	31,389	158,389
Segment assets	5,063,543	210,386	1,721,690	6,995,619
Segment liabilities	1,380,932	150,859	109,567	1,641,358
Additions to non-current assets (other than financial instruments and deferred tax assets)	231,273	716	-	231,989
Depreciation and amortization	164,524	4,550	-	169,074
Provision for doubtful trade and other receivables	19,153	-	-	19,153
Share-based payment	49,238	127	-	49,365

Notes to the condensed consolidated interim financial information

6. Segment information (Continued)

The unaudited segment information for the six months ended 30 June 2017 is as follows:

	Cloud services business			The Group
	ERP business		Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue (from external customers)	771,836	282,822	-	1,054,658
Operating profit	145,990	(52,494)	32,004	125,500
Finance costs	(31,739)	(119)	-	(31,858)
Finance income	15,535	2,266	-	17,801
Finance costs – net	(16,204)	2,147	-	(14,057)
Share of losses of associates	(1,509)	-	-	(1,509)
Profit/(loss) before income tax	128,277	(50,347)	32,004	109,934
Income tax (expense)/credit	(9,796)	7,790	(3,200)	(5,206)
Segment results	118,481	(42,557)	28,804	104,728
Segment assets	4,760,917	260,530	882,620	5,904,067
Segment liabilities	2,132,825	159,477	59,872	2,352,174
Additions to non-current assets (other than financial instruments and deferred tax assets)	272,258	3,293	-	275,551
Depreciation and amortization	176,535	9,027	-	185,562
Provision for doubtful trade and other receivables	15,130	-	-	15,130
Share-based payment	20,967	-	-	20,967

Notes to the condensed consolidated interim financial information

6. Segment information *(Continued)*

The Company is incorporated in the Cayman Islands while the Group mainly operates its business in the PRC. Revenue from continuing operations from external customers from the PRC and other locations is RMB1,279,103,000 (the same period in 2017: RMB1,054,658,000) and RMB10,367,000 (the same period in 2017: RMB5,839,000), respectively for the period ended 30 June 2018

There is no single customer that contributed to over 10% of the Group's revenue for the period ended 30 June 2018 and 2017.

Additional segment information

In addition to the above mentioned segment information, the chief operating decision-maker also reviewed the Group's operating and financial performance 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 |
| Standardised and general products or services 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 business | – | Operation of innovation business, which are strategically synergetic to the Group's core traditional ERP business, mainly including middleware,internet financing,fund and online payment. |

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 period ended 30 June 2018 and 2017 are as follows:

Notes to the condensed consolidated interim financial information

6. Segment information (Continued)

The unaudited segment information for the six months ended 30 June 2018 is as follows:

	Project and consultancy-based business	Product-based business	Innovation business	Elimination	The Group Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue (from external customers)	954,754	289,848	34,501	-	1,279,103
Operating profit	10,447	184,401	(28,680)	1,282	167,450
Finance costs – net					2,746
Share of losses of associates					(668)
Profit before income tax					169,528
Income tax expense					(11,139)
Profit for the year					158,389
Depreciation and amortization	134,228	25,275	9,571	-	169,074
Provision for doubtful trade and other receivables	19,153	-	-	-	19,153
Share-based payment	44,895	4,320	150	-	49,365

Notes to the condensed consolidated interim financial information

6. Segment information (Continued)

The unaudited segment information for the six months ended 30 June 2017 is as follows:

	Project and consultancy-based business	Product-based business	Innovation business	Elimination	The Group
	RMB'000	RMB'000	RMB'000	RMB'000	Total RMB'000
Revenue (from external customers)	783,902	256,759	13,997	-	1,054,658
Operating profit	(21,411)	172,651	(36,383)	10,643	125,500
Finance costs – net					(14,057)
Share of losses of associates					(1,509)
Profit before income tax					109,934
Income tax expense					(5,206)
Profit for the year					104,728
Depreciation and amortization	155,847	21,871	7,844	-	185,562
Provision for doubtful trade and other receivables	15,130	-	-	-	15,130
Share-based payment	18,791	915	1,261	-	20,967

Notes to the condensed consolidated interim financial information

7. Land use rights

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Opening net book amount at 1 January	69,405	125,405
Amortization charge	(926)	(1,680)
Closing net book amount at 30 June	68,479	123,725
Represented by:		
Cost	84,191	148,892
Accumulated amortization charges	(15,712)	(25,167)
	68,479	123,725

The Group's interests in land use rights represent prepaid operating lease payments.

Notes to the condensed consolidated interim financial information

8. Property, plant, equipment and intangible assets

	Unaudited	
	Property, plant and equipment RMB'000	Intangible assets RMB'000
Six months ended 30 June 2018		
Opening net book amount at 1 January 2018	510,213	817,284
Additions	8,903	223,085
Disposals	(344)	-
Depreciation and amortization	(23,704)	(144,444)
	<u>495,068</u>	<u>895,925</u>
Closing net book amount at 30 June 2018	<u>495,068</u>	<u>895,925</u>
Six months ended 30 June 2017		
Opening net book amount at 1 January 2017	796,287	775,223
Additions	51,352	189,543
Disposals	(1,040)	-
Depreciation and amortization	(24,260)	(159,622)
	<u>822,339</u>	<u>805,144</u>
Closing net book amount at 30 June 2017	<u>822,339</u>	<u>805,144</u>

Notes to the condensed consolidated interim financial information

9. Trade and other receivables

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Trade receivables(a)	260,980	243,375
Less: allowance for impairment	(126,036)	(117,412)
Trade receivables - net	134,944	125,963
Notes receivable	20,029	24,751
Advance to employees	10,459	12,001
Prepayments	50,815	62,305
VAT recoverable	50,602	41,592
Interest receivables	38,146	35,298
Receivables from related parties	12,611	6,449
Other receivables	345	11,198
	317,951	319,557
Loans to related parties		
Current portion	134,139	104,979
Non-current portion	-	59,160
	134,139	164,139
Entrusted loans		
Current portion	-	49,600
Non-current portion	-	-
	-	49,600
Loans to third parties		
Current portion	121,369	61,020
Non-current portion	4,287	2,910
	125,656	63,930
	577,746	597,226

Notes to the condensed consolidated interim financial information

9. Trade and other receivables *(Continued)*

- (a) Sales are generally made without prescribed credit terms in the sales contracts but customers usually take one to three months to settle the receivables. The aging analysis of trade receivables is as follows:

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'000	RMB'000
0-180 days	135,200	91,990
181- 360 days	16,961	24,051
Over 360 days	108,819	127,334
	260,980	243,375

Notes to the condensed consolidated interim financial information

10. Financial assets at fair value through profit or loss

	Unaudited	Audited
	30 June 2018	31 December 2017
	RMB'000	RMB'000
Non-current portion (a)	321,843	6,286
Current portion (b)	1,154,358	-
	1,476,201	6,286

The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements, please refer to Note 4 for the Impact of adoption.

(a) This mainly represented the Group's investments in Facishare Co., Ltd. by way of subscription of its preferred shares.

(b) This mainly represented the Group's investments in various wealth management products issued by commercial banks. As at 30 June 2018, balances of RMB906,040,000 of these products have remaining terms ranging from one day to six months, and balances of RMB248,318,000 have no fixed term. The fair values of these investments approximated to their carrying amounts as at 30 June 2018. No single wealth management product investment accounted for over 5% of the Group's total assets.

Notes to the condensed consolidated interim financial information

11. Share capital and share premium

	Number of issued shares (thousands)	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
At 1 January 2018	2,904,553	71,599	1,681,289	1,752,888
Employee share option scheme				
- Value of services received	-	-	2,562	2,562
- Exercise of share options	34,419	700	69,167	69,867
Share award plan				
- Value of services received	-	-	46,803	46,803
-Transfer shares to the awardees upon vesting	-	-	(29,047)	(29,047)
Conversion of convertible bonds	348,075	6,999	1,048,759	1,055,758
At 30 June 2018(Unaudited)	3,287,047	79,298	2,819,533	2,898,831
At 1 January 2017	2,947,840	72,552	1,765,324	1,837,876
Employee share option scheme				
- Value of services received	-	-	10,399	10,399
- Exercise of share options	6,729	149	9,658	9,807
Share award plan				
- Value of services received	-	-	428	428
Cancellation of shares	(41,960)	(911)	(110,151)	(111,062)
At 30 June 2017(Unaudited)	2,912,609	71,790	1,675,658	1,747,448

Notes to the condensed consolidated interim financial information

12. Borrowings

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Non-current		
Long-term bank borrowings, unsecured	7,500	23,625
Long-term bank borrowings, secured	-	52,200
Convertible bonds (a)	-	1,117,678
	<u>7,500</u>	<u>1,193,503</u>
Current		
Current portion of long-term borrowings, unsecured	161,000	148,501
Current portion of long-term borrowings, secured	55,463	6,525
	<u>216,463</u>	<u>155,026</u>
	<u>223,963</u>	<u>1,348,529</u>

(a) The Group issued US\$175,000,000 4.0% convertible bond on 14 April 2014. The bond matured in five years from the issue date. The bond could be converted into the Company's ordinary shares, at the holder's option at any time on or after 25 May 2014 up to the close of business (at the place where the bond certificate evidencing such bond is deposited for conversion) on the 10th day prior to the maturity date (both dates inclusive), at HK\$3.90 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 amortized 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.

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

Notes to the condensed consolidated interim financial information

13. Trade and other payables

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'000	RMB'000
Trade payables (a)	20,661	18,533
Salary and staff welfare payables	73,453	169,673
Advances from customers (b)	-	185,023
VAT and other tax payable	87,878	54,310
Accrual for expenses	56,910	44,913
Construction fee payable	21,259	21,968
Unpaid business acquisition consideration	30,911	91,388
Deposits of distributors	70,803	63,908
Interest payable	-	9,529
Dividends payable	3,953	-
Others	19,134	18,875
	384,962	678,120

(a) As at 30 June 2018, the aging analysis of trade payables is as follows:

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'000	RMB'000
0-180 days	12,830	11,573
181- 360 days	3,547	2,720
Over 360 days	4,284	4,240
	20,661	18,533

(b) The adoption of IFRS 15 Revenue from contracts with customers from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements, please refer to Note 4 for the Impact of adoption.

Notes to the condensed consolidated interim financial information

14. Revenue

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
ERP business	923,955	771,836
Cloud services business	355,148	282,822
	1,279,103	1,054,658
	1,279,103	1,054,658

15. Expenses by nature

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

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Research and development costs		
Amounts incurred	283,638	217,226
Less: development costs capitalised	(217,302)	(188,850)
Add: amortization	133,087	150,588
	199,423	178,964
	199,423	178,964
Employee benefit expenses	710,259	645,835
Less: amount included in research and development costs	(186,219)	(166,430)
	524,040	479,405
	524,040	479,405
Cost of inventories consumed	26,533	21,508
Depreciation of property, plant and equipment	23,704	24,260
Amortization of computer software, licenses and copyrights	8,742	6,419
Amortization of customer relationship	2,615	2,615
Amortization of land use rights	926	1,680
Net impairment losses on financial assets	19,153	15,130
	19,153	15,130

Notes to the condensed consolidated interim financial information

16. Other gains-net

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Subsidy income		
- VAT refund	84,708	79,697
- Government program research	16,035	11,256
Rental income-net	34,877	32,004
Loss on disposals of property, plant and equipment	(226)	(288)
Investment income	15,481	4,218
Others	1,091	365
	151,966	127,252

Notes to the condensed consolidated interim financial information

17. Income tax expense

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Current income tax	4,822	(3,746)
Deferred income tax	6,317	8,952
	<u>11,139</u>	<u>5,206</u>

- (a) No provision for profits tax in the Cayman Islands and Hong Kong has been made as the Group has no income assessable profits for the period in those jurisdictions.
- (b) Kingdee Software (China) Co., Ltd. ("Kingdee China") and Kingdee Deeking Cloudcomputing Co., Ltd. ("Kingdee Deeking") were qualified as national important software enterprises and were entitled to preferential tax rates of 10% for the period ended 30 June 2018 (2017:10%).
- (c) Shanghai Kingdee Deeking Cloudcomputing Co., Ltd., Shenzhen Kingdee Tianyan Middleware Corp.,Ltd., Beijing Kingdee Management Software Co., Ltd. and Shanghai Guanyi Cloudcomputing Software Co., Ltd were each qualified as a high-tech enterprise and was entitled to a preferential tax rate of 15% for the period ended 30 June 2018.
- (d) Other PRC subsidiaries of the Group applied the tax rate of 25%.

Notes to the condensed consolidated interim financial information

18. Earnings per share

(a) Basic

Basic earnings per share are calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Profit attributable to owners of the Company	169,777	106,435
Weighted average number of ordinary shares in issue (thousands)	3,062,925	2,864,741
Basic earnings per share	RMB5.54 cents	RMB3.72 cents

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: share options and share awards. For the share options and share awards, the number of shares that could have been issued upon the exercise of all dilutive share options and share awards less the number of shares that could have been issued at fair value (determined as the average annual market 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.

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Profit attributable to owners of the Company	169,777	106,435
Profit used to determine diluted earnings per share	169,777	106,435
Weighted average number of ordinary shares in issue (thousands)	3,062,925	2,864,741
Adjustment for–		
share options (thousands)	84,646	45,277
share awards (thousands)	45,838	13,807
Weighted average number of ordinary shares for diluted earnings per share (thousands)	3,193,409	2,923,825
Diluted earnings per share	RMB5.32 cents	RMB3.64 cents

Notes to the condensed consolidated interim financial information

19. Dividends

2017 final dividends of RMB42,947,000 (RMB1.3 cents per share) (approximately HKD1.6 cents per share) were paid in June 2018.

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2018 (the six months ended 30 June 2017: Nil).

20. Related party transactions

The Group is controlled by Mr. Xu Shao Chun, who owns 24.22% of the Company's shares. The remaining 75.78% of the shares are widely held. The ultimate controlling party of the Group is Mr. Xu Shao Chun.

The Group had transactions with related parties for the period ended 30 June 2018 as follows:

(a) Transactions with related parties

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Sales of goods		
– Associates	5,210	7,353
– Companies controlled by the ultimate controlling party	798	15
	<u>6,008</u>	<u>7,368</u>
Sales of services		
– Associates	9,035	6,169
– Companies controlled by the ultimate controlling party	252	465
	<u>9,287</u>	<u>6,634</u>
Rental income		
– Associates	1,028	749
– Companies controlled by the ultimate controlling party	5,976	2,135
	<u>7,004</u>	<u>2,884</u>

Goods are sold based on the price lists in force and terms that would be available to third parties.

Rental rates are in line with prevailing market rates.

Notes to the condensed consolidated interim financial information

20. Related party transactions (continued)

(b) Purchase of goods and services

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Purchase of goods		
– Associates	3,939	9,151
– Companies controlled by the ultimate controlling party	1,075	935
	<u>5,014</u>	<u>10,086</u>
Purchase of services		
– Associates	3,281	3,200
– Companies controlled by the ultimate controlling party	691	1,038
	<u>3,972</u>	<u>4,238</u>

Goods and services are bought from associates and companies controlled by the ultimate controlling party which are carried out on terms agreed with the counter parties in the ordinary course of business.

(c) Balances with related parties

	Unaudited	Audited
	30 June	31 December
	2018	2017
	RMB'000	RMB'000
Period-end balances arising from sales of goods		
– Associates	848	766
Period-end balances arising from sales of services		
– Associates	343	1,998
– Companies controlled by the ultimate controlling party	4	-
	<u>347</u>	<u>1,998</u>
Receivable from related parties		
– Associates	9,843	4,675
– Companies controlled by the ultimate controlling party	2,768	1,774
	<u>12,611</u>	<u>6,449</u>

Notes to the condensed consolidated interim financial information

20. Related party transactions (continued)

(d) Loans to related parties

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Loans to companies controlled by the ultimate controlling party		
At 1 January	104,979	107,647
Loans advanced during year	-	-
At 30 June	104,979	107,647
Loans to an associate		
At 1 January	59,160	54,850
Loans advanced during year	(30,000)	-
Share of losses of an associate in excess of the investment cost	-	(5,609)
At 30 June	29,160	49,241

The loans to related parties carry interest rates of 5.0%. The principal and interests of loan to associates were required to be repaid on 1 January 2019, and the principal and interests of loan to the company controlled by ultimate shareholder were required to be repaid on 31 December 2018.

Management Discussion and Analysis

(1) Key Financial Information

2018 saw the 25th anniversary of the establishment of Kingdee and marked the beginning of a new stage in corporate development. In view of the government's favourable policies to boost "enterprise Cloud adoption", the Group leveraged its deep insight into Chinese enterprises' management and their digital transformation to step up R&D efforts in Cloud computing, Big Data, mobile internet, artificial intelligence and Blockchain. Moreover, it accelerated the upgrading of its Cloud products and services, actively expanded into new markets and maintained steady growth of core businesses, thereby further enhancing its leadership in enterprise Cloud industry, and laying a solid foundation for its sustainable development.

During the reported period, the Group's revenue grew by 21.3% year-on-year while the revenue from management software business grew by 19.7% from the same period of last year. Meanwhile, the revenue from Cloud services segment increased by 25.6% year-on-year. Kingdee headed towards its strategic target for the expansion of Cloud services as this segment accounted for 27.8% of the Group's total revenue.

Revenue

For the six months ended 30 June 2018, the Group recorded total revenue of RMB 1,279,103,000 (1H2017: RMB 1,054,658,000), up 21.3% from the same period of last year. Revenue from the management software business grew by 19.7% year-on-year to RMB 923,955,000 (1H2017: RMB 771,836,000) and revenue from the Cloud services operation increased by 25.6% year-on-year to RMB 355,148,000 (1H2017: RMB 282,822,000).

Gross Profit

During the reporting period, the Group recorded gross profit of RMB 1,025,873,000 (1H2017: RMB 844,946,000), up approximately 21.4% from a year ago. Its gross profit margin was approximately 80.2% (1H2017: approximately 80.1%).

Operating Profit

For the six months ended 30 June 2018, the Group recorded operating profit of RMB 167,450,000 (1H2017: RMB 125,500,000), representing a 33.4% year-on-year growth. Operating profit margin increased to approximately 13.1% (1H2017: approximately 11.9%) mainly due to greater economies of scale and higher revenue contribution from Cloud services.

Profit

For the six months ended 30 June 2018, profit attributable to the shareholders of the Company amounted to RMB 169,777,000 (1H2017: RMB 106,435,000). Net profit margin attributable to the Company was approximately 13.3% (1H2017: approximately 10.1%). Basic earnings per share were RMB 5.54 cents (1H2017: RMB 3.72 cents).

Cash flow

For the six months ended 30 June 2018, net cash inflow generated from operating activities were RMB 268,123,000 (30 June 2017: RMB 234,059,000), representing an increase of 14.6% year-on-year.

(2) Report on Business Sub-segments

During the reporting period, Chinese enterprises deepened their digital transformation. The rapid development of technologies such as Cloud computing, Big Data, mobile Internet, artificial intelligence and Blockchain drove further growth of enterprise management software industry. As the Chinese economy entered new development mode coupled with the shift in international trade relations, there was increasing demand for domestically-developed and controllable software, which created new opportunities for the Group's development. While the Group continued to pursue the development of enterprise management software business so as to maintain steady growth of its core business, it enhanced its capability in product development and increased strategic investments. Kingdee Cloud services were reinforced along with the introduction of a new generation of strategic enterprise management Cloud services platforms. Major breakthroughs in market development, product development and upgrading, as well as strategic investments were made.

During the reporting period, the Group actively developed its strategic vision for Cloud operations and advanced the development of an ecosystem of China's largest enterprise Internet services. In January 2018, the Group forged a strategic partnership with the world's leading IT and communication solutions provider - Huawei. Both parties will carry out all-round cooperation with each other in the enterprise-level services, especially in the leading-edge areas such as Cloud computing, Big Data, Internet of Things and artificial intelligence. In the same month, the Group made a strategic investment in FXiaoKe, a renowned domestic SaaS startup with leadership in the CRM field. This investment will enable Kingdee to cooperate with FXiaoKe in the areas of products, technology, channel and services. The two companies will utilize their respective strengths to complement each other and to create a win-win for both sides.

While the government vigorously promoted "enterprise Cloud adoption" and called for the "adoption of Cloud services by millions of domestic enterprises", Kingdee was picked as a strategic partner of the Ministry of Industry and Information Technology in six provinces and regions (Guangdong, Jiangsu, Hunan, Zhejiang, Sichuan and Shandong) to achieve this goal.

Moreover, the Group became the government's recommended Cloud services provider in nine cities (Dongguan, Nanjing, Changsha, Hangzhou, Ningbo, Jinhua, Taizhou, Chengdu and Jinan). It is noteworthy that more than 50% of model enterprises in Hunan adopting Cloud services were Kingdee's customers.

According to the latest "China Semi-annual Public Cloud Services Tracker for 2H2017" released by IDC, the total market size of China's public Cloud services market (IaaS, PaaS & SaaS) reached US\$4 billion with domestic SaaS market grew by 40.1%. The report revealed that Kingdee retained the top spot in China's enterprise SaaS sales in 2017 and accounted for 7.2% of market share, outstripping its domestic and overseas peers. Meanwhile, according to "China Semi-annual Enterprise SaaS ERM Applications Tracker for 2H2017" released by IDC, Kingdee grabbed the top spot in the country's SaaS ERM market and grasped a 17.5% market share. At the same time, it retained market leadership in domestic SaaS Cloud services industry and commanded a 43.6% market share. The Group became the leaders in the overall enterprise SaaS sector, SaaS ERM sector and SaaS financial Cloud sector respectively.

(I) Medium and Large-Sized Enterprises Market

During the reporting period, the Group provided Cloud services and management software services to 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 remained a major growth driver of the Group. During the reporting period, revenue from the project and consultancy-based business grew by 21.8% year-on-year to RMB 954,754,000.

1. Revenue from Kingdee Cloud surged 42.9% year-on-year as it enhanced users' experience through continuing efforts to upgrade its products

During the reporting period, revenue from Kingdee Cloud surged 42.9% year-on-year to RMB 255,359,000 and accounted for 20.0% of the Group's total revenue, and the customer retention rate stayed above 80%. Adhering to the operating principles of "one for all, all for one", Kingdee Cloud made persistent efforts to upgrade its products in different areas. As to financial products, Kingdee Cloud launched intelligent financial application, a signature product to meet customers' future needs which integrates automatic data processing technology RPA and various artificial intelligence technologies such as natural language processing, image recognition and self-learning. By reforming customers' financial management, the Group helped them to implement corporate transformation. In the intelligent manufacturing field, Kingdee Cloud utilized Industrial Internet to launch various applications such as equipment networking, OOE and Cloud services for design and R&D. They remarkably enhanced the competitiveness of manufacturers. In the omni-channel field, Kingdee Cloud rolled out various applications at Samsung and Huawei Smart Living Museum. They included people counting system equipped with intelligent video recognition technology, scenario-based intelligent big-screen ordering system and intelligent store management system based on mobile POS.

Kingdee Cloud was upgraded to a new management mode. On 4 May this year, the new world for financial management was opened up by Kingdee. It not only put forth the innovative concept of “unmanned accounting, financial management for everyone”, but also made innovations in omni-channel marketing and intelligent manufacturing. These achievements were highly recognized by its clients and the market. During the period, Kingdee Cloud was appointed by Huawei Cloud as its partner after going through a strict selection process. Besides, Kingdee Cloud was upgraded by AWS as one of its most important partners in China. Kingdee Cloud set up the first user community in China's enterprise SaaS industry known as Kingdee Cloud Community. There were more than 80,000 registered users in the community. Meanwhile, the Group focused on development and promotion of the new generation of Kingdee Cloud, which meet the needs previously unaddressed for large-sized enterprise service platform. It has been adopted by customers such as Huawei Infrastructure and Guangzhou Wenshi Group. Kingdee Cloud has made breakthroughs in related fields and platforms and enabled it to maintain leadership in enterprise Cloud services market.

2. Revenue from EAS business grew by 28.8% year-on-year with enhanced competitiveness in high-end market

During the reporting period, the Group attached great importance to continuous innovation in its management software business. It incorporated emerging technologies such as “ABCD + IoT” into its core solutions to enhance the value of the core solutions of traditional products. Therefore, their competitiveness in high-end market was significantly improved. Revenue from EAS financial co-sharing solutions surged by more than 60% year-on-year, while revenues from s-HR grew by more than 40% year-on-year. During the period, the Group strengthened its efforts to attract model customers and strategic customers in the industry and produced satisfactory results. In the first half of this year, the Group entered into contracts with medium and large-sized enterprises and model enterprises including Changcheng Property and Shanghai Environment Group.

In addition, it actively expanded into overseas market with revenue from the Asia-Pacific region climbed by more than 168% when compared with the same period of last year. It signed contracts with RUYI GROUP, Kyäni International Limited and Boo Gie Garment. At the same time, the Group carried out strategic cooperation with Hong Kong Telecom, RICOH Hong Kong and other Hong Kong companies to jointly launch enterprise service solutions to meet the demand for enterprise Cloud services and expand the Cloud services market in Hong Kong and Macao.

3. Kingdee forged closer cooperation with channel partners to help them transform towards Cloud services and upgrade their businesses

During the reporting period, the Group deepened cooperation with channel partners and intensified efforts to help them transform towards Cloud services. At the same time, it

encouraged existing partner customers to upgrade their Cloud products. Meanwhile, it made further innovation in traditional management software business in the channel market, K/3 WISE business increased by 14% year-on-year.

During the reporting period, the Group also enhanced coverage of its partners and business layout. It extended coverage to the areas with GDP of more than RMB 50 billion which were not covered by it previously. In addition, a core partner support system which incorporates the Group's various products was established to enhance its capability to take care of partners in major business areas.

(II) Micro and Small-sized Enterprises Market

During the reporting period, the Group's subsidiary Kingdee Deeking Cloud Computing Co., Ltd. ("Kingdee Deeking") reinforced its Cloud services and management software for micro and small-sized enterprises. Through effective integration of the functionalities of its various products, Kingdee Deeking enhanced users' experience and helped micro-and small-sized enterprises to implement digital transformation. During the reporting period, revenue from product-driven business grew by 12.9% year-on-year to RMB 289,848,000.

1. The upgrading, innovation and optimization of Jingdou Cloud helped micro and small-sized enterprises to implement digital transformation

During the reporting period, the Group launched the version 5 of Jingdou Cloud which saw a substantial upgrade of Cloud accounting and Cloud procurement-sales-inventory functions along with various innovative features. It addresses the core scenario needs of micro and small-sized enterprises to implement digital transformation in the new economy. The version 5 of Jingdou Cloud integrates the powerful features of Guanyi Cloud for E-commerce management, which facilitates the seamless connection between online E-commerce and offline retail management, integrated management of business and finance, and helps users to improve their financial management and operational efficiency. During the reporting period, the Group signed agreements with a number of famous customers, such as fresh food chain Qianxianhui, innovative smart lock provider Rodwell, stylish 3C products chain store Chic Bus, mother and child products chain store BB Kingdom, and Singapore's famous barbecued meat jerky provider Bee Cheng Hiang. Underpinned by the cooperation with these customers and the rapid growth of distribution channels, Jingdou Cloud maintained robust growth and the retention rate stayed above 70%.

2. Kingdee offered one-stop solutions through integration of Guanyi Cloud and Kingdee Cloud

During the reporting period, Guanyi Cloud continued to provide merchants with highly efficient, intelligent and stable Cloud services for their E-commerce. It handled over 600 million orders, up 32% from a year ago. Moreover, it supported E-commerce operators to process transactions

worth nearly RMB 110 billion, which represented a 35% year-on-year growth. During the period, Guanyi Cloud was named one of the “Top 10 Service Providers at the National Summit for E-Commerce Operators in 2018”.

3. Management software business for micro and small-sized enterprises maintained healthy growth with revenue from this segment increasing by 13.6%

During the reporting period, the management software business for micro and small-sized enterprises maintained steady growth, with revenue from this segment increasing by 13.6% year-on-year. The Group released its flagship product for small and medium-sized industrial and trading enterprises – the version 6.0 of KIS and KIS Golden Housekeeper for micro and small-sized enterprises. They provide enterprises with one-stop online and offline management solutions which cover finance, supply chain, production, procurement-sales-inventory, E-commerce and new retail services management. As a result, they have been highly recognized in the market.

(III) CloudHub Retained Leadership in the Mobile Office Market for Medium and Large-sized Enterprises

During the reporting period, the Group upgraded its mobile office application CloudHub to version 10, which incorporates three new features: time assistant, smart worksheet and colleague group. It also integrates “Xiaoyun” intelligent assistant, intelligent speaker for conference, Fxiaoke CRM and cross-enterprise approval functions for the applications in different scenarios. These features innovate the work methods and help enterprises to increase the productivity of junior staff. Therefore, everyone becomes a superior individual. According to IDC data, CloudHub ranked first in domestic mobile office market for medium and large -sized enterprises for three consecutive years.

(IV) Kingdee Tianyan took the lead in setting the national standards for Cloud computing, reinforcing its leadership in self-developed and controllable applications

In view of intensified international trade relations, the Chinese government stepped up efforts to promote the development of self-developed and controllable products in the reporting period. As the deputy director unit of the National Information Standards Committee, Kingdee Tianyan took the lead to participate in the formulation of five national standards for Cloud computing, thereby strengthening its leadership in the self-developed and controllable technology. At the same time, Kingdee Tianyan was included into the “Information Security Services Suppliers for Science, Technology and Industry for National Defence”. It signed contracts with a number of customers, including the Central Commission for Discipline Inspection, the Ministry of Foreign Affairs, the National Information Center, the Fujian Provincial Industrial and Commercial Bureau, the Hunan Tobacco Company and the Shenzhen Justice Bureau.

(V) Automotive Cloud services drove product innovation and actively explored value-added services

During the reporting period, Kingdee Automotive Network Technology Co., Ltd. ("Cargeer") seized market opportunities to vigorously develop innovative automotive Cloud services and actively explored value-added services, thereby accelerating the expansion of its operation among major car dealers and the automotive aftermarket. In the first half of this year, Cargeer brought in Beijing Souche Network Technology Co., Ltd. as its strategic investor. In the future, both sides will forge closer cooperation in online services for automotive industry and created value for their respective operations.

(VI) Kingdee Financial focused on financial innovation for micro and small-sized enterprises and promoted "credit investigation services" for trade finance business

During the reporting period, the Group's subsidiary Shenzhen Kingdee Internet Financial Services Co., Ltd. ("Kingdee Financial") vigorously explored financial innovation for micro- and small-sized enterprises. It launched "credit investigation services" for trade finance business. Leveraging Kingdee's Invoice Cloud technology, it introduced a variety of information security risk assessment services, including invoice identification and inspection, status monitoring, multi-channel financing and related transactions.

(3) Organization and Talent Retention

During the reporting period, the Group's workforce reached 6,886. It 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". Moreover, it strengthened organizational capabilities to support the implementation of Cloud strategy and recruited more high-caliber talents for Cloud services. 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 for users of deep-link users and increased the selection of semi-annual micro-innovation at the group level, which effectively supported the Group's innovation and implementation of its Cloud strategy. Moreover, it provided greater incentives to talents by issuing them restricted shares of the Company. 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 Conscience CFO Institute joined hands with enterprises' CFO and financial controllers to explore ways for opening up a new world for financial management and creating new commercial cultures. It also continued concerted efforts to

support charity and public welfare activities and projects. The Group continued to donate one-thousandth of revenue from Kingdee Cloud services to the “Teach For China” public welfare project. In addition, it utilized its technological and resource strengths in Cloud services to promote basic education in areas deprived of educational resources.

(5) Future Outlook

Cloud services are Kingdee’s future. Adhering to the operating principle of “one for all, all for one”, Kingdee Cloud is set to become a new management model for Chinese enterprises. After opening up the new world for financial management, the Group will continue to lead in innovation. It will help more enterprises to implement digital transformation and reform their management model through the adoption of Cloud services. Kingdee will fully implement corporate strategy 3.0, which will not only strengthen our souls and spirit to create more outstanding products, but also will enable us to utilize our professionalism and commitment to comprehensively bolster our service standards and quality. Kingdee is committed to retaining its leadership in enterprise Cloud services industry!

In the week prior to the publication of this report, Kingdee celebrated the 25th anniversary of its establishment. As 25 years have passed, we have continued to keep our mission in mind: making a full commitment to serve our customers. The Group has a vision of creating the most trustworthy platforms for enterprises and grow together with them. With the power of “Internet Plus” and “Conscience Plus”, Kingdee will work together with people with shared noble aspirations to jointly explore, develop and implement new management models with enterprises, small and large. Sunshine will splash on every enterprise and new commercial cultures and societies will thrive in China and everywhere!

REPORT OF DIRECTORS

Share Option Schemes

Outstanding share options under the 2001 Scheme, 2002 Scheme, 2005 Scheme and 2015 Scheme

The share option scheme is to encourage and reward the contribution of eligible persons to the Company. The eligible persons include employees, directors (the "Directors"), consultants, suppliers and customers of the Group.

The share option scheme adopted by the Company on 30 January 2001 (the "2001 Scheme") and the share option scheme adopted by the Company on 26 April 2002 (the "2002 Scheme"), were both terminated by the Company on 30 June 2005. As at 30 June 2018, there was no share option granted under the 2001 Scheme or the 2002 Scheme that was still outstanding.

Pursuant to the share option scheme adopted by the Company on 11 July 2005 (the "2005 Scheme") and the adjustment made due to the Bonus Issue and the refreshment on the scheme limit in 2011, an aggregate of 529,501,600 share options were granted, of which 280,450,018 share options were exercised, 160,108,307 share options were lapsed and 88,943,275 share options remained outstanding as at 30 June 2018.

At the annual general meeting of the Company held on 8 May 2015, the Company terminated the 2005 Scheme and adopted a new share option scheme (the "2015 Scheme") with a validity period of ten years. As at 30 June 2018, the Company had granted 40,000,000 share options under the 2015 Scheme, of which 3,440,500 share options were exercised, 1,100,000 share options were lapsed, and 35,459,500 share options remained outstanding. According to the scheme mandate limit of the 2015 Scheme as approved at the annual general meeting of the Company on 8 May 2015 (being 259,264,096 share options), less the 40,000,000 share options granted by the Company since its approval, the Company may further grant 219,264,096 share options (including the lapsed share options since the refreshment), representing approximately 6.67% of the total number of shares of the Company as at 30 June 2018.

Details of the share options granted, exercised and/or lapsed under the 2005 Scheme and 2015 Scheme during the six months ended 30 June 2018 are set out in the table below:

Name or category of participants	Options held at 31 December 2017	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options held at 30 June 2018
Directors					
Xu Shao Chun(1)	2,800,000	-	2,800,000	-	0
Oriental Gold Limited (1)	9,900,000	-	4,900,000	-	5,000,000
Lin Bo	1,025,000	-	-	-	1,025,000
Gary Clark Biddle	700,000	-	-	-	700,000
Wu Cheng <i>(resigned on 13 March 2018)</i>	300,000	-	100,000	-	200,000
Dong Ming Zhu	400,000	-	-	-	400,000
Liu Chia Yung	200,000	-	-	-	200,000
Other employees in aggregate	143,496,700	0	26,618,925		116,877,775
Total	158,821,700	0	34,418,925	0	124,402,775

Note:

1. Easy Key Holdings Limited is wholly owned by Mr. Xu Shao Chun, the Chairman of the Board and the Chief Executive Officer of the Company, which wholly owns Oriental Gold Limited and Billion Ocean Limited.

Share Award Scheme

The share award scheme was adopted by the Company (the "Share Award Scheme") to provide incentives and reward the contributions of certain employees and directors of the Group.

The Company approved the adoption of the Share Award Scheme on 4 December 2015. The Share Award Scheme shall be valid and effective for a period of 10 years commencing on the Adoption Date. Please refer to the announcement of the Company dated 18 December 2015.

During the six months ended 30 June 2018, the Company had granted 30,780,000 award shares pursuant to the Share Award Scheme, of which a total of 6,912,500

awarded shares granted to the directors of the Company were still outstanding, details of which are as follows:

Name of Director	As at 31 December 2017	Granted during the reporting period	Vested during the reporting period	As at 30 June 2018
Xu Shao Chun	4,000,000	2,000,000	1,250,000	4,750,000
Lin Bo	1,575,000	1,200,000	612,500	2,162,500

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

As at 30 June 2018, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")), which will be required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as set out in Appendix 10 of The Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

Long positions in shares/ underlying shares of the Company

Name of Directors	Number of shares/ underlying shares (where appropriate)	Types of interests	Percentage of issued share capital
Xu Shao Chun	775,198,624(L)	Interests of controlled corporation (Note 1)	24.21%
	4,750,000(L)	Beneficiary of a trust (Note 2)	
	16,004,942(L)	Beneficial owner	
<i>Aggregate::</i>	795,953,566		
Lin Bo	470,609(L)	Beneficial owner	
	2,162,500(L)	Beneficiary of a trust (Note 4)	

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	1,025,000(L)	Share option (Note 3)	
<i>Aggregate::</i>	3,658,109		0.11%
Gary Clark Biddle	480,000(L)	Beneficial owner	
	700,000(L)	Share option (Note 3)	
<i>Aggregate::</i>	1,180,000		0.04%
Wu Cheng(<i>resigned on 13 March 2018</i>)	880,000	Beneficial owner	
	200,000	Share option (Note 3)	
<i>Aggregate:</i>	1,080,000		0.03%
Dong Ming Zhu	400,000(L)	Share option (Note 3)	
<i>Aggregate::</i>	400,000		0.01%
Liu Chia Yung	200,000(L)	Share option (Note 3)	
<i>Aggregate::</i>	200,000		0.01%

Notes:

The percentage of the total issued share capital was calculated by the number of the aforesaid interests or short positions divided by the total issued share capital as at 30 June 2018 with total issued shares of 3,287,047,396.

1. Of the 775,198,624 shares, 419,312,000 shares (of which 5,000,000 are share options) were held through Oriental Gold Limited and 355,886,624 shares were held through Billion Ocean Limited. Easy Key Holdings Limited is wholly owned by Mr. Xu Shao Chun, which wholly owns Oriental Gold Limited and Billion Ocean Limited. Therefore, Mr. Xu Shao Chun is deemed to be interested in those 775,198,624 shares.
2. The 4,750,000 shares are the awarded shares granted to Mr. Xu Shao Chun and held by the trustee to the Share Award Scheme - Bank of Communications Trustee Limited.
3. Details of the share options and the awarded shares are set out in the paragraph headed "Share Option Schemes" and "Share Award Scheme" of this report.
4. The 2,162,500 shares are the awarded shares granted to Mr. Lin Bo and held by the trustee to the Share Award Scheme - Bank of Communications Trustee Limited.
5. (L) denotes long position.

Save as disclosed in this paragraph, as at 30 June 2018, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO to be entered

in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed in the section headed "Outstanding share options under the 2001 Scheme, 2002 Scheme, 2005 Scheme and 2015 Scheme" above, none of the Directors or their respective associates (as defined under the Listing Rules) was granted by the Company, or any of its subsidiaries, any rights or options to acquire shares or debentures in the Company during the six months ended 30 June 2018.

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

As at 30 June 2018, as far as the Directors were aware, the following persons (other than the Directors and chief executive of the Company) had interests and short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Part XV of the SFO and required to be recorded in the register required to be kept under section 336 of the SFO:

Long positions in shares/ underlying shares of the Company

Name	Number of Shares/ underlying Shares (where appropriate)	Capacity	Percentage of issued share capital
Easy Key Holdings Limited (Note 1)	775,198,624(L)	Beneficial owner	23.58%
Oriental Gold Limited (Note 1)	414,312,000 (L)	Beneficial owner	
	5,000,000 (L)	Other/share option (Note 2)	
SUBTOTAL	419,312,000 (L)		12.76%
Billion Ocean Limited (Note 1)	355,886,624(L)	Beneficial owner	10.83%
FMR LLC	209,200,485(L)	Investment manager	6.36%
JD Oriental Investment Limited (Note 3)	288,526,000(L)	Investment manager	8.78%

Notes:

1. Easy Key Holdings Limited is wholly owned by Mr. Xu Shao Chun; and Oriental Gold Limited and Billion Ocean Limited are wholly owned by Easy Key Holdings Limited.
2. Details of the share options are set out in the section headed “Share Option Schemes” of this report.
3. According to the disclosure of interest forms filed by JD Oriental Investment Limited, Max Smart Limited, JD.com, Inc., JD.com Investment Limited and Liu Qiangdong Richard on 26 May 2015, Max Smart Limited, JD.com, Inc., JD.com Investment Limited and Liu Qiangdong Richard were deemed to be interested in the shares of the Company as follows:

Name of controlled corporation	Name of controlling shareholder	% control	Direct interest	Number of shares
Max Smart Limited	Liu Qiangdong Richard	100.00	N	288,526,000
JD.com, Inc.	Max Smart Limited and Fortune Rising Holdings Limited	82.80	N	288,526,000
JD.com Investment Limited	JD.com, Inc.	100.00	N	288,526,000
JD Oriental Investment Limited	JD.com Investment Limited	100.00	Y	288,526,000

4. (L) denotes long position.

Save as disclosed above, as at 30 June 2018, the Directors were not aware of any other person (other than the Directors and chief executive of the Company) who had an interest and short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

Guaranteed Convertible Bonds

On 14 April 2014, Crotona Assets Limited (a Company’s wholly-owned subsidiary, as

Issuer and the Company, as Guarantor) issued five-year guaranteed convertible bond in the principal amount of USD175,000,000 which bear interest at a rate of 4% per annum payable semi-annually (the "Bonds"). On 20 March 2018, Issuer had informed the Trustee and holders of the Bonds of its intent to exercise its right of redemption pursuant to Condition 8(C) of the Conditions to redeem all the outstanding Bonds with the aggregate principal amount of US\$175,000,000. All Bonds had been converted as at 24 April 2018. There are no outstanding Bonds in issue following completion of the said conversion and cancellation of the Bonds. Listing of the Bonds on the Stock Exchange had been withdrawn with effect upon the close of business on 2 May 2018.

Please also refer to the announcements of the Company dated 8 April 2014, 10 April 2014, 14 April 2014, 15 April 2014, 20 March 2018 and 24 April 2018 for the details of the Bonds.

Change of Information of Directors

Mr. Chen Zhang resigned as Non-executive Director on 13 March 2018.

Mr. Wu Cheng resigned as Independent non-executive Director on 13 March 2018.

Mr. Shen Yuan Ching was appointed as Non-executive Director on 13 March 2018.

Mr. Cao Yang Feng was appointed as Independent non-executive Director on 13 March 2018.

Save as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Purchase, Sale or Redemption of Shares

During the reporting period ended 30 June 2018, 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 Corporate Governance Code (the "**Code**") as set out in Appendix 14 to the Listing Rules throughout the reporting period ended 30 June 2018, except for the deviation in respect of the roles of Chairman and chief executive officer under Code provision A.2.1. During the reporting period, Mr. Xu Shao Chun assumed the roles of both the Chairman and the chief executive officer of the Company. 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 possesses a unique strategic perspective. The Board believes that he can lead the Company to formulate effective strategies and react promptly to market changes. His continuous 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 of the Company.

Code of Conduct Regarding Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transaction on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry to each of the Directors, the Directors confirmed that they had complied with such code of conduct throughout the reporting period.

Audit Committee

The audit committee of the Company has reviewed with the management the accounting principles and practice adopted by the Company and discussed the auditing, internal controls and financial reporting matters. The audit committee has reviewed the Group's unaudited consolidated results for the six months ended 30 June 2018. The audit committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

Interim Dividend

The Board does not declare an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

Appreciation

On behalf of the Board, I would like to express our sincere thanks to all our managements and staff for their dedication during the period. Also, I would like to thank our shareholders for their continuous support.

By order of the Board

Kingdee International Software Group Company Limited

Xu Shao Chun

Chairman

Shenzhen, the People's Republic of China, 15 August 2018

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. Shen Yuan Ching as non-executive Directors; and Mr. Gary Clark Biddle, Mr. Cao Yang Feng and Mr. Liu Chia Yung as independent non-executive Directors.

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.