

**KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED**

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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 2018**

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 2018, together with the comparative audited consolidated figures for the year ended 31 December 2017 are as follows:

**Financial highlights for the year ended 31 December 2018**

- Revenue increased by approximately 21.9% compared with 2017 to approximately RMB2,808,658,000.
- Profit attributable to owners of the Company increased by approximately 32.9% compared with 2017 to approximately RMB412,106,000.
- Net cash generated from operating activities increased by approximately 9.9% compared with 2017 to approximately RMB905,515,000.
- Basic earnings per share attributable to owners of the Company during the year increased by approximately 19.5% to approximately RMB13.19 cents (2017: RMB11.04 cents).
- The Directors recommend the payment by the year ended 31 December 2018 of a final dividend of RMB1.0 cents per share in respect of the year ended 31 December 2018 (2017: RMB1.3 cents per share).

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 31 December	
		2018 RMB'000	2017 RMB'000
<b>Assets</b>			
<b>Non-current assets</b>			
Land use rights		67,545	69,405
Property, plant and equipment		490,236	510,213
Intangible assets		899,668	817,284
Investment properties		1,816,206	1,721,690
Investments in associates		234,403	31,420
Deferred income tax assets		49	55
Financial assets at fair value through profit or loss		427,456	6,286
Available-for-sale financial assets		-	50,053
Loans to related parties	4	464,537	59,160
Loans to third parties	4	18,940	2,910
		<u>4,419,040</u>	<u>3,268,476</u>
<b>Current assets</b>			
Inventories		8,436	14,057
Trade and other receivables	4	286,615	319,557
Loans to related parties	4	256,976	104,979
Entrusted loans	4	-	49,600
Loans to third parties	4	88,720	61,020
Contract assets	3	494,662	-
Due from customers on implementation contracts		-	432,802
Available-for-sale financial assets		-	396,818
Financial assets at fair value through profit or loss		211,430	-
Pledged bank deposits		152	2,254
Short-term bank deposits		359,674	1,095,820
Cash and cash equivalents		1,452,848	1,056,675
		<u>3,159,513</u>	<u>3,533,582</u>
<b>Total assets</b>		<u><u>7,578,553</u></u>	<u><u>6,802,058</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Notes	As at 31 December	
		2018 RMB'000	2017 RMB'000
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	5	-	1,193,503
Deferred income tax liabilities		179,319	160,598
		<u>179,319</u>	<u>1,354,101</u>
<b>Current liabilities</b>			
Trade and other payables	6	580,716	678,120
Contract liabilities	3	846,755	-
Advances from customers on implementation contracts		-	323,897
Borrowings	5	301,125	155,026
Current income tax liabilities		35,890	50,007
Deferred income	7	102,081	197,827
		<u>1,866,567</u>	<u>1,404,877</u>
<b>Total liabilities</b>		<u>2,045,886</u>	<u>2,758,978</u>
<b>Net assets</b>		<u>5,532,667</u>	<u>4,043,080</u>
<b>Equity</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		79,585	71,599
Share premium		2,903,459	1,681,289
Other reserves		565,259	694,669
Retained earnings		1,917,757	1,547,784
		<u>5,466,060</u>	<u>3,995,341</u>
<b>Non-controlling interests</b>		<u>66,607</u>	<u>47,739</u>
<b>Total equity</b>		<u>5,532,667</u>	<u>4,043,080</u>

**CONSOLIDATED INCOME STATEMENT**

	Notes	<b>Year ended 31 December</b>	
		<b>2018</b>	<b>2017</b>
		RMB'000	RMB'000
Revenue from contracts with customers	3,8	2,808,658	2,303,458
Cost of sales	9	<u>(514,339)</u>	<u>(426,974)</u>
<b>Gross profit</b>		<u>2,294,319</u>	<u>1,876,484</u>
Selling and marketing expenses	9	(1,491,302)	(1,235,882)
Administrative expenses	9	(334,342)	(320,203)
Net impairment losses on financial assets and contract assets	9	(47,697)	-
Research and development costs	9	(405,158)	(345,317)
Fair value gains on investment properties		94,516	96,419
Other income and gains - net	10	<u>342,971</u>	<u>349,258</u>
<b>Operating profit</b>		<u>453,307</u>	<u>420,759</u>
Finance income		29,444	40,029
Finance costs		<u>(30,481)</u>	<u>(67,141)</u>
Finance costs - net	11	(1,037)	(27,112)
Share of losses of associates		<u>(4,240)</u>	<u>(15,227)</u>
<b>Profit before income tax</b>		448,030	378,420
Income tax expense	12	<u>(38,760)</u>	<u>(54,808)</u>
<b>Profit for the year</b>		<u>409,270</u>	<u>323,612</u>
<b>Profit/(loss) attributable to:</b>			
Owners of the Company		412,106	310,004
Non-controlling interests		<u>(2,836)</u>	<u>13,608</u>
		<u>409,270</u>	<u>323,612</u>
<b>Earnings per share for profit attributable to owners of the Company</b> (expressed in RMB cents per share)			
- Basic	14	<u>13.19</u>	<u>11.04</u>
- Diluted	14	<u>12.45</u>	<u>10.75</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Year ended 31 December</b>	
	<b>2018</b> RMB'000	<b>2017</b> RMB'000
<b>Profit for the year</b>	<u>409,270</u>	<u>323,612</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 fair value of available-for-sale financial assets, net of tax	-	267
Reclassify to profit or loss upon disposal of available-for-sale financial assets	-	(1,855)
Currency translation differences	<u>67,029</u>	<u>11,227</u>
<b>Other comprehensive income for the year, net of tax</b>	<u>67,029</u>	<u>356,139</u>
<b>Total comprehensive income for the year</b>	<u>476,299</u>	<u>679,751</u>
<b>Total comprehensive income/(loss) attributable to:</b>		
Owners of the Company	479,135	666,143
Non-controlling interests	<u>(2,836)</u>	<u>13,608</u>
	<u>476,299</u>	<u>679,751</u>

**KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	<u>Attributable to owners of the Company</u>					Non- controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
<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
Change in accounting policy - IFRS 9	-	-	(267)	267	-	-	-
<b>Balance at 1 January 2018</b>	<u>71,599</u>	<u>1,681,289</u>	<u>694,402</u>	<u>1,548,051</u>	<u>3,995,341</u>	<u>47,739</u>	<u>4,043,080</u>
Profit for the year	-	-	-	412,106	412,106	(2,836)	409,270
<b>Other comprehensive income/(loss)</b>							
Currency translation differences	-	-	67,029	-	67,029	-	67,029
<b>Total comprehensive income</b>	<u>-</u>	<u>-</u>	<u>67,029</u>	<u>412,106</u>	<u>479,135</u>	<u>(2,836)</u>	<u>476,299</u>
<b>Transactions with owners</b>							
Employees share option scheme:							
- Value of employee services received	-	5,290	-	-	5,290	-	5,290
- Proceeds from shares issued	987	95,367	-	-	96,354	-	96,354
Share award plan:							
- Value of employee services received	-	81,628	-	-	81,628	-	81,628
- Transfer shares to the awardees upon vesting	-	(29,047)	14,937	-	(14,110)	-	(14,110)
- Shares purchased for share award plan	-	-	(224,405)	-	(224,405)	-	(224,405)
Equity transactions with non-controlling interests	-	-	13,296	-	13,296	21,704	35,000
Dividend distribution	-	-	-	(42,400)	(42,400)	-	(42,400)
Conversion of convertible bonds	6,999	1,068,932	-	-	1,075,931	-	1,075,931
<b>Total transactions with owners, recognised directly in equity</b>	<u>7,986</u>	<u>1,222,170</u>	<u>(196,172)</u>	<u>(42,400)</u>	<u>991,584</u>	<u>21,704</u>	<u>1,013,288</u>
<b>Balance at 31 December 2018</b>	<u>79,585</u>	<u>2,903,459</u>	<u>565,259</u>	<u>1,917,757</u>	<u>5,466,060</u>	<u>66,607</u>	<u>5,532,667</u>

**KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)**

	<u>Attributable to owners of the Company</u>					Non- controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		
<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
Profit for the year	-	-	-	310,004	310,004	13,608	323,612
<b>Other comprehensive income/(loss)</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 CASH FLOW STATEMENT**

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
<b>Cash flows from operating activities</b>		
Cash generated from operations excluding net cash outflow in loans to third parties from the micro-credit business	1,009,904	974,993
Net cash outflow in loans to third parties from the micro-credit business	(44,293)	(63,930)
Interest paid	(25,946)	(63,093)
Income tax paid	(34,150)	(24,280)
<b>Net cash inflow from operating activities</b>	<u>905,515</u>	<u>823,690</u>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(34,505)	(22,993)
Proceeds from disposals of property, plant and equipment	941	2,137
Purchases of intangible assets	(372,217)	(355,903)
Payment for acquisition of a subsidiary	(2,688)	-
Pledged bank deposits and short-term bank deposits withdrawn/(placed) - net	738,248	(475,698)
Interest received	43,269	39,831
Repayments received from entrusted loans	49,600	19,800
Purchases of financial assets at fair value through profit or loss (2017: available-for-sale financial assets)	(3,865,845)	(761,173)
Proceeds from disposal of financial assets at fair value through profit or loss (2017: available-for-sale financial assets)	3,743,450	584,424
Loans provided to related parties	(587,374)	-
Repayments of loans received from related parties	30,000	-
Investments in associates	(128,668)	(1,272)
<b>Net cash outflow from investing activities</b>	<u>(385,789)</u>	<u>(970,847)</u>
<b>Cash flows from financing activities</b>		
Proceeds from share options exercised	96,354	18,232
Capital contribution from non-controlling interests	35,000	-
Proceeds from borrowings	328,500	-
Repayments of borrowings	(258,226)	(80,324)
Dividend paid	(42,358)	-
Payments for purchase of shares for share award plan	(224,405)	(40,841)
Payments for buy-back of shares	-	(133,046)
Payments for acquisition of non-controlling interests in subsidiaries	(74,530)	-
<b>Net cash outflow from financing activities</b>	<u>(139,665)</u>	<u>(235,979)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	380,061	(383,136)
Effects of exchange rate changes on cash and cash equivalents	16,112	(24,958)
Cash and cash equivalents at beginning of the year	<u>1,056,675</u>	<u>1,464,769</u>
<b>Cash and cash equivalents at end of year</b>	<u>1,452,848</u>	<u>1,056,675</u>



## **1 General information**

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

The Company is an investment holding company. The Company and its subsidiaries (together the “Group”) are principally engaged in the enterprise resource planning (“ERP”) business, including development and sales of software, sales of hardware, provision of implementation services, software solution consulting services, maintenance services, upgrade services and other supporting services; and cloud services, including Enterprise cloud, express data cloud, finance cloud and mobile office cloud.

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

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

## **2 Summary of significant accounting policies**

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **2.1 Basis of preparation**

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

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

## 2 Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

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

The Group has applied the following standards and amendments for the first time for their annual reporting period beginning on 1 January 2018:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- *Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2*
- *Annual Improvements 2014-2016 cycle (Investment in associates and joint ventures - Amendments to IAS 28)*
- *Transfers to Investment Property – Amendments to IAS 40*
- *Interpretation 22 Foreign Currency Transactions and Advance Consideration*

The Group had to change its accounting policies and make certain adjustments following the adoption of IFRS 9 and IFRS 15. Most of the other amendments listed above did not have any material impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

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

Certain new accounting standards and interpretations that are not effective for the annual periods beginning on or after 1 December 2018 have been published but not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

##### *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 by lessees, 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.

## **2 Summary of significant accounting policies (continued)**

### **2.1 Basis of preparation (continued)**

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

#### *Impact*

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. 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 RMB58,797,000. Of these commitments, there are no short-term leases or low value leases which will both be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately RMB55,000,000 on 1 January 2019 and lease liabilities of approximately RMB55,000,000.

The Group expects that the impact on net profit will decrease by approximately RMB400,000 for 2019 due to the amortisation of right-of-use assets and interest recognised on lease liabilities under the new rules.

Operating cash flows will increase and financing cash flows decrease by approximately RMB2,600,000 as repayment of the principal portion of the lease liabilities will be classified as cash flows used in financing activities.

The impact of the adoption of this new standard is not significant on lessor accounting. However, some additional disclosures will be required from next year.

#### *Date of adoption by Group*

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## 2 Summary of significant accounting policies (continued)

### 2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on the Group's financial statements.

#### 2.2.1 Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had not been restated. As explained in note 2.2.2 below, IFRS 9 was adopted without restating comparative information. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the restated statement of financial position as at 31 December 2017, but are recognised in the opening statement of financial position on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail below.

Consolidated statement of financial position (extract)	31 Dec 2017			1 Jan 2018
	As originally presented	IFRS 15	IFRS 9	
	RMB'000	RMB'000	RMB'000	RMB'000
<b>Non-current assets</b>				
Financial assets at fair value through profit or loss ("FVPL")	6,286	-	50,053	56,339
Available-for-sale financial assets (at fair value through other comprehensive income ("OCI") ("FVOCI"))	50,053	-	(50,053)	-
<b>Current assets</b>				
Trade and other receivables	319,557	-	-	319,557
Contract assets	-	432,802	-	432,802
Due from customers on implementation contracts	432,802	(432,802)	-	-
Financial assets at FVPL	-	-	396,818	396,818
Available-for-sale financial assets	396,818	-	(396,818)	-
<b>Total assets</b>	<b>6,802,058</b>	<b>-</b>	<b>-</b>	<b>6,802,058</b>
<b>Current liabilities</b>				
Trade and other payables	678,120	(185,023)	-	493,097
Contract liabilities	-	622,233	-	622,233
Advances from customers on implementation contracts	323,897	(323,897)	-	-
Deferred income	197,827	(113,313)	-	84,514
<b>Total liabilities</b>	<b>2,758,978</b>	<b>-</b>	<b>-</b>	<b>2,758,978</b>
Other reserves	694,669	-	(267)	694,402
Retained earnings	1,547,784	-	267	1,548,051
<b>Total equity</b>	<b>4,043,080</b>	<b>-</b>	<b>-</b>	<b>4,043,080</b>
<b>Total equity and liabilities</b>	<b>6,802,058</b>	<b>-</b>	<b>-</b>	<b>6,802,058</b>

## 2 Summary of significant accounting policies (continued)

### 2.2 Changes in accounting policies (continued)

#### 2.2.2 IFRS 9 *Financial Instruments*

IFRS 9 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 recognised in the financial statements. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	<b>Notes</b>	<b>2018</b> RMB'000
<b>Closing retained earnings 31 December - IAS 39</b>		1,547,784
Transfer from the fair value reserve of available-for-sale financial assets now measured at FVPL	(a)	267
Adjustment to retained earnings from adoption of IFRS 9 on 1 January 2018		267
<b>Opening retained earnings 1 January - IFRS 9</b>		1,548,051

Adjustments made to line items in the consolidated income statement and the consolidated statement of other comprehensive income for the 2017 reporting period relate to:

	<b>Notes</b>	<b>2017</b> RMB'000
Decrease of administrative expenses	*	(38,277)
Increase of net impairment losses on financial and contract assets		38,277
<b>Adjustments of operating profit</b>		-
Adjustments of income tax expense		-
<b>Adjustments of profit and total comprehensive income for the year</b>		-

\* Reclassification of impairment losses on financial and contract assets required as a result of consequential changes made to IAS 1 *Presentation of Financial Statements*.

**2 Summary of significant accounting policies (continued)**

**2.2 Changes in accounting policies (continued)**

**2.2.2 IFRS 9 *Financial Instruments* (continued)**

(a) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets – 1 January 2018	Notes	FVOCI (Available-for-sale)	
		2017) RMB'000	FVPL RMB'000
<b>Closing balance 31 December 2017 – IAS 39 *</b>		446,871	6,286
Reclassify investments from available-for-sale to FVPL	(i)	<u>(446,871)</u>	<u>446,871</u>
<b>Opening balance 1 January 2018 - IFRS 9</b>		<u>-</u>	<u>453,157</u>

\* The closing balances as at 31 December 2017 show available-for-sale financial assets under FVOCI. These reclassifications have no impact on the measurement categories.

The impact of these changes on the Group's equity is as follows:

	Notes	Effect on AFS reserves RMB'000	Effect on retained earnings RMB'000
<b>Opening balance – IAS 39</b>		267	-
Transfer of the fair value reserve of available-for-sale financial assets now measured at FVPL	(i)	<u>(267)</u>	<u>267</u>
<b>Opening balance – IFRS 9</b>		<u>-</u>	<u>267</u>

(i) Reclassification from available-for-sale to FVPL

Certain investments in wealth management products were reclassified from available-for-sale to financial assets at FVPL (RMB446,871,000 as at 1 January 2018). They do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest.

Related fair value gains of RMB267,000 were transferred from the available-for-sale financial assets reserve to retained earnings on 1 January 2018.

## 2 Summary of significant accounting policies (continued)

### 2.2 Changes in accounting policies (continued)

#### 2.2.2 IFRS 9 *Financial Instruments* (continued)

##### (a) Classification and measurement (continued)

##### (ii) Reclassifications of financial instruments on adoption of IFRS 9

	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original RMB'000	New RMB'000	Difference * RMB'000
<b>Non-current financial assets</b>					
Equity investment in certain preferred shares	FVPL	FVPL	6,286	6,286	-
Wealth management products	Available for sale	FVPL	50,053	50,053	-
Loans to related parties	Amortised cost	Amortised cost	59,160	59,160	-
Loans to third parties	Amortised cost	Amortised cost	2,910	2,910	-
<b>Current financial assets</b>					
Trade and other receivables	Amortised cost	Amortised cost	319,557	319,557	-
Loans to related parties	Amortised cost	Amortised cost	104,979	104,979	-
Entrusted loans	Amortised cost	Amortised cost	49,600	49,600	-
Loans to third parties	Amortised cost	Amortised cost	61,020	61,020	-
Wealth management products	Available for sale	FVPL	396,818	396,818	-
Pledged bank deposits	Amortised cost	Amortised cost	2,254	2,254	-
Short-term bank deposits	Amortised cost	Amortised cost	1,095,820	1,095,820	-
Cash and cash equivalents	Amortised cost	Amortised cost	1,056,675	1,056,675	-

\* The differences noted in this column, if any, are the result of applying the new expected credit loss model. The reclassifications of the financial instruments on adoption of IFRS 9 did not result in any changes to measurements.

## **2 Summary of significant accounting policies (continued)**

### **2.2 Changes in accounting policies (continued)**

#### **2.2.2 IFRS 9 *Financial Instruments* (continued)**

##### (b) Impairment of financial assets

The Group has four types of financial assets that are subject to IFRS 9's new expected credit loss model:

- Trade receivables
- Contract assets
- Loan to third parties and
- Other financial assets at amortised cost

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 was not material.

##### (i) 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. This resulted in immaterial increase of the loss allowance on 1 January 2018 for trade receivables and contract assets provides for details about the calculation of the allowance.

The loss allowance increased by a further RMB 11,187,000 to RMB 128,599,000 for trade receivables. Expected loss rate of contract assets is immaterial. As at 31 December 2018, the loss allowance provision for contract assets was not material.

##### (ii) Loan to third parties

The Group's loan to third parties at amortised cost, was 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 RMB 646,000 on 1 January 2018 (previous loss allowance was approximately to RMB 646,000).

##### (iii) Other financial assets at amortised cost

Other financial assets include cash and cash equivalents, pledged bank deposits, short-term bank deposits, other receivables, entrusted loans and loans to related parties also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.



**2 Summary of significant accounting policies (continued)****2.2 Changes in accounting policies (continued)****2.2.3 IFRS 15 Revenue from Contracts with Customers**

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 statement of financial position at the date of initial application (1 January 2018):

Notes	IAS 18 carrying amount 31 Dec 2017 RMB'000	Reclassification RMB'000	Remeasurements RMB'000	IFRS 15 carrying amount 1 Jan 2018 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

There was no impact on the Group's retained earnings as at 1 January 2018.

The Group's revenue includes, separately or in combination, revenues from ERP business (including sales of software, sales of hardware, provision of implementation services, software solution consulting services, maintenance services, upgrade services, and other supporting services) and cloud services (including Enterprise cloud, express data cloud, finance cloud and mobile office cloud). Sales of standard software, hardware and related products are recognised at a point in time while sales of services are recognised over time in the period the services are provided.

## **2 Summary of significant accounting policies (continued)**

### **2.2 Changes in accounting policies (continued)**

#### **2.2.3 IFRS 15 *Revenue from Contracts with Customers* (continued)**

Contract assets are recognised when the the Group transfers control of products or services to a customer before the customer pays consideration and has not yet got unconditional right to consideration for its performance.

Contract liabilities are recognised when the payment is made or the payment is due (whichever is earlier), if customers pay consideration, or have a right to an amount of consideration that is unconditional, before the Group transfers products or services to the customer.

As a result, other than certain reclassifications mentioned above, the adoption of IFRS 15 did not result in any financial impact to the financial statements as the timing of revenue recognition on sales of products and services is not changed.

#### **(a) Presentation of assets and liabilities related to contracts with customers**

The Group has also changed the presentation of certain amounts in the statement of financial position 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 (RMB432,802,000 as at 1 January 2018).
- Contract liabilities in relation to software implementation and cloud services contracts were previously included in deferred income (RMB113,313,000 as at 1 January 2018).
- Contract liabilities in relation to implementation contracts were previously presented as advances from customers on implementation contracts (RMB323,897,000 as at 1 January 2018).
- Contract liabilities in relation to advances from customers were previously included in trade and other payables (RMB185,023,000 as at 1 January 2018).

### 3 Segment information

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

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

- |                         |   |
|-------------------------|---|
| ERP business            | - 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  |

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 2018 is as follows:

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

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**3 Segment information (continued)**

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

	<b>ERP business</b>	<b>Cloud services business</b>	<b>Others</b>	<b>The Group Total</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)/income – 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>	<u>289,061</u>	<u>(113,638)</u>	<u>148,189</u>	<u>323,612</u>
<b>Segment assets</b>	<u>4,901,398</u>	<u>178,970</u>	<u>1,721,690</u>	<u>6,802,058</u>
<b>Segment liabilities</b>	<u>2,496,632</u>	<u>153,724</u>	<u>108,622</u>	<u>2,758,978</u>
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 payments	62,873	5,224	-	68,097

**3 Segment information (continued)**

(a) Assets and liabilities related to contracts with customers

	<b>At 31 December 2018</b>
	RMB'000
Current contract assets relating to software implementation contracts under ERP business	494,662
Loss allowance	-
Total contract assets	494,662
Contract liabilities – ERP business	548,738
Contract liabilities – Cloud services business	298,017
Total current contract liabilities	846,755

(i) Revenue recognised in relation to contract liabilities

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

	<b>Year ended 31 December 2018</b>
	RMB'000
ERP business	367,338
Cloud services business	186,406
	553,744

**3 Segment information (continued)**

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

(ii) Unsatisfied long-term cloud services contracts

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

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

As permitted under the transitional provisions in IFRS 15, the transaction price allocated to (partially) unsatisfied performance obligations as of 31 December 2017 is not disclosed.

Management expects that approximately 46% of the transaction price allocated to the unsatisfied contracts as of 31 December 2018 will be recognised as revenue during the next reporting period (RMB 39,224,000). The remaining approximately 54% (RMB 46,319,000) will be recognised in the 2020 financial year. The amount disclosed above does not include variable consideration which is constrained.

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

### 3 Segment information (continued)

The Company is incorporated in the Cayman Islands while the Group mainly operates its business in the PRC. Revenue from external customers from the PRC and other locations is RMB2,787,912,000 (2017: RMB2,288,423,000) and RMB20,746,000 (2017: RMB15,035,000), respectively for the year ended 31 December 2018.

There is no single customer that contributed to over 10% of the Group's revenue for the years ended 31 December 2018 and 2017.

#### 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 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 infrastructure software, internet financing, asset management and online payment business              |

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 2018 and 2017 are as follows:



### 3 Segment information (continued)

For the year ended 31 December 2018:

	Project and consultancy-based business RMB'000	Product-based business RMB'000	Innovation business RMB'000	Elimination RMB'000	The Group Total RMB'000
Revenue (from external customers)	2,185,700	525,355	97,603	-	2,808,658
<b>Operating profit/(loss)</b>	237,008	245,445	(40,166)	11,020	453,307
Finance costs – net					(1,037)
Share of losses of associates					(4,240)
<b>Profit before income tax</b>					448,030
Income tax expense					(38,760)
<b>Profit for the year</b>					409,270
Depreciation and amortisation	272,057	56,870	24,960	-	353,887
Net impairment losses on financial assets and contract assets	46,894	160	643	-	47,697
Fair value gains on investment properties	94,516	-	-	-	94,516
Share-based payments	81,404	10,000	98	-	91,502

### 3 Segment information (continued)

For the year ended 31 December 2017:

	Project and consultancy-based business RMB'000	Product-based business RMB'000	Innovation business RMB'000	Elimination RMB'000	The Group Total RMB'000
Revenue (from external customers)	1,750,263	493,048	60,147	-	2,303,458
<b>Operating profit/(loss)</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 amortisation	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 payments	58,059	3,605	6,433	-	68,097

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

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
Trade receivables (a)	256,366	243,375
Less: allowance for impairment of trade receivables (b)	<u>(128,599)</u>	<u>(117,412)</u>
Trade receivables – net	127,767	125,963
Notes receivable	21,643	24,751
Advances to employees	4,945	12,001
Prepayments	42,104	62,305
VAT recoverable	49,833	41,592
Interest receivables	21,473	35,298
Receivables from related parties	9,193	6,449
Other receivables	<u>9,657</u>	<u>11,198</u>
	<u>286,615</u>	<u>319,557</u>
Less: non-current portion	-	-
Current portion	<u>286,615</u>	<u>319,557</u>
Loans to related parties		
– Current portion	256,976	104,979
– Non-current portion	<u>464,537</u>	<u>59,160</u>
	<u>721,513</u>	<u>164,139</u>
Entrusted loans		
– Current portion	-	49,600
	<u>-</u>	<u>49,600</u>
Loans to third parties		
– Current portion	88,720	61,020
– Non-current portion	<u>18,940</u>	<u>2,910</u>
	<u>107,660</u>	<u>63,930</u>

**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. At 31 December 2018 and 2017, the aging analysis of trade receivables based on invoice date were as follows:

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
0 - 90 days	75,353	78,675
91 - 180 days	11,153	13,315
181 - 360 days	38,976	24,051
Over 360 days	<u>130,884</u>	<u>127,334</u>
	<u><u>256,366</u></u>	<u><u>243,375</u></u>

(b) Movement on the Group's allowance for impairment of trade receivables is as follows:

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
<b>At 1 January</b>	(117,412)	(111,156)
Provision for impairment	(41,800)	(38,277)
Written off as uncollectible	<u>30,613</u>	<u>32,021</u>
<b>At 31 December</b>	<u><u>(128,599)</u></u>	<u><u>(117,412)</u></u>

## 5 Borrowings

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
Non-current		
Non-current portion long-term bank borrowings, unsecured	-	23,625
Non-current portion long-term bank borrowings, secured	-	52,200
Convertible bond (b)	-	1,117,678
	<u>-</u>	<u>1,193,503</u>
Current		
Short-term borrowings unsecured	272,500	-
Short-term borrowings secured (a)	5,000	-
Current portion of long-term borrowings, unsecured	23,625	148,501
Current portion of long-term borrowings, secured	-	6,525
	<u>301,125</u>	<u>155,026</u>
	<u>301,125</u>	<u>1,348,529</u>

At 31 December 2018, the Group's borrowings were repayable as follows:

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
Within 1 year	301,125	155,026
Between 1 and 2 years	-	1,193,503
	<u>301,125</u>	<u>1,348,529</u>

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

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
RMB	301,125	230,851
USD	-	1,117,678
	<u>301,125</u>	<u>1,348,529</u>

The Group's bank borrowings bear average interest rate of 4.78% (2017: 4.61%) per annum.

Except for the convertible bonds 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 (2017: within 1 year).

Note:

- (a) As at 31 December 2018, Guangzhou Deeking Small-Loan Co., Ltd. has a short-term borrowing of RMB5,000,000, which is secured by pledge of the wealth management products held by Kingdee Credit Co., Ltd., a subsidiary of the Group.

**5 Borrowings (continued)**

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

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

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

	RMB'000
<b>Liability component at 31 December 2016</b>	1,185,096
Interest accrued	48,635
Interest paid	(47,196)
Effect of currency translation	(68,857)
<b>Liability component at 31 December 2017</b>	1,117,678
Interest accrued	5,259
Interest paid	(5,100)
Effect of currency translation	(41,906)
Conversion of convertible bonds	(1,075,931)
<b>Liability component at 31 December 2018</b>	-

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**

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
Trade payables (a)	20,568	18,533
Salary and staff welfare payables	183,344	169,673
Advances from customers	-	185,023
VAT and other taxes payables	89,756	54,310
Accrual for expenses	61,211	44,913
Construction fee payable	8,170	21,968
Unpaid business acquisition consideration	88,180	91,388
Deposits of distributors	69,831	63,908
Interest payable	1,207	9,529
Outstanding payments for investments classified as financial assets at FVPL	19,000	-
Dividend payable	42	-
Others	39,407	18,875
	<u>580,716</u>	<u>678,120</u>

(a) At 31 December 2018, the aging analysis of the trade payables based on invoice date is as follows:

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
0 - 180 days	13,539	11,573
181 - 360 days	3,768	2,720
Over 360 days	3,261	4,240
	<u>20,568</u>	<u>18,533</u>

**7 Deferred income**

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
Deferred service fee income (a)	-	113,313
Deferred government grant (b)	<u>102,081</u>	<u>84,514</u>
	<u>102,081</u>	<u>197,827</u>

(a) The amount represents service fees received in advance from customers for software implementation and cloud services to be provided in periods beyond the financial year end, which was classified as contract liabilities in 2018.

(b) Movement of deferred government grants is as follows:

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
<b>At 1 January</b>	84,514	37,564
Additions	38,827	83,609
Recognised in the income statement	<u>(21,260)</u>	<u>(36,659)</u>
<b>At 31 December</b>	<u>102,081</u>	<u>84,514</u>

The amount represents cash received from government for financing various research and development projects conducted by the Group. These cash received will be recognised as income when the research and development cost are amortised in expense and certain stipulated conditions required by government are met (usually when the related development project is completed).

**8 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>2018</b>	<b>2017</b>
	RMB'000	RMB'000
ERP business	1,959,402	1,735,265
- Revenue from sales of software and hardware products recognised at a point in time	936,620	878,100
- Revenue from rendering of software implementation services recognised over time	805,667	562,897
- Revenue from rendering of software solution consulting, maintenance, upgrade and other supporting services recognised over time	217,115	294,268
Revenue from rendering of cloud services recognised over time	<u>849,256</u>	<u>568,193</u>
	<u>2,808,658</u>	<u>2,303,458</u>



## 9 Expenses by nature

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

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
Research and development costs		
Amounts incurred	500,301	403,697
Less: development costs capitalised	(379,237)	(354,837)
Add: amortisation	<u>284,094</u>	<u>296,457</u>
	405,158	345,317
Employee benefit expenses	1,799,747	1,467,793
Less: amount included in development costs	<u>(442,631)</u>	<u>(334,963)</u>
	1,357,116	1,132,830
Depreciation	47,691	44,559
Less: amount included in development costs	<u>(5,994)</u>	<u>(5,847)</u>
	41,697	38,712
Outsourcing services	342,379	231,289
Sales promotion	87,141	84,792
Advertising	107,476	77,383
Cost of inventories consumed	105,393	88,897
Rental and utilities	45,025	52,718
Traveling	55,056	49,966
Office expenses	47,462	39,128
Other taxes and surcharges	44,582	47,392
Professional service fees	22,212	21,309
Training costs	20,989	20,516
Amortisation of trademarks, licences and copyrights	6,915	6,688
Amortisation of computer software for own use	8,097	5,467
Amortisation of customer relationship	5,230	5,230
Amortisation of land use rights	1,860	3,361
Auditors' remuneration	3,100	3,700
Impairment loss on financial assets	47,697	38,923
Others	<u>38,253</u>	<u>34,758</u>
Total	<u><u>2,792,838</u></u>	<u><u>2,328,376</u></u>

**10 Other income and gains – net**

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
<b>Other income</b>		
VAT refund (a)	178,529	171,837
Government subsidy income	43,347	52,340
Rental income - net	<u>72,941</u>	<u>68,236</u>
	<u>294,817</u>	<u>292,413</u>
<b>Other gains</b>		
Realised gains on financial assets at FVPL (b)	34,503	15,150
Unrealised fair value gains/(losses) on financial assets at FVPL	9,831	(180)
Gains from dilution of investments in associates	714	25,130
Revaluation gain on investment upon losing of control	5,318	-
Gains on remeasurement of contingent consideration for business combination	-	25,117
Others	<u>(2,212)</u>	<u>(8,372)</u>
	<u>48,154</u>	<u>56,845</u>
	<u>342,971</u>	<u>349,258</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%. From 1 May 2018, according to the circular “Notice of Ministry of Finance and the General Administration of Taxation on the Adjustment of VAT Rate”(Cai Shui [2018] No.32), the applicable rate for software industry has been changed from 17% to 16%.

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 are entitled to VAT refund to the extent that the effective VAT rate of the sales of the software in the PRC exceeds 3% of the sales amounts.

- (b) It represented interest income from wealth management products that are measured at FVPL.

**11 Finance costs – net**

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
Interest income	29,444	40,029
Interest on borrowings	(17,624)	(62,506)
Bank charges	(1,474)	(581)
Net foreign exchange losses on financing activities	(11,383)	(4,054)
	<b>(1,037)</b>	<b>(27,112)</b>

**12 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.

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
Current income tax		
– Current tax on profits for the year	34,600	48,429
– Adjustments in respect of prior years	(14,567)	(16,793)
Deferred income tax	18,727	23,172
	<b>38,760</b>	<b>54,808</b>

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

(b) In 2016, a tax law [2016] No.49 has been enacted that entity can register for the National Important Software Enterprise (“NISE”) in tax bureau if the entity complies with relevant requirements. Based on management’s assessment, it is highly probable that Kingdee China will meet those requirements. Therefore, Kingdee China was estimated to use a preferential corporate income tax rate of 10% for the year ended 31 December 2018 (2017: 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 2018 (2017: 10%). The application of preferential tax rate stated above is subject to critical estimates of the management of the Group.

**12 Income tax expense (continued)**

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

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

Shanghai Guanyi Cloudcomputing Software Co., Ltd. was consistently qualified as High-tech Enterprise from November 2016 and were entitled to a preferential corporate income tax rate of 15% in 2018 (2017: 12.5%, a preferential rate at half of the corporate income tax rate for new software enterprises).

Shanghai Kingdee Deeking Cloud Computing Co., Ltd. was qualified as High-tech Enterprise from 2016 to 2019 and was entitled to a preferential corporate income tax rate of 15% in 2018 (2017: 15%).

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

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

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
<b>Profit before tax</b>	448,030	378,420
Tax calculated at the statutory tax rate of 25% (2017: 25%)	112,008	94,605
Tax effects of:		
Preferential tax rates	(67,491)	(54,357)
Tax losses for which no deferred income tax asset was recognised	35,703	37,356
Expenses not deductible for tax purposes	7,286	8,094
Re-measurement of deferred tax due to a change in applicable tax rate	(4,288)	(582)
Additional deductible allowance for research and development expenses	(29,891)	(13,515)
Adjustments in respect of prior years	(14,567)	(16,793)
	38,760	54,808

### 13 Dividends

	<b>2018</b>	<b>2017</b>
	RMB'000	RMB'000
Proposed final dividend	<u>33,000</u>	<u>42,400</u>

Included in the 2017 final dividends of RMB42,400,000 (RMB1.3 cents per share) (approximately HKD1.6 cents per share), RMB42,358,000 were paid in 2018, while the remaining RMB42,000 was outstanding as at 31 December 2018.

A final dividend of RMB1.0 cents (equivalent to approximately HKD1.1 cents) per ordinary share, totaling RMB33,000,000, for the year ended 31 December 2018, 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 2018, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2019.

### 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>2018</b>	<b>2017</b>
<b>Profit attributable to owners of the Company</b> (RMB'000)	412,106	310,004
<b>Weighted average number of ordinary shares in issue</b> (thousands)	<u>3,125,266</u>	<u>2,806,783</u>
<b>Basic earnings per share</b> (RMB cents per share)	<u>13.19</u>	<u>11.04</u>

**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 at the beginning of the year, 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.

	<b>2018</b>	<b>2017</b>
<b>Profit attributable to owners of the Company</b> (RMB'000)	412,106	310,004
Interest expense on convertible debt (net of tax) (RMB'000)	5,259	-
<b>Profit used to determine diluted earnings per share</b> (RMB'000)	417,365	310,004
<b>Weighted average number of ordinary shares in issue</b> (thousands)	3,125,266	2,806,783
Adjustments for:		
– Assumed conversion of convertible bonds	94,808	-
– Share options (thousands)	81,536	53,921
– Share awards (thousands)	49,874	24,080
<b>Weighted average number of ordinary shares for diluted earnings per share</b> (thousands)	3,351,484	2,884,784
<b>Diluted earnings per share</b> (RMB cents per share)	12.45	10.75

**15 Events occurred after the reporting period**

On 6 March 2019, Shenzhen Hongjin Investment Company Limited (“Hongjin Investment”), a subsidiary of the Group, entered into an equity transfer agreement with Diechuang Holdings Limited (“Diechuang Holdings”), a related party controlled by Mr. Xu Shao Chun, whereby Diechuang Holdings conditionally agreed to sell, and Hongjin Investment conditionally agreed to purchase 51.73% equity interest in Shenzhen Cloud-Hub at a cash consideration of RMB50,456,000. Shenzhen Cloud-Hub will become a subsidiary of the Group upon the completion of the above transaction.

## Management Discussion and Analysis

### (1) Key Financial Information

Despite the uncertainties of the world environment in 2018, Kingdee still made new breakthroughs in the transformation towards cloud services. During the reporting period, the Group achieved 21.9% year-on-year revenue growth, with revenue from management software business grown by 12.9% year-on-year, and revenue from Cloud services increased by 49.5% year-on-year. Kingdee further pursued its strategic objective of deepening Cloud transformation as the contribution of this segment to the Group's total revenue reached 30.2%.

#### Revenue

For the year ended 31 December 2018, the Group recorded total revenue of RMB2,808,658,000, representing a year-on-year growth of 21.9% (2017: RMB2,303,458,000). Revenue from the management software business amounted to RMB1,959,402,000 (2017: RMB1,735,265,000), up 12.9% year-on-year. Revenue from Cloud services increased by 49.5% year-on-year to RMB849,256,000 (2017: RMB568,193,000).

#### Gross Profit

During the reporting period, the Group recorded gross profit of RMB 2,294,319,000 (2017: RMB 1,876,484,000), up by approximately 22.3% year-on-year. Its gross profit margin was approximately 81.7% (2017: approximately 81.5%).

#### Operating Profit

For the year ended 31 December 2018, the Group recorded operating profit of RMB 453,307,000 (2017: RMB 420,759,000), representing a 7.7% year-on-year growth. Operating profit margin increased to approximately 16.1% (2017: approximately 18.3%).

#### Profit

For the year ended 31 December 2018, profit attributable to the owners of the Company amounted to RMB412,106,000 (2017: RMB310,004,000). Net profit margin attributable to the Company was approximately 14.7% (2017: approximately 13.5%). Basic earnings per share were RMB13.19 cents (2017: RMB11.04 cents).



## **Cash Flow**

For the year ended 31 December 2018, net cash inflow generated from operating activities was RMB905,515,000(2017: RMB 823,690,000), representing an increase of 9.9% year-on-year.

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

In the era of digital economy, Cloud computing becomes the driving force of enterprises' business innovation, and Cloud adoption by enterprises becomes the inevitable choice of digital transformation. According to the latest "Semi-Annual China Public Cloud Services Tracker for the First Half of 2018" issued by IDC, a famous international market intelligence service provider, the overall market size of China's public Cloud services industry (IaaS, PaaS, SaaS) exceeded US\$3 billion in the first half of 2018. According to the sales revenue report on the Chinese enterprise-grade SaaS service providers for the first half of 2018, Kingdee surpassed both of its domestic and foreign peers and ranked the first in the market. Moreover, it retained the largest market shares of enterprise-grade SaaS, SaaS ERM and financial Cloud sectors in terms of revenue for two consecutive years. In addition, during the reporting period, Kingdee became the first Chinese enterprise SaaS Cloud service provider included in Gartner's "Market Guide for Cloud ERP for Product-Centric Companies".

In line with the trend of Industrial Internet, Kingdee has been working together with leading enterprises in different industries to further explore the reconstruction of value chains of conglomerates, infrastructure and real estate, energy resources, modern agriculture, medical health, fast-moving consumer goods and manufacturing companies. It introduced platform products and gradually formed a unique cooperation model and Industrial Internet digital solutions. Kingdee further deepened the cultivation of benchmark customers and enhanced strategic customer management.

### **(1) Medium and Large-sized Enterprises Market**

During the reporting period, Kingdee Software (China) Co., Ltd. (hereinafter referred to as "Kingdee China") reinforced its leadership in the Cloud services and management software sector for fast-growing enterprises. It drove the business development by stepping up efforts to develop innovative products for medium and large-sized enterprises, exploring new ways of market development, and promoting brand internationalization. During the reporting period, project and consultancy-based business generated revenue of RMB2,185,700,000, representing an increase of 24.9% year-on-year.

1. Stellar product “Kingdee Cloud Cosmic” was launched, and revenue of “Kingdee Cloud Galaxy” increased by 53.8% year-on-year.

During the reporting period, Kingdee launched an epochal Cloud service platform for large enterprises, Kingdee Cloud Cosmic, the first domestically-developed enterprise-grade Cloud service platform in China based on Cloud-native infrastructure. It uses distributed architecture to support Cloud-native infrastructure such as micro-services, container services, DevOps. Kingdee created the unique KDDM Cloud dynamic domain model to support personalized Cloud service, and integrated social networking, artificial intelligence, Big Data and Blockchain technologies to provide scenario-based platform services for enterprise applications.

Kingdee has leveraged its low-code and lightweight development platform to help Wens Group build up a digital agriculture platform, to assist Huawei, PetroChina International and other large enterprises with building innovative business platforms. Within a few months after the product was launched, Kingdee received contracts worth RMB 39.8 million for it. Within a short period and limited market coverage after the product rollout, its revenue exceeded RMB7 million, and the number of contracted customers grew to 15, including Huawei, C&D, PetroChina International, Xiwang Group, Wen's Group and other large conglomerates. Kingdee Cloud Cosmic made a successful debut.

During the reporting period, revenue from “Kingdee Cloud Galaxy”, an innovative digital Cloud service platform for fast-growing enterprises, reached RMB605 million, up more than 53.8% year-on-year, while the number of customers reached 9,500. The retention rate of customers continued to maintain at a high level and exceeded 95%. During the period, Kingdee Cloud Galaxy strengthened cooperation with Amazon AWS, Huawei Cloud, JD Cloud and other IaaS service providers to establish an ecosystem for its business. During the year, Kingdee Cloud Galaxy signed contracts with Samsung, LG, Han's Laser, NetEase and other well-known enterprises. During the reporting period, the Group took advantage of the opportunities arising from the government's initiative to promote Cloud adoption by enterprises and was named the authorized partner of the "Steering Committee of China Cloud Service Alliance for Promoting Cloud Adoption by One Million Enterprises" by the Ministry of Industry and Information Technology. Furthermore, it was included into the lists of recommended service providers by 15 provincial governments and 22 municipal governments. In addition, Kingdee Cloud was selected as the "strategic partner of the Ministry of Industry and Information Technology in 2018 for promoting one million enterprises to adopt Cloud services", and the "excellent supplier of Industrial Internet platform technology".

2. Remarkable achievements were made in business for medium and large-sized enterprises with EAS revenue increasing by 19.3% Y-o-Y.

During the reporting period, the business of EAS, the Kingdee China's core traditional solutions, continued to grow steadily, with software sales revenue increasing by 19.3% year-on-year. Focusing on "dual-mode IT, smart transformation", Kingdee EAS utilized 8 growth engines, i.e., intelligent sharing, global treasurer, tax management, s-HR, smart manufacturing, digital marketing, digital sourcing and large enterprise hybrid Cloud, to get direct access to customers and help them to implement digital transformation.

During the reporting period, fruitful results were made in Kingdee EAS business for medium and large-sized enterprises and the industry market. The Company successfully signed contracts with medium and large-sized enterprises, such as Tsingshan Holding Group, Jemincare, Weigao Holding, Guangdong Radio and Television, PetroChina International, SIPG, SANY Group, Zhuhai Gree and other model enterprises. Kingdee EAS will continue to deepen cooperation with enterprises and expand Industrial Internet operation.

3. Kingdee further cultivated channels, embraced Cloud transformations and helped partners to improve their management and operating efficiency

During the reporting period, the Group continued to promote the transformation of channel partners towards Cloud services. As a result, revenue of public Cloud channel increased by nearly 200% and the number of public Cloud distribution customers exceeded 2000. The number of public Cloud billing partners was 445, up 83% year-on-year.

4. Kingdee took advantage of the Belt and Road Initiative to accelerate globalization of Cloud business

Under the support of Hong Kong's status as an international financial center and its traditional strengths, the Group took advantage of the opportunities brought about by the "Belt and Road Initiative" and actively explored the Asia Pacific market, which marked an important milestone for the planning and development of its overseas business. In Hong Kong, the Group provided solutions to a number of local Chinese-owned financial institutions, including ABC International, CMB International, CEB International, Haitong International. It also signed agreements with a number of famous customers, such as Bauhaus, MOISELLE, PanAsialum Holdings, Honeymoon Dessert and SPIC International Finance (Hong Kong) Company Limited.

(2) Micro and Small-sized Enterprises Market

During the reporting period, the Group's subsidiary Kingdee Deeking Cloud Computing Co., Ltd. ("Kingdee Deeking") upgraded the Cloud services and management software for micro and small-sized enterprises and explored further integration of Cloud ecosystems. In addition, it enriched products' attribute dimension, strengthened brand competitiveness and helped micro and small-sized enterprises to upgrade their businesses through smart technology. During the reporting period, the product-based business realised a revenue of RMB525,355,000, representing a year-on-year increase of 6.6%.

1. "Kingdee Jingdou Cloud" actively explored product upgrades and revenue grew by 104.9% Y-o-Y

In 2018, "Kingdee Jingdou Cloud" achieved revenue growth of 104.9%. In response to customer needs, it implemented the product terminal diversification strategy and achieved preliminary results. It successively launched various WeChat mini-programs such as Cloud Accounting, Cloud Housekeeper and Invoicing. The installation volume of "Kingdee Jingdou Cloud" APP was over 100,000 in one year, with more than 36,000 companies using the APP to handle their businesses every month.

As to the R&D of new products, the newly-launched integrated retail solutions were widely praised by the market. "Kingdee Jingdou Cloud" has successively established strategic partnerships with Alibaba, China Mobile, China UnionPay and other companies and jointly launched products that were widely welcomed by the market.

2. Micro and small-sized enterprises management software enabled one-stop management services, with revenue from KIS business grew steadily

During the reporting period, the micro and small-sized enterprises management software business continued to maintain steady growth, with its revenue increasing by 5.7% year-on-year. Kingdee KIS helped large, small and micro-sized enterprises to achieve one-stop management of their finance, supply chain and new retail operation. At the same time, it helped enterprise customers connect with upstream and downstream suppliers, and link up with financial institutions for financing solutions, thereby helping them to reduce costs and increase efficiency. In order to help small and micro-sized enterprises to adopt Cloud services, KIS explored ways to use its products on the Cloud environment so that enterprises could use KIS software to get online at any time, which addresses the core needs of small and micro-sized enterprises, including low expenditures, easy use, free from maintenance and data security.

(3). Orders processed by Guanyi Cloud on the Double Eleven Shopping Festival accounted for nearly 20% of the entire network, with "zero disorder, zero undelivered order."

During the reporting period, the Group's subsidiary Shanghai Guanyi Cloud Computing Software Co., Ltd. ("Kingdee Guanyi Cloud") continued to promote further integration with Kingdee's products and to ensure users' experience. Furthermore, it deepened cooperation with other platforms and provided professional and efficient E-commerce Cloud services for various famous enterprises such as Foxconn, CEEC, Yili and Michelin. Smart E-commerce and warehousing solutions were offered to a number of leading E-commerce enterprises such as Langsha Group, OPPLE, Beingmate and DEEJ to help them solve E-commerce management problems. The total order volume handled by the system for the year exceeded 800 million and the transaction flow was more than RMB140 billion, representing an increase of 27.5% and 19.2% respectively. During the Double Eleven Shopping Festival in 2018, "Kingdee Guanyi Cloud" processed orders worth a total of RMB54.9 billion, accounting for 17.4% of the entire network; the order volume processed by it was 267 million of the entire network, accounting for 19.7% of the market. Despite the overwhelming order volumes, the system remained efficient and stable with zero disorder and zero undelivered order. It enabled E-commerce operators to carry out personalized marketing efforts. During the reporting period, Kingdee Guanyi Cloud's Cloud-ERP won the "Shanghai High-tech Achievement Transformation Project Certification".

(4) Cloud-Hub drove the intelligent collaboration of businesses for medium and large-sized enterprises with its market share ranked the first for three consecutive years.

During the reporting period, the Group's subsidiary Shenzhen Cloud-Hub Network Co., Ltd. ("Cloud-Hub") served as the "Cloud for intelligent collaboration", undertaking important tasks such as internal collaboration, external connectivity and mobile portal. Due to its synergies with other Kingdee products, it help customers to connect with the upstream and downstream value chain, promoted the reconstruction of their industrial value chains and accelerated the development of Industrial Internet. Currently, there are over 7,000 large scale enterprises subscribed to Cloud-Hub services. During the reporting period, it signed contracts with various large business units, including Anta, Hunan Salt Industry, the Shenzhen Baoan SASAC, Wens Group, Guangzhou Liby Enterprise Group. The products received enthusiastic response from them. According to IDC, Cloud-Hub has gained the largest share of large and medium-sized enterprises market for three consecutive years. Looking ahead into the future, Cloud-Hub will be deeply integrated with Kingdee Cloud Cosmic and will continue to provide comprehensive solutions for large scale enterprises.

(5) Kingdee Tianyan helped the government to deliver its services on the Cloud environment, as the government stepped up efforts to promote the “Digital China” policy

During the reporting period, the Group's subsidiary Shenzhen Kingdee Tianyan Middleware Co., Ltd. (“Kingdee Tianyan”) undertook the 2018 National Basic Software Platform Project for Core Electric Devices and led the development of five national Cloud computing technology standards, including those for the Cloud Computing Platform as a Service (PaaS) Reference Architecture and the Information Technology Cloud Computing Platform as a Service (PaaS) Application Management Requirements. As to R&D, Kingdee launched the “Tianyan Cloud” to capture the opportunities arising from the government’s vigorous efforts to promote “Digital China” policy. This product helps the government to provide integrated E-government services on the Cloud environment, helping the government to achieve digital transformation and driving the modernization of the national governance system and governance capabilities.

During the period, it successfully signed agreements with various customers, including the Central Commission for Discipline Inspection, the Ministry of Foreign Affairs, the Ministry of Science and Technology, the National Meteorological Administration, the Ministry of Transport, the Fujian Provincial Bureau of Industry and Commerce, the Hebei Provincial Bureau of Statistics, the Hunan Tobacco Company and the Shenzhen Municipal Justice Bureau.

(6) Automotive Cloud services were further innovated and upgraded, driving the digital transformation of Cargeer’s service system

During the reporting period, the Group's subsidiary Kingdee Automotive Network Technology Co., Ltd. (“Cargeer”) actively pursued product innovation of its automotive Cloud services and optimized users’ experience. It also helped car dealers establish a digital service system based on customer operations. At the same time, it also continued to consolidate its position in the informatization market of automobile dealers, provided products to more than 4,000 4S (sale, spare parts, service, survey) stores and further promoted the mobile application. During the reporting period, the number of customers using its automotive Cloud service products grew 170.5% year-on-year, and revenue from them increased by 101.9% when compared with that of last year. Cargeer was highly recognized by the market and it will continue to help auto dealers and service enterprises to accelerate their transformation through Cloud adoption.

(7) Financial service Cloud-”Kingdee Effective Loan” was officially launched

During the reporting period, the Group’s subsidiary Shenzhen Kingdee Internet Financial Services Co., Ltd. (“Kingdee Financial”) actively responded to the government’s efforts to “serve the physical economy through financial services” and to promote the “development of microfinance”. It focused on developing data financial service - “Kingdee Effective Loan”, which provides financial institutions with the information of small and

micro-sized enterprise's financing needs. Different from other loan matching services, "Kingdee Effective Loan" is authorized by customers to provide data reporting reports based on Jinwei Cloud's Big Data technology, hence greatly improves the efficiency of credit reporting of financial institutions and effectively reduces the financing costs of small and micro-sized enterprises.

(8) Continuing Innovation in Property Cloud to Help Top 100 Enterprises to Implement Digital Transformation.

During the reporting period, the Group's subsidiary Kingdee My Wojia Cloud Network Technology Co., Ltd. ("Wojia Cloud") adhere to the mission of helping property enterprises to unleash their assets value, and making community life better. It provided all-round Cloud services to property enterprises and owners, such as Cloud charging, Cloud leasing, Cloud customer services, Cloud property, quality management, intelligent patrol and living services platform, thereby helping property enterprises to carry out digital transformation, to improve their service efficiency and quality, and to enhance property owner's use experience. By integrating the resources of various businesses, it helped property service enterprises to provide more value-added services and to innovate and expand their operations. Nearly 1,000 new projects were added, which spread across 97 cities in China. It signed contracts with top 100 enterprises from different sector, including Shum Yip Holdings, Juhe Property and Financial Street Holdings. The services they offered ranged from residential properties, commercial properties, industrial properties, hotel apartments, innovative industrial parks, and cultural and creative communities.

(9) A number of strategic investments were made in tandem with each other, accelerating the incubation of the Group's business ecosystem

During the reporting period, 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 participate in a number of investments in the Cloud sector, thereby further consolidating its leading position in enterprise Cloud services market and laying a solid foundation for the Group's sustainable development. In 2018, the Group made strategic investments in "FXiaoKe", "Xinren Xinshi", jointly established "Xinnong Hulian" with Wens Group, and invested in CRRC'S subsidiary "GuoChuang Track Company". Besides, it became a cornerstone investor of AsiaInfo Hong Kong under the latter's initial public offering and raised its investment in Huacai Accounting. The Company continued to incubate its business ecosystem, with Kingdee Auto Network received A-round financing from Souche Automotive Services Co., Ltd. These strategic investments were of great significance for strengthening Kingdee's leading position in the Cloud service market, facilitating the construction of Kingdee Cloud service ecosystem and accelerating Kingdee's transformation towards Cloud services.

### **3. Organization and talent retention**

During the reporting period, the Group's workforce reached 7,777. 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 entrepreneurship 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, Kingdee continued to explore the best management model for Chinese companies. Upgraded from "China Management Model Excellence Award", the "China Management Model 50+ Forum" is committed to promoting the progress of enterprise management in China. It also continued concerted efforts to support charity and public welfare activities and projects, giving back the advantages of Cloud services to the society. 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 strike the educational balance in areas deprived of educational resources.

### **5. Future outlook**

The past decade was the age of consumer Internet, and the next 10 years will usher in the era of Industrial Internet. Digitalization of traditional industries will create new opportunities. Based on the successful experience and mature schemes of 6.8 million customers, Kingdee will accelerate the transformation of Cloud, reach out to our customers and power their success, as well as assisting customers to reconstruct their value chains in effort to build up a community of common destiny for all enterprises. Kingdee strive to become the most trustworthy enterprise Cloud service platform and to promote the development of industrial Internet.



### **Final Dividends**

At the annual general meeting of the Company (“AGM”) to be held on 15 May 2019, the Board will recommend a final dividend of RMB1.0 cents (equivalent to approximately HK\$1.1cents) per share for the year ended 31 December 2018 (2017: RMB 1.3cents). Subject to the approval of shareholders at the AGM, the final dividend is expected to be paid on or around 25 June 2019 to shareholders whose names appear on the register of members of the Company on 20 May 2019.

### **Closures of Register**

The register of members of the Company will be closed from Friday, 10 May 2019 to Wednesday, 15 May 2019 (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 15 May 2019, 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, 9 May 2019.

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

During the year ended 31 December 2018, the Company purchased 34,579,000 shares of the Company on the Stock Exchange for an aggregate consideration of HK\$ 253,374,717.95 pursuant to the Company’s Share Award Scheme as defined below as adopted by the Company on 4 December 2015.

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 2018 except for code provisions A 2.1.

### **Audit Committee**

As at 31 December 2018, the audit committee of the Company (“Audit Committee”) comprised three independent non-executive Directors, namely Mr. Gary Clark Biddle, Mr. Cao Yang Feng and Mr. Liu Chia Yung. Mr. Gary Clark Biddle was the chairman of the Audit Committee. The Audit Committee has reviewed the accounting principles and practices adopted by the Company, discussed auditing, internal control, risk management and financial reporting matters and reviewed the audited financial statements for the year ended 31 December 2018 of the Group.

### **Auditor**

PricewaterhouseCoopers was appointed as the external auditor of the Company for the year of 2018, 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.

**Auditor’s Procedures Performed on this Results Announcement**

The figures in respect of the announcement of the Group’s consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and the related notes thereto for the year ended 31 December 2018 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.

By order of the Board  
**Kingdee International Software Group Company Limited**  
**Xu Shao Chun**  
Chairman

Shenzhen, the People’s Republic of China, 13 March 2019.

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.