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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 2017**

##### **Financial highlights for the six months ended 30 June 2017**

- Revenue increased by approximately 15.5% over the same period in 2016 to approximately RMB1,054,658,000
- Profit before income tax for the period increased by approximately 31.5% over the same period in 2016 to approximately RMB109,934,000
- Net cash generated from operating activities during the period increased by approximately 14.7% over the same period in 2016 to approximately RMB234,059,000
- Basic earnings per share for profit attributable to owners of the Company during the period is approximately RMB3.715 cents (the six months ended 30 June 2016: Basic earnings per share for profit of RMB4.655 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 2017 are as follows:

## CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

As at 30 June 2017

	<i>Notes</i>	<b>Unaudited 30 June 2017 RMB'000</b>	Audited 31 December 2016 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Land use rights	6	123,725	125,405
Property, plant and equipment	7	822,339	796,287
Investment properties		882,620	882,620
Intangible assets	7	805,144	775,223
Investments in associates		29,893	25,793
Deferred income tax assets		2,362	3,947
Available-for-sale financial assets		150,208	150,196
Financial assets at fair value through profit or loss		10,256	10,256
Entrusted loan	8	49,500	49,600
Loan to related parties	8	152,982	158,591
Other receivables	8	-	42,677
<b>Total non-current assets</b>		<b>3,029,029</b>	3,020,595
<b>Current assets</b>			
Inventories		9,741	6,252
Trade and other receivables	8	356,344	315,241
Entrusted loan	8	19,700	19,800
Due from customers on implementation contracts		411,464	395,705
Available-for-sale financial assets		102,087	119,659
Financial assets at fair value through profit or loss		12,917	12,917
Pledged bank deposits		28,335	3,274
Short-term bank deposits		758,520	619,102
Cash and cash equivalents		1,175,930	1,464,769
<b>Total current assets</b>		<b>2,875,038</b>	2,956,719
<b>Total assets</b>		<b>5,904,067</b>	5,977,314

**CONDENSED CONSOLIDATED INTERIM BALANCE SHEET** *(Continued)**As at 30 June 2017*

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
	<i>Notes</i>	<b>2017</b>	2016
		<b>RMB'000</b>	RMB'000
<b>EQUITY</b>			
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	9	71,790	72,552
Share premium	9	1,675,658	1,765,324
Other reserves		401,581	400,154
Retained earnings		1,344,215	1,237,780
		<u>3,493,244</u>	<u>3,475,810</u>
<b>Non-controlling interests</b>		<u>58,649</u>	<u>60,356</u>
<b>Total equity</b>		<u>3,551,893</u>	<u>3,536,166</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	10	1,276,694	1,415,596
Deferred income tax liabilities		109,164	102,818
<b>Total non-current liabilities</b>		<u>1,385,858</u>	<u>1,518,414</u>
<b>Current liabilities</b>			
Trade and other payables	11	419,258	453,873
Due to customers on implementation contracts		209,811	220,167
Borrowings	10	171,875	80,675
Current income tax liabilities		10,963	42,652
Deferred income		154,409	125,367
<b>Total current liabilities</b>		<u>966,316</u>	<u>922,734</u>
<b>Total liabilities</b>		<u>2,352,174</u>	<u>2,441,148</u>
<b>Total equity and liabilities</b>		<u><u>5,904,067</u></u>	<u><u>5,977,314</u></u>

The notes on pages 9 to 26 are an integral part of these consolidated financial statements.

**CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT***For the six months ended 30 June 2017*

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
	<i>Notes</i>	<b>2017</b>	2016
		<b>RMB'000</b>	RMB'000
Revenue	12	<b>1,054,658</b>	913,204
Cost of sales	13	<b>(209,712)</b>	(188,687)
<b>Gross profit</b>		<b>844,946</b>	724,517
Selling and marketing expenses	13	<b>(523,481)</b>	(471,650)
Administrative expenses	13	<b>(144,253)</b>	(135,977)
Research and development costs	13	<b>(178,964)</b>	(146,748)
Other gains-net	14	<b>127,252</b>	132,470
<b>Operating profit</b>		<b>125,500</b>	102,612
Finance income		<b>17,801</b>	15,353
Finance costs		<b>(31,858)</b>	(32,833)
Finance costs-net		<b>(14,057)</b>	(17,480)
Share of loss of investments accounted for using the equity method		<b>(1,509)</b>	(1,533)
<b>Profit before income tax</b>		<b>109,934</b>	83,599
Income tax expense	15	<b>(5,206)</b>	41,629
<b>Profit for the period</b>		<b>104,728</b>	125,228
<b>Attributable to:</b>			
Owners of the Company		<b>106,435</b>	134,834
Non-controlling interests		<b>(1,707)</b>	(9,606)
		<b>104,728</b>	125,228
<b>Earnings per share for profit attributable to owners of the Company</b>			
-Basic	16	<b>RMB3.715cents</b>	RMB4.655 cents
-Diluted	16	<b>RMB3.640cents</b>	RMB4.386 cents

The notes on pages 9 to 26 are an integral part of these consolidated financial statements.

**CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME***For the six months ended 30 June 2017*

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Profit for the period</b>	<b>104,728</b>	<b>125,228</b>
<i>Items that may be reclassified to profit or loss</i>		
-Available-for-sale financial assets	<b>(560)</b>	3,978
-Currency translation differences	<b>4,466</b>	(2,819)
<b>Other comprehensive income for the period</b>	<b>3,906</b>	<b>1,159</b>
<b>Total comprehensive income for the period, net of tax</b>	<b>108,634</b>	<b>126,387</b>
<b>Total comprehensive income attributable to:</b>		
-Owners of the Company	<b>110,341</b>	135,993
-Non-controlling interests	<b>(1,707)</b>	(9,606)
	<b>108,634</b>	<b>126,387</b>

The notes on pages 9 to 26 are an integral part of these consolidated financial statements.

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

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

**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)

		Unaudited						
		Attributable to owners of the Company				Non-	Total	
		Share	Share	Other	Retained	controlling	Total	
Notes		capital	premium	reserves	earnings	interests	equity	
	<b>Balance at 1 January 2016</b>	71,972	1,682,784	512,763	949,550	3,217,069	29,649	3,246,718
	<b>Comprehensive income</b>							
	Profit/(losses) for the period	-	-	-	134,834	134,834	(9,606)	125,228
	Available-for-sale financial assets	-	-	3,978	-	3,978	-	3,978
	Currency translation differences	-	-	(2,819)	-	(2,819)	-	(2,819)
	<b>Total comprehensive income/(losses)</b>	-	-	1,159	134,834	135,993	(9,606)	126,387
	<b>Transactions with owners</b>							
	Employees share option scheme:							
	-Value of employee services	9	-	17,923	-	-	-	17,923
	-Proceeds from shares issued	9	469	14,947	-	-	-	15,416
	Equity transactions with non-controlling interests							
		-	-	1,095	-	1,095	(1,299)	(204)
	Non-controlling interests arising on business combination							
		-	-	-	-	-	31,985	31,985
	Share award plan:							
	-Value of employee services	9	-	14,088	-	-	-	14,088
	<b>Total transactions with owners</b>	469	46,958	1,095	-	48,522	30,686	79,208
	<b>Balance at 30 June 2016</b>	72,441	1,729,742	515,017	1,084,384	3,401,584	50,729	3,452,313

The notes on pages 9 to 26 are an integral part of these consolidated financial statements.

**CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT***For the six months ended 30 June 2017*

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Cash flows from operating activities:</b>		
Cash generated from operations	<b>288,054</b>	254,062
Interest paid	<b>(33,001)</b>	(32,833)
Income tax paid	<b>(20,994)</b>	(17,096)
<b>Net cash generated from operating activities</b>	<b>234,059</b>	204,133
<b>Cash flows from investing activities:</b>		
Purchases of property, plant and equipment	<b>(24,538)</b>	(166,185)
Proceeds from sale of property, plant and equipment	<b>752</b>	13,883
Purchase of intangible assets	<b>(189,015)</b>	(217,068)
Cash paid for contingent and deferred consideration for business combination	-	(150,330)
Pledged bank deposits withdrawn - net	<b>(25,061)</b>	40,000
Short-term bank deposits placed - net	<b>(139,418)</b>	(244,066)
Interest received	<b>17,801</b>	15,353
Repayments received from entrusted loans	<b>200</b>	100
(Purchases)/proceeds of other investments - net	<b>(12,972)</b>	99,541
Investments in new associates	-	(5,000)
<b>Net cash used in investing activities</b>	<b>(372,251)</b>	(613,772)
<b>Cash flows from financing activities:</b>		
Proceeds from share options exercised	<b>9,807</b>	15,416
Proceeds from borrowings	-	262,750
Repayments of borrowings	<b>(20,338)</b>	(231,000)
Payments for purchase of shares for share award plan	<b>(4,344)</b>	-
Payment for buy-back of shares	<b>(129,017)</b>	-
<b>Net cash generated from financing activities</b>	<b>(143,892)</b>	47,166
<b>Net decrease in cash and cash equivalents</b>	<b>(282,084)</b>	(362,473)
Cash and cash equivalents at beginning of the period	<b>1,464,769</b>	1,527,610
Currency translation differences on cash and cash equivalents	<b>(6,755)</b>	-
<b>Cash and cash equivalents at end of the period</b>	<b>1,175,930</b>	1,165,137

The notes on pages 9 to 26 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 16 August 2017.

This condensed consolidated interim financial information has not been audited.

### **2. Basis of preparation**

This unaudited condensed consolidated interim financial information for the half-year ended 30 June 2017 has been prepared in accordance with IAS 34, ‘Interim financial reporting’. The unaudited condensed consolidated interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2016 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

### **3. Accounting policies**

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements.

Other amendments to IFRSs effective for the financial year ending 31 December 2017 are not expected to have a material impact on 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. 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 2016.

### 5. 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 services, 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 operating profit of each segment. Substantially all of the businesses of the Group are carried out in the PRC.

## Notes to the condensed consolidated interim financial information

## 5. Segment information (Continued)

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

	ERP business	Cloud services business	Others	The Group 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
<b>Finance costs – net</b>	<b>(16,204)</b>	<b>2,147</b>	<b>-</b>	<b>(14,057)</b>
Share of loss of investments accounted for using the equity method	(1,509)	-	-	(1,509)
<b>Profit before income tax</b>	<b>128,276</b>	<b>(50,346)</b>	<b>32,004</b>	<b>109,934</b>
Income tax expense	(9,796)	7,790	(3,200)	(5,206)
<b>Segment results</b>	<b>118,480</b>	<b>(42,556)</b>	<b>28,804</b>	<b>104,728</b>
<b>Segment assets</b>	<b>4,760,917</b>	<b>260,530</b>	<b>882,620</b>	<b>5,904,067</b>
<b>Segment liabilities</b>	<b>2,132,825</b>	<b>159,477</b>	<b>59,872</b>	<b>2,352,174</b>
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

## 5. Segment information (Continued)

The unaudited segment information for the six months ended 30 June 2016 is as follows:

	ERP business	Cloud services business	Others	The Group Total
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue (from external customers)	718,294	194,910	-	913,204
Operating profit	139,234	(71,391)	34,769	102,612
Finance costs	(32,731)	(103)	-	(32,833)
Finance income	14,259	1,095	-	15,353
<b>Finance costs – net</b>	<b>(18,472)</b>	<b>992</b>	<b>-</b>	<b>(17,480)</b>
Share of loss of investments accounted for using the equity method	(1,533)	-	-	(1,533)
<b>Profit before income tax</b>	<b>119,229</b>	<b>(70,399)</b>	<b>34,769</b>	<b>83,599</b>
Income tax expense	30,589	10,232	808	41,629
<b>Segment results</b>	<b>149,817</b>	<b>(60,166)</b>	<b>35,577</b>	<b>125,228</b>
<b>Segment assets</b>	<b>4,470,215</b>	<b>387,734</b>	<b>848,741</b>	<b>5,706,690</b>
<b>Segment liabilities</b>	<b>1,884,994</b>	<b>314,304</b>	<b>55,079</b>	<b>2,254,377</b>
Additions to non-current assets (other than financial instruments and deferred tax assets)	403,402	4,749	-	408,151
Depreciation and amortization	136,895	6,901	-	143,796
Written-back for doubtful trade and other receivables	15,482	-	-	15,482
Share-based payment	32,011	-	-	32,011

## Notes to the condensed consolidated interim financial information

## 6. Land use rights

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Opening net book amount at 1 January	125,405	128,766
Amortization charge	<u>(1,680)</u>	<u>(1,680)</u>
<b>Closing net book amount at 30 June</b>	<b><u>123,725</u></b>	<b><u>127,086</u></b>
<b>Represented by:</b>		
Cost	148,892	148,892
Accumulated amortization charges	<u>(25,167)</u>	<u>(21,806)</u>
	<b><u>123,725</u></b>	<b><u>127,086</u></b>

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

## Notes to the condensed consolidated interim financial information

## 7. Property, plant, equipment and intangible assets

	Unaudited	
	Property, plant and equipment RMB'000	Intangible assets RMB'000
<b>Six months ended 30 June 2017</b>		
<b>Opening net book amount at 1 January 2017</b>	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>
<b>Closing net book amount at 30 June 2017</b>	<u>822,339</u>	<u>805,144</u>
<b>Six months ended 30 June 2016</b>		
<b>Opening net book amount at 1 January 2016</b>	731,783	601,218
Additions	138,112	420,249
Disposals	(9,781)	-
Depreciation and amortization	(22,674)	(119,442)
	<u>837,440</u>	<u>902,025</u>
<b>Closing net book amount at 30 June 2016</b>	<u>837,440</u>	<u>902,025</u>

## Notes to the condensed consolidated interim financial information

## 8. Trade and other receivables

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Trade receivables(a)	266,868	237,226
Less: allowance for impairment	(117,631)	(111,156)
Trade receivables - net	<u>149,237</u>	126,070
Notes receivable	12,840	20,921
Advance to employees	19,521	16,772
Prepayments	55,470	95,110
VAT recoverable	60,876	49,348
Interest receivables	28,914	22,099
Receivables from related parties	6,151	4,946
Loans to related parties	152,982	158,591
Other receivables	<u>23,335</u>	22,652
	<u>509,326</u>	516,509
Entrusted loan		
Current portion	19,700	19,800
Non-current portion	<u>49,500</u>	49,600
	<u>69,200</u>	69,400

(a) Sales are generally made without prescribed credit in the sales contracts but customers usually take 1 to 3 months to settle the receivables. The ageing analysis of trade receivables is as follows:

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
0-180 days	111,120	78,716
181- 360 days	19,679	20,874
Over 360 days	<u>136,069</u>	137,636
	<u>266,868</u>	237,226

## Notes to the condensed consolidated interim financial information

## 9. Share capital and share premium

	Number of issued shares (thousands)	Ordinary shares RMB'000	Share premium RMB'000	Total RMB'000
<b>At 1 January 2017</b>	<b>2,947,840</b>	<b>72,552</b>	<b>1,765,324</b>	<b>1,837,876</b>
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)
<b>At 30 June 2017(Unaudited)</b>	<b>2,912,609</b>	<b>71,790</b>	<b>1,675,658</b>	<b>1,747,448</b>
<b>At 1 January 2016</b>	<b>2,918,148</b>	<b>71,972</b>	<b>1,682,784</b>	<b>1,754,756</b>
Employee share option scheme				
- Value of services received	-	-	17,923	17,923
- Exercise of share options	22,347	469	14,947	15,416
Share award plan				
- Value of services received	-	-	14,088	14,088
<b>At 30 June 2016(Unaudited)</b>	<b>2,940,495</b>	<b>72,441</b>	<b>1,729,742</b>	<b>1,802,183</b>



## Notes to the condensed consolidated interim financial information

## 10. Borrowings

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
<b>Non-current</b>		
Long-term bank borrowings, unsecured	63,500	171,775
Long-term bank borrowings, secured	55,463	58,725
Convertible bonds(a)	1,157,731	1,185,096
	<u>1,276,694</u>	<u>1,415,596</u>
<b>Current</b>		
Current portion of long-term borrowings, unsecured	165,350	74,150
Current portion of long-term borrowings, secured	6,525	6,525
	<u>171,875</u>	<u>80,675</u>
	<u>1,448,569</u>	<u>1,496,271</u>

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

## Notes to the condensed consolidated interim financial information

## 10. Borrowings(continued)

The convertible bonds recognized in the balance sheet are calculated as follows:

	<b>RMB'000</b>
<b>Face value of convertible bonds issued on</b>	
<b>14 April 2014</b>	1,076,793
Transaction costs	(20,214)
Equity component	(8,696)
	<hr/>
<b>Liability component on initial recognition at</b>	
<b>14 April 2014</b>	1,047,883
Interest expense	31,420
Interest accrued	(30,590)
Effects of currency translation	(5,816)
	<hr/>
<b>Liability component at 31 December 2014(Audited)</b>	1,042,897
Interest expense	46,730
Interest accrued	(45,455)
Effects of currency translation	63,846
	<hr/>
<b>Liability component at 31 December 2015(Audited)</b>	1,108,018
Interest expense	47,873
Interest accrued	(46,496)
Effects of currency translation	75,701
	<hr/>
<b>Liability component at 31 December 2016(Audited)</b>	1,185,096
Interest expense	<b>24,776</b>
Interest accrued	<b>(24,050)</b>
Effects of currency translation	<b>(28,091)</b>
	<hr/>
<b>Liability component at 30 June 2017(Unaudited)</b>	<b>1,157,731</b>
	<hr/> <hr/>

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

## Notes to the condensed consolidated interim financial information

## 11. Trade and other payables

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Trade payables (a)	21,712	19,435
Amounts due to related parties	1,528	374
Salary and staff welfare payables	61,994	110,604
Advances from customers	155,448	141,711
VAT tax payable	33,306	44,120
Accrued expenses	20,888	14,294
Construction fee payable	6,933	12,738
Contingent consideration for a business acquisition	55,440	55,440
Deposits of distributors	45,323	38,667
Interest payable	10,270	10,116
Others	6,416	6,374
	<b>419,258</b>	<b>453,873</b>

(a) As at 30 June 2017, the ageing analysis of trade payables is as follows:

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
0-180 days	13,108	12,024
181- 360 days	1,582	1,041
Over 360 days	7,022	6,370
	<b>21,712</b>	<b>19,435</b>

## Notes to the condensed consolidated interim financial information

## 12. Revenue

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
ERP business	771,836	718,294
Cloud services business	282,822	194,910
	<b>1,054,658</b>	<b>913,204</b>

## 13. 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	
	2017	2016
	RMB'000	RMB'000
Research and development costs		
Amounts incurred	217,226	189,045
Less: development costs capitalised	(188,850)	(154,592)
Add: amortization	150,588	112,295
	<b>178,964</b>	<b>146,748</b>
Employee benefit expenses	645,835	556,193
Less: amount included in research and development costs	(166,430)	(144,126)
	<b>479,405</b>	<b>412,067</b>
Cost of inventories consumed	21,508	10,802
Depreciation of property, plant and equipment	24,260	22,674
Amortization of computer software, licenses and copyrights	6,419	6,279
Amortization of customer relationship	2,615	868
Amortization of land use rights	1,680	1,680
Impairment of receivables	15,130	15,482

## Notes to the condensed consolidated interim financial information

## 14. Other gains

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Subsidy income		
- VAT refund	<b>79,697</b>	77,077
- Government program research	<b>11,256</b>	10,473
Rental income-net	<b>32,004</b>	34,769
(Loss)/profit on disposals of property, plant and equipment	<b>(288)</b>	4,102
Investment income	<b>4,218</b>	2,744
Others	<b>365</b>	3,305
	<b>127,252</b>	132,470

## Notes to the condensed consolidated interim financial information

## 15. Income tax expense

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Current income tax	<b>(3,746)</b>	(2,246)
Deferred income tax	<b>8,952</b>	(39,383)
	<b>5,206</b>	(41,629)

- (a) No provision for profits tax in the Cayman Islands and Hong Kong has been made as the Group has no income assessable for profits tax for the period in those jurisdictions.
- (b) Kingdee Software (China) Co., Ltd. ("Kingdee China") was qualified as a national important software enterprise and was entitled to a preferential tax rate of 10% for the period ended 30 June 2017 (2016:10%).
- (c) Shanghai Kingdee Deeking cloudcomputing Co., Ltd., Shenzhen Kingdee Tianyan Middleware Corp., Ltd. and Beijing Kingdee Management 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 2017.
- (d) Shenzhen Kingdee Qisi Technology Co., Ltd. was qualified as a software enterprise by Shenzhen Software Industry Association on 8 October 2015 and was entitled to tax exemption for two years and thereafter to a preferential rate at half of the corporate income tax rate for three years.
- (e) Shanghai Guanyi cloudcomputing Software Co., Ltd was qualified as a new software enterprise in 2016 and was entitled to tax exemption for two years (from 2014) and thereafter to a preferential rate at half of the corporate income tax rate for three years.
- (f) Other PRC subsidiaries of the Group applied the tax rate of 25%.

## Notes to the condensed consolidated interim financial information

## 16. 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.

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2017</b>	2016
	<b>RMB'000</b>	RMB'000
Profit attributable to owners of the Company	<b>106,435</b>	134,834
Weighted average number of ordinary shares in issue (thousands)	<b>2,864,741</b>	2,896,535
Basic earnings per share	<b>RMB3.715cents</b>	RMB4.655 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 three categories of dilutive potential ordinary shares: convertible bonds, share options and share awards. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options and share awards, the number of shares that could have been issued upon the exercise of all dilutive share options and share awards less the number of shares that could have been issued at fair value (determined as the average annual market share price of the Company's shares) for the same total proceeds is added to the denominator as the number of ordinary shares issued for no consideration. Since diluted earnings per share would have been higher if the convertible bonds had been converted, the convertible bonds are anti-dilutive and are ignored in the calculation of diluted earnings per share.

## Notes to the condensed consolidated interim financial information

## 16. Earnings per share(continued)

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Profit attributable to owners of the Company	106,435	134,834
Profit used to determine diluted earnings per share	<u>106,435</u>	<u>134,834</u>
Weighted average number of ordinary shares in issue (thousands)	2,864,741	2,896,535
Adjustment for–		
share options (thousands)	45,227	177,660
share awards (thousands)	<u>13,807</u>	<u>-</u>
Weighted average number of ordinary shares for diluted earnings per share (thousands)	<u>2,923,825</u>	<u>3,074,195</u>
Diluted earnings per share	<u>RMB3.640cents</u>	<u>RMB4.386cents</u>



## Notes to the condensed consolidated interim financial information

## 17. Dividends

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2017 (the six months ended 30 June 2016: Nil).

## 18. Related party transactions

The Group is controlled by Mr. Xu Shao Chun, who owns 27.28% of the Company's shares. The remaining 72.72% 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 2017 as follows:

## (a) Transactions with related parties

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2017</b>	<b>2016</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Sales of goods		
– Associates	7,353	4,344
– Companies controlled by the ultimate controlling party	15	-
	<u>7,368</u>	<u>4,344</u>
Sales of services		
– Associates	6,169	-
– Companies controlled by the ultimate controlling party	465	-
	<u>6,634</u>	<u>-</u>
Rental income		
– Associates	749	-
– Companies controlled by the ultimate controlling party	2,135	1,777
	<u>2,884</u>	<u>1,777</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

## 18. Related party transactions(continued)

## (b) Purchase of goods and services

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Purchase of goods		
– Associates	9,151	-
– Companies controlled by the ultimate controlling party	935	-
	<u>10,086</u>	<u>-</u>
Purchase of services		
– Associates	3,200	-
– Companies controlled by the ultimate controlling party	1,038	-
	<u>4,238</u>	<u>-</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
	2017	2016
	RMB'000	RMB'000
Period-end balances arising from sales of goods		
– Associates	881	374
Period-end balances arising from sales of services		
– Associates	597	2,594
– Companies controlled by the ultimate controlling party	50	-
	<u>647</u>	<u>2,594</u>
Receivable from related parties		
– Associates	839	419
– Companies controlled by the ultimate controlling party	5,312	4,527
	<u>6,151</u>	<u>4,946</u>

## Notes to the condensed consolidated interim financial information

## 18. Related party transactions(continued)

## (d) Loans to related parties

	Unaudited	
	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
Loans to companies controlled by the ultimate controlling party		
<b>At 1 January</b>	<b>107,647</b>	-
Loans advanced during year	-	-
Interest charged	<b>2,639</b>	-
<b>At 30 June</b>	<b>110,286</b>	-
Loans to an associate		
<b>At 1 January</b>	<b>54,850</b>	-
Loans advanced during year	-	-
Interest charged	<b>1,551</b>	-
Share of losses of an associate in excess of the investment cost	<b>(5,609)</b>	-
<b>At 30 June</b>	<b>50,792</b>	-

The loans to related parties carry interest at 5.0% (2016: nil). 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

In the first half of 2017, the Group leveraged its extensive insight into the management of Chinese enterprises to capitalize on new opportunities brought about by their digital transformation. While driving steady growth of its management software business, the Group accelerated the development of Cloud services and achieved significant milestones, thereby laying a solid foundation for its sustainable and healthy development.

During the reporting period, the Group's Management Software business grew steadily with revenue from this segment increasing by 7.5% year-on-year (excluding effects of disposed business, revenue from continuing operations of this segment would have grown 10.2% year-on-year). Meanwhile, the Cloud services maintained growth momentum and revenue from this segment surged 45.1% year-on-year (excluding effects of disposed businesses, revenue from continuing operations climbed 60.3% year-on-year). The Group achieved significant milestones in the development of its Cloud services as their contribution to the Group's overall revenue rose to 26.8%.

#### Revenue

For the six months ended 30 June 2017, the Group recorded total revenue of RMB1,054,658,000, representing an increase of 15.5% year-on-year (1H2016: RMB913,204,000). Excluding effects of disposed business, revenue from continuing operations would have increased 20.3% year-on-year. Of which, revenue from the Management Software business grew 7.5% to RMB771,836,000 (1H2016: RMB718,294,000) from a year ago. Revenue from Cloud services surged 45.1% year-on-year to RMB282,822,000 (1H2016: RMB194,910,000).

#### Gross Profit

During the reporting period, the Group recorded gross profit of RMB844,946,000 (1H2016: RMB724,517,000), representing an increase of 16.6% year-on-year. Gross profit margin for the reporting period was approximately 80.1% (1H2016: approximately 79.3%).

#### Operating Profit

The Group's operating profit for the six months ended 30 June 2017 amounted to RMB125,500,000 (1H2016: RMB102,612,000), up 22.3% year-on-year. Operating profit margin improved to approximately 11.9% as compared with approximately 11.2% for 1H2016 mainly due to the economies of scale and higher revenue from Cloud services.

## **Profit**

Mainly weighed by the income tax adjustments, profit attributable to owners of the Company for the six months ended 30 June 2017 amounted to RMB106,435,000 (1H2016: RMB134,834,000). Net profit margin for the reporting period was approximately 10.1% (1H2016: approximately 14.8%). Basic earnings per share were RMB3.715 cents (1H2016: RMB4.655 cents).

## **Cash Flow**

For the six months ended 30 June 2017, net cash inflow generated from operating activities reached RMB234,059,000 (1H2016: RMB204,133,000), representing an increase of 14.7% year-on-year.

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

During the reporting period, in view of increasing demand from Chinese enterprises for digital transformation technology in the reporting period, the Group concluded that Cloud computing, Big Data and mobile Internet technologies would be the key categories for the development of enterprise software industry. Moreover, while China's economy entered a new development phase coupled with a market revival and enterprises' growing demand for Cloud-driven business transformations, the enterprise-level software industry continued to gain momentum. The Group continued to aggressively expand its enterprise management software business, leading to the steady growth of its core businesses. Meanwhile, it further enhanced Kingdee Cloud services, as the Group continues to develop a new generation of strategic enterprise management software platform.

During the reporting period, according to the "PRC Semi-annual Enterprise Applications Tracker (2H2016)" released by IDC, an internationally independent research institute, Kingdee remained China's No.1 application software provider for growth enterprises for 13 consecutive years.

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

During the reporting period, Kingdee Software (China) Co., Ltd. focused on the provision of Cloud services and management software to medium and large-sized enterprises. It achieved solid results in exploring and expanding the market for product upgrades by medium and large-sized enterprises, which became a key driver for the Group's business growth.

#### **1. Revenue up 70% y-o-y as Kingdee Cloud ERP was upgraded to "Kingdee Cloud"**

During the reporting period, the Group upgraded the fast-growing Kingdee Cloud ERP to "Kingdee Cloud". Driven by strong demand, Kingdee Cloud generated revenue of RMB180 million, up 70% from a year ago and accounted for 17% of the Group's total revenue. Moreover, the number of its users increased 80% year-on-year with retention rate above 90%. During the reporting period, the Group signed cooperation agreements with various well-known domestic and overseas enterprises and new startups, including HBIS Group, ZTE Nubia Corporation, Oji Paper Company, NVC Lighting and

Makeblock, for its Cloud services. As customers only need to pay annual fees for using Kingdee Cloud services, they can significantly reduce capital investments. This service model has been widely recognized in the market and generates stable cash inflow to the Group in the long term.

## **2. Steady growth of the Management Software business for medium and large-sized enterprises with continued improvement in distribution network**

During the reporting period, the Group's Management Software business for medium and large-sized enterprises maintained stable growth, with total contract value of the EAS business growing 30% from a year ago. It capitalized on opportunities arising from the national policy of "Made in China 2025" to offer equipment manufacturing solutions to customers, including financial shared services based on the "management-as-a-service" concept. As a result, Kingdee's core EAS applications received highly positive feedback from customers and revenue from EAS software grew more than 13% from a year ago. During the reporting period, the Group commenced cooperation with a number of high-end customers such as Jinling Hotel, NORINCO, Sinoma International and Ensign. As to overseas customers, it forged agreements with AsiaSat, Ruyi Holding Group and United Laboratories.

According to the "Measures for Administration of Customer Asset Management", the Group set up a system to facilitate customers' asset administration and enhance their asset value. While helping existing customers to upgrade their products, it made significant progress in the development of distribution channels. The number of customers and registered end-users grew by more than 15% from the same period last year. With support from Kingdee's Big Data Cloud data platform, the Group aggressively promoted the "Registered User" operating model, leading to the addition of more than 300,000 new registered individual users from over 6,000 organizations. Furthermore, through analytics of existing registered customers, the Group was able to generate incremental revenue of more than RMB14 million within in the period.

### **(II) Micro and Small-sized Enterprises Market**

During the reporting period, Shanghai Kingdee Deeking Cloud Computing Co., Ltd. enhanced its Cloud services and management software for micro and small-sized enterprises. By effectively combining the functionalities of various products, it was able to enhance end-user experience and help micro and small-sized enterprises to implement digital transformation.

#### **1. Jingdou Cloud and Guanyi Cloud Enhanced services to drive growth for enterprises**

During the reporting period, the Group made significant improvements for mobile-based operations management for micro and small-sized enterprises and officially launched the "Jingdou Cloud" App, which incorporates Jingdou Cloud's financial services cloud, instant messaging and mobile office functions. It helps micro and small-sized enterprises overcome the challenges arising from digital transformation and facilitate internal and external collaboration with ease. Revenue from Jingdou

Cloud for 1H2017 increased 55% year-on-year on the launch of Jingdou Cloud App with the retention rate of paid customers above 70%.

Meanwhile, the Group reinforced Cloud-based E-commerce services during the reporting period. In the Online Shopping Festival held on 18 June 2017, the Guanyi Cloud system handled nearly 50 million orders in a single day with zero defect. This system helped more than 100,000 online shops to handle over 700 million orders worth approximately RMB120 billion in the first half of this year. In recognition of these achievements, it was presented numerous awards, including the “JD.com Golden Services Award” and the “2016 IEBE Most Valuable E-Commerce Solutions Provider Awards”.

## **2. Innovation of management software for micro and small-sized enterprises and the launch of “New Solutions for Retail Industry”**

During the reporting period, the Group launched the first comprehensive solutions for micro and small-sized enterprises in the retail industry, aiming to create an integrated online to offline (“O2O”) marketing channel for them. Furthermore, it offered the first solutions to provide full management support to rural E-commerce and cross-border E-commerce. Revenue from the sale of management software to micro and small-sized enterprises increased by 16.4% from the corresponding period last year.

### ***(III) ClouHub drives competitive differentiation for Cloud services***

During the reporting period, the Group further integrated ClouHub's mobile office platform with Kingdee Cloud, Jingdou Cloud for micro and small-sized enterprises and Guanyi Cloud for E-commerce and launched Version 9 of ClouHub. Its core functions include intelligent workflow management, workplace live video broadcasts and improved internal microblogs, which uniquely differentiates it from competitor products. The integration of ClouHub adds significant competitive advantages to Kingdee's Cloud services versus competitors.

### ***(IV) Listing of Kingdee Tianyan, the Group's infrastructure software business, to promote the development of domestic software***

Shenzhen Kingdee Tianyan Middleware Corp., Ltd. (“Kingdee Tianyan”) was successfully listed on the National Equities Exchange and Quotations in the reporting period, which further strengthens the Group's financial position. As a leading player in the domestic middleware industry, Kingdee Tianyan has been widely recognized in the market for its R&D capability as well as its secure and reliable products. It was selected as the “Annual Independent and Reliable Enterprise Core Software Brand” for the second year. Moreover, it was presented the “2017 Best Practice Award for Informatization in

China (Intelligent Government)". A major demonstration project under the 863 Program gained acceptance by the Ministry of Science and Technology. Its core products fully support the government's administration of commercial encryption standards.

During the reporting period, Kingdee Tianyan achieved significant breakthroughs in its cooperation with the government and central government-owned enterprises. It was chosen as the sole supplier of safe and controllable middleware for China Everbright Bank. Moreover, it delivered the Big Data monitoring project to Guiyang Finance Bureau and entered into agreements with the National Development and Reform Commission, the Ministry of Agriculture, the Ministry of Information Technology, Hunan Tobacco and the municipal government of Shenyang.

***(V) Automobile Cloud commanding market leadership and promoting the "Mobile Internet + Lean Management" model***

Kingdee Vehicle Network Technology Co., Ltd. ("Cargeer") invested heavily in marketing its digital management system to vehicle trading groups in the reporting period, to help customers implement their transformation towards the mobile Internet + lean management model. Currently, about 40% of top 100 auto-dealers in China are using this service. Moreover, it stepped up efforts to promote SaaS maintenance Cloud services in order to help auto-dealers reinforce their after-sale services. In 1H2017, the number of Cargeer's Cloud service users climbed 210% year-on-year, reflecting their widespread adoption in the market.

***(VI) Kingdee Internet Financial exploring opportunities in fintech sector and Big Data services for enterprises***

Having gained the credit rating and Internet finance licenses, Shenzhen Kingdee Internet Financial Services Co., Ltd. began trial big data analysis of its 6.6 million customers in the reporting period. Leveraging Big Data analytics capabilities, it launched a variety of innovative fintech services, such as online financial products supermarket, risk assessment based on Big Data technology and Big Data financial supply chain. Moreover, it established cooperative relationships with various domestic banks and financial institutions. During the reporting period, Kingdee Internet Financial Services set up a testing center to monitor end-to-end risk management process for financial institutions and rolled out its self-developed Cloud-based credit rating platform, "Jingwei Cloud", into operation. It began to provide unparalleled credit rating reporting services to financial institutions. Meanwhile, the business unit began analyzing the Group's existing customer ecosystem to explore potential business opportunities in financial data services for its Internet finance segment.

**(3) Organization and Talent Retention**

Adhering to the core values of "acting with conscience, integrity and righteousness", the Group continued to implement the human resources strategy of "motivating, introducing and nurturing



talents” during the reporting period. It strengthened the foundation for the Group's sustainable development, cultivated the talent pool and stepped up efforts to complete the major tasks for the year highlighted by the management team. It provided greater incentive to talents by issuing restricted shares to select employees. Through the intrapreneurship and resource sharing programs, the Group forged itself into a community with a common future rather than a community with merely shared interests. Meanwhile, it intensified efforts to recruit high-caliber technical talents in Cloud services segment to provide consulting services to business partners and clients so as to support the implementation of its Cloud services strategy.

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

During the reporting period, the Group continued to support various charitable activities and make donations to China Siyuan Foundation for Alleviating Impoverished Students in Earthquake-stricken Ya'an City, Sichuan. The Group also announced that it will donate 0.1% of revenue from Kingdee Cloud in the coming two years to support the charitable project "Teach for China". On top of that, it will leverage the technical and resource advantages of its Cloud services to promote basic education in the areas lacking sufficient educational resources.

During the reporting period, the Group continued to promote the study of “Management Models of Chinese Enterprises” and helped develop the theme of research relating to the “Outstanding Chinese Management Model Award” in 2017: Survival in Digital Transformation and Management Reengineering. As the first award in recognition of the best management practices of enterprises in China, it has been presented to more than 100 enterprises in over 20 industries over the past decade. More than 1,500 senior executives were interviewed and the related case studies have surpassed 1.5 million words.

#### **(5) Future Outlook**

With 24 years of experience in the enterprise management market and five years of pioneering Cloud services, Kingdee is well aware that Cloud services will overtake the role of software in the industry. Over the past few years, the Group has evolved to become the largest partner of Amazon in China's enterprise-level services market. It provided financial Cloud, supply chain Cloud and omni-channel marketing services to a number of top-tier brands such as Huawei, Tencent and Coca-Cola. Moreover, it introduced JD.com as its strategic shareholder and formed strategic partnership with Huawei, Tencent, Alibaba and Kingsoft Cloud. With greater revenue contribution from Cloud services in 1H2017, the management expects that the contribution from Cloud services to the Group's total revenue will exceed 60% by 2020, largely driven by Kingdee Cloud.

Kingdee Cloud not only makes use of Cloud computing technology, but also integrates various emerging technologies, such as Big Data, artificial intelligence and Internet of Things. With the design concept of "All for one and one for all", Kingdee Cloud embraces the exponential growth in data and is the centerpiece of the company's Cloud services business based on the Group's extensive market experience. It turns the traditional enterprise management software upside down

and will help Chinese enterprises to develop a powerful database and accelerate their digital transformation.

China has been the largest mobile Internet market for consumers in the world. Kingdee has confidence that China will also become the largest mobile Internet market for enterprises in the world in the future. The Group will not be complacent with the achievements it made and will strive for a better tomorrow, expand across industrial and national boundaries and achieve excellence in the global market, thereby setting the Chinese management model as a new model in the globe. Kingdee Cloud aims to set the standard for the industry.

## REPORT OF DIRECTORS

### Outstanding Share Options

#### *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 2017, there was no share option granted under the 2001 Scheme or the 2002 Scheme that is 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 243,921,143 share options were exercised, 160,108,307 share options lapsed and 125,472,150 share options remained outstanding as at 30 June 2017.

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 2017, the Company had granted 40,000,000 share options under the 2015 Scheme, of which none of the share options were exercised, 1,100,000 share options lapsed, and 38,900,000 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 of 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 7.53% of the total issued shares of the Company as at 30 June 2017.

Details of the share options granted under the 2005 Scheme and 2015 Scheme are set out in the table below:

Name or category of participants	Options held at 31 December 2016	Options granted during the reporting period	Options exercised during the reporting period	Options lapsed during the reporting period	Options held at 30 June 2017
<b>Directors</b>					
<b>Xu Shao Chun(1)</b>	2,800,000	-	-	-	2,800,000
<b>Oriental Gold Limited (1)</b>	9,900,000	-	-	-	9,900,000

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Lin Bo	1,025,000	-	-	1,025,000
		-	-	700,000
Gary Clark Biddle	1,180,000		480,000	
Wu Cheng	300,000	-	-	300,000
Dong Ming Zhu	400,000	-	-	400,000
Liu Chia Yung	200,000	-	-	200,000
Other employees in aggregate	169,142,551	0	6,248,100	13,847,301
<b>Total</b>	<b>184,947,551</b>	<b>0</b>	<b>6,728,100</b>	<b>13,847,301</b>
				<b>164,372,150</b>

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.

As at 30 June 2017, the Company had granted 26,510,000 award shares pursuant to the Share Award Scheme, of which a total of 5,375,000 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 2016	Granted during the reporting period	Vested during the reporting period	As at 30 June 2017
Xu Shao Chun	2,750,000	2,000,000	750,000	4,000,000
Lin Bo	787,500	800,000	212,500	1,375,000

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

As at 30 June 2017, 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

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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*

<b>Name of Directors</b>	<b>Number of shares/ underlying shares (where appropriate)(Note 5)</b>	<b>Types of interests</b>	<b>Percentage of issued share capital</b>
<b>Xu Shao Chun</b>	775,198,624 (L)	Interests of controlled corporation (Note 1)	27.28%
	45,500,000(S)		
	4,000,000(L)	Beneficiary of a trust(Note 2)	
	12,565,200(L)	Beneficial owner	
	2,800,000 (L)	Share option (Note 3)	
<i>Aggregate:</i>	<b>794,563,824(L)</b>		
	<b>45,500,000(S)</b>		1.56%
<b>Lin Bo</b>	576,000(L)	Beneficial owner	0.10%
	1,375,000(L)	Beneficiary of a trust(Note 4)	
	1,025,000(L)	Share option (Note 3)	
<i>Aggregate:</i>	<b>2,976,000(L)</b>		
<b>Gary Clark Biddle</b>	480,000(L)	Beneficial owner	0.04%
	700,000(L)	Share option (Note 3)	
<i>Aggregate:</i>	<b>1,180,000 (L)</b>		
<b>Wu Cheng</b>	780,000(L)	Beneficial owner	0.04%
	300,000(L)	Share option (Note 3)	
<i>Aggregate:</i>	<b>1,080,000(L)</b>		
<b>Dong Ming Zhu</b>	400,000(L)	Share option (Note 3)	0.01%
<i>Aggregate:</i>	<b>400,000(L)</b>		
Liu Chia Yung	200,000(L)	Share option (Note 2)	0.01%
<i>Aggregate:</i>	<b>200,000(L)</b>		

*Notes:*

1. Of the 775,198,624 shares, 419,312,000 shares (of which 9,900,000 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 4,000,000 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 award share are set out in the paragraph headed “Outstanding Share Options” and “Share Award Scheme” of this report.
  4. The 1,375,000 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 and (S) denotes short position.

Save as disclosed in this paragraph, as at 30 June 2017, 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**” 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 2017.

### **Substantial Shareholders’ and Other Persons’ Interests and Short Positions in the Shares, Underlying Shares and Debentures**

As at 30 June 2017, 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
<u>Easy Key Holdings Limited (Note 1)</u>	775,198,624(L)	Beneficial owner	
	45,500,000(S)		
<b>SUBTOTAL</b>	775,198,624(L)		26.62%

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	45,500,000(S)		1.56%
<u>Oriental Gold Limited</u> (Note 1)	409,412,000 (L)	Beneficial owner (Note 2)	
	45,500,000(S)		
	9,900,000 (L)	Other/share option (Note 3)	
<b>SUBTOTAL</b>	419,312,000 (L)		14.40%
	45,500,000(S)		1.56%
Billion Ocean Limited (Note 1)	355,886,624(L)	Beneficial owner	12.22%
FMR LLC	209,200,485(L)	Investment manager	7.18%
JD Oriental Investment Limited (Note 5)	288,526,000(L)	Beneficial Owner	9.91%

**Notes:**

1. Easy Key Holdings Limited is wholly owned by Mr. Xu Shao Chun; Oriental Gold Limited and Billion Ocean Limited are wholly owned by Easy Key Holdings Limited.
2. Out of the 409,412,000 shares (L), 45,500,000 shares (the "**Lent Shares**") are made available to Credit Suisse AG ("**CSAG**") on the basis that CSAG in turn agrees to make available to Credit Suisse Securities (Europe) Limited ("**CSSEL**") for purposes of stock lending by CSSEL to investors of the Guaranteed Convertible Bonds (*as defined below*) procured by CSSEL and for purposes of on-lending by CSSEL to Macquarie Bank Limited ("**Macquarie**") to facilitate stock lending by Macquarie to investors in the Bonds procured by Macquarie. During the terms of the lending arrangement, Oriental Gold Limited will not have the right to recall the Lent Shares and it will not have voting rights on the Lent Shares. It is expected that the Lent Shares will be returned to Oriental Gold Limited on or before the earlier of (i) the date on which all the Guaranteed Convertible Bonds are redeemed or converted and (ii) 14 April 2018.
3. Details of the share options are set out in the section headed "Outstanding Share Options" of this report.
4. 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:

<b>Name of controlled corporation</b>	<b>Name of controlling shareholder</b>	<b>% control</b>	<b>Direct interest</b>	<b>Number of shares</b>
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

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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

5. (L) denotes long position and (S) denotes short position.

Save as disclosed above, as at 30 June 2017 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 Asset 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 "Guaranteed Convertible Bonds"). The net proceeds from the issue of the Guaranteed Convertible Bonds, after deduction of commission and expenses, is approximately USD172.3 million. As at 30 June 2017, among the net proceeds from the Guaranteed Convertible Bonds, (i) approximately USD83.3million had been used to repay bank loans; (ii) approximately USD 46.5 million had been used for working capital and general corporate purposes; (iii) approximately USD 32 million had been used for investment purpose; (iv) approximately USD 10.5 million had been used for share repurchases, and (v) approximately USD 0.003 million proposed to be used for working capital and general corporate purposes. Unless previously redeemed, converted or purchased and cancelled, the Issuer will redeem each Guaranteed Convertible Bond at its principal amount together with accrued and unpaid interest thereon on 14 April 2019. The Guaranteed Convertible Bonds are convertible at the option of the bondholders into ordinary shares of the Company from 25 May 2014 to the close of business on the date falling 10 days prior to 14 April 2019, at a price of HKD3.90 per share, subject to adjustments. As at 30 June 2017, there was no conversion or redemption of the Guaranteed Convertible Bonds.

Please also refer to the announcements of the Company dated 8 April 2014, 10 April 2014, 14 April 2014 and 15 April 2014 for the details of the Guaranteed Convertible Bonds.



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

During the six months ended 30 June 2017, the Company purchased 1,600,000 shares of the Company on the Stock Exchange for an aggregate consideration of HK\$4,912,911 pursuant to the Company's Share Award Scheme as adopted by the Company on 4 December 2015.

During the reporting period ended 30 June 2017, the Company repurchased 46,860,000 Shares of the Company on the Stock Exchange for an aggregate consideration of HK\$144,234,197, and has cancelled a total of 35,360,000 Shares (10,024,000 shares had been cancelled on 19 January 2017 and 25,336,000 shares had been cancelled on 27 April 2017), and 11,500,000 Shares had not yet been cancelled. The Directors are of the view that such repurchases have the effect of enhancing the earnings per share of the Group and would benefit the shareholders as a whole. Depending on the market circumstances, the Company may undertake further share repurchases as the Directors may consider to be appropriate.

Save for the disclosed above, neither the Company, nor any of its subsidiaries, had repurchased, sold or redeemed any of its listed securities.

## **Corporate Governance**

The Company 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 2017, except for the deviation in respect of the roles of Chairman and CEO under Code provision A.2.1. During the reporting period, Mr. Xu Shao Chun assumed the roles of both the Chairman and the CEO 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 2017. 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 2017 (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, 16 August 2017

*As at the date of this announcement, the Board comprises Mr. Xu Shao Chun (Chairman of the Board and Chief Executive Officer) and Mr. Lin Bo (Chief Financial Officer) as executive directors; Ms. Dong Ming Zhu and Mr. Zhang Chen as non-executive directors; and Mr. Gary Clark Biddle, Mr. Wu Cheng 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.*