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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 2020**

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 2020, together with the comparative audited consolidated figures for the year ended 31 December 2019 are as follows:

Financial highlights for the year ended 31 December 2020

- Revenue increased by approximately 0.9% compared with 2019 to approximately RMB3,356,445,000, including the cloud services business revenue increased by 45.6% compared with 2019, and revenue contribution increased from 39.5% in 2019 to 57.0% in 2020. (2019: revenue of approximately RMB3,325,590,000)
- Loss attributable to owners of the Company amounted to approximately RMB335,479,000. (2019: profit of approximately RMB372,580,000)
- Net cash generated from operating activities amounted to approximately RMB473,017,000. (2019: approximately RMB962,927,000)
- Basic losses per share attributable to owners of the Company during the year amounted to approximately RMB10.12 cents. (2019: basic earnings per share of RMB11.52 cents).
- The Board of directors did not recommend the payment of a final dividend in respect of the year ended 31 December 2020 (2019: RMB1.1 cents per share).

BUSINESS REVIEW AND OUTLOOK

1. Group Financial Results

In 2020, the Group continued to progress the cloud transformation strategy, focused on the development and promotion of subscription-based cloud products as well as the Group's cloud services business maintained rapid growth of 45.6% yoy, which accounted for 57.0% of the total revenue. As subscription-based cloud services delivered strong growth, the subscription service-related contract liabilities expanding by 95.7% yoy. Kingdee Cloud's subscription annual recurring revenue (ARR) amounted to approximately RMB1 billion, with an increase of 58% yoy.

For the year ended 31 December 2020, the Group recorded total revenue of approximately RMB3,356,445,000, up by approximately 0.9% when compared with 2019 (2019: RMB3,325,590,000). Revenue from Management Software business decreased by 28.2% yoy, mainly attributable to the halt of certain management software license products sales.

For the twelve months ended 31 December 2020, the Company recorded a loss of RMB335,479,000 attributable to owners of the Company (2019: a profit of approximately RMB372,580,000 attributable to owners of the Company). The aforesaid decrease was mainly due to the termination of partial management software license products and the enhancement on the research and investment on cloud products mainly Cosmic.

Basic losses per share of the current loss attributable to owners of the Company amounted to approximately RMB10.12 cents (2019: basic earnings per share of RMB11.52 cents).

Net cash inflow from operating activities of the Company was approximately RMB473,017,000 (net cash inflow in 2019: RMB962,927,000).

2. Group Strategy Review

Aiming to become the most trusted enterprise service platform, the Group is striving to build a mutual benefit and win-win enterprise ecosystem for common growth. The Group is committed to develop the Kingdee Cloud ecosystem, based on the remarkable insights into enterprise management as well as the digital transformation

The Group's five strategic initiatives include:

- Promoting the combined strategy of "Platform + Finance & HR Application + Ecosystem" to strengthen the product competitiveness.
- Establishing industry's best practice, and leading tens of millions small, medium and micro enterprises and startups to grow in a sound way.
- Implementing the integrated service mode of sales and delivery, and developing large enterprise market with high quality.
- Helping channel partners transform from market-oriented to service-oriented to realise reciprocal value.
- Building successful customer-based operation system to benefit customers, with direct access to every Kingdee employees.

3. Group Business Review

Kingdee received recognition from international research institutions during the year. IDC data shows that the Company has maintained No. 1 position in the enterprise application software for fast-growing Enterprises and the enterprise-grade SaaS ERM (Cloud ERP). Kingdee has not only retained the largest share in the enterprise application software for fast-growing enterprises for 16 consecutive years, it has also maintained No.1 position in the enterprise-grade SaaS ERM (Cloud ERP) and Financial Cloud services for 4 consecutive years. Kingdee has become the only SaaS company in China which received the IDC 2020 SaaS CSAT Award, ranking No. 1 in the ERP SaaS CSAT. The Company has become a Top10 major constituent stock of Hang Seng Tech Index, which was newly established by Hang Seng Indexes Company Limited ("Hang Seng Indexes") and launched on 27 July 2020.

Cloud Services Business

During the Reporting Period, revenue from the cloud services business grew by approximately 45.6% yoy from RMB1,313,595,000 in 2019 to RMB1,912,385,000, accounting for 57.0% of the total revenue.

(1) Kingdee Cloud Cosmic strengthened R&D, focused on self-developed technology innovation, capturing the high-end market of large enterprises.

Going into the post ERP era, large enterprises have laid out new requirements for digitalization platform and industrial internet platform. Kingdee Cloud Cosmic, as the first cloud-native platform with building EBC Top 5 capabilities as the core targets, was able to gain attractions of many large enterprises.

Kingdee Cloud Cosmic is China's first local and innovative cloud-native platform solution, providing complete enterprise SaaS service and PaaS service for large enterprises, and registered total of 160 patents. These patents cover technological innovations of cloud-native technology, application development, enterprise management and other areas, of which one of the core patents of Kingdee Cloud Cosmic native technology framework has received the national patent award.

Kingdee Cloud Cosmic has officially launched the V3.0 version at the end of 2020, continued to accelerate the R&D of application modules and strengthen the technological advantages. In terms of cloud services and modules, Kingdee Cloud Cosmic newly introduced e-commerce cloud, manufacturing cloud, industrial IoT cloud, data platform, management accounting cloud, and may more in different fields, and launched over 70 business modules or features such as risk control and management, product data management, equipment management, cost management, credit management, pricing and quotation management, retail management, store coordination and online stores. Meanwhile, Kingdee Cloud Cosmic has conducted an important upgrade for the platform structure and has optimized the openness of platform, including several compatible main-stream micro service framework, the launch of distributed computing engine and the optimization of platform structures such as enterprise model management pool. Kingdee Cloud Cosmic has been included in the Gartner's High-Productivity PaaS global vendor list. As of V3.0 version, Kingdee Cloud Cosmic has released 180+ business modules and features on 30+ cloud applications. In the meantime, the open structure, the open structure and large potential of Kingdee Cloud Cosmic have driven the prosperity of the platform ecosystem. To date, Cosmic has 430 ISV partners with 355 products available in the Cosmic Marketplace. These ISV products cover several areas, including foreign trading system, equipment management, TMS (transportation management service), medical quality compliance management and control system, and public welfare project management system.

During the Reporting Period, Kingdee Cloud Cosmic recorded RMB190 million in revenue, an increase of 220% yoy. In 2020, Kingdee Cloud Cosmic has a total of 367 contracted customers, with the contracting amounting to RMB467 million, including 283 newly-signed customers, namely State Power Investment Corporation, China Merchants Group, China Tobacco Yunnan, Hisense, HBIS Digital, Zhejiang Communications Investment, Powerchina Real Estate and other central enterprises and state-owned enterprises; renowned large enterprises such as Huawei, Honor, HAECO Xiamen and Kerry Logistics, DIT and Rongan Property.

(2) Kingdee Cloud Galaxy deepened the digital and intelligent empowerment, recognized as the star product in medium enterprise market

Kingdee Cloud Galaxy provided cloud solutions for closed loop of enterprise value chain, including channel Marketing Cloud, Intelligent Finance Cloud, Intelligent Manufacturing Cloud, Smart Supply Chain Cloud, PLM R&D Cloud, Low Code Collaborative Development Cloud and Amoeba operating. Galaxy also innovated in remote customer engagement and marketing and upgraded online implementation platform, realized the quick launch of subscription products which efficiently helped enterprises restructure digital enterprise capability, using Digital Tools and Enabling Intelligence to accelerate transformation and upgrade of enterprises. In the face of the pandemic challenges, Kingdee Cloud Galaxy efficiently helped small and medium enterprises to restore production and operation. Galaxy has been included in the 50 Provincial and Municipal Governments Recommended Products List, also participated in the Ministry of Industry and Information Technology's SME Digital Empowerment Special Project and launched the Smart

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Growth Plan for Micro, Small and Medium Businesses. Having built ecosystem partnership with major IaaS (Infrastructure as a Service) players in China, Kingdee Cloud Galaxy carried out strategic collaboration upgrade regarding cloud services of enterprises and has achieved breakthroughs progressively. Galaxy has won the China Smart Manufacturing Recommended Products of the Year (Intelligent Manufacturing Cloud, PLM Cloud) and the Outstanding Supplier of Intelligent Management Solutions of the Year, the CEIA Best Enterprise Management Cloud Service Award and the Best SaaS MES Application Award.

During the Reporting Period, Kingdee Cloud Galaxy continued maintained steady growth, with its revenue increased by over 31.4% year-on-year to RMB1.141 billion. Customer dollar retention rate was over 86%. By the end of 2020, Galaxy accumulated over 17,200 customers. It has signed with established enterprises such as Huawei Marine, iFlytek, Megvii, Yanjin Shop Food, Seamild Foods, Yuan Qi Sen Lin, RLX Technology and CYG SUNRI. In the meantime, the Group continued to transform channel partners into service partners, and migrated existing customers to cloud. In 2020, a total of 1,793 existing customers have upgraded to Galaxy.

(3) Kingdee Cloud Stellar focused on operation + management integrated solution, building a service platform for the intelligent growth of small and micro enterprises.

During the Reporting Period, Kingdee launched a service platform for the intelligent growth of small and micro enterprises based on the Cosmic platform - Kingdee Cloud Stellar. It focuses on the online operation and digital management of small and micro enterprises, emphasizing on “new accounting & taxation, new marketing and new business model”. It provides SaaS services such as Finance Cloud, Tax Cloud, Purchase, Sales & Inventory Cloud, and Ordering Mall to support customer acquisition, intelligent management and real-time decision-making of small and micro enterprises. Since initial introduction in 2020, Stellar has been trusted by over 3,000 customers with an average subscription price amounting to 4-5 times of Jingdou Cloud. The revenue of Kingdee Jingdou Cloud has achieved a rapid growth of 62.4% yoy, with over 160,000 customers in aggregate and dollar retention ratio of approximately 76%.

(4) Multi-field cloud deployment, deep cultivation in industry best practices

During the Reporting Period, EAS Cloud focuses on the upgrading of financial and tax management and control, the integration of business and finance, and the improvement of data intelligence in the digital era so as to facilitate the Cloud upgrade of the customers. Kingdee s-HR Cloud launched its localized version, helping Chinese enterprises comprehensively improve information security, and has signed with renowned enterprises in the industry such as CRRC Zhuzhou, Hesteel Group, SinoTrans, China United Cement, Tencent Cloud, SF Express, Dalian Metro and East Hope.

Kingdee Guanyi Cloud launched the Cosmic E-Commerce Cloud version. Cloud-Hub timely released “Health Check-In” feature and enhanced audio/video conferencing technology, helped customers work from home; Kingdee Finance was awarded with Ministry of Industry and Information Technology of the People’s Republic of China’s SME Recommended Product, CB Insights Top 50 China FinTech Companies, IDC China FinTech TOP 50. Wujia Cloud have covered 165 cities in the country and signed with top 100 properties such as Lushang, Shenzhen Science Park and Logan Estate; Cargeer continued to help new and existing customers achieve digital upgrade and transformation. The number of car owners of cloud service has increased by 36% yoy; Xinnong Interconnection Technology has built the R&D of general function module on Kingdee Cloud Cosmic platform for daily livestock management; Yundee has launched the V3.0 version and has been included in the SME Digital Empowerment Service Product and Event Recommendation List as a digital platform recommended player.

During the period, Kingdee continued to plan the layout and strategically invested in Dtwave, enhanced the platform capabilities of “business platform + data platform”, helping the enterprises build their digital competitiveness; increased capital on FXiaoKe and commenced further cooperation with FXiaoKe products. In the investment and merger sector, the Company will continue to focus on the key sector technologies and leading cloud service companies.

ERP Business

During the Reporting Period, revenue from ERP Management Software business decreased by approximately 28.2% yoy from RMB2,011,995,000 in the same period last year to

RMB1,444,060,000.

The Group continued to deepen cloud transformation and terminated the sale of KIS and K/3 WISE license products. License of Kingdee EAS business declined by 22.3% yoy. Kingdee Apusic passed the Jakarta EE8 certification and became one of the two Chinese players to obtain the certification.

Investment Property Business

For the ended 31 December 2020, the Group had carrying amount of investment properties of RMB1,650,971,000 (2019: RMB1,856,200,000). During the Reporting Period, the Group fully used and leased available space in software parks in Beijing, Shanghai and Shenzhen. The Group generated net rental income of RMB73,129,000 during the period (2019: RMB73,243,000).

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | As at 31 December | |
|---|-------|--------------------------|-------------------------|
| | | 2020 RMB'000 | 2019 RMB'000 |
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 746,148 | 546,524 |
| Right-of-use assets | 4 | 181,920 | 106,869 |
| Intangible assets | | 785,500 | 923,323 |
| Investment properties | | 1,650,971 | 1,856,200 |
| Investments in associates | | 403,032 | 282,649 |
| Deferred income tax assets | | 11,380 | - |
| Financial assets at fair value through profit or loss | | 622,739 | 428,791 |
| Trade and other receivables | 5 | 49,526 | 22,000 |
| Loans to third parties | 5 | 57,449 | 12,350 |
| Long-term bank deposits | | 30,000 | - |
| | | <u>4,538,665</u> | <u>4,178,706</u> |
| Current assets | | | |
| Inventories | | 18,922 | 7,357 |
| Trade and other receivables | 5 | 333,712 | 308,153 |
| Loans to third parties | 5 | 316,666 | 230,869 |
| Contract assets | 3 | 356,658 | 451,685 |
| Contract obtaining costs | 3 | 142,280 | 60,667 |
| Financial assets at fair value through profit or loss | | 993,656 | 596,151 |
| Derivative financial instruments | | 4,540 | - |
| Pledged bank deposits | | 27,206 | 128 |
| Short-term bank deposits | | 1,236,143 | 687,667 |
| Cash and cash equivalents | | 2,753,631 | 1,898,770 |
| | | <u>6,183,414</u> | <u>4,241,447</u> |
| Total assets | | <u><u>10,722,079</u></u> | <u><u>8,420,153</u></u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

| | Notes | As at 31 December | |
|---|-------|-------------------|------------------|
| | | 2020 RMB'000 | 2019 RMB'000 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Lease liabilities | 4 | 22,320 | 20,282 |
| Trade and other payables | 9 | - | 69,028 |
| Deferred income tax liabilities | | 142,693 | 187,079 |
| | | <u>165,013</u> | <u>276,389</u> |
| Current liabilities | | | |
| Trade and other payables | 9 | 794,603 | 615,596 |
| Contract liabilities | 3 | 1,483,943 | 996,996 |
| Borrowings | 8 | 120,000 | 199,625 |
| Lease liabilities | 4 | 28,712 | 21,341 |
| Current income tax liabilities | | 39,671 | 39,085 |
| Deferred income | 10 | 131,660 | 125,450 |
| | | <u>2,598,589</u> | <u>1,998,093</u> |
| Total liabilities | | <u>2,763,602</u> | <u>2,274,482</u> |
| Net assets | | <u>7,958,477</u> | <u>6,145,671</u> |
| Equity | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 6 | 83,331 | 80,037 |
| Share premium | 6 | 5,052,514 | 2,963,096 |
| Other reserves | 7 | 732,002 | 686,532 |
| Retained earnings | | 1,921,784 | 2,257,263 |
| | | <u>7,789,631</u> | <u>5,986,928</u> |
| Non-controlling interests | | <u>168,846</u> | <u>158,743</u> |
| Total equity | | <u>7,958,477</u> | <u>6,145,671</u> |

CONSOLIDATED INCOME STATEMENT

| | Notes | Year ended 31 December | |
|---|-------|-------------------------------|------------------------|
| | | 2020 | 2019 |
| | | RMB'000 | RMB'000 |
| | | | Restated (Note 2.2) |
| Revenue from contracts with customers | 3,11 | 3,356,445 | 3,325,590 |
| Cost of sales | 12 | <u>(1,147,437)</u> | <u>(922,373)</u> |
| Gross profit | | <u>2,209,008</u> | <u>2,403,217</u> |
| | | | |
| Selling and marketing expenses | 12 | (1,425,080) | (1,374,014) |
| Administrative expenses | 12 | (413,610) | (386,324) |
| Net impairment losses on financial assets and contract assets | 12 | (69,885) | (48,416) |
| Research and development costs | 12 | (983,874) | (586,827) |
| Fair value gains on investment properties | | 5,550 | 39,994 |
| Other income and (losses)/gains - net | 13 | <u>262,538</u> | <u>376,157</u> |
| Operating (loss)/profit | | <u>(415,353)</u> | <u>423,787</u> |
| | | | |
| Finance income | | 48,789 | 19,768 |
| Finance costs | | <u>(12,855)</u> | <u>(14,398)</u> |
| Finance income - net | 14 | 35,934 | 5,370 |
| Share of losses of associates | | <u>(3,320)</u> | <u>(33,026)</u> |
| (Loss)/profit before income tax | | <u>(382,739)</u> | <u>396,131</u> |
| Income tax credit/(expense) | 15 | <u>41,044</u> | <u>(30,333)</u> |
| (Loss)/profit for the year | | <u>(341,695)</u> | <u>365,798</u> |
| | | | |
| (Loss)/profit attributable to: | | | |
| Owners of the Company | | (335,479) | 372,580 |
| Non-controlling interests | | <u>(6,216)</u> | <u>(6,782)</u> |
| | | <u>(341,695)</u> | <u>365,798</u> |
| | | | |
| (Losses)/earnings per share for (loss)/profit attributable to owners of the Company (expressed in RMB cents per share) | | | |
| - Basic | 17 | <u>(10.12)</u> | <u>11.52</u> |
| - Diluted | 17 | <u>(10.12)</u> | <u>11.22</u> |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Year ended 31 December | |
|--|-------------------------------|------------------------|
| | 2020 RMB'000 | 2019 RMB'000 |
| (Loss)/profit for the year | <u>(341,695)</u> | <u>365,798</u> |
| Other comprehensive loss: <i>Items that may be reclassified to profit or loss:</i> | | |
| Currency translation differences | <u>(24,631)</u> | <u>284</u> |
| Other comprehensive (loss)/income for the year, net of tax | <u>(24,631)</u> | <u>284</u> |
| Total comprehensive (loss)/income for the year | <u><u>(366,326)</u></u> | <u><u>366,082</u></u> |
| Total comprehensive (loss)/income attributable to: | | |
| Owners of the Company | (360,110) | 372,864 |
| Non-controlling interests | <u>(6,216)</u> | <u>(6,782)</u> |
| | <u><u>(366,326)</u></u> | <u><u>366,082</u></u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Notes | Attributable to owners of the Company | | | | Non-controlling interests | Total equity | |
|--|-------|---------------------------------------|---------------|----------------|-------------------|---------------------------|--------------|-----------|
| | | Share capital | Share premium | Other reserves | Retained earnings | | | |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | | | |
| Balance at 1 January 2019 | | 79,585 | 2,903,459 | 565,259 | 1,917,757 | 5,466,060 | 66,607 | 5,532,667 |
| Profit/(loss) for the year | | - | - | - | 372,580 | 372,580 | (6,782) | 365,798 |
| Other comprehensive income | | | | | | | | |
| Currency translation differences | 7 | - | - | 284 | - | 284 | - | 284 |
| Total comprehensive income | | - | - | 284 | 372,580 | 372,864 | (6,782) | 366,082 |
| Transactions with owners | | | | | | | | |
| Employees share option scheme: | | | | | | | | |
| - Value of employee services received | 6 | - | 1,032 | - | - | 1,032 | - | 1,032 |
| - Proceeds from shares issued | 6 | 452 | 53,732 | - | - | 54,184 | - | 54,184 |
| Share award plan: | | | | | | | | |
| - Value of employee services received | 6 | - | 86,660 | - | - | 86,660 | - | 86,660 |
| - Transfer shares to the awardees upon vesting | 6 | - | (81,787) | 56,207 | - | (25,580) | - | (25,580) |
| Transactions with non-controlling interests | | | | | | | | |
| | | - | - | 64,782 | - | 64,782 | 45,218 | 110,000 |
| Dividend distribution | 16 | - | - | - | (33,074) | (33,074) | - | (33,074) |
| Contribution from non-controlling interests | | - | - | - | - | - | 53,700 | 53,700 |
| Total transactions with owners, recognised directly in equity | | 452 | 59,637 | 120,989 | (33,074) | 148,004 | 98,918 | 246,922 |
| Balance at 31 December 2019 | | 80,037 | 2,963,096 | 686,532 | 2,257,263 | 5,986,928 | 158,743 | 6,145,671 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

| | Notes | Attributable to owners of the Company | | | | Total | Non-controlling interests | Total equity |
|--|-------|---------------------------------------|---------------|----------------|-------------------|-----------|---------------------------|--------------|
| | | Share capital | Share premium | Other reserves | Retained earnings | | | |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 | | | |
| Balance at 1 January 2020 | | 80,037 | 2,963,096 | 686,532 | 2,257,263 | 5,986,928 | 158,743 | 6,145,671 |
| Loss for the year | | - | - | - | (335,479) | (335,479) | (6,216) | (341,695) |
| Other comprehensive loss | | | | | | | | |
| Currency translation differences | 7 | - | - | (24,631) | - | (24,631) | - | (24,631) |
| Total comprehensive loss | | - | - | (24,631) | (335,479) | (360,110) | (6,216) | (366,326) |
| Transactions with owners | | | | | | | | |
| Employees share option scheme: | | | | | | | | |
| - Proceeds from shares issued | 6 | 323 | 36,329 | - | - | 36,652 | - | 36,652 |
| Share award plan: | | | | | | | | |
| - Value of employee services received | 6 | - | 100,857 | - | - | 100,857 | - | 100,857 |
| - Transfer shares to the awardees upon vesting | 6 | - | (99,443) | 64,920 | - | (34,523) | - | (34,523) |
| Transactions with non-controlling interests | | - | - | 5,181 | - | 5,181 | 16,319 | 21,500 |
| Dividend distribution | 16 | - | (36,756) | - | - | (36,756) | - | (36,756) |
| Issue of new shares | | 2,971 | 2,088,431 | - | - | 2,091,402 | - | 2,091,402 |
| Total transactions with owners, recognised directly in equity | | 3,294 | 2,089,418 | 70,101 | - | 2,162,813 | 16,319 | 2,179,132 |
| Balance at 31 December 2020 | | 83,331 | 5,052,514 | 732,002 | 1,921,784 | 7,789,631 | 168,846 | 7,958,477 |

CONSOLIDATED CASH FLOW STATEMENT

| | Notes | Year ended 31 December | |
|--|-------|-------------------------------|-------------------------|
| | | 2020 | 2019 |
| | | RMB'000 | RMB'000 |
| Cash flows from operating activities | | | |
| Cash generated from operations excluding net cash outflow in loans to third parties from the micro-credit business | | 604,347 | 1,092,951 |
| Net cash outflow in loans to third parties from the micro-credit business | | (104,475) | (95,318) |
| Interest paid | | (12,719) | (15,377) |
| Income tax paid | | (14,136) | (19,329) |
| Net cash inflow from operating activities | | <u>473,017</u> | <u>962,927</u> |
| Cash flows from investing activities | | | |
| Purchases of property, plant and equipment | | (42,601) | (38,612) |
| Proceeds from disposals of property, plant and equipment | | 295 | 6,064 |
| Purchases of intangible assets | | (310,288) | (476,145) |
| Prepayment for an investment | | (12,000) | - |
| Payment for acquisition of a subsidiary | | - | (6,200) |
| Pledged bank deposits and short-term and long-term bank deposits placed - net | | (605,554) | (327,969) |
| Interest received | | 41,702 | 57,942 |
| Purchases of financial assets at fair value through profit or loss | | (4,689,463) | (3,068,500) |
| Proceeds from disposal of financial assets at fair value through profit or loss | | 4,189,898 | 2,708,664 |
| Loans provided to related parties | | (470,000) | (300,000) |
| Repayments of loans from related parties | | 470,000 | 1,024,031 |
| Investments in associates | | (132,500) | (177,763) |
| Proceeds from disposal of an associate | | 69,885 | 45,702 |
| Dividend received from an associate | | - | 50 |
| Net cash outflow from investing activities | | <u>(1,490,626)</u> | <u>(552,736)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of new shares | 6 | 2,091,402 | - |
| Proceeds from issue of shares as a result of exercise of options | | 36,652 | 54,184 |
| Transactions with non-controlling interests | | 4,000 | 100,000 |
| Capital contribution from non-controlling interests | | - | 41,700 |
| Proceeds from borrowings | | 120,000 | 263,625 |
| Repayments of borrowings | | (199,625) | (365,125) |
| Principal elements of lease payments | | (46,848) | (22,312) |
| Dividend paid | 16 | (36,715) | (33,056) |
| Settlement of payables for previous acquisition of non-controlling interests in a subsidiary | | (3,175) | (6,283) |
| Net cash inflow from financing activities | | <u>1,965,691</u> | <u>32,733</u> |
| Net increase in cash and cash equivalents | | 948,082 | 442,924 |
| Effects of exchange rate changes on cash and cash equivalents | | (93,221) | 2,998 |
| Cash and cash equivalents at beginning of the year | | <u>1,898,770</u> | <u>1,452,848</u> |
| Cash and cash equivalents at end of year | | <u><u>2,753,631</u></u> | <u><u>1,898,770</u></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 cloud services, including enterprise cloud services, finance cloud services, industry cloud services and other cloud services; and enterprise resource planning (“ERP”) business, including development and sales of software products, sales of hardware products, provision of implementation services, software solution consulting services, maintenance services, upgrade services and other supporting services.

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

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

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”) and the disclosure requirements of the Hong Kong Companies Ordinance. 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 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 commencing 1 January 2020:

- Definition of Material – amendments to IAS 1 and IAS 8
- Definition of a Business – amendments to IFRS 3
- Interest Rate Benchmark Reform – amendments to IFRS 9, IAS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and interpretations not yet adopted

The following certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group.

| | | Effective for annual periods beginning on or after |
|----------------------------------|---|---|
| Amendments to IFRS 16 | Leases – COVID-19 related rent concessions | 1 June 2020 |
| IFRS 17 | Insurance contract | 1 January 2021 |
| Amendments to IAS 1 | Classification of liabilities as current or non-current | 1 January 2022 |
| Amendments to IFRS 3 | Reference to the conceptual framework | 1 January 2022 |
| Amendments to IAS 16 | Property, plant and equipment - proceeds before intended use | 1 January 2022 |
| Amendments to IAS 37 | Onerous contracts - cost of fulfilling a contract | 1 January 2022 |
| Annual Improvements project | Annual Improvements 2018-2020 cycle | 1 January 2022 |
| Amendments to IFRS 17 | Insurance contracts | 1 January 2023 |
| Amendments to IFRS 10 and IAS 28 | Sale or contribution of assets between an investor and its associates or joint ventures | To be determined |

Based on management's preliminary assessment, these standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 Summary of significant accounting policies (continued)**2.2 Prior year adjustments**

Prior to 1 January 2020, the Group recorded certain outsourcing service fees in relation to ERP and cloud implementation in “selling and marketing expenses”. During the year ended 31 December 2020, the Group reassessed the nature of the above outsourcing service and considered that these service fees charged by outsourcers are directly related to ERP and cloud implementation services rendered by the Group to its customers, thus they should be accounted for as and recorded in “cost of sales”. Adjustments have been made to reclassify outsourcing service fees of RMB270,370,000 which were previously recorded in “selling and marketing expenses” for the year ended 31 December 2019 to “cost of sales” to conform with the current year presentation. These changes have been applied retrospectively in accordance with IAS 8 and there were no net impact on the profit for the year ended 31 December 2019 and the financial position as at 31 December 2019.

The impact on the consolidated income statement for the year ended 31 December 2019 is presented as below:

| | Year ended 31 December 2019 RMB'000 |
|--|---|
| Increase in cost of sales | 270,370 |
| Decrease in gross profit | (270,370) |
| Decrease in selling and marketing expenses | (270,370) |

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:

- Cloud services business – Including enterprise cloud services, finance cloud services, industry cloud services and other cloud services

- ERP business – Including sales of software and hardware products, provision of software implementation services, software solution consulting, maintenance, upgrade and other supporting services, and the micro-credit business

- Investment properties operating business – Operation of investment properties

The chief operating decision-maker (the "CODM") assesses the performance of the operating segments based on the profit or loss for the year of each segment. There were no segment assets and segment liabilities information provided to the CODM, as CODM does not use this information to allocate resources or to evaluate the performance of the operating segments. 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 2020 is as follows:

| | Cloud services business | ERP business | Investment properties operating business | The Group Total |
|---|------------------------------------|---------------------|---|------------------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue (from external customers) | 1,912,385 | 1,444,060 | - | 3,356,445 |
| - Products transferred at a point in time | - | 447,626 | - | 447,626 |
| - Services transferred over time | 1,912,385 | 996,434 | - | 2,908,819 |
| Operating (loss)/profit | (606,786) | 112,754 | 78,679 | (415,353) |
| Finance income | - | 48,789 | - | 48,789 |
| Finance costs | (1,194) | (11,661) | - | (12,855) |
| Finance (costs)/income – net | (1,194) | 37,128 | - | 35,934 |
| Share of losses of associates | - | (3,320) | - | (3,320) |
| (Loss)/profit/ before income tax | (607,980) | 146,562 | 78,679 | (382,739) |
| Income tax credit/(expense) | 8,272 | 40,640 | (7,868) | 41,044 |
| Segment results | (599,708) | 187,202 | 70,811 | (341,695) |
| Depreciation and amortisation | 362,356 | 130,192 | - | 492,548 |
| Impairment charge of goodwill | - | 22,881 | - | 22,881 |
| Net impairment losses on financial assets and contract assets | 2,504 | 67,381 | - | 69,885 |
| Fair value gains on investment properties | - | - | 5,550 | 5,550 |
| Share-based payments | 25,198 | 135,996 | - | 161,194 |

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3 Segment information (continued)

The segment information for the year ended 31 December 2019 is as follows:

| | Cloud services business RMB'000 | ERP business RMB'000 | Investment properties operating business RMB'000 | The Group Total RMB'000 |
|---|---|--------------------------------|--|-----------------------------------|
| Revenue (from external customers) | 1,313,595 | 2,011,995 | - | 3,325,590 |
| - Products transferred at a point in time | - | 945,631 | - | 945,631 |
| - Services transferred over time | 1,313,595 | 1,066,364 | - | 2,379,959 |
| Operating (loss)/profit | (195,065) | 505,615 | 113,237 | 423,787 |
| Finance income | 688 | 19,080 | - | 19,768 |
| Finance costs | (1,005) | (13,393) | - | (14,398) |
| Finance (costs)/income – net | (317) | 5,687 | - | 5,370 |
| Share of losses of associates | - | (33,026) | - | (33,026) |
| (Loss)/profit before income tax | (195,382) | 478,276 | 113,237 | 396,131 |
| Income tax credit/(expense) | 23,405 | (42,414) | (11,324) | (30,333) |
| Segment results | (171,977) | 435,862 | 101,913 | 365,798 |
| Depreciation and amortisation | 229,806 | 255,239 | - | 485,045 |
| Impairment charge of goodwill | - | 31,187 | - | 31,187 |
| Net impairment losses on financial assets and contract assets | 1,324 | 47,092 | - | 48,416 |
| Fair value gains on investment properties | - | - | 39,994 | 39,994 |
| Share-based payments | 642 | 103,306 | - | 103,948 |

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 RMB3,324,039,000 (2019: RMB3,294,756,000) and RMB32,406,000 (2019: RMB30,834,000), respectively, for the year ended 31 December 2020.

There was no single customer that contributed to over 10% of the Group's revenue for the years ended 31 December 2020 and 2019.

(a) Assets and liabilities related to contracts with customers

| | At 31 December | |
|--|-----------------------|----------------|
| | 2020 | 2019 |
| | RMB'000 | RMB'000 |
| Current contract assets relating to ERP and cloud implementation contracts | 395,807 | 451,685 |
| Loss allowance | (39,149) | - |
| Total | 356,658 | 451,685 |
| | | |
| Contract obtaining costs (i) | 142,280 | 60,667 |
| | | |
| Contract liabilities – Cloud services business | 996,836 | 542,793 |
| Contract liabilities – ERP business | 487,107 | 454,203 |
| Total | 1,483,943 | 996,996 |

(i) Contract obtaining costs

Management expects the incremental costs, primarily sale commissions paid/payable, as a result of obtaining the cloud services contracts are recoverable. The Group capitalised these incremental costs and amortised them in "Sales promotion" expenses when the related revenue is recognised. There was no impairment loss in relation to the costs capitalised.

(ii) 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.

| | Year ended 31 December | |
|-------------------------|-------------------------------|----------------|
| | 2020 | 2019 |
| | RMB'000 | RMB'000 |
| Cloud services business | 437,419 | 251,698 |
| ERP business | 454,203 | 548,738 |
| | 891,622 | 800,436 |

3 Segment information (continued)

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

(iii) Unsatisfied long-term cloud services contracts

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

| | At 31 December | |
|---|-----------------------|----------------|
| | 2020 | 2019 |
| | RMB'000 | 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>413,164</u> | <u>182,274</u> |

Management expects that approximately 45% of the transaction price allocated to the unsatisfied contracts as of 31 December 2020 will be recognised as revenue during the next reporting period (RMB186,748,000). The remaining approximately 55% (RMB226,416,000) will be recognised in or after the 2022 financial year.

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.

4 Leases

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

| | 2020 RMB'000 | 2019 RMB'000 |
|----------------------------|------------------------|------------------------|
| Right-of-use assets | | |
| Land use rights (i) | 135,932 | 65,685 |
| Buildings | 45,988 | 41,184 |
| | <u>181,920</u> | <u>106,869</u> |
| Lease liabilities | | |
| Current | 28,712 | 21,341 |
| Non-current | 22,320 | 20,282 |
| | <u>51,032</u> | <u>41,623</u> |

Additions to the right-of-use assets during the 2020 financial year were RMB102,578,000 (2019: RMB32,158,000), which include RMB42,353,000 transferred from investment properties.

(i) The Group has land lease arrangement with mainland China government. The land use rights are located in the PRC and held on leases of between 31 to 42 years, and for self-use.

(b) Amounts recognised in the statement of profit or loss

The income statement shows the following amounts relating to leases:

| | 2020 RMB'000 | 2019 RMB'000 |
|---|------------------------|------------------------|
| Depreciation charge of right-of-use assets | | |
| Land | 2,059 | 1,860 |
| Buildings | 24,984 | 22,751 |
| | <u>27,043</u> | <u>24,611</u> |
| Interest expense (included in finance cost) | 3,484 | 3,019 |
| Expense relating to short-term leases (included in cost of sales and administrative expenses) | 6,708 | 16,971 |

The total cash outflow for leases in 2020 was RMB53,556,000 (2019: RMB38,114,000).

4 Leases (continued)

(c) The Group's leasing activities and how these are accounted for

The Group leases various offices. Rental contracts are typically made for fixed periods of 3 months to 8 years, but may have extension options as described in (d) below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

(d) Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

5 *Trade and other receivables, and loans to third parties*

| | 2020 | 2019 |
|---|-----------------------|-----------------------|
| | RMB'000 | RMB'000 |
| Trade receivables (a) | 253,947 | 259,905 |
| Less: allowance for impairment of trade receivables | <u>(131,060)</u> | <u>(141,952)</u> |
| Trade receivables – net | 122,887 | 117,953 |
| Notes receivable | 43,650 | 32,039 |
| Advances to employees (b) | 6,183 | 12,159 |
| Consideration receivable from disposal of an associate | - | 28,125 |
| Prepayments | 73,857 | 67,465 |
| VAT recoverable | 29,280 | 35,820 |
| Interest receivables | 13,775 | 2,610 |
| Receivables from related parties (c) | 17,637 | 15,309 |
| Receivables from non-controlling interests | 39,500 | 22,000 |
| Others | 48,729 | 18,389 |
| Less: allowance for impairment of other receivables (excluding prepayments) | <u>(12,260)</u> | <u>(21,716)</u> |
| | 383,238 | 330,153 |
| Less: non-current portion | <u>(49,526)</u> | <u>(22,000)</u> |
| Current portion | <u><u>333,712</u></u> | <u><u>308,153</u></u> |
| | | |
| Loans to third parties (d) | | |
| – Current portion | 316,666 | 230,869 |
| – Non-current portion | <u>57,449</u> | <u>12,350</u> |
| | <u><u>374,115</u></u> | <u><u>243,219</u></u> |

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

- (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 2020 and 2019, the aging analysis of trade receivables based on invoice date were as follows:

| | 2020 | 2019 |
|----------------|-----------------------|-----------------------|
| | RMB'000 | RMB'000 |
| 0 - 90 days | 97,363 | 73,841 |
| 91 - 180 days | 5,419 | 12,637 |
| 181 - 360 days | 12,402 | 33,280 |
| Over 360 days | <u>138,763</u> | <u>140,147</u> |
| | <u><u>253,947</u></u> | <u><u>259,905</u></u> |

5 Trade and other receivables, and loans to third parties (continued)

(b) Advances to employees

The amounts advanced to employees were restricted for business purpose only, such as advances for selling expenses. Such advances were interestfree, unsecured and repayable on demand. During the years ended on 31 December 2020 and 2019, the Group did not advance any cash to the directors for use on business activities.

(c) Receivables from related parties were unsecured, interest-free, and repayable on demand and denominated in RMB.

(d) Loans to third parties

| | 2020 | 2019 |
|---|-----------------------|-----------------------|
| | RMB'000 | RMB'000 |
| Loans to third parties | 377,902 | 245,434 |
| Less: Provision for collective impairment assessment of the loans | <u>(3,787)</u> | <u>(2,215)</u> |
| Loans to third parties, net of provision | 374,115 | 243,219 |
| Less: non-current portion | <u>(57,449)</u> | <u>(12,350)</u> |
| Current portion | <u><u>316,666</u></u> | <u><u>230,869</u></u> |

The loans to third parties represented loans made under the micro-credit business, which bear interest from 4.28% to 24.00% (2019: 4.28% to 24.00%) per annum and are repayable with fixed terms agreed with the customers, and all denominated in RMB.

The fair values of the loans to third parties approximated their carrying amounts and the fair value hierarchy is level 2. The interest accrued was due within 12 months and presented in interest receivables.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

The Group performed expected credit loss assessment of loans to third parties collectively by grouping loans with similar credit risk characteristics. During the years ended 31 December 2020 and 2019, the majority of the loans were in stage 1 and there were no significant change in credit quality for loans for both years.

6 Share capital and share premium

| | Number of shares (thousands) | Share capital RMB'000 | Share premium RMB'000 | Total RMB'000 |
|--|------------------------------------|-----------------------------|-----------------------------|------------------|
| At 1 January 2019 | 3,300,185 | 79,585 | 2,903,459 | 2,983,044 |
| Employee share option scheme | | | | |
| – Value of employee services received | - | - | 1,032 | 1,032 |
| – Exercise of share options | 20,505 | 452 | 53,732 | 54,184 |
| Share award plan | | | | |
| – Value of services received | - | - | 86,660 | 86,660 |
| – Transfer shares to the awardees upon vesting | - | - | (81,787) | (81,787) |
| At 31 December 2019 | <u>3,320,690</u> | <u>80,037</u> | <u>2,963,096</u> | <u>3,043,133</u> |
| At 1 January 2020 | 3,320,690 | 80,037 | 2,963,096 | 3,043,133 |
| Employee share option scheme | | | | |
| – Exercise of share options | 12,628 | 323 | 36,329 | 36,652 |
| Share award plan | | | | |
| – Value of services received | - | - | 100,857 | 100,857 |
| – Transfer shares to the awardees upon vesting | - | - | (99,443) | (99,443) |
| Dividend distribution | - | - | (36,756) | (36,756) |
| Issue of new shares(b) | <u>133,280</u> | <u>2,971</u> | <u>2,088,431</u> | <u>2,091,402</u> |
| At 31 December 2020 | <u>3,466,598</u> | <u>83,331</u> | <u>5,052,514</u> | <u>5,135,845</u> |

- (a) The total authorised number of ordinary shares as at 31 December 2020 was 4,000,000,000 (2019: 4,000,000,000) shares with a par value of HKD0.025 (2019: HKD0.025) per share. All issued shares were fully paid.
- (b) In August 2020, a total of 133,280,000 new shares had been placed to certain third-party investors at a price of HK\$17.82 per share, the net proceeds from which were approximately RMB2,091,402,000.

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7 **Other reserves**

| | Merger reserve | Capital reserve | Statutory surplus reserve fund | Property revaluation | Shares held for share award plan | Translation | Other reserves | Total |
|---|---------------------------|----------------------------|---|---------------------------------|---|--------------------|---------------------------|----------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | Note (a) | Note (b) | Note (c) | | Note (d) | | | |
| At 1 January 2019 | 6,570 | 253,488 | 138,762 | 476,049 | (371,480) | 66,116 | (4,246) | 565,259 |
| Currency translation differences | - | - | - | - | - | 284 | - | 284 |
| Transactions with non-controlling interests | - | - | - | - | - | - | 64,782 | 64,782 |
| Transfer shares to the awardees upon vesting | - | - | - | - | 56,207 | - | - | 56,207 |
| At 31 December 2019 | <u>6,570</u> | <u>253,488</u> | <u>138,762</u> | <u>476,049</u> | <u>(315,273)</u> | <u>66,400</u> | <u>60,536</u> | <u>686,532</u> |
| | Merger reserve | Capital reserve | Statutory surplus reserve fund | Property revaluation | Shares held for share award plan | Translation | Other reserves | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | Note (a) | Note (b) | Note (c) | | Note (d) | | | |
| At 1 January 2020 | 6,570 | 253,488 | 138,762 | 476,049 | (315,273) | 66,400 | 60,536 | 686,532 |
| Currency translation differences | - | - | - | - | - | (24,631) | - | (24,631) |
| Transactions with non-controlling interests | - | - | - | - | - | - | 5,181 | 5,181 |
| Transfer shares to the awardees upon vesting | - | - | - | - | 64,920 | - | - | 64,920 |
| At 31 December 2020 | <u>6,570</u> | <u>253,488</u> | <u>138,762</u> | <u>476,049</u> | <u>(250,353)</u> | <u>41,769</u> | <u>65,717</u> | <u>732,002</u> |

7 ***Other reserves (continued)***

- (a) The merger reserve represented the difference between the carrying amounts of the capital of the subsidiaries at the date on which they were acquired by the Company and the nominal amounts of the Company's shares issued as consideration for the acquisitions.
- (b) The capital reserve arose mainly from the reinvestment of dividends into the PRC subsidiaries and capitalisation of reserves of certain subsidiaries.
- (c) The Company's subsidiaries in the PRC are required to follow the laws and regulations of the PRC and their articles of association. These subsidiaries are required to allocate at least 10% of their net profits to the reserve fund until the balance of such fund has reached 50% of their registered capital. The reserve fund can only be used, upon approval by the shareholders' meeting or similar authorities, to offset accumulated losses or increase capital.
- (d) The shares held for share award plan were mainly from the ordinary shares of the Company purchased by the Group in previous years under the share award plan. The carrying amount of these shares held as at the year end was presented as a deduction against equity.

8 Borrowings

| | 2020 | 2019 |
|----------------------------------|----------------|----------------|
| | RMB'000 | RMB'000 |
| Current | | |
| Short-term borrowings, unsecured | 120,000 | 169,625 |
| Short-term borrowings, secured | - | 30,000 |
| | <u>120,000</u> | <u>199,625</u> |

At 31 December 2020, all the Group's borrowings were repayable within 1 year and denominated in RMB.

The Group's bank borrowings bear average interest rate of 4.67% (2019: 4.69%) per annum.

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

9 Trade and other payables

| | 2020 | 2019 |
|---|----------------|----------------|
| | RMB'000 | RMB'000 |
| Trade payables (a) and (b) | 24,503 | 15,393 |
| Salary and staff welfare payables | 243,427 | 218,556 |
| Deposits payable | 130,372 | 133,611 |
| Accrual for expenses | 114,307 | 73,015 |
| Value-added tax("VAT") and other taxes payables | 54,136 | 71,732 |
| Construction payables (c) | 105,032 | 69,028 |
| Unpaid consideration for investment in financial assets | | |
| at fair value through profit or loss | 70,775 | - |
| Government funds payable to project partners (d) | - | 24,851 |
| Unpaid business acquisition consideration | - | 8,175 |
| Others | 52,051 | 70,263 |
| | <u>794,603</u> | <u>684,624</u> |
| Less: non-current portion (c) | - | (69,028) |
| Current portion | <u>794,603</u> | <u>615,596</u> |

- (a) The fair values of trade and other payables approximate their carrying amounts. The carrying amounts of the Group's trade and other payables are mainly denominated in RMB.
- (b) At 31 December 2020 and 2019, the aging analysis of the trade payables based on invoice date is as follows:

| | 2020 | 2019 |
|----------------|---------------|---------------|
| | RMB'000 | RMB'000 |
| 0 - 180 days | 20,493 | 9,100 |
| 181 - 360 days | 1,005 | 669 |
| Over 360 days | 3,005 | 5,624 |
| | <u>24,503</u> | <u>15,393</u> |

- (c) It mainly represents the Group's payables to the construction companies for the construction costs incurred relating to Shenzhen Kingdee Software Park Phase II project. In November 2020, the Group renegotiated the payment terms with the construction companies to be settled within the year 2021.
- (d) The Group entered into certain government development projects. According to the underlying contracts of these projects, the relevant government departments transferred the project funds to the Group directly and the Group was authorized to allocate the project funds to other third parties involved in the projects as the Group's partners.

10 Deferred income

| | 2020 | 2019 |
|--------------------------------|----------------|----------------|
| | RMB'000 | RMB'000 |
| Deferred government grants (a) | <u>131,660</u> | <u>125,450</u> |

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

| | 2020 | 2019 |
|------------------------------------|-----------------|----------------|
| | RMB'000 | RMB'000 |
| At 1 January | 125,450 | 102,081 |
| Additions | 45,348 | 27,139 |
| Recognised in the income statement | <u>(39,138)</u> | <u>(3,770)</u> |
| At 31 December | <u>131,660</u> | <u>125,450</u> |

It represents cash received from government for financing various research and development projects conducted by the Group. The 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).

11 Revenue from contracts with customers

The Group's revenue includes revenues from cloud services business and ERP business. Revenue is stated net of applicable VAT in the PRC and comprises the following:

| | 2020 | 2019 |
|--|------------------|------------------|
| | RMB'000 | RMB'000 |
| Cloud business | 1,912,385 | 1,313,595 |
| - Enterprise cloud services | 1,356,311 | 927,375 |
| - Finance cloud services | 288,766 | 169,873 |
| - Industry cloud services | 172,479 | 142,901 |
| - Other cloud services | 94,829 | 73,446 |
| ERP business | 1,444,060 | 2,011,995 |
| - Sales of software and hardware products | 447,626 | 945,631 |
| - Software implementation services | 453,067 | 488,476 |
| - Software solution consulting, maintenance, upgrade and other supporting services | 543,367 | 577,888 |
| | <u>3,356,445</u> | <u>3,325,590</u> |

12 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 assets and contract assets are analysed as follows:

| | 2020 | 2019 |
|---|-------------------------|-------------------------|
| | RMB'000 | RMB'000 |
| Research and development costs | | |
| Amounts incurred | 882,559 | 650,499 |
| Less: development costs capitalised | (314,119) | (477,654) |
| Add: amortisation | <u>415,434</u> | <u>413,982</u> |
| | 983,874 | 586,827 |
| Employee benefit expenses | 2,576,601 | 2,177,477 |
| Less: amount included in development costs | <u>(812,913)</u> | <u>(584,632)</u> |
| | 1,763,688 | 1,592,845 |
| Depreciation of property, plant and equipment | 40,274 | 36,132 |
| Less: amount included in development costs | <u>(5,558)</u> | <u>(6,031)</u> |
| | 34,716 | 30,101 |
| Outsourcing services | 410,357 | 385,745 |
| Sales promotion and advertising | 299,367 | 194,728 |
| Cost of inventories consumed | 172,904 | 150,363 |
| Rental and utilities | 29,128 | 23,321 |
| Traveling expenses | 61,924 | 68,876 |
| Office expenses | 31,985 | 30,779 |
| Other taxes and surcharges | 41,429 | 42,781 |
| Impairment charge of goodwill | 22,881 | 31,187 |
| Training costs | 12,062 | 28,032 |
| Professional service fees | 31,505 | 21,791 |
| Depreciation of right-of-use assets | 27,043 | 24,611 |
| Amortisation of trademarks, licenses and copyrights | 7,043 | 8,571 |
| Amortisation of computer software for own use | 3,083 | 2,550 |
| Amortisation of customer relationship | 5,229 | 5,230 |
| Auditors' remuneration | 7,160 | 6,630 |
| - Audit services | 3,630 | 3,400 |
| - Non-audit services | 3,530 | 3,230 |
| Net impairment losses on financial assets and contract assets | 69,885 | 48,416 |
| Others | <u>24,623</u> | <u>34,570</u> |
| Total | <u><u>4,039,886</u></u> | <u><u>3,317,954</u></u> |

13 Other income and (losses)/gains – net

| | 2020 | 2019 |
|---|-----------------|----------------|
| | RMB'000 | RMB'000 |
| Other income | | |
| VAT refund (a) | 135,544 | 164,308 |
| VAT input tax surplus deduction | 8,462 | 3,422 |
| Government subsidy income | 60,965 | 31,317 |
| Rental income - net | 73,129 | 73,243 |
| Interest income from loan to related parties | 4,078 | 19,311 |
| | <u>282,178</u> | <u>291,601</u> |
| Other (losses)/gains | | |
| Realised and unrealised gains on financial assets at FVPL (b) | 40,113 | 26,220 |
| Fair value change of derivative financial instruments | 4,540 | - |
| Gains on disposal of associates (c) | 37,963 | 47,426 |
| Net foreign exchange (losses)/gains | (95,297) | 2,975 |
| Others | (6,959) | 7,935 |
| | <u>(19,640)</u> | <u>84,556</u> |
| | <u>262,538</u> | <u>376,157</u> |

- (a) According to the current tax regulations in the PRC, the development and sales of computer software products are subject to VAT with an applicable rate of 16%. From 1 April 2019, according to the circular “2019 No. 39 Notice of Ministry of Finance, the General Administration of Taxation and The General Administration of Customs”, the applicable rate for software industry has been changed from 16% to 13%.

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) (the “Circular”). 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 mainly represented investment return from wealth management products that are measured at FVPL.
- (c) It represented the disposal gain from disposal of the Group’s 2.22% interest in an associate to a third party in 2020.

14 Finance income/(costs) – net

| | 2020 RMB'000 | 2019 RMB'000 |
|---------------------------------|------------------------|------------------------|
| Finance income | | |
| – Interest income | <u>48,789</u> | <u>19,768</u> |
| Finance costs | | |
| – Interest on borrowings | (9,371) | (11,379) |
| – Interest on lease liabilities | <u>(3,484)</u> | <u>(3,019)</u> |
| | <u>(12,855)</u> | <u>(14,398)</u> |
| | <u><u>35,934</u></u> | <u><u>5,370</u></u> |

15 *Income tax (credit)/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.

| | 2020 | 2019 |
|---------------------------------------|-----------------|---------------|
| | RMB'000 | RMB'000 |
| Current income tax | | |
| – Current tax on profits for the year | 26,490 | 31,017 |
| – Over-provision in prior year | (11,768) | (8,493) |
| Deferred income tax | <u>(55,766)</u> | <u>7,809</u> |
| | <u>(41,044)</u> | <u>30,333</u> |

- (a) No provision for profits tax in the Cayman Islands and Hong Kong has been made as the Group has no assessable profits for the years in those jurisdictions.
- (b) In 2016, a tax law [2016] No.49 has been enacted that entity can register for the National Important Software Enterprise (“NISE”) in tax bureau if the entity complies with relevant requirements. Based on management’s assessment, it is highly probable that Kingdee China will meet those requirements. Therefore, Kingdee China used a preferential corporate income tax rate of 10% for the year ended 31 December 2020 (2019: 10%) to calculate income tax. The application of preferential tax rate stated above is subject to critical estimates of the management of the Group.

15 Income tax (credit)/expense

- (c) Kingdee Deeking was qualified as a High-tech Enterprise from November 2019 and was entitled to a preferential corporate income tax rate of 15% in 2020 (2019: 10%).

Kingdee Apusic Cloud Computing Co.,Ltd. was consistently qualified as a High-tech Enterprise from September 2017 and was entitled to a preferential corporate income tax rate of 15% in 2020 (2019: 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 2020 (2019: 15%).

Guanyi was consistently qualified as High-tech Enterprise from November 2019 and were entitled to a preferential corporate income tax rate of 15% in 2020 (2019: 15%, 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 2019 to 2021 and was entitled to a preferential corporate income tax rate of 15% in 2020 (2019: 15%).

Kingdee Vehicle was qualified as High-tech Enterprise from 2018 to 2021 and was entitled to a preferential corporate income tax rate of 15% in 2020 (2019: 15%).

- (d) 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:

| | 2020 | 2019 |
|---|------------------|----------------|
| | RMB'000 | RMB'000 |
| (Loss)/profit before tax | <u>(382,739)</u> | <u>396,131</u> |
| Tax calculated at the statutory tax rate of 25% (2019: 25%) | (95,685) | 99,033 |
| Tax effects of: | | |
| Preferential tax rates | 59,692 | (70,095) |
| Tax losses for which no deferred income tax asset was recognised | 49,292 | 41,538 |
| Expenses not deductible for tax purposes | 8,428 | 12,092 |
| Utilisation of tax losses not recognised in previous | (2,809) | - |
| Re-measurement of deferred tax due to a change in applicable tax rate | 4,869 | - |
| Additional deductible allowance for research and development expenses | (53,063) | (43,742) |
| Over-provision in prior year | (11,768) | (8,493) |
| | <u>(41,044)</u> | <u>30,333</u> |

16 Dividends

| | 2020 RMB'000 | 2019 RMB'000 |
|-------------------------|------------------------|------------------------|
| Proposed final dividend | <u>-</u> | <u>37,000</u> |

Included in the 2019 final dividends of RMB36,756,000 (RMB1.1 cents per share) (approximately HKD1.2 cents per share), RMB36,715,000 were paid in 2020, while the remaining RMB101,000 was outstanding as at 31 December 2020.

The Board of directors did not recommend the payment of a final dividend for the year ended 31 December 2020.

17 (Losses)/earnings per share

(a) Basic

Basic (losses)/earnings per share is calculated by dividing the (loss)/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.

| | 2020 | 2019 |
|--|------------------|------------------|
| (Loss)/profit attributable to owners of the Company (RMB'000) | (335,479) | 372,580 |
| Weighted average number of ordinary shares in issue (thousands) | <u>3,315,661</u> | <u>3,233,638</u> |
| Basic (losses)/earnings per share (RMB cents per share) | <u>(10.12)</u> | <u>11.52</u> |

17 **(Losses)/earnings per share (continued)**

(b) Diluted

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

As the Group incurred losses for year ended 31 December 2020, the dilutive potential ordinary shares were not included in the calculation of diluted loss per share as their inclusion would be anti-dilutive. Accordingly, diluted loss per share for year ended 31 December 2020 was the same as basic loss per share of the respective period.

| | 2020 | 2019 |
|--|-------------|-------------|
| (Loss)/profit attributable to owners of the Company (RMB'000) | (335,479) | 372,580 |
| (Loss)/profit used to determine diluted earnings per share (RMB'000) | (335,479) | 372,580 |
| Weighted average number of ordinary shares in issue (thousands) | 3,315,661 | 3,233,638 |
| Adjustments for: | | |
| – Share options (thousands) | - | 55,771 |
| – Share awards (thousands) | - | 32,565 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | 3,315,661 | 3,321,974 |
| Diluted (losses)/earnings per share (RMB cents per share) | (10.12) | 11.22 |

18 *Related party transactions*

Mr. Xu Shao Chun, who owned 20.30% of the Company's shares as at 31 December 2020, is the Company's single largest shareholder.

(a) Transactions with related parties

Save as disclosed in employee share-based arrangements and directors' emoluments in the consolidated financial statements, the Group had transactions with related parties for the year ended 31 December 2020 as follows:

| | 2020 RMB'000 | 2019 RMB'000 |
|--|------------------------|------------------------|
| Sales of products | | |
| – Associates | 12,191 | 15,292 |
| – Companies controlled by Mr. Xu Shao Chun | 1,441 | 2,416 |
| | <u>13,632</u> | <u>17,708</u> |
| Sales of services | | |
| – Associates | 11,054 | 9,461 |
| – Companies controlled by Mr. Xu Shao Chun | 638 | 620 |
| | <u>11,692</u> | <u>10,081</u> |
| Rental income | | |
| – Associates | 1,766 | 1,910 |
| – Companies controlled by Mr. Xu Shao Chun | 11,304 | 15,282 |
| | <u>13,070</u> | <u>17,192</u> |
| Interest income | | |
| – Associates | 4,078 | 16,422 |
| – Companies controlled by Mr. Xu Shao Chun | - | 2,889 |
| | <u>4,078</u> | <u>19,311</u> |

Products and services are sold based on terms agreed with the counterparties in the ordinary course of business, and the rental rates and interest rates are determined in the same way.

18 Related party transactions (continued)**(b) Purchases of products and services**

| | 2020 | 2019 |
|--|----------------------|----------------------|
| | RMB'000 | RMB'000 |
| Purchases of products | | |
| – Associates | 7,897 | 10,892 |
| – Companies controlled by Mr. Xu Shao Chun | <u>561</u> | <u>998</u> |
| | <u><u>8,458</u></u> | <u><u>11,890</u></u> |
| Purchases of services | | |
| – Associates | 44,499 | 26,067 |
| – Companies controlled by Mr. Xu Shao Chun | <u>-</u> | <u>219</u> |
| | <u><u>44,499</u></u> | <u><u>26,286</u></u> |

Products and services purchased from associates and companies controlled by Mr. Xu Shao Chun are carried out on terms agreed with the counterparties in the ordinary course of business.

(c) Balances with related parties

| | 2020 | 2019 |
|---|----------------------|----------------------|
| | RMB'000 | RMB'000 |
| Receivables from related parties | | |
| – Associates | 11,251 | 12,047 |
| – Companies controlled by Mr. Xu Shao Chun | <u>6,034</u> | <u>3,262</u> |
| | <u><u>17,285</u></u> | <u><u>15,309</u></u> |
| Payable to related parties recorded in “Contract liabilities” | | |
| – Associates | <u>1,352</u> | <u>719</u> |
| Payable to related parties recorded in “Trade payables” | | |
| – Associates | - | 132 |
| – Companies controlled by Mr. Xu Shao Chun | <u>-</u> | <u>8</u> |
| | <u><u>-</u></u> | <u><u>140</u></u> |

18 Related party transactions (continued)**(d) Key management compensation**

Key management comprise the Company's directors and senior management. The compensation paid or payable to key management for employee services is shown below.

| | 2020 RMB'000 | 2019 RMB'000 |
|---|------------------------|------------------------|
| Salaries and other short-term employee benefits | 18,553 | 16,413 |
| Share-based payments | 17,435 | 19,634 |
| | <u>35,988</u> | <u>36,047</u> |

(e) Loans to related parties

| | 2020 RMB'000 | 2019 RMB'000 |
|--|------------------------|------------------------|
| Loans to companies controlled by Mr. Xu Shao Chun | | |
| At 1 January | - | 104,979 |
| Repayments received from ultimate controlling party | - | (104,979) |
| At 31 December | - | - |
| Loans to an associate | | |
| At 1 January | - | 616,534 |
| Loans advanced during the year | 470,000 | 300,000 |
| Share of losses of an associate in excess of investment cost | - | 2,518 |
| Repayments received from related parties | (470,000) | (919,052) |
| At 31 December | - | - |
| Total loans to related parties | <u>-</u> | <u>-</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

Major Financial Information

Revenue

For the year ended 31 December 2020, the Group recorded total revenue of RMB3,356,445,000, representing a year-on-year growth of 0.9% (2019: RMB3,325,590,000). Revenue from the Cloud Services increased by 45.6% yoy to RMB1,912,385,000 (2019: RMB1,313,595,000). Revenue from the ERP business amounted to RMB1,444,060,000 (2019: RMB2,011,995,000), down by 28.2% year-on-year.

| | 2020 | 2019 |
|---|------------------|------------------|
| | RMB'000 | RMB'000 |
| Cloud business | 1,912,385 | 1,313,595 |
| -Enterprise cloud services | 1,356,311 | 927,375 |
| -Finance cloud services | 288,766 | 169,873 |
| -Industry cloud services | 172,479 | 142,901 |
| -Other cloud services | 94,829 | 73,446 |
| ERP business | 1,444,060 | 2,011,995 |
| -Sales of software and hardware products | 447,626 | 945,631 |
| -Software implementation services | 453,067 | 488,476 |
| -Software solution consulting, maintenance, upgrade and other supporting services | 543,367 | 577,888 |
| | <u>3,356,445</u> | <u>3,325,590</u> |

The above mentioned decrease in revenue in ERP business was mainly attributable to the proactive termination of the sales of certain software license products. The increase in revenue from cloud services business was mainly attributable to the increase in revenue from subscription services of Kingdee Cloud Cosmic, Kingdee Cloud Galaxy and Jingdou Cloud products.

Gross profit

Prior to 1 January 2020, the Group recorded certain outsourcing service fees related to ERP and Cloud implementation in "selling and marketing expenses". For the year ended 31 December 2020, the Group reassessed the nature of the above outsourcing services and considered that the service fees charged by the outsource vendors are directly related to the ERP and Cloud implementation services provided by the Group to customers and should therefore be recorded in the "cost of sales". Adjustment was made to reclassify the outsourcing service fees of RMB270,370,000, which was accounted in "selling and

marketing expenses" for the year ended 31 December 2019, to "cost of sales" in order to meet the reporting requirements of this year. These changes have been applied retroactively to IAS 8 and have no net effect on the profits for the year ended 31 December 2019 and the financial condition as at 31 December 2019.

The impact on the consolidated income statement for the year ended 31 December 2019 is as follows:

| | Year ended 31 December 2019 |
|--|-----------------------------|
| | RMB'000 |
| Increase of cost of sales | 270,370 |
| Decrease of gross profit | (270,370) |
| Decrease of selling and marketing expenses | (270,370) |

The Group recorded gross profit of RMB2,209,008,000 (2019 as restated: RMB2,403,217,000), down by 8.1% yoy. The gross profit margin declined 6.5 percentage points yoy to approximately 65.8% (2019: approximately 72.3%). The decrease of 6.5 percentage points in gross profit margin was mainly due to the implementation of many flagship projects signed by Cosmic and the yoy increase of outsourcing service cost and IaaS cost.

Selling and marketing expenses

Selling and marketing expenses amounted to approximately RMB1,425,080,000 (2019 as restated: RMB1,374,014,000). This represented a yoy increase of 3.7%. As a percentage of revenue, the percentage of selling and marketing expenses increased from 41.3% in 2019 to 42.5% in 2020.

Administrative expenses and net impairment losses on financial assets and contract assets

During the reporting period, administrative expenses and net impairment losses on financial assets and contract assets were RMB483,495,000 in aggregate, representing a yoy increase of 11.2% (2019: RMB434,740,000). In terms of revenue percentage, the percentage of administrative expenses and net impairment losses on financial assets increased from 13.1% in 2019 to 14.4% in 2020, mainly due to the increase of share incentive expense.

Research and development expenses

During the Reporting Period, the Group continued to focus on Platform + Finance & HR Application + Ecosystem" and increased R&D investment in Kingdee Cloud Cosmic. Total research and development costs were RMB882,559,000, representing a yoy increase of 35.7% (2019: RMB650,499,000), of which, during the Reporting Period, the R&D capitalization rate dropped to 35.6% (2019: 73.4%), the capitalized amount was RMB314,119,000, down by 34.2% yoy (2019: RMB477,654,000). Amortisation of

research and development costs was RMB415,434,000, representing a yoy increase of 0.4% (2019: RMB413,982,000), and the research and development costs recognised in the consolidated income statement was RMB983,874,000 up by 67.7% yoy (2019: RMB586,827,000).

Fair value gains on investment properties

During the Reporting Period, fair value gains on investment properties was RMB5,550,000, representing a year-on-year decrease of 86.1% (2019: RMB39,994,000). Fair value of investment properties is determined by management based on the valuations performed by independent professional valuer primarily using the income approach. The relevant key assumptions include term yields, reversionary yields and fair market rents.

Other income and gains - net

During the Reporting Period, other income and gains-net was RMB262,538,000, representing a yoy decrease of 30.2% (2019: RMB376,157,000), mainly due to loss from change of foreign currency exchange rate.

Operating loss/profit

As at 31 December 2020, the Group recorded an operating loss of RMB415,353,000 (2019: operating profit was RMB423,787,000), due to the fact that the Group continued to promote the development and transformation strategy of cloud business, proactively halted the sales of certain management software license products and increased the R&D investment in cloud products mainly Cosmic. ERP business' operating profit decreased by 77.7% yoy to approximately RMB112,754,000 (2019: RMB505,615,000). Cloud business' operating loss increased by 211.1% to RMB606,786,000 (2019: operating loss of RMB195,065,000). Investment properties operating business' operating profit declined by 30.5% yoy to RMB78,679,000 (2019: RMB113,237,000), due to the decrease in fair value gains on investment properties.

Finance income-net

During the Reporting Period, the finance income – net value amounted to RMB35,934,000. In the same period of 2019, the finance costs – net value was RMB5,370,000.

Income tax credit/expense

During the Reporting Period, the income tax credit amounted to RMB41,044,000 (2019: income tax expense amount to RMB30,333,000), mainly due to the loss of the Group during the Reporting Period.

Net loss/profit and basic loss/earnings per share

As at 31 December 2020, the current loss attributable to owners of the Company was RMB335,479,000 (2019: profit of approximately RMB372,580,000). Net loss margin was 10.0% (2019: net profit margin of 11.2%). Basic loss per share was approximately RMB10.12 cents (2019: basic earnings per share of RMB11.52 cents).

Financial assets at fair value through profit or loss

As at 31 December 2020, the Group's financial assets at fair value through profit or loss amounted to RMB1,616,395,000, representing an increase of RMB591,453,000 as compared with 31 December 2019,

including the non-current portion of RMB622,739,000 (2019: RMB428,791,000) and the current portion of RMB993,656,000 (2019: RMB596,151,000).

Financial assets at fair value through profit or loss included the following:

| | 2020 | 2019 |
|--|-----------------------|-----------------------|
| | RMB'000 | RMB'000 |
| Investments designated at fair value through profit or loss | | |
| Wealth management products (i) | 993,656 | 687,312 |
| Preferred shares (ii) | 622,739 | 278,491 |
| Listed stock | - | 59,139 |
| | <u>1,616,395</u> | <u>1,024,942</u> |
| Less: non-current portion | <u>(622,739)</u> | <u>(428,791)</u> |
| | <u><u>993,656</u></u> | <u><u>596,151</u></u> |

- (i) This represented the Group's investments in various wealth management products issued by commercial banks and state-owned financial institutions. These products have a term ranging from 3 months to 12 months. They have an expected annual return rate ranging from 1.35% to 4.85%. No single wealthy management product investment accounted for over 5% of the Group's total assets. The fair values of these investments were determined based on income approach.
- (ii) As at 31 December 2020, increase of the changes in fair values was mainly due to the increase in the Group's investment in common shares and Series E + preferred shares issued by Facishare Co., Ltd., which is mainly engaged in the business of social network working platform for precise interactive marketing and enterprise collaborative management. The fair value of the investment was determined based on market approach.

Investments in associates

| | 2020 | 2019 |
|-----------------------------------|----------------|----------------|
| | RMB'000 | RMB'000 |
| At 1 January | 282,649 | 234,403 |
| Additions (a) | 127,500 | 110,241 |
| Disposal | (3,797) | (26,401) |
| Dividend received | - | (50) |
| Share of losses of associates (b) | (3,320) | (35,544) |
| At 31 December | <u>403,032</u> | <u>282,649</u> |

(a) It mainly includes the capital increase of RMB120,000,000 to the associate CITIC Consumer Finance Co., Ltd.

(b) Individually immaterial associates

In the opinion of the directors, none of the associates is material to the Group. Summarised aggregate financial information of the individually immaterial associates that are accounted for using the equity method are as following:

| | 2020 | 2019 |
|--|----------------|-----------------|
| | RMB'000 | RMB'000 |
| Aggregate carrying amounts of individually immaterial associates | 403,032 | 282,649 |
| Aggregate amounts of the Group's share of : | | |
| Loss for the year | (3,320) | (35,544) |
| Other comprehensive income | - | - |
| Total comprehensive loss | <u>(3,320)</u> | <u>(35,544)</u> |

(c) All the associates of the Group are unlisted and operate in Mainland China. The Group has no significant contingent liabilities related to the liabilities of associates.

Contract assets

During the Reporting Period, the contract assets of the Group were RMB356,658,000 as at 31 December 2020 and RMB451,685,000 as at 31 December 2019.

Contract liabilities

During the Reporting Period, the Group's contract liabilities amounted to RMB1,483,943,000. The corresponding contract liabilities amounted to RMB996,996,000 as at 31 December 2019. The increase in contract liabilities during the year was mainly due to the growth of the Group's cloud business.

Liquidity, financial and capital resources

As at 31 December 2020, the Group recorded a total cash and bank deposits of RMB4,046,980,000 (31 December 2019: RMB2,586,565,000). As at 31 December 2020, the Group held wealth management products of RMB993,656,000 (31 December 2019: RMB687,312,000). A substantial part of the Group's cash, bank deposit and wealth management products were denominated in RMB and the RMB-equivalent of the part denominated in foreign currencies were RMB1,813,457,000 as at 31 December 2020 (31 December 2019: RMB180,074,000), which were mainly denominated in US dollar and Hong Kong dollar ("HKD").

As at 31 December 2020, the Group's net current assets amounted to approximately RMB3,584,825,000 (31 December 2019: RMB2,243,354,000). As at 31 December 2020, the current ratio of current assets to current liabilities is approximately 2.38, a slightly improvement from 2.12 as at 31 December 2019.

As at 31 December 2019, the Group's borrowings amounted to RMB120,000,000 (31 December 2019: RMB199,625,000), representing a yoy decrease of 39.9%. Gearing ratio is calculated as net debt (representing total borrowings less cash and cash equivalents) over total capital (representing total equity plus net debt). The Group was at net cash position as of 31 December 2019 and 31 December 2020. As a result, the Group has no net debt ratio at the end of the Reporting Period.

Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings carried at floating rates expose the Group to cash flow interest-rate risk whereas those carried at fixed rates expose the Group to fair value interest-rate risk.

The Group currently does not use any interest rate swaps to hedge its exposure to interest rate risk. However, the Group will consider hedging significant interest rate exposure should the need arise.

As at 31 December 2020, borrowings of the Group which were bearing at floating rates amounted to approximately RMB120,000,000 (2019: RMB85,625,000). As at 31 December 2020, if the interest rates had been 50 basis point higher/lower and all other variables were held constant, the Group's post-tax loss for the years ended 31 December 2020 would have been higher/lower by approximately RMB540,000 (2019: 385,000).

Foreign exchange risk

The functional currency of the Company and its major subsidiaries is RMB. The majority of the revenues of the Group are derived from operations in the PRC.

Foreign exchange risk is the risk of loss resulting from changes in foreign currency exchange rates. Fluctuations in exchange rates between RMB and other currencies in

which the Group conducts business may affect its financial position and results of operations. The foreign exchange risk facing the Group mainly comes from movements in the US dollars (“USD”)/RMB and Hong Kong dollars (“HKD”)/RMB exchange rates.

The Group does not have a foreign currency hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2020, if RMB had weakened/strengthened by 5% against HKD with all other variables held constant, profit before tax for the year would have been RMB80,399,000 (2019: RMB6,279,000), mainly as a result of foreign exchange gains/losses on translation of HKD denominated cash at bank and in hand.

As at 31 December 2020, if RMB had weakened/strengthened by 5% against USD with all other variables held constant, profit before tax for the year would have been RMB10,202,000 (2019: RMB18,332,000), mainly as a result of foreign exchange gains/losses on translation of USD denominated borrowing and cash at bank and in hand.

Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt instruments carried at amortised cost, at fair value through profit or loss (FVPL) and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

The management manages the credit risk of cash and cash equivalents, pledged and short-term bank deposits, long-term bank deposits and wealth management products (classified as financial assets at FVPL) by transacting with state-owned financial institutions and reputable commercial banks which are all high-credit-quality financial institutions in the PRC and Hong Kong.

In relation to trade receivables and contract assets, the Group has two kinds of distribution channels, one is sales to distributors and the other is sales to end customers.

For distributors, the Group has assessed the credit quality of the distributors, taking into account their financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The compliance with credit limits by distributors is regularly monitored by management.

For sales to end customers, the Group has no significant concentration of credit risk in trade receivables since the balance of trade receivables is composed of numerous individual small items and the exposure spreads over a large number of customers.

The Group’s investments in debt instruments, including loans to the third parties and

related parties as well as entrust loans are considered to be low risk investments. The credit ratings of the investments are monitored for credit deterioration.

For other receivables, the management considers the possibility of default when assets are initially recognized and whether the credit risk increased significantly on an ongoing basis. The directors of the Company believe that there is no material credit risk inherent in the Group's outstanding balances of other receivables.

Fund and working capital management

Our funds and liquidity management are centrally carried out by our fund management department. Our fund management department is generally responsible for overall management and implementation of funds, including formulating the capital management policy for our Group, guiding, coordinating and standardizing the fund management of regional companies, making annual funding plans, reviewing and summarizing annual capital budget, overseeing and assessing fund management of each regional company. Our finance departments of regional companies are committed to implementing the fund management policies formulated by our headquarters and are responsible for making funding plans and executing capital operations at subsidiary level. We have also adopted sophisticated fund management policies and implemented a set of rules and guidelines on fund management, such as the Group Capital Internal Control Management Measures (《集團資金基礎內控管理辦法》) and Fund Settlement Of Branch Offices Management Measures (《分支機構資金結算管理辦法》), to enhance the effectiveness and efficiency of fund management, thereby ensuring our financial security and reducing cost of capital.

To manage our idle cash on hand, we purchase and redeem wealth management products using them as our “cash pool” from which we could readily access cash as needed and generate higher yield than bank deposits. The underlying financial assets of the wealth management products in which we invested primarily consist of the low- risk wealth management products issued by financial institutions. The amount of the purchase will be determined based on our surplus funds. Our main treasury policy on fund management is the Wealth Management Administration Solution (《資金理財管理辦法》). We consistently comply with our treasury policy during the procedures of purchasing the wealth management products and managing the relevant departments, as well as in conducting business, accounting and filing.

We are committed to safeguarding overall financial security and maintaining a strong cash position and a healthy debt profile with strong repayment ability. By adopting a full, reasonable and professional assessment mechanism, preparing annual and monthly funding plans, we have established disciplined fund management principal, which allows us to efficiently manage market risks.

For budget management, we have established a monthly, quarterly and annual budget management system, then seek approval from our chief financial officer. The capital

budget plans should be made based on the objective basis of the Group’s business plans, project schedules, and contractual payment terms to ensure that the plan accurately matches the actual business needs.

Major properties

The following table sets forth the details of the major properties held by the Group as of 31 December 2020.

| Property name | Location | Existing use | Lease term | Total Fair value RMB’000 |
|--------------------------------------|---|--------------|------------|-----------------------------|
| Beijing Kingdee Software Park Valley | No. 4 Fuxing Street, Mapo Town, Shunyi District, Beijing City, the PRC | Offices | Long-term | 665,576 |
| Shanghai Kingdee Development Center | No. 88 Chenhui Road, Zhangjiang High Technology Park, Pudong District, Shanghai City, the PRC | Offices | Long-term | 375,290 |
| Shenzhen Kingdee Development Center | No. 2, No.12 Technology Road South, High Technology Park, Nanshan District, Shenzhen City, Guangdong Province, the PRC | Offices | Long-term | 537,875 |
| Shenzhen W1-B | Level 4, Building W1, High-tech Industrial Village, No. 1 Technology Road South, Nanshan District, Shenzhen City, Guangdong Province, the PRC | Offices | Long-term | 72,230 |
| | | | | <u>1,650,971</u> |

2. Employee and Remuneration Policy

During the Reporting Period, total number of employees in the Group reached 10,663. Based on core value of “Acting in all Conscience, with Integrity and Righteousness”, the Company implements Kingdee Philosophy, commending the employees and organizations who have made outstanding contributions to the satisfaction of customers, and consolidating the customer-centered culture. At the same time, the Group continued to reward those who achieved innovation in product technology and improvement in product quality, and made strategic deployment and incentive for R & D professionals. During the Reporting Period, the Group fully implemented the strategy of international strategic positioning, market-based corporate governance, high-end industry layout and global human resources in organizational capability, deployed leading talents of cloud transformation, encouraged R&D and delivery of high potential talents to grow in rotation, continuously introduced elite talents and top-class fresh graduates, promoting the realization of younger, rank-based, professional and echelon-based employees.

3. Social Responsibility

During the pandemic, Kingdee leveraged its advantages in cloud platform and big data,

provided data monitoring and analysis for small- and medium-sized enterprises to resume work and production, guaranteed 24-hour telephone and online customer services and maintained normal operation of customers' business. In addition, Kingdee provided priority services to enterprises in affected areas. Meanwhile, Kingdee, together with management experts and leaders from 18 industries, released the Smart Growth Plan for Micro, Small and Medium Businesses to help SMEs break through business bottlenecks and achieve smart growth. Kingdee also helped enterprises tide over difficulties with the "Golden Selection Plan", which selected quality products from served enterprises and promoted them in the market, as well as a number of support measures for enterprises and products preferential services.

Kingdee donated RMB10 million through China Siyuan Foundation for Poverty Alleviation to support front-line medical workers fighting against COVID-19 in Wuhan and surrounding areas, continued to support the Siyuan Foundation Ya'an Poor Students Phase III Project and initiated the Third Kingdee Education Relocation Class Project. During the reporting period, Kingdee contributed to the China Management Model 50, a public forum promoting theoretical and practical dialogues, communication and cooperation. Kingdee, management experts and entrepreneurs jointly advanced enterprise management in China.

4. Outlook

Kingdee will continue to execute the cloud subscription transformation strategy, continue to focus on "Platform + Finance & HR & Tax + Ecosystem", increase R&D investment in Kingdee Cloud Cosmic, take the leading position among platforms, focus on the core applications, vigorously develop cloud ecosystem, actively penetrate into high-end market, consolidate the market advantages among small and medium-sized enterprises, and create a new Kingdee with subscription business model in the next three years.

Committed to the philosophy of "customer-centric, hardworking as foundation and long-term professionalism", Kingdee has always been with every enterprise customer side by side. In the future, Kingdee will help more enterprises and customers grow up against challenges and strengthen themselves in adversity, embracing the belief in victory, and reconstruct digital enterprise capability.

Dividend

In respect of the year ended December 31, 2020, no dividend is proposed by the directors of the Company.

Purchase, Sale or Redemption of Shares

During the year ended 31 December 2020, neither the Company, nor any of its subsidiaries, had repurchased, sold or redeemed any of its listed securities.

Closures of Register

The register of members of the Company will be closed from Monday, 17 May 2021 to Friday, 21 May 2021 (both days inclusive), during which periods no transfer of shares will be registered. In order to be qualified to attend, participate in and vote at the AGM to be held on Friday, 21 May 2021, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at Room 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 14 May 2021.

Corporate Governance

The Company had complied with all the code provisions of the Corporate Governance Code throughout the year ended 31 December 2020 except the following: Chairman and Chief Executive Officer Mr. Xu Shao Chun assumed the roles of both the Chairman and Chief Executive Officer of the Company which was deviated from code provision A.2.1 of the Code 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.

Audit Committee

As of the date of this announcement, the audit committee of the Company (the "Audit Committee") comprised three independent non-executive Directors, namely Mr. Gary Clark Biddle, Mr. NI Zheng Dong 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 consolidated financial statements of the Group for the year ended 31 December 2020.

Auditor

PricewaterhouseCoopers was appointed as the external auditor of the Company for the year of 2020, 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 2020 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 this results announcement.

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

Shenzhen, the People's Republic of China, 24 March 2021.

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. Zhou Bo Wen as non-executive directors; and Mr. Gary Clark Biddle, Mr. Ni Zheng Dong and Mr. Liu Chia Yung as independent non-executive directors.