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Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

FY2021/22 THIRD QUARTER RESULTS ANNOUNCEMENT

THIRD QUARTER RESULTS

The board of directors (the “Board”) of Lenovo Group Limited (the “Company”) announces the unaudited results of the Company and its subsidiaries (the “Group”) for the three and nine months ended December 31, 2021 together with comparative figures for the corresponding period of last year, as follows:

FINANCIAL HIGHLIGHTS

- Profit attributable to equity holders surged 62 percent year-on-year in 3QFY22; record-breaking net income on improved profitability across business groups
- Powerful driving forces include new IT service requirements, demand for cloud services and for hybrid working, and accelerated Digital Transformation investments
- Group 3QFY22 revenue crossed US\$20 billion for first time with double-digit growth in commercial and premium consumer segments; revenue of Intelligent Devices Group up 16 percent year-on-year with record operating margin
- Infrastructure Solutions Group increased operating profit by US\$28 million year-on-year driven by cloud services demand coupled with robust enterprise demand for higher margin products
- Operating profit grew 44 percent year-on-year for Solutions and Services Group with increased capabilities to sell high value services, a broader portfolio with more Environmental, Social, and Governance offerings, and more Intellectual Property developed for future growth
- Operating cashflow exceeded US\$2.6 billion year-to-date; net debt and perpetual securities, reduced by US\$3.2 billion over last ten quarters

	3 months ended	9 months ended	3 months ended	9 months ended	Year-on-year change	
	December 31, 2021 (unaudited) US\$ million	December 31, 2021 (unaudited) US\$ million	December 31, 2020 (unaudited) US\$ million	December 31, 2020 (unaudited) US\$ million	3 months ended December 31	9 months ended December 31
Revenue	20,127	54,924	17,245	45,112	17%	22%
Gross profit	3,355	9,185	2,786	7,080	20%	30%
Gross profit margin	16.7%	16.7%	16.2%	15.7%	0.5 pts	1.0 pts
Operating expenses	(2,423)	(6,693)	(2,085)	(5,378)	16%	24%
Operating profit	932	2,492	701	1,702	33%	46%
Other non-operating income/(expenses) - net	(77)	(244)	(110)	(308)	(30)%	(21)%
Profit before taxation	855	2,248	591	1,394	45%	61%
Profit for the period	682	1,724	431	1,028	58%	68%
Profit attributable to equity holders of the Company	640	1,618	395	918	62%	76%
Earnings per share attributable to equity holders of the Company						
Basic	US5.50 cents	US13.94 cents	US3.31 cents	US7.70 cents	US2.19 cents	US6.24 cents
Diluted	US4.92 cents	US12.46 cents	US3.08 cents	US7.37 cents	US1.84 cents	US5.09 cents

Highlights

During the three months ended December 31, 2021, Lenovo (the Group) set new performance records in revenue and profit. Its profit attributable to equity holders surged 62 percent year-on-year to an all-time high of US\$640 million, and its net income margin expanded 89 basis points year-on-year. Structural industry forces dominated the global market, including accelerated Digital Transformation investments, new IT service requirements, the ever-increasing popularity of cloud and the trend of hybrid working. These market tailwinds served as a strong catalyst for the company's robust double-digit growth across its three business groups: the Intelligent Devices Group (IDG), Solutions & Services Group (SSG), and Infrastructure Solutions Group (ISG). The Group's revenue crossed the US\$20-billion mark for the first time in its history, with all of its geographical markets showcasing revenue increase.

The aforementioned industry changes were the driving force behind the Group's recent strength in commercial sales and growing opportunities in its high-growth and premium segments. IDG further improved its profitability, while SSG became not only the fastest growing business within the Group, but also one that carries the highest profit margin. Its increased importance and contribution boded well to the overall margin profile of the Group. ISG staged a turnaround delivering its first profitable quarter during the period under review. Leveraging these structural forces, the Group is on track to deliver its medium-term target of doubling its net income margin. The industry-wide component shortage of various integrated circuits (ICs) remained a business challenge, albeit signs of easing.

Net cash generated from operating activities was US\$606 million in the quarter thanks to the Group's strong profit increase. Given its strength in cash generation, the company turned to net cash position after a reduction of nearly US\$3.2 billion in net debt, including repurchase of perpetual securities, over the last 10 quarters.

To support profitability growth through innovation, Lenovo further boosted its Research & Development spending by 38 percent year-on-year to support upgrades of the Group's technology and services. At the recent CES 2022, the Group's products won a record 82 awards, of which 35 went to its innovative ThinkBook Plus Gen 3 alone with its unique multitask laptop PC designs. The Group is also rated at the leadership level for the first time in both the CDP Water and Climate surveys, while securing the fifth place in the broad computing industry category of Fortune magazine's annual World's Most Admired Companies list.

Group Financial Performance

During the period under review, the Group delivered record results. Its revenue advanced 17 percent year-on-year to a new milestone of US\$20.1 billion. Revenue of its industry-leading PC segment increased double-digits year-on-year on the back of commercial recovery and strength in premium segments including gaming. In the mobile space, a strong product portfolio and broader carrier ranging led to significant market share gains and hyper sales growth. Commercial recovery helped accelerate services penetration and demand for its new services and solutions continued to increase at a strong pace. The infrastructure upgrade cycle promoted new spending in datacenters, thereby supporting the momentum of its ISG business.

The Group's net income margin reached 3.2 percent, expanding year-on-year for seven straight quarters. All three business groups leveraged new growth engines to improve their profitability. IDG boosted its operating profit by 21 percent year-on-year on a revenue increase of 16 percent. The Group's high-margin, high-growth SSG business achieved a 44 percent year-on-year growth in operating profit.

ISG staged a successful turnaround leveraging its enriched architecture and technology solutions, as well as successful project wins and industry partnerships. As a result, its operating profit increased by US\$28 million year-on-year during the period under review.

Performance by Business Group

Intelligent Devices Group (IDG)

The IDG Group, consisting of the PC, tablet, smartphone, and other smart device businesses, posted a stellar 21 percent annual profit growth and revenue growth of 16 percent. Its operating margin expanded 31 basis points year-on-year to a record 7.7 percent.

Demand for worldwide commercial PCs (excluding Chromebook) in the quarter increased at the third-highest rate of growth since 1998, thanks to Digital Transformation and transition towards hybrid work model on a global scale. The use of PCs has become an essential aspect of modern life. Accelerated digitalization and the growing prominence of remote working fueled the demand for more advanced, portable, and high-quality PCs. This premiumization trend has benefitted the high valued-added segments, leading to 25-50 percent year-on-year revenue growth across workstation, ThinkPad X1, ThinkBook, and gaming product series.

IDG is also making notable progress in non-PC products, which together grew 22 percent year-on-year and contributed 19 percent of the business group's revenue during the period under review. IDG continued to invest in innovation to enhance and differentiate its smartphone portfolio, thereby securing market share gains across Latin America, North America, and Europe-Middle East-Africa (EMEA). The smartphone business reported a 46 percent revenue growth and its activation rate reached the highest level since the Group's acquisition of the Motorola business.

Infrastructure Solutions Group (ISG)

Empowered by a strong infrastructure upgrade cycle from cloud and enterprise customers, as well as accelerated growth in Edge computing, hybrid cloud, and AI deployment, ISG successfully turned around in the period under review. Its operating profit increased by US\$28 million year-on-year to US\$17 million, on revenue growth of 19 percent to US\$1.9 billion. This accomplishment was made possible through improved segment profitability of Cloud Service Provider (CSP) and Enterprise & Small-and-medium Business ESMB. Outlook remains strong for the business group as the IC supply constraint prolonged fulfillment of customer orders during the quarter under review, resulting in significant backlog orders for future periods.

The revenue of CSP continued its hyper growth while its ESMB sales also set a new 5-year record. CSP customers emphasize highly on a streamlined, fully integrated supply chain. The business' unique ODM+ business model provides a fully-integrated solution to CSP customers including motherboard design, system, and full-rack assembly across server, storage, and other products. ISG also expanded its client base through a broadened portfolio of product offerings, which particularly appeal to Next Wave customers in the CSP business looking to expand their own cloud services and in need of strong supplier support. Its ESMB business gained market share in several high-growth products, where growth is most prominent in higher-margin server, software, and services.

Solutions and Services Group (SSG)

SSG reported strong financial performances, benefiting from opportunities arising from "New IT" trend, hybrid working model, commercial recovery, and increasing awareness in Environmental, Social, and Governance (ESG). For the period under review, its revenue grew 25 percent year-on-year to US\$1.5 billion. Operating profit surged by 44 percent year-on-year to US\$332 million, while operating margin was up 2.9 percentage points to 22.2 percent. SSG has executed its strategy well to leverage the Group's strong platform, broaden service portfolio, and invest to develop a wide range of Intellectual Properties (IPs). These strategic initiatives will position SSG for scalable growth and superior profitability, as the Group steers towards sustainable profitability growth.

By segment, *Support Services* revenue grew a solid 21 percent year-on-year with rising service penetration. Hybrid work model fueled strong demand for Premier and Custom Fulfillment Services, while Sustainability Services (including Asset Recovery Services) gained a broader customer base. *Managed Services* revenue surged, up 50 percent year-on-year, with improved profitability. Its TruScale

as-a-service portfolio won robust deals for the period under review, expanding geographic presence and customer base. *Project Services and Solutions* reported revenue growth of 23 percent. A new wave of COVID-19 cases created challenges in project delivery, despite strong underlying demand. Its total contract value more than tripled with important deals signed for Smart Retail driven by increasing adoption of in-house IP solutions. The Group further boosted recurring revenue, with its *Deferred Revenue* up 25 percent year-on-year to a new high of US\$2.8 billion.

Geographic Performance

Lenovo is a global business operating in more than 180 markets. For the period under review, the Group achieved balanced and robust growth across all geographical markets. Revenue in China grew by 23 percent year-on-year on healthy momentum across business groups. Its PC business continued to capture market share, while its ISG business further broadened its customer base with Next Wave clientele through new project wins. Lenovo offers a unique proposition in connecting international customers with China market, and Chinese customers with the international market. With expanded service portfolio, SSG further drove customer adoption of solutions based on in-house IPs.

In America (AG), the Group delivered a 15 percent year-on-year increase in sales. IDG business achieved double-digit revenue growth in the region, driven by strong market share and portfolio enhancement in its mobile business. The stellar, triple-digit smartphone revenue growth in North America is demonstrative of the Group's ability to capitalize on attractively designed 5G models to broaden its carrier ranging. The Support Services and Device-as-a-Service (DaaS) solutions for SSG attracted significant customer interest.

In EMEA, both IDG and ISG business delivered strong double-digit revenue growth with rising profitability. SSG not only broadened solution offerings and scored major Smart Retail deal wins in the region, but also enhanced channel tools to thrive with business partners, for example, by expanding DaaS Partner Hub to cover eight markets. Asia Pacific (excluding China) reported a 6 percent year-on-year increase in sales, as strong double-digit revenue growth in ISG was offset by fewer educational PC deals in Japan.

Outlook

Strategic opportunities in Digital and Service-led Transformation continued to accelerate, as evidenced by strong demand from the commercial sector for Lenovo's full-range products and services solutions. These positive drivers made it possible for the Group to achieve its medium-term goal of doubling its net margin and execute its long-term growth strategy along a sustainable earnings trajectory. The Group continues to pursue an aggressive innovation strategy and plans to significantly boost its R&D investments, which is critical to achieving its profitability target.

The total available market in global PC sector should remain at a stable and structurally high level, thanks to the increasing popularity of the hybrid work model and the resulting strong commercial demand. The IDG business will continue to drive consistent premium-to-market growth by addressing sector opportunities including the robust commercial upgrade cycle and the trend of premiumization. The business will lead the global race in device innovations by enhancing features for hybrid working, gaming, entertainment, green materials and ESG designs. Its smartphone business will focus on portfolio expansion and differentiation to take advantage of accelerated 5G adoption and a changing competitive landscape. Other non-PC products are playing an increasingly important role for IDG, which plans to accelerate investments to score wins in areas including the fast-growing accessories market and the emerging Internet of Things opportunities.

For ISG, its customers are accelerating their pace of infrastructure upgrades. As one of the fastest-growing vendors in the global infrastructure sector, ISG has been building industry-leading end-to-end infrastructure solutions and expanding from server to full-stack offerings including storage, Software-Defined Infrastructure, software, and services. In the ESMB segment, ISG will expand its portfolio for higher profitability. The Group will also capitalize on past investments to capture growth opportunities in Artificial Intelligent (AI) powered Edge, Hybrid Cloud, High Performance Computing, and solutions for Telco/communication sectors. For the CSP segment, the Group has a unique ODM+ business model to

address growing demand for vertically integrated supply chain. The business will continue to diversify its customer base and expand its share of existing accounts through design-wins.

For SSG, the Group sees vast service opportunities arising from today's remote work dynamics and the way IT resources are deployed to reach better business outcome. The Group aims for scalable growth with leading profitability by driving its service penetration, broadening service portfolio and in-house IPs, and investing in channel tools to meet demand promptly. The ample room for as-a-Service penetration in PC and data center, couple with increased spending on Digitalization and Cloud, will benefit all service segments. SSG will play an increasingly important role in driving the Group's recurring revenue and profitability amid these megatrends.

Strategic Highlights

The Group continues to be the leader and enabler of Intelligent Transformation, helping its clients navigate the increasing complexity and proliferation of choices in the new IT environment. It strives to build new growth engines around the vision of bringing smarter technology to all. Its commitment to doubling R&D will go hand-in-hand with its pursuit for profitability growth. These R&D investments target to further elevate its competitiveness in next-generation product design and solutions. Examples included the recent launch of an enhanced Lenovo Open Cloud Automation management software reflected its efforts in supporting edge computing. The innovative use of AI knowledge will empower the Group's internal digitalization and further enhance operational efficiency.

Service business is a structural growth engine for the Group. Eyeing vast service opportunities, the Group will strengthen its end-to-end service solutions, in particular TruScale as-a-Service portfolio, to address customer pain points in hybrid work, multi-cloud management, as well as cybersecurity. Synergies will also be created by working with leading business and channel partners.

The Group makes consistent effort in mitigating environmental impact, as it explores the path towards Net Zero emission by 2050 on top of its current 2030 goals. To capitalize on growing ESG awareness, the Group is broadening sustainability and incorporating innovative ESG features, such as CO2 offset service, into its services business, thereby ensuring its ability to help customers meet their ESG goals. All of these corporate efforts reflect the high standards the Group has set itself as a responsible corporate citizen.

FINANCIAL REVIEW

Results for the nine months ended December 31, 2021

	9 months ended December 31, 2021 (unaudited) US\$ million	9 months ended December 31, 2020 (unaudited) US\$ million	Year-on-year change
Revenue	54,924	45,112	22%
Gross profit	9,185	7,080	30%
Gross profit margin	16.7%	15.7%	1.0 pts
Operating expenses	(6,693)	(5,378)	24%
Operating profit	2,492	1,702	46%
Other non-operating income/(expenses) – net	(244)	(308)	(21)%
Profit before taxation	2,248	1,394	61%
Profit for the period	1,724	1,028	68%
Profit attributable to equity holders of the Company	1,618	918	76%
Earnings per share attributable to equity holders of the Company			
Basic	US13.94 cents	US7.70 cents	US6.24 cents
Diluted	US12.46 cents	US7.37 cents	US5.09 cents

For the nine months ended December 31, 2021, the Group achieved total sales of approximately US\$54,924 million. Compared to the corresponding period of last year, profit attributable to equity holders for the period surged by US\$700 million to approximately US\$1,618 million. In the same reporting period, gross profit margin rose 1.0 percentage points to 16.7 percent, mainly due to increase in average selling prices of PCs, while basic and diluted earnings per share were US13.94 cents and US12.46 cents respectively, representing an increase of US6.24 cents and US5.09 cents.

Analysis of operating expenses by function for the nine months ended December 31, 2021 and 2020 is as follows:

	9 months ended December 31, 2021 US\$'000	9 months ended December 31, 2020 US\$'000
Selling and distribution expenses	(2,782,822)	(2,221,362)
Administrative expenses	(2,241,993)	(2,163,584)
Research and development expenses	(1,497,642)	(1,037,203)
Other operating income/(expenses) – net	(170,479)	43,772
	<u>(6,692,936)</u>	<u>(5,378,377)</u>

Operating expenses for the period were 24 percent over the corresponding period of last year. Employee benefit costs increased by US\$441 million mainly due to increase in headcount and performance-based bonus. The increase in operating expenses reflected an increased effort in the Group's marketing input in advertising and promotional expenses of US\$262 million to drive brand recognition and fuel future growth. The Group also increased spending on research and development related laboratory testing, services and supplies by US\$165 million. During the period, the Group recorded a fair value gain from strategic investments amounted to US\$186 million (2020/21: US\$232 million), reflecting the change in value of the Group's portfolio. Currency fluctuations presented a challenge to the Group, resulting in a net exchange loss of US\$109 million (2020/21: US\$37 million). While in the corresponding period of last year, a gain on disposal of non-core property assets of US\$79 million was recognized.

Key expenses by nature comprise:

	9 months ended December 31, 2021 US\$'000	9 months ended December 31, 2020 US\$'000
Depreciation of property, plant and equipment	(129,377)	(120,952)
Depreciation of right-of-use assets	(88,086)	(61,073)
Amortization of intangible assets, excluding internal use software	(350,413)	(327,355)
Impairment of intangible assets	(31,434)	(52,606)
Impairment of property, plant and equipment	(10,189)	-
Employee benefit costs, including	(3,672,628)	(3,231,195)
- <i>long-term incentive awards</i>	(267,597)	(189,119)
- <i>severance and related costs</i>	-	(75,006)
Rental expenses	(11,412)	(5,139)
Net foreign exchange loss	(108,896)	(37,435)
Advertising and promotional expenses	(830,496)	(568,882)
Legal, professional and consulting expenses	(155,768)	(165,705)
Information technology expenses, including - <i>amortization of internal use software</i>	(235,795) (147,189)	(232,774) (129,056)
Provision for loss allowance of trade receivables	(700)	(28,198)
Research and development related laboratory testing, services and supplies	(367,866)	(202,898)
Gain on disposal of property, plant and equipment	2,958	71,964
Loss on disposal of intangible assets	(5,562)	(1,541)
Fair value gain on financial assets at fair value through profit or loss	186,072	197,279
Fair value loss on a financial liability at fair value through profit or loss	(11,484)	(7,373)
Dilution gain on interest in an associate	-	31,374
Gain on deemed disposal of subsidiaries	-	2,964
Gain on disposal of subsidiaries	32,303	1,064
Others	(904,163)	(639,896)
	<u>(6,692,936)</u>	<u>(5,378,377)</u>

Other non-operating income/(expenses) - net for the nine months ended December 31, 2021 and 2020 comprise:

	9 months ended December 31, 2021 US\$'000	9 months ended December 31, 2020 US\$'000
Finance income	37,687	24,573
Finance costs	(278,067)	(308,372)
Share of losses of associates and joint ventures	(3,834)	(23,849)
	<u>(244,214)</u>	<u>(307,648)</u>

Finance income mainly represents interest on bank deposits.

Finance costs for the period decreased by 10 percent as compared with the corresponding period of last year because the Group was granted strong investment-grade ratings by the ‘Big Three’ credit rating agencies that lowers our borrowing rates and improved the efficiency of the factoring program. The change is a combined effect of the decrease in interest on bank loans and overdrafts of US\$8 million and factoring costs of US\$28 million, partially offset by the increase in interest on notes of US\$5 million.

Share of losses of associates and joint ventures primarily represents operating losses arising from principal business activities of respective associates and joint ventures.

The Group adopts segments by business group as the reporting format. Segments by business group comprise Intelligent Devices Group (“IDG”), Infrastructure Solutions Group (“ISG”) and Solutions and Services Group (“SSG”). Revenue and operating profit/(loss) for reportable segments are as follows:

	9 months ended December 31, 2021		9 months ended December 31, 2020	
	Revenue US\$ '000	Operating profit/(loss) US\$ '000	Revenue US\$ '000	Operating profit/(loss) US\$ '000
IDG	47,614,230	3,612,254	39,379,206	2,755,572
ISG	5,731,418	(62)	4,699,805	(101,373)
SSG	4,045,237	880,624	3,104,640	620,757
Total	57,390,885	4,492,816	47,183,651	3,274,956
Eliminations	(2,466,427)	(743,390)	(2,071,443)	(540,353)
	54,924,458	3,749,426	45,112,208	2,734,603
Unallocated:				
Headquarters and corporate income/(expenses) - net		(1,167,338)		(1,014,262)
Depreciation and amortization		(485,007)		(391,939)
Impairment of intangible assets		(25,434)		(52,606)
Finance income		23,418		13,954
Finance costs		(53,911)		(168,416)
Share of losses of associates and joint ventures		(3,834)		(23,849)
Gain on disposal of property, plant and equipment		409		70,428
Fair value gain on financial assets at fair value through profit or loss		186,072		197,279
Fair value loss on a financial liability at fair value through profit or loss		(11,484)		(7,373)
Dilution gain on interest in an associate		-		31,374
Gain on deemed disposal of subsidiaries		-		2,964
Gain on disposal of subsidiaries		32,303		-
Dividend income		2,944		1,784
Consolidated profit before taxation		2,247,564		1,393,941

Headquarters and corporate income/(expenses) - net for the period comprise various expenses, after appropriate allocation to business groups, of US\$1,167 million (2020/21: US\$1,014 million) such as employee benefit costs, legal, professional and consulting expenses, and research and technology expenses. The increase is primarily in relation to employee benefit costs of US\$87 million as a result of increased wages and salaries due to increase in headcount and increase in net exchange loss of US\$71 million as compared with the corresponding period of last year.

Third Quarter 2021/22 compared to Third Quarter 2020/21

	3 months ended December 31, 2021 (unaudited) US\$ million	3 months ended December 31, 2020 (unaudited) US\$ million	Year-on-year change
Revenue	20,127	17,245	17%
Gross profit	3,355	2,786	20%
Gross profit margin	16.7%	16.2%	0.5 pts
Operating expenses	(2,423)	(2,085)	16%
Operating profit	932	701	33%
Other non-operating income/(expenses) – net	(77)	(110)	(30)%
Profit before taxation	855	591	45%
Profit for the period	682	431	58%
Profit attributable to equity holders of the Company	640	395	62%
Earnings per share attributable to equity holders of the Company			
Basic	US\$5.50 cents	US\$3.31 cents	US\$2.19 cents
Diluted	US\$4.92 cents	US\$3.08 cents	US\$1.84 cents

For the three months ended December 31, 2021, the Group achieved total sales of approximately US\$20,127 million. Compared to the corresponding period of last year, profit attributable to equity holders for the period surged by US\$245 million to approximately US\$640 million. In the same reporting period, gross profit margin rose 0.5 percentage points to 16.7 percent, mainly due to increase in average selling prices of PCs, while basic and diluted earnings per share were US\$5.50 cents and US\$4.92 cents respectively, representing an increase of US\$2.19 cents and US\$1.84 cents.

Further analyses of sales by business group are set out in Business Review and Outlook.

Analysis of operating expenses by function for the three months ended December 31, 2021 and 2020 is as follows:

	3 months ended December 31, 2021 US\$'000	3 months ended December 31, 2020 US\$'000
Selling and distribution expenses	(1,011,801)	(863,021)
Administrative expenses	(729,282)	(859,267)
Research and development expenses	(549,208)	(398,102)
Other operating income/(expenses) – net	(132,480)	35,492
	(2,422,771)	(2,084,898)

Operating expenses for the period were 16 percent over the corresponding period of last year. Employee benefit costs increased by US\$32 million mainly due to increase in headcount and performance-based bonus. The increase in operating expenses reflected an increased effort in the Group's marketing input in advertising and promotional expenses of US\$51 million to drive brand recognition and fuel future growth. The Group also increased spending on research and development related laboratory testing, services and supplies by US\$62 million. During the period, the Group recorded a fair value gain from strategic investments amounted to US\$75 million (2020/21: US\$67 million including a gain on deemed disposal of subsidiaries of US\$3 million), reflecting the change in value of the Group's portfolio. Currency fluctuations presented a challenge to the Group, resulting in a net exchange loss of US\$35 million (2020/21: US\$5 million).

Key expenses by nature comprise:

	3 months ended December 31, 2021 US\$'000	3 months ended December 31, 2020 US\$'000
Depreciation of property, plant and equipment	(42,658)	(39,211)
Depreciation of right-of-use assets	(29,529)	(21,996)
Amortization of intangible assets, excluding internal use software	(117,635)	(108,107)
Employee benefit costs, including	(1,235,970)	(1,204,121)
- <i>long-term incentive awards</i>	(94,003)	(61,367)
Rental expenses	(3,709)	(2,048)
Net foreign exchange loss	(35,101)	(4,566)
Advertising and promotional expenses	(321,343)	(270,052)
Legal, professional and consulting expenses	(34,013)	(55,390)
Information technology expenses, including	(80,313)	(95,662)
- <i>amortization of internal use software</i>	(50,634)	(46,956)
Reversal of/(provision for) loss allowance of trade receivables	6,834	(16,919)
Research and development related laboratory testing, services and supplies	(165,793)	(104,160)
(Loss)/gain on disposal of property, plant and equipment	(1,990)	1,092
Loss on disposal of intangible assets	(972)	(1,091)
Fair value gain on financial assets at fair value through profit or loss	75,388	64,359
Fair value loss on a financial liability at fair value through profit or loss	(1,633)	(5,600)
Gain on deemed disposal of subsidiaries	-	2,964
Others	(434,334)	(224,390)
	<u>(2,422,771)</u>	<u>(2,084,898)</u>

Other non-operating income/(expenses) - net for the three months ended December 31, 2021 and 2020 comprise:

	3 months ended December 31, 2021 US\$'000	3 months ended December 31, 2020 US\$'000
Finance income	14,463	7,240
Finance costs	(90,997)	(109,923)
Share of losses of associates and joint ventures	(715)	(7,046)
	<u>(77,249)</u>	<u>(109,729)</u>

Finance income mainly represents interest on bank deposits.

Finance costs for the period decreased by 17 percent as compared with the corresponding period of last year because the Group improved the efficiency of the factoring program. The change is mainly due to the decrease in factoring costs of US\$10 million and decrease in interest on notes of US\$7 million.

Share of losses of associates and joint ventures primarily represents operating losses arising from principal business activities of respective associates and joint ventures.

The Group adopts segments by business group as the reporting format. Segments by business group comprise IDG, ISG and SSG. Revenue and operating profit/(loss) for reportable segments are as follows:

	3 months ended December 31, 2021		3 months ended December 31, 2020	
	Revenue US\$'000	Operating profit/(loss) US\$'000	Revenue US\$'000	Operating profit/(loss) US\$'000
IDG	17,609,684	1,351,744	15,209,589	1,119,928
ISG	1,928,783	16,884	1,622,480	(10,952)
SSG	1,497,621	332,152	1,194,701	230,426
Total	21,036,088	1,700,780	18,026,770	1,339,402
Eliminations	(909,556)	(277,074)	(781,327)	(197,219)
	20,126,532	1,423,706	17,245,443	1,142,183
Unallocated:				
Headquarters and corporate income/(expenses) - net		(484,649)		(417,936)
Depreciation and amortization		(154,068)		(134,585)
Finance income		8,734		3,380
Finance costs		(13,318)		(61,072)
Share of losses of associates and joint ventures		(715)		(7,046)
(Loss)/gain on disposal of property, plant and equipment		(116)		3,318
Fair value gain on financial assets at fair value through profit or loss		75,388		64,359
Fair value loss on a financial liability at fair value through profit or loss		(1,633)		(5,600)
Gain on deemed disposal of subsidiaries		-		2,964
Dividend income		1,865		1,513
Consolidated profit before taxation		855,194		591,478

Headquarters and corporate income/(expenses) - net for the period comprise various expenses, after appropriate allocation to business groups, of US\$485 million (2020/21: US\$418 million) such as employee benefit costs, legal, professional and consulting expenses, and research and technology expenses. The increase is primarily in relation to increased wages, salaries and long-term incentive awards of US\$36 million and increase in net exchange loss of US\$32 million as compared with the corresponding period of last year.

Capital Expenditure

The Group incurred capital expenditure of US\$920 million (2020/21: US\$564 million) during the nine months ended December 31, 2021, mainly for the acquisition of property, plant and equipment, additions in construction-in-progress and intangible assets. The higher capital expenditure incurred in the current period was mainly attributable to more investments in plant and machinery, patent and technology and internal use software.

Liquidity and Financial Resources

At December 31, 2021, total assets of the Group amounted to US\$45,646 million (March 31, 2021: US\$37,991 million), which were financed by equity attributable to owners of the Company of US\$4,484 million (March 31, 2021: US\$3,559 million), other non-controlling interests (net of put option written on non-controlling interests) of US\$308 million (March 31, 2021: US\$52 million), and total liabilities of US\$40,854 million (March 31, 2021: US\$34,380 million). At December 31, 2021, the current ratio of the Group was 0.90 (March 31, 2021: 0.85).

At December 31, 2021, bank deposits and cash and cash equivalents totaling US\$3,829 million (March 31, 2021: US\$3,128 million) analyzed by major currency are as follows:

	December 31, 2021	March 31, 2021
	%	%
US dollar	44.2	34.9
Renminbi	23.1	25.7
Japanese Yen	6.5	11.3
Euro	3.6	5.5
Australian dollar	2.1	3.4
Other currencies	20.5	19.2
Total	100.0	100.0

The Group adopts a conservative policy to invest the surplus cash generated from operations. At December 31, 2021, 94.2 (March 31, 2021: 100) percent of cash are bank deposits, and 5.8 (March 31, 2021: nil) percent are investments in liquid money market funds of investment grade.

The Group has consistently maintained a very liquid position, along with abundant banking facilities standing by for future business development. The Group has also entered into factoring arrangements in the ordinary course of business to improve our balance sheet efficiency.

The Group has the following banking facilities:

Type	Date of agreement	Principal amount	Term	Utilized amount at	
				December 31, 2021	March 31, 2021
		<i>US\$ million</i>		<i>US\$ million</i>	<i>US\$ million</i>
Revolving loan facility	March 28, 2018	1,500	5 years	-	-
Revolving loan facility	May 12, 2020	300	5 years	-	-
Revolving loan facility	May 14, 2020	200	5 years	-	-

The Group has also arranged other short-term credit facilities as follows:

Credit facilities	Total available amount at		Drawn down amount at	
	December 31, 2021	March 31, 2021	December 31, 2021	March 31, 2021
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
Trade lines	2,428	2,003	1,729	1,637
Short-term money market facilities	1,075	1,029	49	47
Forward foreign exchange contracts	16,243	12,023	16,164	11,975

Apart from the above facilities, notes, convertible bonds and convertible preferred shares issued by the Group and outstanding as at December 31, 2021 are as follows:

	Issue date	Outstanding principal amount	Term	Interest rate / dividend per annum	Due date	Use of proceeds
2022 Notes	March 16, 2017	US\$337 million	5 years	3.875%	March 2022	For repayment of the outstanding amount under the promissory notes issued to Google Inc. and general corporate purposes
2023 Notes	March 29, 2018	US\$687 million	5 years	4.75%	March 2023	For repayment of previous Notes and general corporate purposes
Convertible bonds	January 24, 2019	US\$675 million	5 years (Note (a))	3.375%	January 2024	For repayment of previous Notes and general corporate purposes
Convertible preferred shares	June 21, 2019	US\$40 million	N/A (Note (b))	4%	N/A (Note (b))	For general corporate funding and capital expenditure
2025 Notes	April 24, 2020 and May 12, 2020	US\$1 billion	5 years	5.875%	April 2025	For repayment of previous Notes and general corporate purposes
2030 Notes	November 2, 2020	US\$1 billion	10 years	3.421%	November 2030	For repurchase of perpetual securities and previous Notes

Notes:

- (a) Please refer to Note 12(c) to the Financial Information for details.
- (b) Please refer to Note 12(d) to the Financial Information for details.

Net cash/(debt) position and gearing ratio of the Group as at December 31 and March 31, 2021 are as follows:

	December 31, 2021	March 31, 2021
	<i>US\$ million</i>	<i>US\$ million</i>
Bank deposits and cash and cash equivalents	3,829	3,128
Borrowings		
- Short-term loans	53	58
- Long-term loan	1	2
- Notes	3,013	3,011
- Convertible bonds	637	624
- Convertible preferred shares	44	303
Net cash/(debt) position	81	(870)
Total equity	4,792	3,611
Gearing ratio (Borrowings divided by total equity)	0.78	1.11

The Group is confident that the facilities on hand can meet the funding requirements of the Group's operations and business development. The Group is in full compliance with all the banking covenants.

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At December 31, 2021, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US\$16,164 million (March 31, 2021: US\$11,975 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

Contingent Liabilities

The Group, in the ordinary course of its business, is involved in various claims, suits, investigations, and legal proceedings that arise from time to time. Although the Group does not expect that the outcome in any of these legal proceedings, individually or collectively, will have a material adverse effect on its financial position or results of operations, litigation is inherently unpredictable. Therefore, the Group could incur judgments or enter into settlements of claims that could adversely affect its operating results or cash flows in a particular period.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

		3 months ended December 31, 2021 (unaudited) US\$'000	9 months ended December 31, 2021 (unaudited) US\$'000	3 months ended December 31, 2020 (unaudited) US\$'000	9 months ended December 31, 2020 (unaudited) US\$'000
Revenue	2	20,126,532	54,924,458	17,245,443	45,112,208
Cost of sales		(16,771,318)	(45,739,744)	(14,459,338)	(38,032,242)
Gross profit		3,355,214	9,184,714	2,786,105	7,079,966
Selling and distribution expenses		(1,011,801)	(2,782,822)	(863,021)	(2,221,362)
Administrative expenses		(729,282)	(2,241,993)	(859,267)	(2,163,584)
Research and development expenses		(549,208)	(1,497,642)	(398,102)	(1,037,203)
Other operating income/(expenses) - net		(132,480)	(170,479)	35,492	43,772
Operating profit	3	932,443	2,491,778	701,207	1,701,589
Finance income	4(a)	14,463	37,687	7,240	24,573
Finance costs	4(b)	(90,997)	(278,067)	(109,923)	(308,372)
Share of losses of associates and joint ventures		(715)	(3,834)	(7,046)	(23,849)
Profit before taxation		855,194	2,247,564	591,478	1,393,941
Taxation	5	(173,486)	(523,599)	(160,043)	(366,145)
Profit for the period		681,708	1,723,965	431,435	1,027,796
Profit attributable to:					
Equity holders of the Company		639,605	1,617,655	395,063	918,080
Perpetual securities holders		-	-	5,652	32,532
Other non-controlling interests		42,103	106,310	30,720	77,184
		681,708	1,723,965	431,435	1,027,796
Earnings per share attributable to equity holders of the Company					
Basic	6(a)	US5.50 cents	US13.94 cents	US3.31 cents	US7.70 cents
Diluted	6(b)	US4.92 cents	US12.46 cents	US3.08 cents	US7.37 cents
Dividend			123,771		102,298

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended December 31, 2021 (unaudited) US\$ '000	9 months ended December 31, 2021 (unaudited) US\$ '000	3 months ended December 31, 2020 (unaudited) US\$ '000	9 months ended December 31, 2020 (unaudited) US\$ '000
Profit for the period	681,708	1,723,965	431,435	1,027,796
Other comprehensive (loss)/income:				
<u>Items that will not be reclassified to profit or loss</u>				
Remeasurements of post-employment benefit obligations, net of taxes	(14,189)	(19,457)	14,462	14,489
Fair value change on financial assets at fair value through other comprehensive income, net of taxes	(3,454)	(7,349)	1,384	(5,722)
<u>Items that have been reclassified or may be subsequently reclassified to profit or loss</u>				
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes				
- Fair value gain/(loss), net of taxes	66,055	138,904	(180,525)	(385,848)
- Reclassified to consolidated income statement	(119,438)	(174,157)	98,921	241,540
Currency translation differences	(10,975)	38,499	238,389	367,588
Other comprehensive (loss)/income for the period	(82,001)	(23,560)	172,631	232,047
Total comprehensive income for the period	599,707	1,700,405	604,066	1,259,843
Total comprehensive income attributable to:				
Equity holders of the Company	565,253	1,605,433	561,293	1,137,797
Perpetual securities holders	-	-	5,652	32,532
Other non-controlling interests	34,454	94,972	37,121	89,514
	599,707	1,700,405	604,066	1,259,843

CONSOLIDATED BALANCE SHEET

		December 31, 2021 (unaudited) US\$'000	March 31, 2021 (audited) US\$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		1,583,201	1,573,875
Right-of-use assets		857,688	893,422
Construction-in-progress		393,160	207,614
Intangible assets		8,138,296	8,405,005
Interests in associates and joint ventures		85,374	65,455
Deferred income tax assets		2,425,672	2,344,740
Financial assets at fair value through profit or loss		1,132,509	805,013
Financial assets at fair value through other comprehensive income		75,724	84,796
Other non-current assets		471,799	275,359
		15,163,423	14,655,279
Current assets			
Inventories	7	8,441,581	6,380,576
Trade receivables	8(a)	12,348,838	8,397,825
Notes receivable		98,549	78,939
Derivative financial assets		94,357	118,299
Deposits, prepayments and other receivables	9	5,399,912	4,977,501
Income tax recoverable		270,526	254,442
Bank deposits		72,549	59,385
Cash and cash equivalents		3,756,468	3,068,385
		30,482,780	23,335,352
Total assets		45,646,203	37,990,631

CONSOLIDATED BALANCE SHEET (CONTINUED)

		December 31, 2021	March 31, 2021
		(unaudited)	(audited)
	<i>Note</i>	<i>US\$ '000</i>	<i>US\$ '000</i>
Share capital	<i>13</i>	3,203,913	3,203,913
Reserves		1,280,133	355,123
Equity attributable to owners of the Company		4,484,046	3,559,036
Other non-controlling interests		1,074,022	817,735
Put option written on non-controlling interests	<i>10(a)(ii), 11(b)</i>	(766,238)	(766,238)
Total equity		4,791,830	3,610,533
Non-current liabilities			
Borrowings	<i>12</i>	3,313,990	3,299,582
Warranty provision	<i>10(b)</i>	252,743	266,313
Deferred revenue		1,430,041	1,183,247
Retirement benefit obligations		430,964	431,905
Deferred income tax liabilities		414,993	391,258
Other non-current liabilities	<i>11</i>	1,311,303	1,436,156
		7,154,034	7,008,461
Current liabilities			
Trade payables	<i>8(b)</i>	12,516,688	10,220,796
Notes payable		1,062,053	885,628
Derivative financial liabilities		80,743	35,944
Other payables and accruals	<i>10(a)</i>	16,698,642	13,178,498
Provisions	<i>10(b)</i>	1,023,281	910,380
Deferred revenue		1,346,742	1,046,677
Income tax payable		538,577	395,443
Borrowings	<i>12</i>	433,613	698,271
		33,700,339	27,371,637
Total liabilities		40,854,373	34,380,098
Total equity and liabilities		45,646,203	37,990,631

CONSOLIDATED CASH FLOW STATEMENT

	9 months ended December 31, 2021 (unaudited) US\$'000	9 months ended December 31, 2020 (unaudited) US\$'000
	<i>Note</i>	
Cash flows from operating activities		
Net cash generated from operations	14	3,351,691
Interest paid		(244,769)
Tax paid		(492,417)
		<u>3,757,936</u>
Net cash generated from operating activities		<u>2,614,505</u>
Cash flows from investing activities		
Purchase of property, plant and equipment		(261,597)
Sale of property, plant and equipment		15,667
Acquisition of subsidiaries, net of cash acquired		422
Disposal of subsidiaries, net of cash disposed		114,312
Interests acquired in associates and a joint venture		(325)
Payment for construction-in-progress		(397,275)
Payment for intangible assets		(260,720)
Purchase of financial assets at fair value through profit or loss		(218,139)
Purchase of financial assets at fair value through other comprehensive income		-
Net proceeds from sale of financial assets at fair value through profit or loss		99,614
Net proceeds from sale of a financial asset at fair value through other comprehensive income		-
Loan to an associate		(43,968)
Payment of contingent consideration		-
(Increase)/decrease in bank deposits		(13,164)
Dividends received		3,216
Interest received		37,687
		<u>111,753</u>
Net cash used in investing activities		<u>(924,270)</u>
Cash flows from financing activities		
Issue of warrant shares		-
Capital contribution from other non-controlling interests		174,022
Contribution to employee share trusts		(323,176)
Issue of notes		-
Issuing costs of notes		-
Repayment of notes		-
Principal elements of lease payments		(85,299)
Dividends paid		(478,822)
Dividends paid to other non-controlling interests		(30,877)
Distribution to perpetual securities holders		-
Dividends paid to convertible preferred shares holders		(16,384)
Repurchase of convertible preferred shares		(254,490)
Cash received for disposal of subsidiaries without loss of control		5,185
Proceeds from borrowings		8,001,574
Repayments of borrowings		(7,998,980)
Repurchase of perpetual securities		-
		<u>17,990</u>
Net cash used in financing activities		<u>(2,003,501)</u>
Increase in cash and cash equivalents		682,988
Effect of foreign exchange rate changes		5,095
Cash and cash equivalents at the beginning of the period		3,068,385
Cash and cash equivalents at the end of the period		<u>3,756,468</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											
	Share capital	Investment revaluation reserve	Employee share trusts	Share-based compensation reserve	Hedging reserve	Exchange reserve	Other reserve	Retained earnings	Perpetual securities	Other non-controlling interests	Put option written on non-controlling interests	Total
	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000
At April 1, 2021	3,203,913	(49,133)	(500,277)	187,376	73,476	(1,690,948)	130,240	2,204,389	-	817,735	(766,238)	3,610,533
Profit for the period	-	-	-	-	-	-	-	1,617,655	-	106,310	-	1,723,965
Other comprehensive (loss)/income	-	(7,349)	-	-	(35,253)	49,837	-	(19,457)	-	(11,338)	-	(23,560)
Total comprehensive (loss)/income for the period	-	(7,349)	-	-	(35,253)	49,837	-	1,598,198	-	94,972	-	1,700,405
Transfer to statutory reserve	-	-	-	-	-	-	10,352	(10,352)	-	-	-	-
Vesting of shares under long-term incentive program	-	-	412,336	(561,020)	-	-	-	-	-	-	-	(148,684)
Deferred tax in relation to long-term incentive program	-	-	-	(15,918)	-	-	-	-	-	-	-	(15,918)
Acquisition of a subsidiary	-	-	-	-	-	-	680	-	-	4,803	-	5,483
Disposal of subsidiaries	-	1	-	-	-	(15,295)	(552)	-	-	(365)	-	(16,211)
Settlement of bonus through long-term incentive program	-	-	-	27,781	-	-	-	-	-	-	-	27,781
Share-based compensation	-	-	-	267,597	-	-	-	-	-	-	-	267,597
Contribution to employee share trusts	-	-	(323,176)	-	-	-	-	-	-	-	-	(323,176)
Dividends paid	-	-	-	-	-	-	-	(478,822)	-	-	-	(478,822)
Dividends paid to other non-controlling interests	-	-	-	-	-	-	-	-	-	(30,877)	-	(30,877)
Capital contribution from other non-controlling interests	-	-	-	-	-	-	-	-	-	188,534	-	188,534
Change of ownership of subsidiaries without loss of control	-	-	-	-	-	-	5,965	-	-	(780)	-	5,185
At December 31, 2021	3,203,913	(56,481)	(411,117)	(94,184)	38,223	(1,656,406)	146,685	3,313,413	-	1,074,022	(766,238)	4,791,830
At April 1, 2020	3,185,923	(48,716)	(101,467)	287,574	58,489	(1,799,017)	176,642	1,438,114	993,670	634,321	(766,238)	4,059,295
Profit for the period	-	-	-	-	-	-	-	918,080	32,532	77,184	-	1,027,796
Other comprehensive (loss)/income	-	(5,722)	-	-	(144,308)	355,258	-	14,489	-	12,330	-	232,047
Total comprehensive (loss)/income for the period	-	(5,722)	-	-	(144,308)	355,258	-	932,569	32,532	89,514	-	1,259,843
Transfer to statutory reserve	-	-	-	-	-	-	8,890	(8,890)	-	-	-	-
Transfer of investment revaluation reserve upon disposal of financial assets at fair value through other comprehensive income to retained earnings	-	1,728	-	-	-	-	-	(1,728)	-	-	-	-
Repurchase of perpetual securities	-	-	-	-	-	-	(53,890)	-	(991,430)	-	-	(1,045,320)
Issue of warrant shares	17,990	-	-	-	-	-	-	-	-	-	-	17,990
Vesting of shares under long-term incentive program	-	-	187,628	(247,158)	-	-	-	-	-	-	-	(59,530)
Deferred tax in relation to long-term incentive program	-	-	-	21,265	-	-	-	-	-	-	-	21,265
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	2,113	-	2,113
Disposal and deemed disposal of subsidiaries	-	-	-	-	-	437	(1,819)	-	-	261	-	(1,121)
Settlement of bonus through long-term incentive program	-	-	-	34,444	-	-	-	-	-	-	-	34,444
Share-based compensation	-	-	-	189,119	-	-	-	-	-	-	-	189,119
Contribution to employee share trusts	-	-	(162,669)	-	-	-	-	-	-	-	-	(162,669)
Dividends paid	-	-	-	-	-	-	-	(434,397)	-	-	-	(434,397)
Dividend paid to other non-controlling interests	-	-	-	-	-	-	-	-	-	(5,156)	-	(5,156)
Capital contribution from other non-controlling interests	-	-	-	-	-	-	-	-	-	69,887	-	69,887
Change of ownership of subsidiaries without loss of control	-	-	-	-	-	-	474	-	-	(474)	-	-
Distribution to perpetual securities holders	-	-	-	-	-	-	-	-	(34,772)	-	-	(34,772)
At December 31, 2020	3,203,913	(52,710)	(76,508)	285,244	(85,819)	(1,443,322)	130,297	1,925,668	-	790,466	(766,238)	3,910,991

1 General information and basis of preparation

The financial information relating to the year ended March 31, 2021 included in the FY2021/22 third quarter results announcement as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the consolidated financial statements for the year ended March 31, 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those consolidated financial statements of the Group. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

Basis of preparation

The financial information presented above and notes thereto are extracted from the Group's consolidated financial statements and presented in accordance with Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Board is responsible for the preparation of the Group's consolidated financial statements. The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards. The consolidated financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are stated at fair values.

The accounting policies adopted are consistent with those of the previous financial year. The below amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amended standards.

- Amendment to HKFRS 16, COVID-19-Related rent concessions
- Amendment to HKFRS 16, COVID-19-Related rent concessions beyond 30 June 2021
- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform – Phase 2

New amendments to existing standards not yet effective

The following new amendments to existing standards, which are considered appropriate and relevant to the Group's operations, have been issued but are not effective for the year ending March 31, 2022 and have not been early adopted:

	Effective for annual periods beginning on or after
Amendments to HKAS 37, Onerous contracts – Cost of fulfilling a contract	January 1, 2022
Annual improvements to HKFRS Standards 2018-2020 cycle	January 1, 2022
Amendments to HKAS 16, Property, plant and equipment: Proceeds before intended use	January 1, 2022
Amendments to HKFRS 3, Reference to the conceptual framework	January 1, 2022
Amendments to HKAS 1, Classification of liabilities as current or non-current	January 1, 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, Disclosure of accounting policy	January 1, 2023
Amendments to HKAS 8, Definition of accounting estimate	January 1, 2023
Amendments to HKAS 12, Deferred tax related to assets and liabilities arising from a single transaction	January 1, 2023
Amendments to HKFRS 10 and HKAS 28, Consolidated financial statements and investments in associates	Date to be determined

The Group is in the process of assessing what the impact of these developments is expected to be in the period of initial application. So far it has concluded that their adoption is unlikely to have a significant impact on the consolidated financial statements of the Group.

2 Segment information

The Group has formed the Solutions and Services Group (“SSG”) in addition to the existing Intelligent Devices Group (“IDG”) and Infrastructure Solutions Group (“ISG”, previously named as Data Center Group (“DCG”)).

The SSG aims to bring together services teams and capabilities across the Group. This new business group will deliver enhanced services capabilities and new solutions to supercharge its growth momentum through three key segments – Attached Services, Managed Services, and Project and Vertical Solutions.

The Group has adopted the new business group structure as the reporting format effective for the year ending March 31, 2022 and the comparative segment information has been reclassified to conform to the reporting format under the current organizational structure. Management has determined the operating segments based on the reports reviewed by the Lenovo Executive Committee (the “LEC”), the chief operating decision-maker, that are used to make strategic decisions. Segments by business group comprise IDG, ISG and SSG.

The LEC assesses the performance of the operating segments based on a measure of operating profit/loss. This measurement basis excludes the effects of non-cash merger and acquisition related accounting charges and non-recurring expenses such as restructuring costs from the business groups. The measurement basis also excludes the effects of allocation from headquarters certain income and expenses such as fair value change of financial instruments and disposal gain/loss of property, plant and equipment that are from activities driven by headquarters and centralized functions. Certain finance income and costs are allocated to business groups when they are directly attributed to their business activities.

(a) Revenue and operating profit/(loss) for reportable segments

	9 months ended December 31, 2021		9 months ended December 31, 2020	
	Revenue US\$'000	Operating profit/(loss) US\$'000	Revenue US\$'000	Operating profit/(loss) US\$'000
IDG	47,614,230	3,612,254	39,379,206	2,755,572
ISG	5,731,418	(62)	4,699,805	(101,373)
SSG	4,045,237	880,624	3,104,640	620,757
Total	57,390,885	4,492,816	47,183,651	3,274,956
Eliminations	(2,466,427)	(743,390)	(2,071,443)	(540,353)
	<u>54,924,458</u>	<u>3,749,426</u>	<u>45,112,208</u>	<u>2,734,603</u>

Unallocated:

Headquarters and corporate income/(expenses)				
- net		(1,167,338)		(1,014,262)
Depreciation and amortization		(485,007)		(391,939)
Impairment of intangible assets		(25,434)		(52,606)
Finance income		23,418		13,954
Finance costs		(53,911)		(168,416)
Share of losses of associates and joint ventures		(3,834)		(23,849)
Gain on disposal of property, plant and equipment		409		70,428
Fair value gain on financial assets at fair value through profit or loss		186,072		197,279
Fair value loss on a financial liability at fair value through profit or loss		(11,484)		(7,373)
Dilution gain on interest in an associate		-		31,374
Gain on deemed disposal of subsidiaries		-		2,964
Gain on disposal of subsidiaries		32,303		-
Dividend income		2,944		1,784
Consolidated profit before taxation		<u>2,247,564</u>		<u>1,393,941</u>

(b) Analysis of revenue by geography

	9 months ended December 31, 2021 US\$'000	9 months ended December 31, 2020 US\$'000
China	14,736,639	10,873,643
AP	8,824,219	8,849,205
EMEA	13,881,866	11,512,931
AG	17,481,734	13,876,429
	<u>54,924,458</u>	<u>45,112,208</u>

(c) Analysis of revenue by timing of revenue recognition

	9 months ended December 31, 2021 US\$'000	9 months ended December 31, 2020 US\$'000
Point in time	53,526,991	43,929,146
Over time	1,397,467	1,183,062
	<u>54,924,458</u>	<u>45,112,208</u>

(d) Other segment information

	IDG		ISG		SSG		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	US\$'000							
For the nine months ended December 31								
Depreciation and amortization	338,651	271,724	112,049	99,077	2,061	2,697	452,761	373,498
Finance income	11,602	9,237	2,193	885	474	497	14,269	10,619
Finance costs	172,107	104,459	51,505	34,976	544	521	224,156	139,956

- (e) The directors review goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US\$6,128 million (March 31, 2021: US\$6,119 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At December 31, 2021

	China	AP	EMEA	AG	Mature Market	Emerging Market	Total
	US\$ million	US\$ million	US\$ million				
Goodwill							
- PCSD	981	540	185	233	-	-	1,939
- MBG	-	-	-	-	674	780	1,454
- ISG	520	156	77	342	-	-	1,095
- SSG (Note)	-	-	-	-	-	-	370
Trademarks and trade names with indefinite useful lives							
- PCSD	182	48	86	53	-	-	369
- MBG	-	-	-	-	197	263	460
- ISG	162	54	31	123	-	-	370
- SSG (Note)	-	-	-	-	-	-	71

Note: SSG is monitored as a whole and there is no allocation to geography or market.

At March 31, 2021

	China	AP	EMEA	AG	Mature Market	Emerging Market	Total
	US\$ million	US\$ million	US\$ million				
Goodwill							
- PCSD	1,089	683	234	295	-	-	2,301
- MBG	-	-	-	-	676	774	1,450
- DCG	508	159	85	344	-	-	1,096
Trademarks and trade names with indefinite useful lives							
- PCSD	209	59	107	67	-	-	442
- MBG	-	-	-	-	197	263	460
- DCG	162	54	31	123	-	-	370

The directors are of the view that there was no impairment of goodwill and trademarks and trade names with indefinite useful lives based on impairment tests performed as at December 31, 2021 (March 31, 2021: Nil).

3 Operating profit

Operating profit is stated after charging/(crediting) the following:

	3 months ended December 31, 2021 US\$'000	9 months ended December 31, 2021 US\$'000	3 months ended December 31, 2020 US\$'000	9 months ended December 31, 2020 US\$'000
Depreciation of property, plant and equipment	85,243	253,147	73,938	221,555
Depreciation of right-of-use assets	33,413	99,033	25,771	71,734
Amortization of intangible assets	198,716	585,588	160,299	472,148
Impairment of intangible assets	-	31,434	-	52,606
Impairment of property, plant and equipment	-	10,189	-	-
Employee benefit costs, including	1,490,266	4,383,367	1,406,168	3,778,337
- long-term incentive awards	94,003	267,597	61,367	189,119
- severance and related costs	-	-	-	75,006
Rental expenses	8,174	21,102	3,467	10,145
Loss/(gain) on disposal of property, plant and equipment	1,990	(2,958)	(1,092)	(71,964)
Loss on disposal of intangible assets	972	5,562	1,091	1,541
Fair value gain on financial assets at fair value through profit or loss	(75,388)	(186,072)	(64,359)	(197,279)
Fair value loss on a financial liability at fair value through profit or loss	1,633	11,484	5,600	7,373
Dilution gain on interest in an associate	-	-	-	(31,374)
Gain on deemed disposal of subsidiaries	-	-	(2,964)	(2,964)
Gain on disposal of subsidiaries	-	(32,303)	-	(1,064)
	14,463	37,687	7,240	24,573

4 Finance income and costs

(a) Finance income

	3 months ended December 31, 2021 US\$'000	9 months ended December 31, 2021 US\$'000	3 months ended December 31, 2020 US\$'000	9 months ended December 31, 2020 US\$'000
Interest on bank deposits and trust	14,385	37,461	7,240	22,797
Interest on money market funds	78	226	-	1,776
	14,463	37,687	7,240	24,573

(b) Finance costs

	3 months ended December 31, 2021 US\$'000	9 months ended December 31, 2021 US\$'000	3 months ended December 31, 2020 US\$'000	9 months ended December 31, 2020 US\$'000
Interest on bank loans and overdrafts	7,297	26,061	9,704	34,216
Interest on convertible bonds	10,115	30,362	10,017	29,931
Interest on notes	35,756	106,571	42,797	101,590
Interest on lease liabilities	5,109	14,516	4,087	13,138
Factoring costs	24,832	77,511	34,828	105,653
Interest on contingent consideration and written put option liabilities	6,829	20,437	6,830	19,653
Others	1,059	2,609	1,660	4,191
	90,997	278,067	109,923	308,372

5 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended December 31, 2021 US\$'000	9 months ended December 31, 2021 US\$'000	3 months ended December 31, 2020 US\$'000	9 months ended December 31, 2020 US\$'000
Current tax				
Profits tax in Hong Kong S.A.R. of China	20,884	106,139	38,702	66,404
Taxation outside Hong Kong S.A.R. of China	108,671	494,896	177,519	430,469
Deferred tax				
Debit/(credit) for the period	43,931	(77,436)	(56,178)	(130,728)
	173,486	523,599	160,043	366,145

Profits tax in Hong Kong S.A.R. of China has been provided for at the rate of 16.5% (2020/21: 16.5%) on the estimated assessable profit for the period. Taxation outside Hong Kong S.A.R. of China represents income and irrecoverable withholding taxes of subsidiaries operating in the Chinese Mainland and overseas, calculated at rates applicable in the respective jurisdictions.

6 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period after adjusting shares held by employee share trusts for the purposes of awarding shares to eligible employees under the long-term incentive program.

	3 months ended December 31, 2021	9 months ended December 31, 2021	3 months ended December 31, 2020	9 months ended December 31, 2020
Weighted average number of ordinary shares in issue	12,041,705,614	12,041,705,614	12,027,956,071	12,019,195,723
Adjustment for shares held by employee share trusts	(417,547,176)	(438,893,944)	(84,672,136)	(100,104,164)
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	11,624,158,438	11,602,811,670	11,943,283,935	11,919,091,559
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit attributable to equity holders of the Company used to determine basic earnings per share	639,605	1,617,655	395,063	918,080

(b) Diluted

The calculation of the diluted earnings per share is based on the profit attributable to equity holders of the Company, adjusted to reflect the impact from any dilutive potential ordinary shares issued by the Group, as appropriate. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

The Group has four (2020/21: five) categories of potential ordinary shares, namely long-term incentive awards, put option written on non-controlling interests, convertible bonds and convertible preferred shares (2020/21: long-term incentive awards, bonus warrants, put option written on non-controlling interests, convertible bonds and convertible preferred shares). Long-term incentive awards and convertible bonds were dilutive for the respective three months and nine months ended December 31, 2021 and 2020. Put option written on non-controlling interests and convertible preferred shares were anti-dilutive for the respective three months and nine months ended December 31, 2021 and 2020. Bonus warrants were anti-dilutive for the three months and nine months ended December 31, 2020.

	3 months ended December 31, 2021	9 months ended December 31, 2021	3 months ended December 31, 2020	9 months ended December 31, 2020
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	11,624,158,438	11,602,811,670	11,943,283,935	11,919,091,559
Adjustment for long-term incentive awards	767,252,896	813,972,752	397,375,752	141,358,495
Adjustment for convertible bonds	769,980,531	769,980,531	742,452,665	742,452,665
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	13,161,391,865	13,186,764,953	13,083,112,352	12,802,902,719
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit attributable to equity holders of the Company used to determine basic earnings per share	639,605	1,617,655	395,063	918,080
Adjustment for interest on convertible bonds, net of tax	8,446	25,352	8,364	24,992
Profit attributable to equity holders of the Company used to determine diluted earnings per share	648,051	1,643,007	403,427	943,072

7 Inventories

	December 31, 2021 <i>US\$'000</i>	March 31, 2021 <i>US\$'000</i>
Raw materials and work-in-progress	5,667,252	4,155,268
Finished goods	2,309,765	1,920,660
Service parts	464,564	304,648
	<u>8,441,581</u>	<u>6,380,576</u>

8 Trade receivables and trade payables

- (a) Customers are generally granted credit term ranging from 0 to 120 days. Ageing analysis of trade receivables of the Group at the balance sheet date, based on invoice date, is as follows:

	December 31, 2021 <i>US\$'000</i>	March 31, 2021 <i>US\$'000</i>
0 – 30 days	9,901,728	6,301,112
31 – 60 days	1,603,791	1,315,788
61 – 90 days	438,704	457,658
Over 90 days	531,349	468,473
	<u>12,475,572</u>	<u>8,543,031</u>
Less: loss allowance	(126,734)	(145,206)
Trade receivables – net	<u>12,348,838</u>	<u>8,397,825</u>

At December 31, 2021, trade receivables, net of loss allowance, of US\$761,593,000 (March 31, 2021: US\$562,648,000) were past due. The ageing of these receivables, based on due date, is as follows:

	December 31, 2021 <i>US\$'000</i>	March 31, 2021 <i>US\$'000</i>
Within 30 days	412,612	332,784
31 – 60 days	215,072	95,211
61 – 90 days	57,582	53,241
Over 90 days	76,327	81,412
	<u>761,593</u>	<u>562,648</u>

Movements in the loss allowance of trade receivables are as follows:

	9 months ended December 31, 2021 US\$'000	Year ended March 31, 2021 US\$'000
At the beginning of the period/year	145,206	95,456
Exchange adjustment	(1,063)	(4,954)
Increase in loss allowance recognized in profit or loss	47,575	142,663
Uncollectible receivables written off	(18,109)	(53,366)
Unused amounts reversed	(46,875)	(34,593)
	<u>126,734</u>	<u>145,206</u>

(b) Ageing analysis of trade payables of the Group at the balance sheet date, based on invoice date, is as follows:

	December 31, 2021 US\$'000	March 31, 2021 US\$'000
0 – 30 days	8,818,812	6,824,377
31 – 60 days	2,147,982	2,049,369
61 – 90 days	1,020,727	949,294
Over 90 days	529,167	397,756
	<u>12,516,688</u>	<u>10,220,796</u>

9 Deposits, prepayments and other receivables

Details of deposits, prepayments and other receivables are as follows:

	December 31, 2021 US\$'000	March 31, 2021 US\$'000
Deposits	172,656	16,731
Other receivables	4,080,477	3,787,734
Prepayments	1,146,779	1,173,036
	<u>5,399,912</u>	<u>4,977,501</u>

Other receivables mainly comprise amounts due from subcontractors for parts components sold in the ordinary course of business.

10 Provisions, other payables and accruals

(a) Details of other payables and accruals are as follows:

	December 31, 2021 <i>US\$'000</i>	March 31, 2021 <i>US\$'000</i>
Accruals	4,289,583	3,385,903
Allowance for billing adjustments (i)	3,519,807	2,464,020
Written put option liabilities (ii)	346,545	324,277
Other payables (iii)	8,400,682	6,870,636
Lease liabilities	142,025	133,662
	<u>16,698,642</u>	<u>13,178,498</u>

Notes:

- (i) Allowance for billing adjustments relates primarily to allowances for future volume discounts, price protection, rebates, and customer sales returns.
- (ii) During the year ended March 31, 2019, Hefei Zhi Ju Sheng Bao Equity Investment Co., Ltd (“ZJSB”) acquired the 49% interest in a joint venture company (“JV Co”) from Compal Electronics, Inc. The Company and ZJSB respectively own 51% and 49% of the interest in the JV Co. Pursuant to the option agreement entered into between a wholly owned subsidiary of the Group and Hefei Yuan Jia Start-up Investment LLP (“Yuan Jia”), which holds 99.31% interest in ZJSB, the Group and Yuan Jia are respectively granted call and put options which entitle the Group to purchase from Yuan Jia, or Yuan Jia to sell to the Group, the 99.31% interest in ZJSB. The call and put options will be exercisable at any time after August 31, 2022 and August 31, 2021 respectively. The exercise price for the call and put options will be determined in accordance with the joint venture agreement, and up to a maximum of RMB2,300 million (approximately US\$362 million).
- The Company announced on December 28, 2021 that Yuan Jia notified of its intention to exercise the put option, details of which are set out in the announcement. The completion of the exercise of the put option is expected to take place by the end of this fiscal year.
- (iii) Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors.
- (iv) The carrying amounts of other payables and accruals approximate their fair values.

(b) The components of provisions are as follows:

	Warranty <i>US\$'000</i>	Environmental restoration <i>US\$'000</i>	Total <i>US\$'000</i>
Year ended March 31, 2021			
At the beginning of the year	974,839	35,604	1,010,443
Exchange adjustment	42,328	(431)	41,897
Provisions made	992,112	18,172	1,010,284
Amounts utilized	(835,397)	(21,195)	(856,592)
	<u>1,173,882</u>	<u>32,150</u>	<u>1,206,032</u>
Long-term portion classified as non-current liabilities	(266,313)	(29,339)	(295,652)
At the end of the year	<u><u>907,569</u></u>	<u><u>2,811</u></u>	<u><u>910,380</u></u>
Nine months ended December 31, 2021			
At the beginning of the period	1,173,882	32,150	1,206,032
Exchange adjustment	(2,859)	(1,141)	(4,000)
Provisions made	806,796	20,408	827,204
Amounts utilized	(706,214)	(18,725)	(724,939)
	<u>1,271,605</u>	<u>32,692</u>	<u>1,304,297</u>
Long-term portion classified as non-current liabilities	(252,743)	(28,273)	(281,016)
At the end of the period	<u><u>1,018,862</u></u>	<u><u>4,419</u></u>	<u><u>1,023,281</u></u>

The Group records its warranty liability at the time of sales based on estimated costs. Warranty claims are reasonably predictable based on historical failure rate information. The warranty accrual is reviewed quarterly to verify it properly reflects the outstanding obligation over the warranty period. Certain of these costs are reimbursable from the suppliers in accordance with the terms of relevant arrangements with them.

The Group records its environmental restoration provision at the time of sales based on estimated costs of environmentally-sound disposal of waste electrical and electronic equipment upon return from end-customers and with reference to the historical or projected future return rate. The environmental restoration provision is reviewed at least annually to assess its adequacy to meet the Group's obligation.

11 Other non-current liabilities

Details of other non-current liabilities are as follows:

	December 31, 2021 <i>US\$'000</i>	March 31, 2021 <i>US\$'000</i>
Deferred consideration (a)	25,072	25,072
Written put option liabilities (b)	506,955	518,499
Lease liabilities	305,353	333,264
Environmental restoration (Note 10(b))	28,273	29,339
Government incentives and grants received in advance (c)	80,817	66,234
Others	364,833	463,748
	<u><u>1,311,303</u></u>	<u><u>1,436,156</u></u>

(a) Pursuant to the joint venture agreement entered into with NEC Corporation, the Group is required to pay in cash to NEC Corporation deferred consideration. As at December 31, 2021, the potential undiscounted amount of future payment in respect of the deferred consideration that the Group could be required to make amounted to US\$25 million (March 31, 2021: US\$25 million).

- (b) Pursuant to the joint venture agreement entered into between the Company and Fujitsu Limited (“Fujitsu”), the Company and Fujitsu are respectively granted call and put options which entitle the Company to purchase from Fujitsu and Development Bank of Japan (“DBJ”), or Fujitsu and DBJ to sell to the Company, the 49% interest in Fujitsu Client Computing Limited and its subsidiary, Shimane Fujitsu Limited (together “FCCL”). Both options will be exercisable following the fifth anniversary of the date of completion. The exercise price for the call and put options will be determined based on the fair value of the 49% interest as of the day of exercising the option. FCCL will pay to its shareholders by way of dividends in their respective shareholding proportion in a range of FCCL’s profits available for distribution under applicable law in respect of each financial year during the term of the joint venture agreement, after making transfers to reserves and provisions.

The financial liability that may become payable under the put option is initially recognized at present value of redemption amount within other non-current liabilities with a corresponding charge directly to equity, as a put option written on non-controlling interest.

The put option liability shall be re-measured as a result of the change in the expected performance at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. In the event that the put option lapses unexercised, the liability will be derecognized with a corresponding adjustment to equity.

- (c) Government incentives and grants received in advance by certain group companies included in other non-current liabilities are mainly related to research and development projects and construction of property, plant and equipment. These group companies are obliged to fulfill certain conditions under the terms of the government incentives and grants. The government incentives and grants are credited to the consolidated income statement upon fulfillment of those conditions and on a straight line basis over the expected life of the related assets respectively.

12 Borrowings

	December 31, 2021 <i>US\$ '000</i>	March 31, 2021 <i>US\$ '000</i>
Current liabilities		
Short-term loans (a)	52,453	58,190
Notes (b)	337,179	336,709
Convertible preferred shares (d)	43,981	303,372
	433,613	698,271
Non-current liabilities		
Long-term loan (a)	1,302	2,070
Notes (b)	2,675,631	2,673,688
Convertible bonds (c)	637,057	623,824
	3,313,990	3,299,582
	3,747,603	3,997,853

- (a) Majority of the short-term and long-term loans are denominated in United States dollars. As at December 31, 2021, the Group has total revolving and short-term loan facilities of US\$3,075 million (March 31, 2021: US\$3,029 million) which has been utilized to the extent of US\$49 million (March 31, 2021: US\$47 million).

(b)	Outstanding principal amount	Term	Interest rate per annum	Due date	December 31, 2021 US\$'000	March 31, 2021 US\$'000
Issue date						
March 16, 2017	US\$337 million	5 years	3.875%	March 2022	337,179	336,709
March 29, 2018	US\$687 million	5 years	4.75%	March 2023	685,035	683,982
April 24, 2020 and May 12, 2020	US\$1 billion	5 years	5.875%	April 2025	999,348	999,199
November 2, 2020	US\$1 billion	10 years	3.421%	November 2030	991,248	990,507
					3,012,810	3,010,397

- (c) On January 24, 2019, the Company completed the issuance of 5-Year US\$675 million convertible bonds bearing annual interest at 3.375% due in January 2024 (“the Bonds”) to third party professional investors (“the bondholders”). The proceeds were used to repay previous notes and for general corporate purposes. The bondholders have the right, at any time on or after 41 days after the date of issue and up to the 10th day prior to the maturity date, to convert part or all of the outstanding principal amount of the Bonds into ordinary shares of the Company at a conversion price of HK\$7.99 per share, subject to adjustments. The conversion price was adjusted to HK\$6.87 per share effective on December 1, 2021. Assuming full conversion of the Bonds at the adjusted conversion price of HK\$6.87 per share, the Bonds will be convertible into 769,980,531 shares.

The initial fair value of the liability portion of the bond was determined using a market interest rate for an equivalent non-convertible bond at the issue date. The liability is subsequently recognized on an amortized cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option and recognized in shareholders’ equity, net of income tax, and not subsequently remeasured.

The outstanding principal amount of the Bonds is repayable by the Company upon the maturity of the Bonds on January 24, 2024, if not previously redeemed, converted or purchased and cancelled. On January 24, 2021, the bondholders had the right, at the bondholders’ option, to require the Company to redeem part or all of the Bonds on January 24, 2021 at their principal amount and US\$0.5 million were redeemed. The remaining principal amount of the Bonds has been reclassified to non-current liabilities as a result of the lapse of the redemption option.

The Group expects that it will be able to meet its redemption obligations based on the financial position of the Group had conversion of the Bonds not exercised on maturity.

- (d) On June 21, 2019, the Group completed the issuance of 2,054,791 convertible preferred shares through its wholly owned subsidiary, Lenovo Enterprise Technology Company Limited (“LETCL”). The convertible preferred shares are convertible to 20% of the enlarged issued ordinary share capital of LETCL on an as-converted and fully-diluted basis. The holders of the convertible preferred shares will be entitled cash dividends of 4% per annum payable semi-annually on the original subscription price until December 31, 2023. The Group has purchased 136,986 convertible preferred shares during the year ended March 31, 2021 at the consideration of approximately US\$17 million.

During the period, due to the occurrence of certain specified conditions, the holders of convertible preferred shares have the right to require LETCL to redeem or the Company to purchase all of their convertible preferred shares at the predetermined consideration. Holders of 1,643,833 convertible preferred shares have exercised their rights and the Group has purchased these convertible preferred shares at the consideration of approximately US\$254 million.

The aggregate number of 1,438,354 and 342,465 convertible preferred shares purchased by the Group were converted into ordinary shares of LETCL during the period and subsequently on January 3, 2022 respectively.

During the period, additional 54,794 convertible preferred shares have been issued as dividend shares. At December 31, 2021, 328,766 convertible preferred shares remained outstanding, representing 3.20% of the enlarged issued ordinary share capital of LETCL on an as-converted and fully diluted basis.

The Group expects that it will be able to meet its redemption obligations based on the financial position of the Group had conversion of these convertible preferred shares not exercised.

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at December 31, 2021 and March 31, 2021 are as follows:

	December 31, 2021	March 31, 2021
	<i>US\$'000</i>	<i>US\$'000</i>
Within 1 year	433,613	698,271
Over 1 to 2 years	686,074	685,008
Over 2 to 5 years	1,636,668	1,624,067
Over 5 years	991,248	990,507
	3,747,603	3,997,853

13 Share capital

	December 31, 2021		March 31, 2021	
	<i>Number of shares</i>	<i>US\$'000</i>	<i>Number of shares</i>	<i>US\$'000</i>
<i>Issued and fully paid:</i>				
Voting ordinary shares:				
At the beginning of the period/year	12,041,705,614	3,203,913	12,014,791,614	3,185,923
Issue of warrant shares	-	-	26,914,000	17,990
At the end of the period/year	12,041,705,614	3,203,913	12,041,705,614	3,203,913

On November 16, 2020, the Company completed the issuance of 26,914,000 warrant shares at an exercise price of HK\$5.1445 each.

14 Reconciliation of profit before taxation to net cash generated from operations

	9 months ended December 31, 2021 <i>US\$'000</i>	9 months ended December 31, 2020 <i>US\$'000</i>
Profit before taxation	2,247,564	1,393,941
Share of losses of associates and joint ventures	3,834	23,849
Finance income	(37,687)	(24,573)
Finance costs	278,067	308,372
Depreciation of property, plant and equipment	253,147	221,555
Depreciation of right-of-use assets	99,033	71,734
Amortization of intangible assets	585,588	472,148
Impairment of intangible assets	31,434	52,606
Impairment of property, plant and equipment	10,189	-
Share-based compensation	267,597	189,119
Gain on disposal of property, plant and equipment	(2,958)	(71,964)
Loss on disposal of intangible assets	5,562	1,541
Dilution gain on interest in an associate	-	(31,374)
Gain on deemed disposal of subsidiaries	-	(2,964)
Gain on disposal of subsidiaries	(32,303)	(1,064)
Fair value change on bonus warrants	-	(1,138)
Fair value change on financial instruments	33,488	23,869
Fair value change on financial assets at fair value through profit or loss	(186,072)	(197,279)
Fair value change on a financial liability at fair value through profit or loss	11,484	7,373
Dividend income	(3,216)	(1,897)
Increase in inventories	(2,066,028)	(886,592)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	(4,530,419)	(4,486,404)
Increase in trade payables, notes payable, provisions, other payables and accruals	6,375,917	6,975,941
Effect of foreign exchange rate changes	7,470	(278,863)
Net cash generated from operations	<u>3,351,691</u>	<u>3,757,936</u>

Reconciliation of financing liabilities

This section sets out an analysis of financing liabilities and the movements in financing liabilities for the period/year presented.

	December 31, 2021 <i>US\$'000</i>	March 31, 2021 <i>US\$'000</i>
Financing liabilities		
Short-term loans – current	52,453	58,190
Long-term loan – non-current	1,302	2,070
Notes – current	337,179	336,709
Notes – non-current	2,675,631	2,673,688
Convertible bonds – non-current	637,057	623,824
Convertible preferred shares – current	43,981	303,372
Lease liabilities – current	142,025	133,662
Lease liabilities – non-current	305,353	333,264
	<u>4,194,981</u>	<u>4,464,779</u>
Short-term loans – variable interest rates	51,430	39,672
Short-term loans – fixed interest rates	1,023	18,518
Long-term loan – fixed interest rates	1,302	2,070
Notes – fixed interest rates	3,012,810	3,010,397
Convertible bonds – fixed interest rates	637,057	623,824
Convertible preferred shares – fair value	43,981	303,372
Lease liabilities – fixed interest rates	447,378	466,926
	<u>4,194,981</u>	<u>4,464,779</u>

	Short-term loans current US\$'000	Long- term loan non- current US\$'000	Notes current US\$'000	Notes non- current US\$'000	Convertible bonds current US\$'000	Convertible bonds non- current US\$'000	Convertible preferred shares current US\$'000	Convertible preferred shares non- current US\$'000	Lease liabilities current US\$'000	Lease liabilities non- current US\$'000	Total US\$'000
Financing liabilities as at April 1, 2020	2,124,562	3,079	563,249	1,243,714	607,169	-	-	317,826	91,976	346,806	5,298,381
Proceeds from borrowings	4,925,628	-	-	-	-	-	-	-	-	-	4,925,628
Repayments of borrowings	(7,005,300)	-	-	-	-	-	-	-	-	-	(7,005,300)
Repayment of notes	-	-	(565,643)	(225,912)	-	-	-	-	-	-	(791,555)
Repurchase of convertible preferred shares	-	-	-	-	-	-	-	(16,575)	-	-	(16,575)
Redemption of convertible bonds	-	-	-	-	-	(500)	-	-	-	-	(500)
Transfer	1,009	(1,009)	336,709	(336,709)	(619,537)	619,537	303,372	(303,372)	107,474	(107,474)	-
Issue of notes	-	-	-	2,003,500	-	-	-	-	-	-	2,003,500
Issuing costs of notes	-	-	-	(14,383)	-	-	-	-	-	-	(14,383)
Principal elements of lease payments	-	-	-	-	-	-	-	-	(165,150)	-	(165,150)
Acquisition of a subsidiary	1,770	-	-	-	-	-	-	-	-	-	1,770
Dividends paid	-	-	-	-	-	-	-	(11,600)	-	-	(11,600)
Foreign exchange adjustments	292	-	2,058	-	-	-	-	-	13,907	5,474	21,731
Other non-cash movements	10,229	-	336	3,478	12,368	4,787	-	13,721	85,455	88,458	218,832
Financing liabilities as at March 31, 2021	<u>58,190</u>	<u>2,070</u>	<u>336,709</u>	<u>2,673,688</u>	<u>-</u>	<u>623,824</u>	<u>303,372</u>	<u>-</u>	<u>133,662</u>	<u>333,264</u>	<u>4,464,779</u>
Financing liabilities as at April 1, 2021	58,190	2,070	336,709	2,673,688	-	623,824	303,372	-	133,662	333,264	4,464,779
Proceeds from borrowings	8,001,574	-	-	-	-	-	-	-	-	-	8,001,574
Repayments of borrowings	(7,998,980)	-	-	-	-	-	-	-	-	-	(7,998,980)
Repurchase of convertible preferred shares	-	-	-	-	-	-	(254,490)	-	-	-	(254,490)
Transfer	768	(768)	-	-	-	-	-	-	74,270	(74,270)	-
Principal elements of lease payments	-	-	-	-	-	-	-	-	(85,299)	-	(85,299)
Disposal of a subsidiary	(9,319)	-	-	-	-	-	-	-	-	-	(9,319)
Dividends paid	-	-	-	-	-	-	(16,384)	-	-	-	(16,384)
Foreign exchange adjustments	220	-	-	-	-	-	-	-	3,289	3,473	6,982
Other non-cash movements	-	-	470	1,943	-	13,233	11,483	-	16,103	42,886	86,118
Financing liabilities as at December 31, 2021	<u>52,453</u>	<u>1,302</u>	<u>337,179</u>	<u>2,675,631</u>	<u>-</u>	<u>637,057</u>	<u>43,981</u>	<u>-</u>	<u>142,025</u>	<u>305,353</u>	<u>4,194,981</u>

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the nine months ended December 31, 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the respective trustee of the long-term incentive program and the employee share purchase plan of the Company purchased a total of 288,013,869 shares from the market for award to employees upon vesting. Details of these program and plan are set out in the 2021/22 interim report of the Company.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company has been established since 1999 with the responsibility to assist the Board in providing an independent review of the financial statements, risk management and internal control systems. It acts in accordance with its terms of reference which clearly deal with its membership, authority, duties and frequency of meetings. Currently, the Audit Committee comprises three independent non-executive directors, including Mr. Woo Chin Wan Raymond, being the Chairman, Mr. William Tudor Brown and Mr. Gordon Robert Halyburton Orr.

The Audit Committee of the Company has reviewed the unaudited financial results of the Group for the nine months ended December 31, 2021. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the nine months ended December 31, 2021, in compliance with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, with the exception that the roles of the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "CEO") have not been segregated as required by code provision C.2.1 of the CG Code.

The Board has reviewed the organization human resources planning of the Company and is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Yang Yuanqing ("Mr. Yang") to continue to hold both the positions as it would help to maintain the continuity of the strategy execution and stability of the operations of the Company. The Board comprising a vast majority of independent non-executive directors meets regularly on a quarterly basis to review the operations of the Company led by Mr. Yang.

The Board also appointed Mr. William O. Grabe as the lead independent director (the "Lead Independent Director") with broad authority and responsibility. Among other responsibilities, the Lead Independent Director serves as Chair of the Nomination and Governance Committee meeting and/or Board meeting whenever the Committee and/or Board is considering (i) the combined roles of Chairman and CEO; and (ii) assessment of the performance of Chairman and/or CEO. The Lead Independent Director also calls and chairs meeting(s) with all independent non-executive directors without management and executive director present at least once a year on such matters as are deemed appropriate. Accordingly, the Board believes that the current Board structure with combined roles of Chairman and CEO, the appointment of Lead Independent Director and a vast majority of independent non-executive directors provide an effective balance on power and authorizations between the Board and the management of the Company.

By Order of the Board
Yang Yuanqing
Chairman and
Chief Executive Officer

February 23, 2022

As at the date of this announcement, the executive director is Mr. Yang Yuanqing; the non-executive directors are Mr. Zhu Linan and Mr. Zhao John Huan; and the independent non-executive directors are Mr. William O. Grabe, Mr. William Tudor Brown, Mr. Yang Chih-Yuan Jerry, Mr. Gordon Robert Halyburton Orr, Mr. Woo Chin Wan Raymond and Ms. Yang Lan.