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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)

CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF EQUITY INTEREST IN CLOUDHUB

On 6 March 2019, Diechuang Holdings as seller and Hongjin Investment (a controlled structured entity in the Group's consolidated financial statements) as purchaser entered into the Equity Transfer Agreement, whereby Diechuang Holdings conditionally agreed to sell, and Hongjin Investment conditionally agreed to purchase, the Equity Interest (representing approximately 51.73% of the registered capital in CloudHub) at a consideration of RMB50,456,000.

As Mr. Xu, an executive Director, the Chairman of the Board and the controlling shareholder of the Company, is beneficially interested in 99% of Diechuang Holdings' equity interest, Diechuang Holdings is an associate of Mr. Xu and therefore a connected person of the Company pursuant to the Listing Rules. Accordingly, the Proposed Acquisition constitutes a connected transaction of the Company under the Listing Rules.

As each of the applicable percentage ratios in respect of the Proposed Acquisition calculated in accordance with the Listing Rules is less than 5%, the Proposed Acquisition is subject to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirement under Chapter 14A of Listing Rules.

INTRODUCTION

On 6 March 2019, Diechuang Holdings as seller and Hongjin Investment as purchaser entered into the Equity Transfer Agreement, whereby Diechuang Holdings conditionally agreed to sell, and Hongjin Investment conditionally agreed to purchase, the Equity Interest (namely, approximately 51.73% of the registered capital in CloudHub) at a consideration of RMB50,456,000. As at the date of this announcement, the equity interests of CloudHub are owned by Diechuang Holdings, Hongjin Investment (a controlled structured entity in the Group's consolidated financial statements) and other independent third parties as to approximately 51.73%, 9.13% and 39.14%, respectively.

Reference is made to the announcement of the Company dated 28 July 2016 in relation to, among other things, the termination of the Previous Contractual Arrangements which Kingdee China (a wholly-owned subsidiary of the Company) had in place in relation to CloudHub at a total consideration of RMB43,330,450. Following the completion of such termination, CloudHub ceased to be consolidated into the financial statements of the Group as a 100% subsidiary of Kingdee China, and Kingdee China's remaining 15% interest in CloudHub became accounted for as an interest in associate in the financial statements of the Group. As at the date of this announcement, Hongjin Investment owns approximately 9.13% of the equity interest in CloudHub.

THE EQUITY TRANSFER AGREEMENT

The major terms of the Equity Transfer Agreement are set out as follows:

Date	6 March 2019
Parties	(a) Diechuang Holdings (as seller); and (b) Hongjin Investment (as purchaser).

Subject matter

Pursuant to the Equity Transfer Agreement, Diechuang Holdings conditionally agreed to sell, and Hongjin Investment conditionally agreed to purchase, the Equity Interest.

Upon completion of the Proposed Acquisition, Hongjin Investment will be interested in approximately 60.86% in CloudHub, and CloudHub will become a controlled structured entity of the Company, such that the financial information of CloudHub will be consolidated into the accounts of the Group.

Consideration

The total consideration for the equity transfer contemplated under the Equity Transfer Agreement is RMB50,456,000.

The amount of the above consideration was determined after arm's length negotiations among the parties to the Equity Transfer Agreement taking into account factors including but not limited to the Valuation of CloudHub in the sum of RMB97,537,000 as appraised by an independent professional valuer, and the reasons for the Proposed Acquisition as mentioned in the section headed "Reasons for and Benefits of the Proposed Acquisition" in this announcement.

Subject to the fulfilment of conditions set out below, the consideration is payable by Hongjin Investment to Diechuang Holdings in the following instalments:

Time of payment	% of payment
Within 15 business days following the entry into the Equity Transfer Agreement	50%
Within 15 business days following the completion of necessary filings in relation to the Proposed Acquisition with the relevant administration for industry and commerce	50%

The payment of the consideration will be funded by internal resources of the Group.

Conditions precedent

Payment by Hongjin Investment of the consideration for the equity transfer to Diechuang Holdings is subject to the satisfaction (or written waiver by Hongjin Investment) of the following conditions:

- (a) all internal authorisations (including without limitation approval by the board of directors and shareholders) required on the part of Diechuang Holdings for the equity transfer contemplated under the Equity Transfer Agreement having been obtained and not having been revoked;
- (b) all representations and warranties given by Diechuang Holdings under the Equity Transfer Agreement remaining true, complete and accurate in all material respects as at the date of payment; and
- (c) all documentation related to the Proposed Acquisition and corresponding amendment of articles of association and change in directors having been executed.

As at the date of this announcement, conditions (a) and (c) have been satisfied.

VALUATION

Given that the Valuation was based on the income approach, which involves the calculation of discounted cash flows method, the Valuation constitutes a profit forecast under Rule 14.61 of the Listing Rules.

The Valuation contained in the valuation reports issued by Valtech Valuation Advisory Limited has been prepared on the following principal bases and assumptions:

1. There are no changes, the aggregate of which when viewed together, may be construed to be a material adverse change in the existing political, legal, commercial and banking regulations, fiscal policies, foreign trade and economic conditions in countries/regions where Kingdee China currently operates in and in new markets that Kingdee China may potentially expand into as proposed by the management of Kingdee China;
2. There are no deviations, the aggregate of which when viewed together, may be construed to be a material adverse change in industry demand and/or market conditions;

3. There are no changes, the aggregate of which when viewed together, may be construed to be a material adverse change in the fluctuation of interest rates or currency exchange rates in any country which would be deemed to have a negative impact or the ability to hinder the existing and/or potentially future operations of Kingdee China;
4. There are no changes, the aggregate of which when viewed together, may be construed to be a material adverse change in the current laws of taxation in those countries in which Kingdee China operates in or Kingdee China may potentially operate in;
5. All relevant legal approvals, business certificates, trade and import permits, bank credit approval have been procured, in place and in good standing prior to commencement of operations by Kingdee China under the normal course of business;
6. Revenue projections and future business potential generated from CloudHub are expected to largely conform to those as forecasted by the management of Kingdee China;
7. Kingdee China will be able to retain existing and competent management, key personnel, and technical staff to support all facets of the ongoing business and future operations;
8. Trademarks, patents, technology, copyrights and other valuable technical and management knowhow will not be infringed in countries/regions where Kingdee China is or will be carrying on business.

Key specific valuation assumptions under the income approach are as follows:

1. The estimated growth rates of revenue and operating profit margin during the projection period from 2019 to 2023 are set out in the table below:

	2019	2020	2021	2022	2023
Revenue growth rate	39%	43%	15%	22%	17%
Operating profit margin (%)	-22%	15%	20%	23%	24%

2. The terminal growth rate for revenue beyond 2023, the projection period, is expected to be 2.5% with a stable operating profit margin;
3. The discount rate, being the weighted average cost of capital, is expected to be 18.16%.

The Directors confirm that the profit forecast of CloudHub, on which the Valuation is based, has been made after due and careful enquiries. The Valuation is based on the profit forecast of CloudHub using the general assumptions and key specific assumptions under income approach made by the Directors as disclosed above.

PricewaterhouseCoopers, the auditor of the Company, has reviewed the calculations of the discounted future estimated cash flows in relation to the Valuation which does not involve the adoption of accounting policies.

Report from PricewaterhouseCoopers on the calculations of the discounted future estimated cash flows and letter from the Board in relation to the profit forecast of the CloudHub are set out as Appendix I and Appendix II to this announcement respectively.

INFORMATION ON THE GROUP AND HONGJIN INVESTMENT

The Group is principally engaged in the provision of software products and Cloud services for corporates, hospitals, government organizations and other users worldwide.

Hongjin Investment is an investment holding company and is regarded as a controlled structured entity in the Group's consolidated financial statements.

INFORMATION ON DIECHUANG HOLDINGS

Diechuang Holdings is a company established under the laws of the PRC with limited liability principally engaged in investment holdings, and is owned by Mr. Xu (an executive Director, the Chairman of the Board and the controlling shareholder of the Company) as to 99%. Diechuang Holdings an associate of Mr. Xu and is therefore a connected person of the Company.

INFORMATION ON CLOUDHUB

CloudHub is principally engaged in the provision of a new generation of smart collaboration cloud to registered enterprises and organizations.

Set out below is the financial information of CloudHub for the two years ended 31 December 2018 in accordance with the PRC generally accepted accounting principles:

	Year ended 31 December	
	Audited 2017 <i>RMB'000</i> (approximately)	Unaudited 2018 <i>RMB'000</i> (approximately)
Loss before taxation	(140,594)	(122,526)
Loss after taxation	(140,594)	(122,526)

The unaudited net asset value of CloudHub as at 31 December 2018 in accordance with the PRC generally accepted accounting principles amounted to approximately RMB-326,391,000.

REASONS FOR AND BENEFITS OF THE PROPOSED ACQUISITION

By acquiring the Equity Interest, the Group's interest in CloudHub will be increased from 9.13% to 60.86% and the results of CloudHub will be reflected in the financial statements of the Group. The Proposed Acquisition is expected to help deepen the construction of the Group's cloud platform and contribute to the continuous growth of the Group's cloud business, allowing the Group to further seize the enterprise cloud services market. In addition, given that CloudHub's products are becoming more mature, deep integration with the Group's product lines is expected to benefit the Group in its provision of comprehensive and synergetic enterprise work mobility management solutions. Besides, the business strategy of CloudHub has been adjusted to target marketing efforts towards larger customers. Through the synergies in the Group's products, CloudHub would reduce the promotion costs significantly in the future, and as a result the integration of CloudHub's business will not generate significant financial pressure on the Group.

Based on the above, although the Proposed Acquisition is not in the ordinary course of business of the Group, the Directors (including the independent non-executive Directors) consider that the terms of the Proposed Acquisition are fair and reasonable, on normal commercial terms and in the interests of the Company and shareholders of the Company as a whole.

LISTING RULES IMPLICATIONS

As Mr. Xu, an executive Director, the Chairman of the Board and the controlling shareholder of the Company, is beneficially interested in 99% of Diechuang Holdings' equity interest, Diechuang Holdings is an associate of Mr. Xu and therefore a connected person of the Company pursuant to the Listing Rules. Accordingly, the Proposed Acquisition constitutes a connected transaction of the Company under the Listing Rules.

Mr. Xu has abstained from voting at the relevant Board meeting on the resolutions approving the Proposed Acquisition.

As each of the applicable percentage ratios in respect of the Proposed Acquisition calculated in accordance with the Listing Rules is less than 5%, the Proposed Acquisition is subject to the reporting and announcement requirements and are exempt from the independent shareholders' approval requirement under Chapter 14A of Listing Rules.

DEFINITIONS

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CloudHub”	深圳雲之家網絡有限公司(Shenzhen CloudHub Network Co., Ltd.*), a company incorporated in the PRC, the equity interest of which is held by owned by Diechuang Holdings, Hongjin Investment (a controlled structured entity in the Group’s consolidated financial statements) and other independent third parties as to approximately 51.73%, 9.13% and 39.14%, respectively
“Company”	Kingdee International Software Group Company Limited, a company incorporated in the Cayman Islands with limited liabilities, whose shares are listed on the Stock Exchange (Stock Code: 268)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Diechuang Holdings”	蝶創控股有限公司(Diechuang Holdings Limited*), a company established under the laws of the PRC with limited liability and is owned as to 99% by Mr. Xu
“Director(s)”	director(s) of the Company
“Equity Interest”	equity interest representing approximately 51.73% of the registered capital of CloudHub
“Equity Transfer Agreement”	the Equity Transfer Agreement dated 6 March 2019 entered into between Diechuang Holdings (as seller) and Hongjin Investment (as purchaser) in relation to the Proposed Acquisition
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic China
“Hongjin Investment”	深圳市弘金投資有限公司(Shenzhen Hongjin Investment Company Limited*), a company incorporated in the PRC, the equity interest of which is held as to 99% by Mr. Xu and as to 1% by Mr. Chang Zhu, and is regarded as a controlled structured entity in the Group’s consolidated financial statements through certain contractual arrangements entered into among Kingdee China, the equity holders of Hongjin Investment and Hongjin Investment

“Kingdee China”	金蝶軟件(中國)有限公司(Kingdee Software (China) Co., Ltd*), a company incorporated in the PRC and a wholly-owned subsidiary of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Xu”	Mr. Xu Shao Chun, an executive Director, the Chairman of the Board and the controlling shareholder of the Company
“PRC”	the People’s Republic of China, and for the purpose of this announcement only, excluding Hong Kong, Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Previous Contractual Arrangements”	the previous arrangements contemplated under the series of contracts entered into on 31 July 2015 in respect of CloudHub among Kingdee China, the then equity holders of CloudHub and CloudHub, as amended and supplemented
“Proposed Acquisition”	the proposed acquisition of the Equity Interest pursuant to the terms of the Equity Transfer Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Valuation”	the valuation of the fair value of CloudHub as at the Valuation Date in each case based on the income approach, as stated in the valuation reports issued by Valtech Valuation Advisory Limited, an independent professional valuer
“Valuation Date”	31 December 2018
“%”	per cent

* for identification purposes only

On behalf of the Board
Kingdee International Software Group Company Limited
Lin Bo
Director

Shenzhen, the People’s Republic of China, 6 March 2019

As at the date of this announcement, the Board comprises Mr. Xu Shao Chun (Chairman of the Board and Chief Executive Officer) and Mr. Lin Bo (Chief Financial Officer) as executive directors; Ms. Dong Ming Zhu and Mr. Shen Yuan Ching as non-executive directors; and Mr. Gary Clark Biddle, Mr. Cao Yang Feng and Mr. Liu Chia Yung as independent non-executive directors.

APPENDIX I – REPORT FROM PRICEWATERHOUSECOOPERS ON THE CALCULATION OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF THE TARGET GROUP

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this announcement.



羅兵咸永道

INDEPENDENT AUDITOR'S ASSURANCE REPORT ON THE CALCULATIONS OF DISCOUNTED FUTURE ESTIMATED CASH FLOWS IN CONNECTION WITH THE BUSINESS VALUATION OF SHENZHEN CLOUDHUB NETWORK CO., LTD.

TO THE BOARD OF DIRECTORS OF KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

We have completed our assurance engagement to report on the calculations of the discounted future estimated cash flows on which the business valuation (the “**Valuation**”) dated 5 March 2019 prepared by Valtech Valuation Advisory Limited in respect of the appraisal of the fair value of the 100% equity interest in Shenzhen CloudHub Network Co., Ltd. (the “**Target Company**”) is based.

The Valuation is set out in pages 3 to 4 of the announcement of Kingdee International Software Group Company Limited (the “**Company**”) dated 6 March 2019 (the “**Announcement**”) in connection with the acquisition by the Company of a 51.73% equity interest in the Target Company by the Company.

The Valuation based on the discounted future estimated cash flows is regarded as a profit forecast under Rule 14.61 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

Directors' Responsibility for the Discounted Future Estimated Cash Flows

The directors of the Company are responsible for the preparation of the discounted future estimated cash flows in accordance with the bases and assumptions determined by the directors and as set on pages 3 to 4 of the Announcement. This responsibility includes carrying out appropriate procedures relevant to the preparation of the discounted future estimated cash flows for the Valuation and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's Responsibilities

It is our responsibility to report, as required by paragraph 14.62(2) of the Listing Rules, on the calculations of the discounted future estimated cash flows on which the Valuation is based. We are not reporting on the appropriateness and validity of the bases and assumptions on which the discounted future estimated cash flows are based and our work does not constitute any valuation of the Target Company.

We conducted our work in accordance with the Hong Kong Standard on Assurance Engagements 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* issued by the HKICPA. This standard requires that we plan and perform the assurance engagement to obtain reasonable assurance on whether the discounted future estimated cash flows, so far as the calculations are concerned, has been properly compiled in accordance with the bases and assumptions as set out on pages 3 to 4 of the Announcement. We reviewed the arithmetical calculations and the compilation of the discounted future estimated cash flows in accordance with the bases and assumptions.

The discounted cash flows do not involve the adoption of accounting policies. The discounted cash flows depend on future events and on a number of assumptions which cannot be confirmed and verified in the same way as past results and not all of which may remain valid throughout the period. Our work has been undertaken for the purpose of reporting solely to you under paragraph 14.62(2) of the Listing Rules and for no other purpose. We accept no responsibility to any other person in respect of our work, or arising out of or in connection with our work.

Opinion

In our opinion, based on the foregoing, so far as the calculations are concerned, the discounted future estimated cash flows, has been properly compiled in all material respects in accordance with the bases and assumptions made by the directors of the Company as set out on pages 3 to 4 of the Announcement.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 6 March 2019

APPENDIX II – LETTER FROM THE BOARD IN RELATION TO THE PROFIT FORECAST ON CLOUDHUB



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)

6 March 2019

The Stock Exchange of Hong Kong Limited
12th Floor,
Two Exchange Square,
8 Connaught Place,
Central, Hong Kong

Dear Sirs or Madams,

**CONNECTED TRANSACTION IN RELATION TO ACQUISITION
OF EQUITY INTEREST IN CLOUDHUB**

We refer to the announcement of the Company dated 6 March 2019 (the “**Announcement**”). Unless the context otherwise requires, terms defined in the Announcement shall have the same meanings in this letter when used herein.

We refer to the valuation reports prepared by Valtech Valuation Advisory Limited, an independent professional valuer (the “**Valuer**”) in relation to the Valuation as at the Valuation Date. The Valuation is regarded as a profit forecast under Rule 14.61 of the Listing Rules (the “**Forecast**”).

We hereby confirm that we have discussed with the Valuer about different aspects and reviewed information and documents in relation to the basis and assumptions based upon which the discounted cash flows in the Valuation has been prepared, and reviewed the Valuation prepared by the Valuer for which the Valuer is responsible for. We have also reviewed the calculations for the discounted cash flow in the valuation report issued by the Valuer. We have also considered the report from the auditor of the Company, PricewaterhouseCoopers as set out in Appendix I to the Announcement regarding the calculations for which the discounted cash flows in the Valuation upon which the Forecast has been made.

On the basis of the foregoing, in accordance with the requirements under Rule 14.62(3) of the Listing Rules, we confirm that the Forecast has been made after due and careful enquiry by us.

On behalf of the Board
Kingdee International Software Group Company Limited
Lin Bo
Director