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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)

FY2019/20 INTERIM RESULTS ANNOUNCEMENT

INTERIM 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 six months ended September 30, 2019 together with comparative figures for the corresponding period of last year, as follows:

FINANCIAL HIGHLIGHTS

- Pre-tax profit increased 69 percent year-on-year in 1HFY20; revenue growth was modest at 3 percent as slowdown of datacenter revenue dampened overall growth
- PC and Smart Device (PCSD) Business continued to leverage high-growth and premium segments in driving market share gains and delivering record shipments in PC, with a growth of 8-percentage points premium to market
- Mobile Business Group (MBG) further improved profitability for the 4th consecutive quarter, led by solid performance in core markets
- Data Center Group (DCG) narrowed its losses, with strong growth in storage and Software Defined Infrastructure (SDI) businesses
- Software and Services grew at a strong double-digit rate year-on-year on the back of rising attach rates and robust demand for Premium Services
- Net cash generated from operating activities was US\$1.2 billion in 1HFY20

| | 3 months ended September 30, 2019 (unaudited) US\$ million | 6 months ended September 30, 2019 (unaudited) US\$ million | 3 months ended September 30, 2018 (unaudited) US\$ million | 6 months ended September 30, 2018 (unaudited) US\$ million | Year-on-year change 3 months ended September 30 | 6 months ended September 30 |
|---|--|--|--|--|--|-----------------------------------|
| Revenue | 13,522 | 26,034 | 13,380 | 25,293 | 1% | 3% |
| Gross profit | 2,183 | 4,231 | 1,794 | 3,426 | 22% | 24% |
| Gross profit margin | 16.1% | 16.3% | 13.4% | 13.5% | 2.7 pts | 2.8 pts |
| Operating expenses | (1,741) | (3,447) | (1,504) | (2,956) | 16% | 17% |
| Operating profit | 442 | 784 | 290 | 470 | 53% | 67% |
| Other non-operating expenses - net | (132) | (234) | (77) | (144) | 73% | 63% |
| Profit before taxation | 310 | 550 | 213 | 326 | 45% | 69% |
| Profit for the period | 244 | 436 | 173 | 259 | 40% | 68% |
| Profit attributable to equity holders of the Company | 202 | 364 | 168 | 245 | 20% | 48% |
| Earnings per share attributable to equity holders of the Company | | | | | | |
| Basic | US 1.69 cents | US 3.06 cents | US 1.41 cents | US 2.06 cents | US 0.28 cents | US 1.00 cents |
| Diluted | US 1.62 cents | US 2.94 cents | US 1.40 cents | US 2.06 cents | US 0.22 cents | US 0.88 cents |

INTERIM DIVIDEND

The Board has declared an interim dividend of HK6.3 cents (2018/19: HK6.0 cents) per share for the six months ended September 30, 2019, absorbing an aggregate amount of approximately HK\$756.9 million (approximately US\$96.6 million) (2018/19: approximately HK\$720.9 million (approximately US\$92.1 million)), to shareholders whose names appear on the register of members of the Company on Friday, November 29, 2019. The interim dividend will be paid on Friday, December 6, 2019.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Friday, November 29, 2019, during which no transfer of shares will be registered. In order to qualify for the interim dividend, all properly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, November 28, 2019. Shares of the Company will be traded ex-dividend as from Wednesday, November 27, 2019.

BUSINESS REVIEW AND OUTLOOK

Highlights

During the six months ended September 30, 2019, Lenovo (the Group) delivered strong profitable growth with its pre-tax profit increasing by almost seventy percent over the same period of last fiscal year. Not only did the Group consistently achieve year-on-year revenue growth, but also the three primary business groups under operation each delivered profit improvement or narrowed their losses, despite the component supply constraint and on-going geopolitical uncertainties.

In the PC and Smart Device (PCSD) Business, the market share gains in high-growth and premium segments were an important driver for revenue growth and better profitability. PCSD enjoyed double-digit revenue and shipment growth across the Workstation, Thin and Light, Visual, and Gaming PC segments. In the Data Center Group (DCG), despite the challenges in the hyperscale segment, the rest of the business achieved strong double-digit revenue growth in key segments such as storage and Software Defined Infrastructure (SDI), demonstrating an encouraging long-term growth trend.

The Group also made steady progress in developing future growth businesses. One such growth opportunity is in the software and services business. The Group's 3S (Smart IoT, Smart Verticals, and Smart Infrastructure) strategy was designed to accelerate its Intelligent Transformation and to pave a new path towards delivering sustainable, long-term growth. As part of this strategic investment, the software and services invoiced revenue grew at strong double-digit rate compared to the same period of last fiscal year and contributed more than 6 percent of the Group's overall revenue thanks to strong performance in Premium Services.

Net cash generated from operating activities was US\$1.2 billion in 1HFY20. The strong cashflow generation reflects the Group's efforts in improving operating profit and working capital management.

Financial Performance

For the six months ended September 30, 2019, the Group's pre-tax profit increased 69 percent year-on-year to reach US\$550 million, while its profit attributable to equity holders rose by 48 percent to US\$364 million. These exceptional figures of profit growth outpaced the Group's revenue growth of 3 percent year-on-year to US\$26,034 million in the period under review.

The significant profit improvement was partly driven by a year-on-year gross margin expansion of 2.8 percentage points to 16.3 percent, thanks to favorable sales mix shift in the PCSD Business and the Mobile Business Group (MBG) turning to profitability. The Group's gross profit surged by 24 percent year-on-year to US\$4,231 million.

The operating expenses rose by 17 percent year-on-year while expense-to-revenue ratio increased by 1.6 percentage points to 13.2 percent due to rising investments in sales, marketing and promotion, as well as higher bonuses to reward strong profit performance.

Among the three business groups, the PCSD business remained the world's market leader in the period under review with industry-leading profitability. Despite subdued demand in their respective sectors, the MBG and DCG businesses managed to enhance their profitability year-on-year.

Performance by Product Business Group

Intelligent Devices Group (IDG)

During the six months ended September 30, 2019, the revenue of Intelligent Devices Group (IDG) - consisting of the PCSD and MBG businesses - grew 6 percent year-on-year to US\$23,347 million while its pre-tax profit improved 45 percent year-on-year to reach US\$1,149 million. Market share gain especially in the high-growth and premium PC segments were the key growth catalyst for IDG's revenue performance. This favorable mix shift towards high-growth and premium segments, coupled with the ongoing commercial refresh cycle, enabled the PC business to grow its market share by 0.8 percentage point year-on-year to 24.4 percent of the global market in fiscal quarter two. This sales mix change underscored the record pre-tax profit margin of 4.9 percent achieved by IDG during the period under review. MBG, another key business part of the IDG, also made a turnaround on pre-tax margin from previous losses and contributed to the improved profitability of IDG.

Intelligent Devices Group - PC and Smart Device (PCSD) Business

During the period under review, the PCSD business was not only the largest PC brand in the world by market share but also continued its share gain trajectory. The PC business delivered record shipments and its year-on-year shipment growth outperformed a growing market by 8 percentage points. The PC business is also becoming more balanced, with a stronghold in the commercial segment and further penetration in the consumer segment with its segment share reaching 20.4 percent in fiscal quarter two.

The success of the business is partly rooted in its strategy of investing in high-growth and premium segments, which represented more than 50 percent of PCSD's revenue for the six months period under review. The business achieved double-digit revenue growth and double-digit shipment growth across Workstation, Thin & Light, Visual, and Gaming PC. The business reported an 8 percent year-on-year growth in revenue to US\$20,287 million, representing 78 percent of the Group's total revenue, for the six months ended September 30, 2019.

Leveraging a well-executed strategy in driving more profitable product mix and a higher attach rate for software and services, the business further expanded its industry-leading profitability to set a new record. PCSD's pre-tax profit increased 21 percent year-on-year to US\$1,135 million and its pre-tax profit margin expanded 0.6 percentage points from the same period last fiscal year to a record 5.6 percent in the six month period under review.

Intelligent Devices Group - Mobile Business Group (MBG)

The Group's mobile business has delivered on its promise to maintain profitability for four quarters and continued to expand its profitability on a year-on-year basis. The primary driver for this success is its focused strategy to invest and develop in regions and/or countries where it has notable competitive advantages. As a result, its profitability continued to advance year-on-year in core markets including Latin and North America for the period under review. With better portfolio efficiency and margin expansion in its core regions, the MBG's pre-tax profit increased by US\$160 million from the same period last fiscal year.

The strategy to target investments in countries with potential for profitable growth inevitably resulted in smaller operating scale and thus a decline in revenue of 7 percent to US\$3,012 million for the MBG business for the six months ended September 30, 2019.

This business group will refine and apply its focused strategy to additional markets in Europe where its competitiveness is enhanced by a host of factors including new carrier relationships and expanded product pipeline. The Group's well-established PC brand and its historically strong performance in the region will also help drive the cross-selling of its mobile products.

The business continued to deliver innovative products across the portfolio recently announcing the newly introduced Moto G8 family, Motorola One Macro and Moto E6 play. Given that its most important core markets are profitable across the board, an increase of contribution from these core markets is likely to further boost MBG's long-term profitability.

Data Center Group (DCG)

During the six months under review, the primary challenge to the DCG business was in the hyperscale segment where the commodity price correction has negatively impacted average selling prices (ASP). There was also softness in demand from its hyperscale customers. The business delivered revenue of US\$2,687 million for the period under review, representing a 15 percent year-on-year decline and contributing to 10 percent of the Group's total revenue.

Despite challenges in the hyperscale segment, the business achieved notable success in multiple product segments including storage, Software Defined Infrastructure (SDI) and High Performance Computing (HPC) businesses. Storage revenue grew at a strong, double digit rate during the period under review as the value of DCG's expanded portfolio earned market recognition. SDI sales also increased at a strong double-digit rate year-on-year as its product performance helped win market share. HPC revenue also grew at a robust double-digit rate during fiscal quarter two thanks to new project wins. The Data Center Infrastructure (DCI) business also started to resume growth year-on-year in fiscal quarter two as the DCG operation in China seized opportunities to broaden its sales coverage and expanded product portfolio.

The strategy to focus on profitability protection continued to pay off for the DCG business, allowing it to balance between return on investment and the need to build a sustainable and profitable business model via additional investments. Losses from DCG narrowed by US\$20 million year-on-year to US\$103 million for the period under review.

Outlook

Looking ahead, the global demand for technology products is expected to remain volatile amid a complex macro environment. However, going forward, Lenovo is well positioned to manage complex and dynamic market conditions, while continuing to deliver sustainable long-term results.

The Group will continue to target premium-to-market revenue growth with industry-leading profitability in its PCSD business through further expansion in the high-growth and premium segments. Building capabilities to drive sales growth in software and services will remain a focus. For its Mobile business, the Group will continue to strengthen its competitiveness in target markets to sustain profitable growth while extending its technology leadership.

Despite a cyclical setback in the hyperscale industry since the latter part of last fiscal year, the trend of data growth is expected to accelerate and fuel a subsequent recovery in sales for DCG business with the debut of more products and applications featuring new technologies including 5G. Lenovo will tap into this opportunity to drive premium-to-market growth and to build its DCG business as a full stack industry leader through the introduction of solution capabilities and a reliable end-to-end product portfolio. Moving forward, Lenovo will continue to drive growth in enterprise server, Software Defined Infrastructure, HPC, storage, and services and software. For hyperscale business, the Group will leverage its differentiated in-house design and manufacturing capability to drive large-scale applications, and broaden its customer base to build a profitable business model in the future.

Strategic Highlights

The Group continues to execute its strategy to be the leader and the enabler of Intelligent Transformation. Lenovo has the vision of bringing smarter technology to all - through Smart Infrastructure, Smart Verticals and Smart IoT. This 3S strategy, in parallel with its customer-centric positioning, has led to a higher software and services attach rate. During fiscal quarter two, the software and services invoiced revenue grew at a strong double-digit rate year-on-year, not only contributing over 6 percent of the Group revenue but also carrying one of the highest margin profiles among all of the Group's products. The software and services business is considered a strong, long-term growth catalyst.

Smart Infrastructure provides the computing, storage and networking power to support smart devices, which will more than double in number in 2020 from 2017 creating an enormous amount of data. Lenovo launched its next-generation data center solutions in SDI and expects it to remain a future growth catalyst. These new solutions, which include collaboration with several partners based on the ThinkAgile platform, have grown significantly during fiscal quarter two.

Smart Verticals combine big data generated by smart devices and the computing power of smart infrastructure in order to provide more insights and improve processes for customers. The Data Intelligence Business Group (DIBG) has expanded its footprint to win projects in the energy and manufacturing industry during fiscal quarter two. Its healthcare and education virtual reality solutions also gained strong momentum in driving revenue growth.

The Group will continue to invest in **Smart IoT**, consisting of a network of many touchpoints for the connected world we live in. Specifically, the Group's investments will accelerate in the area of edge computing, cloud, big data and artificial intelligence (AI) in vertical industries to deepen its strategic transformation and further accentuate its core competence. These investments aim to strengthen Lenovo's capability as a competitive end-to-end solution provider in the era of Intelligent Transformation.

FINANCIAL REVIEW

Results for the six months ended September 30, 2019

| | 6 months ended September 30, 2019 (unaudited) US\$ million | 6 months ended September 30, 2018 (unaudited) US\$ million | Year-on-year change |
|--|---|---|------------------------|
| Revenue | 26,034 | 25,293 | 3% |
| Gross profit | 4,231 | 3,426 | 24% |
| Gross profit margin | 16.3% | 13.5% | 2.8 pts |
| Operating expenses | (3,447) | (2,956) | 17% |
| Operating profit | 784 | 470 | 67% |
| Other non-operating expenses – net | (234) | (144) | 63% |
| Profit before taxation | 550 | 326 | 69% |
| Profit for the period | 436 | 259 | 68% |
| Profit attributable to equity holders of the Company | 364 | 245 | 48% |
| Earnings per share attributable to equity holders of the Company | | | |
| Basic | US 3.06 cents | US 2.06 cents | US 1.00 cents |
| Diluted | US 2.94 cents | US 2.06 cents | US 0.88 cents |

For the six months ended September 30, 2019, the Group achieved total sales of approximately US\$26,034 million. Compared to the corresponding period of last year, profit attributable to equity holders for the period surged by US\$119 million to approximately US\$364 million. In the same reporting timeframe, gross profit margin for the period advanced by 2.8 percentage points from 13.5 percent, while basic and diluted earnings per share were US3.06 cents and US2.94 cents respectively, representing an increase of US1.00 cents and US0.88 cents.

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

Analysis of operating expenses by function for the six months ended September 30, 2019 and 2018 is as follows:

| | 6 months ended September 30, 2019 US\$'000 | 6 months ended September 30, 2018 US\$'000 |
|-----------------------------------|--|--|
| Selling and distribution expenses | (1,541,133) | (1,308,943) |
| Administrative expenses | (1,195,250) | (1,000,134) |
| Research and development expenses | (647,343) | (622,236) |
| Other operating expenses – net | (62,818) | (24,543) |
| | (3,446,544) | (2,955,856) |

Operating expenses for the period were 17 percent over that of the corresponding period of last year. Employee benefit costs increased by US\$199 million mainly due to higher bonus and sales commission accruals and long-term incentive awards. The Group also raised advertising and promotional expenses by US\$114 million, and recorded a net loss on fair valuation of certain financial assets and a financial liability of US\$3 million (2018/19: net gain of US\$104 million). The overall increase was partially offset by the reduction in the net foreign exchange loss to US\$48 million (2018/19: US\$59 million) and the gain on disposal of subsidiaries of US\$13 million.

During the period, the Group adopted the new accounting standard, HKFRS 16, Leases. As a result, depreciation of right-of-use assets was reported and payments made under operating leases were no longer recorded as rental expenses unless under exemption. Please refer to Note 1 of the Financial Information for details on the adoption on HKFRS 16.

Key expenses by nature comprise:

| | 6 months ended September 30, 2019 US\$'000 | 6 months ended September 30, 2018 US\$'000 |
|--|--|--|
| Depreciation of property, plant and equipment and amortization of prepaid lease payments | (79,860) | (85,632) |
| Depreciation of right-of-use assets | (40,919) | - |
| Amortization of intangible assets | (259,572) | (228,545) |
| Employee benefit costs, including <i>-long-term incentive awards</i> | (1,881,027) | (1,681,729) |
| Rental expenses under operating leases | (123,697) | (99,626) |
| Net foreign exchange loss | (5,756) | (63,311) |
| Advertising and promotional expenses | (48,451) | (59,320) |
| Loss on disposal of property, plant and equipment | (472,222) | (358,617) |
| Fair value (loss)/gain on financial assets at fair value through profit or loss | (706) | (2,456) |
| Fair value loss on a financial liability at fair value through profit or loss | (108) | 104,407 |
| Gain on disposal of subsidiaries | (3,000) | - |
| Dilution gain on interest in an associate | 12,844 | - |
| Others | - | 18,121 |
| | (667,767) | (598,774) |
| | (3,446,544) | (2,955,856) |

Other non-operating expenses (net) for the six months ended September 30, 2019 and 2018 comprise:

| | 6 months ended September 30, 2019 US\$'000 | 6 months ended September 30, 2018 US\$'000 |
|--|--|--|
| Finance income | 24,474 | 11,474 |
| Finance costs | (251,240) | (153,580) |
| Share of losses of associates and joint ventures | (7,448) | (1,721) |
| | (234,214) | (143,827) |

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 64 percent as compared to the corresponding period of last year. The change is a combined effect of the increase in factoring costs of US\$72 million, interest on convertible bonds of US\$20 million, interest on contingent considerations and written put option liabilities of US\$10 million and interest on lease liabilities of US\$8 million, offset by the decrease in interest on notes of US\$13 million.

Share of losses of associates and joint ventures 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”) and Data Center Group (“DCG”). Segment revenue and pre-tax income/(loss) for reportable segments are as follows:

| | 6 months ended September 30, 2019 | | 6 months ended September 30, 2018 | |
|---|--|--|--|--|
| | Revenue from external customers US\$'000 | Pre-tax income/ (loss) US\$'000 | Revenue from external customers US\$'000 | Pre-tax income/ (loss) US\$'000 |
| IDG | 23,347,543 | 1,148,786 | 22,119,735 | 793,992 |
| DCG | 2,686,599 | (103,171) | 3,172,799 | (123,457) |
| Segment total | 26,034,142 | 1,045,615 | 25,292,534 | 670,535 |
| Unallocated: | | | | |
| Headquarters and corporate (expenses)/income - net | | (272,320) | | (342,103) |
| Depreciation and amortization | | (76,832) | | (62,972) |
| Finance income | | 12,940 | | 1,285 |
| Finance costs | | (148,084) | | (60,792) |
| Share of losses of associates and joint ventures | | (7,448) | | (1,721) |
| Loss on disposal of property, plant and equipment | | (582) | | (667) |
| Fair value (loss)/gain on financial assets at fair value through profit or loss | | (108) | | 104,407 |
| Fair value loss on a financial liability at fair value through profit or loss | | (3,000) | | - |
| Dilution gain on interest in an associate | | - | | 18,121 |
| Consolidated profit before taxation | | 550,181 | | 326,093 |

Headquarters and corporate (expenses)/income for the period comprise various expenses, after appropriate allocation to business groups, which are attributable to headquarters and corporate of US\$272 million (2018/19: US\$342 million) such as employee benefit costs, legal and professional fees, and research and technology expenses. The decrease is mainly due to fair value gain on bonus warrants of US\$16 million during the period (2018/19: fair value loss of US\$7 million), and decrease in one-time charges associated with the execution of previously announced resource actions at the corporate level. These one-time charges include the disposal of certain inventories of US\$6 million (2018/19: US\$46 million) caused by product portfolio simplification, and onerous lease contracts and claims of US\$3 million (2018/19: US\$24 million).

Second Quarter 2019/20 compared to Second Quarter 2018/19

| | 3 months ended September 30, 2019 (unaudited) US\$ million | 3 months ended September 30, 2018 (unaudited) US\$ million | Year-on-year change |
|--|---|---|------------------------|
| Revenue | 13,522 | 13,380 | 1% |
| Gross profit | 2,183 | 1,794 | 22% |
| Gross profit margin | 16.1% | 13.4% | 2.7 pts |
| Operating expenses | (1,741) | (1,504) | 16% |
| Operating profit | 442 | 290 | 53% |
| Other non-operating expenses – net | (132) | (77) | 73% |
| Profit before taxation | 310 | 213 | 45% |
| Profit for the period | 244 | 173 | 40% |
| Profit attributable to equity holders of the Company | 202 | 168 | 20% |
| Earnings per share attributable to equity holders of the Company | | | |
| Basic | US 1.69 cents | US 1.41 cents | US 0.28 cents |
| Diluted | US 1.62 cents | US 1.40 cents | US 0.22 cents |

For the three months ended September 30, 2019, the Group achieved total sales of approximately US\$13,522 million. Compared to the corresponding period of last year, profit attributable to equity holders for the period increased by US\$34 million to approximately US\$202 million. In the same reporting timeframe, gross profit margin for the period advanced by 2.7 percentage points from 13.4 percent, while basic and diluted earnings per share were US1.69 cents and US1.62 cents respectively, representing an increase of US0.28 cents and US0.22 cents.

Analysis of operating expenses by function for the three months ended September 30, 2019 and 2018 is as follows:

| | 3 months ended September 30, 2019 US\$'000 | 3 months ended September 30, 2018 US\$'000 |
|-----------------------------------|---|--|
| Selling and distribution expenses | (777,804) | (654,739) |
| Administrative expenses | (584,534) | (514,955) |
| Research and development expenses | (318,028) | (312,341) |
| Other operating expenses – net | (60,438) | (22,522) |
| | <u>(1,740,804)</u> | <u>(1,504,557)</u> |

Operating expenses for the period were 16 percent over that of the corresponding period of last year. Employee benefit costs increased by US\$102 million mainly due to higher bonus and sales commission accruals and long-term incentive awards. The Group also raised advertising and promotional expenses by US\$34 million, and recorded a net gain on fair valuation of certain financial assets and a financial liability of US\$6 million (2018/19: US\$43 million). The impact of currency fluctuations during the period presented a challenge to the Group resulting in a net exchange loss of US\$36 million (2018/19: US\$36 million).

During the period, the Group adopted the new accounting standard, HKFRS 16, Leases. As a result, depreciation of right-of-use assets was reported and payments made under operating leases were no longer recorded as rental expenses unless under exemption. Please refer to Note 1 of the Financial Information for details of the adoption on HKFRS 16.

Key expenses by nature comprise:

| | 3 months ended September 30, 2019 US\$'000 | 3 months ended September 30, 2018 US\$'000 |
|--|--|--|
| Depreciation of property, plant and equipment and amortization of prepaid lease payments | (39,729) | (48,654) |
| Depreciation of right-of-use assets | (25,458) | - |
| Amortization of intangible assets | (135,582) | (117,141) |
| Employee benefit costs, including - <i>long-term incentive awards</i> | (916,195) | (814,471) |
| Rental expenses under operating leases | (65,004) | (52,811) |
| Net foreign exchange loss | (1,823) | (31,725) |
| Advertising and promotional expenses | (35,936) | (36,204) |
| Gain/(loss) on disposal of property, plant and equipment | (223,983) | (190,378) |
| | 1,769 | (1,523) |
| Fair value gain on financial assets at fair value through profit or loss | 8,848 | 43,214 |
| Fair value loss on a financial liability at fair value through profit or loss | (3,000) | - |
| Dilution gain on interest in an associate | - | 18,121 |
| Others | (369,715) | (325,796) |
| | (1,740,804) | (1,504,557) |

Other non-operating expenses (net) for the three months ended September 30, 2019 and 2018 comprise:

| | 3 months ended September 30, 2019 US\$'000 | 3 months ended September 30, 2018 US\$'000 |
|--|--|--|
| Finance income | 10,602 | 6,176 |
| Finance costs | (136,218) | (81,732) |
| Share of losses of associates and joint ventures | (6,072) | (694) |
| | (131,688) | (76,250) |

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 67 percent as compared to the corresponding period of last year. The change is a combined effect of the increase in factoring costs of US\$43 million, interest on convertible bonds of US\$10 million, interest on contingent considerations and written put option liabilities of US\$5 million and interest on lease liabilities of US\$4 million, offset by the decrease in interest on notes of US\$8 million.

Share of losses of associates and joint ventures 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 and DCG. Segment revenue and pre-tax income/(loss) for reportable segments are as follows:

| | 3 months ended September 30, 2019 | | 3 months ended September 30, 2018 | |
|---|--|--|--|--|
| | Revenue from external customers US\$'000 | Pre-tax income/ (loss) US\$'000 | Revenue from external customers US\$'000 | Pre-tax income/ (loss) US\$'000 |
| IDG | 12,191,310 | 620,022 | 11,835,883 | 466,144 |
| DCG | 1,330,679 | (51,503) | 1,543,926 | (60,459) |
| Segment total | 13,521,989 | 568,519 | 13,379,809 | 405,685 |
| Unallocated: | | | | |
| Headquarters and corporate (expenses)/income - net | | (140,984) | | (186,443) |
| Depreciation and amortization | | (42,299) | | (37,428) |
| Finance income | | 4,534 | | 445 |
| Finance costs | | (81,565) | | (28,718) |
| Share of losses of associates and joint ventures | | (6,072) | | (694) |
| Gain/(loss) on disposal of property, plant and equipment | | 2,075 | | (885) |
| Fair value gain on financial assets at fair value through profit or loss | | 8,848 | | 43,214 |
| Fair value loss on a financial liability at fair value through profit or loss | | (3,000) | | - |
| Dilution gain on interest in an associate | | - | | 18,121 |
| Consolidated profit before taxation | | 310,056 | | 213,297 |

Headquarters and corporate (expenses)/income for the period comprise various expenses, after appropriate allocation to business groups, which are attributable to headquarters and corporate of US\$141 million (2018/19: US\$186 million) such as employee benefit costs, legal and professional fees, and research and technology expenses. The decrease is mainly due to fair value gain on bonus warrants of US\$6 million during the period (2018/19: fair value loss of US\$7 million), and decrease in one-time charges associated with the execution of previously announced resource actions at the corporate level. There is no one-time charges for the period while for the corresponding period of last year, these charges included the disposal of certain inventories of US\$39 million caused by product portfolio simplification, and onerous lease contracts and claims of US\$11 million.

Capital Expenditure

The Group incurred capital expenditure of US\$474 million (2018/19: US\$276 million) during the six months ended September 30, 2019, mainly for the acquisition of property, plant and equipment and additions in construction-in-progress and intangible assets.

Liquidity and Financial Resources

At September 30, 2019, total assets of the Group amounted to US\$33,389 million (March 31, 2019: US\$29,988 million), which were financed by equity attributable to owners of the Company of US\$3,249 million (March 31, 2019: US\$3,396 million), perpetual securities of US\$994 million (March 31, 2019: US\$994 million) and negative balance of other non-controlling interests (net of put option written on non-controlling interests) of US\$228 million (March 31, 2019: US\$293 million), and total liabilities of US\$29,374 million (March 31, 2019: US\$25,891 million). At September 30, 2019, the current ratio of the Group was 0.84 (March 31, 2019: 0.82).

At September 30, 2019, bank deposits and cash and cash equivalents totaled US\$3,376 million (March 31, 2019: US\$2,733 million) analyzed by major currency are as follows:

| | September 30, 2019 | March 31, 2019 |
|------------------|---------------------------|----------------|
| | % | % |
| US dollar | 43.7 | 41.1 |
| Renminbi | 28.4 | 32.0 |
| Japanese Yen | 6.3 | 6.8 |
| Euro | 4.9 | 5.4 |
| Other currencies | 16.7 | 14.7 |
| Total | 100.0 | 100.0 |

The Group adopts a conservative policy to invest the surplus cash generated from operations. At September 30, 2019, 82.8 (March 31, 2019: 78.6) percent of cash are bank deposits, and 17.2 (March 31, 2019: 21.4) percent are investments in liquid money market funds of investment grade.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place to meet inter-quarter funding requirements and the Group has entered into factoring arrangements in the ordinary course of business.

The Group has the following banking facilities:

| Type | Date of agreement | Principal amount | Term | Utilization amount at | |
|-------------------------|-------------------|------------------|---------|-----------------------------------|-----------------------------------|
| | | | | September 30, 2019 | March 31, 2019 |
| Loan facility | May 26, 2015 | 300 | 5 years | US\$ million 300 | US\$ million 300 |
| Revolving loan facility | March 28, 2018 | 1,500 | 5 years | 1,500 | 825 |

Notes, perpetual securities, convertible bonds and convertible preferred shares issued by the Group and outstanding as at September 30, 2019 are as follows:

| | Issue date | Principal amount | Term | Interest / dividend rate per annum | Due date | Use of proceeds |
|-----------------------------------|---|---|-----------------------|---|--------------------------|--|
| 2020 Note | June 10, 2015 | RMB4 billion | 5 years | 4.95% | June 2020 | For general corporate purposes including working capital and acquisition activities |
| 2022 Note Perpetual securities | March 16, 2017 March 16, 2017 April 6, 2017 | US\$500 million US\$850 million US\$150 million | 5 years N/A N/A | 3.875% 5.375% 5.375% | March 2022 N/A N/A | For repayment of the outstanding amount under the promissory note issued to Google Inc. and general corporate purposes |
| 2023 Note | March 29, 2018 | US\$750 million | 5 years | 4.75% | March 2023 | For repayment of previous Note and general corporate purposes |
| Convertible bonds | January 24, 2019 | US\$675 million | 5 years | 3.375% | January 2024 | For repayment of previous Note and general corporate purposes |
| Convertible preferred shares | June 21, 2019 | US\$300 million | N/A | 4% | N/A | For general corporate funding and capital expenditure |

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

| Credit facilities | Total facilities amount at | | Drawn down amount at | |
|--|-----------------------------------|---------------------|-----------------------------|---------------------|
| | September 30, 2019 | | September 30, 2019 | |
| | US\$ million | US\$ million | US\$ million | US\$ million |
| Trade lines | 2,461 | 2,195 | 1,844 | 1,637 |
| Short-term and revolving money market facilities | 851 | 701 | 301 | 56 |
| Forward foreign exchange contracts | 10,776 | 9,525 | 10,776 | 9,525 |

Net debt position and gearing ratio of the Group as at September 30 and March 31, 2019 are as follows:

| | September 30, 2019 | March 31, 2019 |
|--|---------------------------|-----------------------|
| | US\$ million | US\$ million |
| Bank deposits and cash and cash equivalents | 3,376 | 2,733 |
| Borrowings | | |
| - Short-term bank loans | 2,089 | 1,167 |
| - Notes | 1,802 | 2,622 |
| - Convertible bonds | 599 | 591 |
| - Convertible preferred shares | 300 | - |
| Net debt position | (1,414) | (1,647) |
| Total equity | 4,015 | 4,097 |
| Gearing ratio (Borrowings divided by total equity) | 1.19 | 1.07 |

The Group is confident that all the facilities on hand can meet the funding requirements of the Group's operations and business development.

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At September 30, 2019, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US\$10,776 million (March 31, 2019: US\$9,525 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

| | <i>Note</i> | 3 months ended September 30, 2019 (unaudited) US\$'000 | 6 months ended September 30, 2019 (unaudited) US\$'000 | 3 months ended September 30, 2018 (unaudited) US\$'000 | 6 months ended September 30, 2018 (unaudited) US\$'000 |
|---|-------------|---|---|---|---|
| Revenue | 2 | 13,521,989 | 26,034,142 | 13,379,809 | 25,292,534 |
| Cost of sales | | (11,339,441) | (21,803,203) | (11,585,705) | (21,866,758) |
| Gross profit | | 2,182,548 | 4,230,939 | 1,794,104 | 3,425,776 |
| Selling and distribution expenses | | (777,804) | (1,541,133) | (654,739) | (1,308,943) |
| Administrative expenses | | (584,534) | (1,195,250) | (514,955) | (1,000,134) |
| Research and development expenses | | (318,028) | (647,343) | (312,341) | (622,236) |
| Other operating expenses - net | | (60,438) | (62,818) | (22,522) | (24,543) |
| Operating profit | 3 | 441,744 | 784,395 | 289,547 | 469,920 |
| Finance income | 4(a) | 10,602 | 24,474 | 6,176 | 11,474 |
| Finance costs | 4(b) | (136,218) | (251,240) | (81,732) | (153,580) |
| Share of losses of associates and joint ventures | | (6,072) | (7,448) | (694) | (1,721) |
| Profit before taxation | | 310,056 | 550,181 | 213,297 | 326,093 |
| Taxation | 5 | (66,417) | (114,600) | (39,815) | (67,291) |
| Profit for the period | | 243,639 | 435,581 | 173,482 | 258,802 |
| Profit/(loss) attributable to: | | | | | |
| Equity holders of the Company | | 202,194 | 364,421 | 168,403 | 245,447 |
| Perpetual securities holders | | 13,440 | 26,880 | 13,440 | 26,880 |
| Other non-controlling interests | | 28,005 | 44,280 | (8,361) | (13,525) |
| | | 243,639 | 435,581 | 173,482 | 258,802 |
| Earnings per share attributable to equity holders of the Company | | | | | |
| Basic | 6(a) | US 1.69 cents | US 3.06 cents | US 1.41 cents | US 2.06 cents |
| Diluted | 6(b) | US 1.62 cents | US 2.94 cents | US 1.40 cents | US 2.06 cents |
| Dividend | 7 | | 96,640 | | 92,071 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | 3 months ended September 30, 2019 (unaudited) US\$'000 | 6 months ended September 30, 2019 (unaudited) US\$'000 | 3 months ended September 30, 2018 (unaudited) US\$'000 | 6 months ended September 30, 2018 (unaudited) US\$'000 |
|--|---|---|---|---|
| Profit for the period | 243,639 | 435,581 | 173,482 | 258,802 |
| Other comprehensive income/(loss): | | | | |
| <u>Item that will not be reclassified to profit or loss</u> | | | | |
| Remeasurements of post-employment benefit obligations, net of taxes | - | 380 | - | - |
| Fair value change on financial assets at fair value through other comprehensive income, net of taxes | (414) | (3,458) | 1,504 | (3,784) |
| <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, net of taxes | 121,486 | 97,611 | 32,911 | 224,158 |
| - Reclassified to consolidated income statement | (46,779) | (64,888) | (78,085) | (171,455) |
| Currency translation differences | (234,636) | (240,519) | (178,881) | (550,973) |
| Other comprehensive loss for the period | (160,343) | (210,874) | (222,551) | (502,054) |
| Total comprehensive income/(loss) for the period | 83,296 | 224,707 | (49,069) | (243,252) |
| Total comprehensive income/(loss) attributable to: | | | | |
| Equity holders of the Company | 42,326 | 149,835 | (54,148) | (256,607) |
| Perpetual securities holders | 13,440 | 26,880 | 13,440 | 26,880 |
| Other non-controlling interests | 27,530 | 47,992 | (8,361) | (13,525) |
| | 83,296 | 224,707 | (49,069) | (243,252) |

CONSOLIDATED BALANCE SHEET

| | September 30, 2019 (unaudited) US\$'000 | March 31, 2019 (audited) US\$'000 |
|---|--|--|
| <i>Note</i> | | |
| Non-current assets | | |
| Property, plant and equipment | 1,683,495 | 1,430,817 |
| Prepaid lease payments | 431,503 | 463,996 |
| Construction-in-progress | 254,424 | 232,097 |
| Intangible assets | 8,196,730 | 8,324,575 |
| Interests in associates and joint ventures | 73,229 | 79,061 |
| Deferred income tax assets | 1,961,594 | 1,862,902 |
| Financial assets at fair value through profit or loss | 416,563 | 449,363 |
| Financial assets at fair value through other comprehensive income | 66,551 | 71,486 |
| Other non-current assets | 188,606 | 187,985 |
| | <hr/> 13,272,695 | <hr/> 13,102,282 |
| Current assets | | |
| Inventories | 3,816,910 | 3,434,660 |
| Trade receivables | 8(a) 8,253,337 | 6,661,484 |
| Notes receivable | 55,834 | 46,454 |
| Derivative financial assets | 90,017 | 70,972 |
| Deposits, prepayments and other receivables | 4,316,133 | 3,753,926 |
| Income tax recoverable | 208,355 | 185,643 |
| Bank deposits | 65,227 | 70,210 |
| Cash and cash equivalents | 3,310,940 | 2,662,854 |
| | <hr/> 20,116,753 | <hr/> 16,886,203 |
| Total assets | <hr/> 33,389,448 | <hr/> 29,988,485 |

CONSOLIDATED BALANCE SHEET (CONTINUED)

| | <i>Note</i> | September 30, 2019 (unaudited) US\$'000 | March 31, 2019 (audited) US\$'000 |
|---|-------------|--|--|
| Share capital | 13 | 3,185,923 | 3,185,923 |
| Reserves | | 62,721 | 210,530 |
| | | | |
| Equity attributable to owners of the Company | | 3,248,644 | 3,396,453 |
| Perpetual securities | | 993,670 | 993,670 |
| Other non-controlling interests | | 538,435 | 473,178 |
| Put option written on non-controlling interests | 11(b) | (766,238) | (766,238) |
| | | | |
| Total equity | | 4,014,511 | 4,097,063 |
| | | | |
| Non-current liabilities | | | |
| Borrowings | 12 | 2,141,383 | 2,426,770 |
| Warranty provision | 10(b) | 254,769 | 254,601 |
| Deferred revenue | | 784,061 | 678,137 |
| Retirement benefit obligations | | 424,934 | 434,246 |
| Deferred income tax liabilities | | 355,037 | 359,679 |
| Other non-current liabilities | 11 | 1,375,067 | 1,247,646 |
| | | | |
| | | 5,335,251 | 5,401,079 |
| | | | |
| Current liabilities | | | |
| Trade payables | 8(b) | 7,857,686 | 6,429,835 |
| Notes payable | | 1,253,503 | 1,272,840 |
| Derivative financial liabilities | | 37,345 | 74,426 |
| Other payables and accruals | 10(a) | 10,428,998 | 8,942,336 |
| Provisions | 10(b) | 715,332 | 738,688 |
| Deferred revenue | | 770,229 | 780,951 |
| Income tax payable | | 328,442 | 298,224 |
| Borrowings | 12 | 2,648,151 | 1,953,043 |
| | | | |
| | | 24,039,686 | 20,490,343 |
| | | | |
| Total liabilities | | 29,374,937 | 25,891,422 |
| | | | |
| Total equity and liabilities | | 33,389,448 | 29,988,485 |
| | | | |

CONSOLIDATED CASH FLOW STATEMENT

| | <i>Note</i> | 6 months ended September 30, 2019 (unaudited) US\$'000 | 6 months ended September 30, 2018 (unaudited) US\$'000 |
|---|-------------|---|---|
| Cash flows from operating activities | | | |
| Net cash generated from operations | 15 | 1,700,743 | 659,597 |
| Interest paid | | (264,028) | (152,167) |
| Tax paid | | (196,715) | (104,354) |
| Net cash generated from operating activities | | 1,240,000 | 403,076 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (106,153) | (72,116) |
| Sale of property, plant and equipment | | 6,352 | 90,523 |
| Acquisition of subsidiaries, net of cash acquired | | - | (107,002) |
| Disposal of subsidiaries, net of cash disposed | | (18,155) | - |
| Interest acquired in a joint venture | | (1,616) | - |
| Payment for construction-in-progress | | (201,867) | (119,769) |
| Payment for intangible assets | | (165,697) | (83,730) |
| Purchase of financial assets at fair value through profit or loss | | (27,450) | (24,919) |
| Purchase of financial assets at fair value through other comprehensive income | | - | (1,744) |
| Loan to a joint venture | | (72,603) | - |
| Net proceeds from sale of financial assets at fair value through profit or loss | | 51,540 | 33,996 |
| Decrease/(increase) in bank deposits | | 4,983 | (27,997) |
| Dividends received | | 2,390 | 163 |
| Interest received | | 24,474 | 11,474 |
| Net cash used in investing activities | | (503,802) | (301,121) |
| Cash flows from financing activities | | | |
| Capital contribution from other non-controlling interests | | 17,638 | 32,485 |
| Contribution to employee share trusts | | (34,361) | (18,823) |
| Issue of convertible preferred shares | | 300,000 | - |
| Repayment of a note | | (786,244) | - |
| Principal elements of lease payments | | (67,219) | - |
| Dividends paid | | (334,775) | (312,980) |
| Distribution to perpetual securities holders | | (26,880) | (26,880) |
| Proceeds from borrowings | | 2,320,000 | 3,390,000 |
| Repayments of borrowings | | (1,400,000) | (2,690,000) |
| Net cash (used in)/generated from financing activities | | (11,841) | 373,802 |
| Increase in cash and cash equivalents | | 724,357 | 475,757 |
| Effect of foreign exchange rate changes | | (76,271) | (111,242) |
| Cash and cash equivalents at the beginning of the period | | 2,662,854 | 1,848,017 |
| Cash and cash equivalents at the end of the period | | 3,310,940 | 2,212,532 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|--|---|---|--|---|---|----------------------------------|
| | Share capital (unaudited) US\$'000 | Investment valuation reserve (unaudited) US\$'000 | Employee share trusts (unaudited) US\$'000 | Share-based compensation reserve (unaudited) US\$'000 | Hedging reserve (unaudited) US\$'000 | Exchange reserve (unaudited) US\$'000 | Other reserve (unaudited) US\$'000 | Retained earnings (unaudited) US\$'000 | Perpetual securities (unaudited) US\$'000 | Other non- controlling interests (unaudited) US\$'000 | Put option written on non- controlling interests (unaudited) US\$'000 | Total (unaudited) US\$'000 |
| At April 1, 2019 | 3,185,923 | (36,095) | (140,209) | 311,540 | 23,240 | (1,371,932) | 163,241 | 1,260,745 | 993,670 | 473,178 | (766,238) | 4,097,063 |
| Profit for the period | - | - | - | - | - | - | - | 364,421 | 26,880 | 44,280 | - | 435,581 |
| Other comprehensive (loss)/income | - | (3,458) | - | - | 32,723 | (244,231) | - | 380 | - | 3,712 | - | (210,874) |
| Total comprehensive (loss)/income for the period | - | (3,458) | - | - | 32,723 | (244,231) | - | 364,801 | 26,880 | 47,992 | - | 224,707 |
| Transfer to statutory reserve | - | - | - | - | - | - | 11,995 | (11,995) | - | - | - | - |
| Transfer of loss on disposal of a financial asset at fair value through other comprehensive income to retained earnings | - | 894 | - | - | - | - | - | (894) | - | - | - | - |
| Vesting of shares under long-term incentive program | - | - | 148,459 | (195,771) | - | - | - | - | - | - | - | (47,312) |
| Deferred tax charge in relation to long-term incentive program | - | - | - | (4,999) | - | - | - | - | - | - | - | (4,999) |
| Disposal of subsidiaries | - | - | - | - | - | - | (267) | - | - | - | - | (267) |
| Share-based compensation | - | - | - | 123,697 | - | - | - | - | - | - | - | 123,697 |
| Contribution to employee share trusts | - | - | (34,361) | - | - | - | - | - | - | - | - | (34,361) |
| Dividends paid | - | - | - | - | - | - | - | (334,775) | - | - | - | (334,775) |
| Capital contribution from other non-controlling interests | - | - | - | - | - | - | - | - | - | 17,638 | - | 17,638 |
| Change of ownership of subsidiaries without loss of control | - | - | - | - | - | 373 | - | - | - | (373) | - | - |
| Distribution to perpetual securities holders | - | - | - | - | - | - | - | - | (26,880) | - | - | (26,880) |
| At September 30, 2019 | 3,185,923 | (38,659) | (26,111) | 234,467 | 55,963 | (1,616,163) | 175,342 | 1,277,882 | 993,670 | 538,435 | (766,238) | 4,014,511 |
| At April 1, 2018 | 3,185,923 | (2,741) | (101,702) | 231,857 | (16,906) | (937,907) | 71,449 | 1,088,647 | 993,670 | 246,598 | (212,900) | 4,545,988 |
| Change in accounting policy | - | (17,376) | - | - | - | - | - | 5,746 | - | - | - | (11,630) |
| Restated total equity | 3,185,923 | (20,117) | (101,702) | 231,857 | (16,906) | (937,907) | 71,449 | 1,094,393 | 993,670 | 246,598 | (212,900) | 4,534,358 |
| Profit/(loss) for the period | - | - | - | - | - | - | - | 245,447 | 26,880 | (13,525) | - | 258,802 |
| Other comprehensive (loss)/income | - | (3,784) | - | - | 52,703 | (550,973) | - | - | - | - | - | (502,054) |
| Total comprehensive (loss)/income for the period | - | (3,784) | - | - | 52,703 | (550,973) | - | 245,447 | 26,880 | (13,525) | - | (243,252) |
| Acquisition of subsidiaries | - | - | - | - | - | - | - | - | - | 115,443 | - | 115,443 |
| Vesting of shares under long-term incentive program | - | - | 86,321 | (95,142) | - | - | - | - | - | - | - | (8,821) |
| Share-based compensation | - | - | - | 99,626 | - | - | - | - | - | - | - | 99,626 |
| Termination of put option written on non-controlling interests | - | - | - | - | - | 11,913 | - | - | - | 212,900 | 224,813 | |
| Put option written on non-controlling interests | - | - | - | - | - | - | - | - | - | - | (442,657) | (442,657) |
| Contribution to employee share trusts | - | - | (18,823) | - | - | - | - | - | - | - | - | (18,823) |
| Dividends paid | - | - | - | - | - | - | (312,980) | - | - | - | - | (312,980) |
| Capital contribution from other non-controlling interests | - | - | - | - | - | - | - | - | - | 32,485 | - | 32,485 |
| Distribution to perpetual securities holders | - | - | - | - | - | - | - | - | (26,880) | - | - | (26,880) |
| At September 30, 2018 | 3,185,923 | (23,901) | (34,204) | 236,341 | 35,797 | (1,488,880) | 83,362 | 1,026,860 | 993,670 | 381,001 | (442,657) | 3,953,312 |

1 General information and basis of preparation

The financial information relating to the year ended March 31, 2019 included in the FY2019/20 interim 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, 2019 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 Group has adopted the following new standard, interpretation and amendments to existing standards that are mandatory for the year ending March 31, 2020 which the Group considers is appropriate and relevant to its operations:

- HKFRS 16, Leases
- HK (IFRIC) – Int 23, Uncertainty over income tax treatments
- Amendments to HKFRS 9, Prepayment features with negative compensation
- Amendments to HKAS 28, Long-term interests in associates and joint ventures
- Amendments to HKAS 19, Plan amendment, curtailment or settlement
- Annual improvements to HKFRS Standards 2015–2017 Cycle – various standards

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has initially applied HKFRS 16 as from April 1, 2019. The Group has elected to use the simplified transition approach and therefore comparative information has not been restated and continues to be reported under HKAS 17, Leases. The reclassifications and the adjustments arising from the new leasing standard are recognized in the opening balance sheet on April 1, 2019.

HKFRS 16 requires almost all leases of lessees to be recognized on the balance sheet, as the distinction between operating and finance leases is removed. The accounting for lessors will not significantly change. Under the new leasing standard, the right to use the leased item and the obligation to pay rent are recognized as an asset and a financial liability respectively. The only exceptions are short-term and low-value leases. The standard affects primarily the accounting for operating leases of the Group.

Adjustments recognized on adoption on HKFRS 16

On adoption on HKFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of HKAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee incremental borrowing rate as of April 1, 2019. Different lessee incremental borrowing rates were applied to the lease liabilities based on the geographical location, from 1% to 11%.

The following table reconciles the operating lease commitments as at March 31, 2019, as disclosed in Note 32(b) in the Group's 2018/19 Annual Report, to the opening balance for lease liabilities recognized as at April 1, 2019:

| | April 1, 2019 US\$'000 |
|---|---------------------------|
| Operating lease commitments at March 31, 2019 | 473,188 |
| Discounted using the lessee incremental borrowing rate at April 1, 2019 | (62,487) |
| Less: low-value leases recognized on a straight-line basis as expense | <u>(1,357)</u> |
| Lease liabilities recognized at April 1, 2019 | <u>409,344</u> |
| Classified as: | |
| Current lease liabilities | 77,903 |
| Non-current lease liabilities | <u>331,441</u> |
| | <u>409,344</u> |

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated balance sheet as at March 31, 2019. As at September 30, 2019, the recognized right-of-use assets of the Group are solely related to properties and amounted to US\$298,027,000 (April 1, 2019: US\$320,174,000).

The Group presents right-of-use assets within "property, plant and equipment" and presents lease liabilities within "other payables and accruals" (for current portion) and "other non-current liabilities" (for non-current portion) in the consolidated balance sheet.

The change in accounting policy affected the following items in the consolidated balance sheet on April 1, 2019:

- property, plant and equipment – increased by US\$320,174,000
- lease liabilities – increased by US\$409,344,000
- deferred rent liabilities – decreased by US\$89,170,000

Segment assets and segment liabilities as at September 30, 2019 increased as a result of the change in accounting policy.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessment on whether leases are onerous
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

Rental contracts of the Group are typically made for fixed periods of 1 to 9 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until March 31, 2019, all leases of property, plant and equipment of the Group were operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From April 1, 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Some property leases contain variable payment terms that are linked to sales generated from a store. There is a wide range of sales percentages applied. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores. Variable lease payments that depend on sales are recognized in profit or loss in the period in which the condition that triggers those payments occurs.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liabilities
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the profit or loss account. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

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, 2020 and have not been early adopted:

| | Effective for annual periods beginning on or after |
|---|--|
| Amendments to HKFRS 3, Definition of a business | January 1, 2020 |
| Amendments to HKAS 1 and HKAS 8, Definition of material | January 1, 2020 |
| 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 making an assessment of 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

Management has determined the operating segments based on the reports reviewed by the Lenovo Executive Committee ("LEC"), the chief operating decision-maker, that are used to make strategic decisions.

The LEC assesses the performance of the operating segments based on a measure of pre-tax income/(loss). This measurement basis excludes the effects of non-recurring expenses such as restructuring costs from the operating segments. The measurement basis also excludes the effects of certain income and expenses such as fair value change of financial instruments and disposal gain/(loss) of fixed assets that are from activities driven by headquarters and centralized functions. Certain finance income and costs are not allocated to segments when these types of activities are driven by the central treasury function which manages the cash position of the Group.

Supplementary information on segment assets and liabilities presented below is primarily based on the business group of the entities or operations which carry the assets and liabilities, except for entities performing centralized functions for the Group the assets and liabilities of which are not allocated to any segment.

(a) Segment revenue and pre-tax income/(loss) for reportable segments

| | 6 months ended September 30, 2019 | 6 months ended September 30, 2018 |
|--|--|--|
| | Revenue from external customers US\$'000 | Revenue from external customers US\$'000 |
| | Pre-tax income/ (loss) US\$'000 | Pre-tax income/ (loss) US\$'000 |
| IDG | 23,347,543 | 22,119,735 |
| DCG | 2,686,599 | 3,172,799 |
| Segment total | 26,034,142 | 25,292,534 |
| Unallocated: | | |
| Headquarters and corporate (expenses)/ income - net | (272,320) | (342,103) |
| Depreciation and amortization | (76,832) | (62,972) |
| Finance income | 12,940 | 1,285 |
| Finance costs | (148,084) | (60,792) |
| Share of losses of associates and joint ventures | (7,448) | (1,721) |
| Loss on disposal of property, plant and equipment | (582) | (667) |
| Fair value (loss)/gain on financial assets at fair value through profit or loss | (108) | 104,407 |
| Fair value loss on a financial liability at fair value through profit or loss | (3,000) | - |
| Dilution gain on interest in an associate | - | 18,121 |
| Consolidated profit before taxation | 550,181 | 326,093 |

(b) Segment assets for reportable segments

| | September 30, 2019 US\$'000 | March 31, 2019 US\$'000 |
|--|--------------------------------|----------------------------|
| IDG | 22,022,141 | 19,797,625 |
| DCG | 4,455,980 | 4,094,194 |
| Segment assets for reportable segments | 26,478,121 | 23,891,819 |
| Unallocated: | | |
| Deferred income tax assets | 1,961,594 | 1,862,902 |
| Financial assets at fair value through profit or loss | 416,563 | 449,363 |
| Financial assets at fair value through other comprehensive income | 66,551 | 71,486 |
| Derivative financial assets | 90,017 | 70,972 |
| Interests in associates and joint ventures | 73,229 | 79,061 |
| Bank deposits and cash and cash equivalents | 3,376,167 | 2,733,064 |
| Unallocated deposits, prepayments and other receivables | 296,987 | 166,874 |
| Income tax recoverable | 208,355 | 185,643 |
| Other unallocated assets | 421,864 | 477,301 |
| Total assets per consolidated balance sheet | 33,389,448 | 29,988,485 |

(c) Segment liabilities for reportable segments

| | September 30, 2019 US\$'000 | March 31, 2019 US\$'000 |
|--|--|----------------------------|
| IDG | 21,655,514 | 19,045,230 |
| DCG | 1,736,427 | 1,456,268 |
| Segment liabilities for reportable segments | 23,391,941 | 20,501,498 |
| Unallocated: | | |
| Deferred income tax liabilities | 355,037 | 359,679 |
| Derivative financial liabilities | 37,345 | 74,426 |
| Borrowings | 4,789,534 | 4,379,813 |
| Unallocated other payables and accruals | 441,358 | 246,467 |
| Unallocated provisions | - | 1,336 |
| Unallocated other non-current liabilities | 31,280 | 29,979 |
| Income tax payable | 328,442 | 298,224 |
| Total liabilities per consolidated balance sheet | 29,374,937 | 25,891,422 |

(d) Analysis of revenue by geography

| | 6 months ended September 30, 2019 US\$'000 | 6 months ended September 30, 2018 US\$'000 |
|-------|---|---|
| China | 5,507,563 | 6,268,642 |
| AP | 6,013,844 | 4,726,400 |
| EMEA | 5,890,192 | 6,074,567 |
| AG | 8,622,543 | 8,222,925 |
| | 26,034,142 | 25,292,534 |

(e) Analysis of revenue by timing of revenue recognition

| | 6 months ended September 30, 2019 US\$'000 | 6 months ended September 30, 2018 US\$'000 |
|---------------|---|---|
| Point in time | 25,433,884 | 24,826,983 |
| Over time | 600,258 | 465,551 |
| | 26,034,142 | 25,292,534 |

(f) Other segment information

| | IDG | | DCG | | Total | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2019 US\$'000 | 2018 US\$'000 | 2019 US\$'000 | 2018 US\$'000 | 2019 US\$'000 | 2018 US\$'000 |
| For the six months ended September 30 | | | | | | |
| Depreciation and amortization | 258,842 | 228,961 | 116,345 | 102,790 | 375,187 | 331,751 |
| Finance income | 10,296 | 10,093 | 1,238 | 96 | 11,534 | 10,189 |
| Finance costs | 95,280 | 83,871 | 7,876 | 8,917 | 103,156 | 92,788 |
| Additions to non-current assets (Note) | 344,076 | 484,027 | 171,656 | 48,488 | 515,732 | 532,515 |

Note: Excluding other non-current assets and including non-current assets acquired through acquisition of subsidiaries.

- (g) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US\$6,098 million (March 31, 2019: US\$6,211 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At September 30, 2019

| | China US\$ million | AP US\$ million | EMEA US\$ million | AG US\$ million | Mature Market US\$ million | Emerging Market US\$ million | Total US\$ million |
|-----------------------------------|-----------------------|--------------------|----------------------|--------------------|----------------------------------|------------------------------------|-----------------------|
| Goodwill | | | | | | | |
| - PCSD | 997 | 693 | 211 | 317 | - | - | 2,218 |
| - MBG | - | - | - | - | 665 | 888 | 1,553 |
| - DCG | 469 | 160 | 80 | 350 | - | - | 1,059 |
| Trademarks and trade names | | | | | | | |
| - PCSD | 209 | 59 | 103 | 67 | - | - | 438 |
| - MBG | - | - | - | - | 197 | 263 | 460 |
| - DCG | 162 | 54 | 31 | 123 | - | - | 370 |

At March 31, 2019

| | China US\$ million | AP US\$ million | EMEA US\$ million | AG US\$ million | Mature Market US\$ million | Emerging Market US\$ million | Total US\$ million |
|-----------------------------------|-----------------------|--------------------|----------------------|--------------------|----------------------------------|------------------------------------|-----------------------|
| Goodwill | | | | | | | |
| - PCSD | 1,051 | 679 | 221 | 320 | - | - | 2,271 |
| - MBG | - | - | - | - | 679 | 905 | 1,584 |
| - DCG | 490 | 158 | 88 | 351 | - | - | 1,087 |
| Trademarks and trade names | | | | | | | |
| - PCSD | 209 | 59 | 104 | 67 | - | - | 439 |
| - 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 based on impairment tests performed as at September 30, 2019 (March 31, 2019: Nil).

3 Operating profit

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

| | 3 months ended September 30, 2019 US\$'000 | 6 months ended September 30, 2019 US\$'000 | 3 months ended September 30, 2018 US\$'000 | 6 months ended September 30, 2018 US\$'000 |
|--|---|---|---|---|
| Depreciation of property, plant and equipment and amortization of prepaid lease payments | 68,959 | 137,901 | 78,496 | 144,256 |
| Depreciation of right-of-use assets | 25,460 | 49,045 | - | - |
| Amortization of intangible assets | 138,308 | 265,073 | 128,275 | 250,467 |
| Employee benefit costs, including - <i>long-term incentive awards</i> | 1,060,388 | 2,162,982 | 945,813 | 1,946,453 |
| Rental expenses under operating leases | 1,823 | 8,039 | 35,798 | 71,774 |
| (Gain)/loss on disposal of property, plant and equipment | (1,769) | 706 | 1,523 | 2,456 |
| (Gain)/loss on disposal of intangible assets | (773) | 1,016 | - | - |
| Fair value (gain)/loss on financial assets at fair value through profit or loss | (8,848) | 108 | (43,214) | (104,407) |
| Fair value loss on a financial liability at fair value through profit or loss | 3,000 | 3,000 | - | - |
| Dilution gain on interest in an associate | - | - | (18,121) | (18,121) |
| Gain on disposal of subsidiaries | - | (12,844) | - | - |
| | ===== | ===== | ===== | ===== |

4 Finance income and costs

(a) Finance income

| | 3 months ended September 30, 2019 US\$'000 | 6 months ended September 30, 2019 US\$'000 | 3 months ended September 30, 2018 US\$'000 | 6 months ended September 30, 2018 US\$'000 |
|--------------------------------|---|---|---|---|
| Interest on bank deposits | 9,432 | 19,769 | 5,666 | 10,752 |
| Interest on money market funds | 1,170 | 4,705 | 510 | 722 |
| | 10,602 | 24,474 | 6,176 | 11,474 |
| | ===== | ===== | ===== | ===== |

(b) Finance costs

| | 3 months ended September 30, 2019 US\$'000 | 6 months ended September 30, 2019 US\$'000 | 3 months ended September 30, 2018 US\$'000 | 6 months ended September 30, 2018 US\$'000 |
|--|---|---|---|---|
| Interest on bank loans and overdrafts | 23,810 | 47,612 | 23,148 | 46,884 |
| Interest on convertible bonds | 9,893 | 19,720 | - | - |
| Interest on notes | 21,527 | 47,208 | 29,658 | 59,797 |
| Interest on lease liabilities | 3,858 | 7,962 | - | - |
| Factoring costs | 69,807 | 114,151 | 26,961 | 42,627 |
| Interest on contingent considerations and written put option liabilities | 6,608 | 13,264 | 1,357 | 3,025 |
| Others | 715 | 1,323 | 608 | 1,247 |
| | 136,218 | 251,240 | 81,732 | 153,580 |
| | ===== | ===== | ===== | ===== |

5 Taxation

The amount of taxation in the consolidated income statement represents:

| | 3 months ended September 30, 2019 US\$'000 | 6 months ended September 30, 2019 US\$'000 | 3 months ended September 30, 2018 | 6 months ended September 30, 2018 |
|----------------------------|---|---|---|---|
| Current tax | | | | |
| Hong Kong profits tax | 23,298 | 30,984 | 2,040 | 8,766 |
| Taxation outside Hong Kong | 140,482 | 204,359 | 99,586 | 175,776 |
| Deferred tax | | | | |
| Credit for the period | (97,363) | (120,743) | (61,811) | (117,251) |
| | 66,417 | 114,600 | 39,815 | 67,291 |

Hong Kong profits tax has been provided for at the rate of 16.5% (2018/19: 16.5%) on the estimated assessable profit for the period. Taxation outside Hong Kong 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 September 30, 2019 US\$'000 | 6 months ended September 30, 2019 US\$'000 | 3 months ended September 30, 2018 | 6 months ended September 30, 2018 |
|---|---|---|---|---|
| Weighted average number of ordinary shares in issue | 12,014,791,614 | 12,014,791,614 | 12,014,791,614 | 12,014,791,614 |
| Adjustment for shares held by employee share trusts | (21,900,919) | (107,502,874) | (50,086,866) | (122,719,181) |
| Weighted average number of ordinary shares in issue for calculation of basic earnings per share | 11,992,890,695 | 11,907,288,740 | 11,964,704,748 | 11,892,072,433 |
| Profit attributable to equity holders of the Company | 202,194 | 364,421 | 168,403 | 245,447 |

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares. The Company has three (2018/19: two) categories of dilutive potential ordinary shares, namely long-term incentive awards, bonus warrants and convertible bonds (2018/19: long-term incentive awards and bonus warrants). Long-term incentive awards were dilutive for the three months and six months ended September 30, 2019 and 2018. Bonus warrants were dilutive for the three months and six months ended September 30, 2019 and anti-dilutive for the three months and six months ended September 30, 2018. Convertible bonds were dilutive for the three months and six months ended September 30, 2019.

| | 3 months ended September 30, 2019 | 6 months ended September 30, 2019 | 3 months ended September 30, 2018 | 6 months ended September 30, 2018 |
|---|---|---|---|---|
| Weighted average number of ordinary shares in issue for calculation of basic earnings per share | 11,992,890,695 | 11,907,288,740 | 11,964,704,748 | 11,892,072,433 |
| Adjustment for long-term incentive awards | 278,360,312 | 355,504,784 | 43,153,981 | 17,668,381 |
| Adjustment for bonus warrants | 9,305,137 | 13,646,640 | - | - |
| Adjustment for convertible bonds | 686,600,195 | 686,600,195 | - | - |
| Weighted average number of ordinary shares in issue for calculation of diluted earnings per share | 12,967,156,339 | 12,963,040,359 | 12,007,858,729 | 11,909,740,814 |
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Profit attributable to equity holders of the Company used to determine basic earnings per share | 202,194 | 364,421 | 168,403 | 245,447 |
| Adjustment for interest on convertible bonds, net of tax | 8,261 | 16,466 | - | - |
| Profit attributable to equity holders of the Company used to determine diluted earnings per share | 210,455 | 380,887 | 168,403 | 245,447 |

The calculation of the diluted earnings per share amount is based on the profit attributable to ordinary equity holders of the Company, adjusted to reflect the impact from any dilutive potential ordinary shares, as appropriate. The weighted average number of ordinary shares used in the calculation is the 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.

7 Dividend

| | 6 months ended September 30, 2019 US\$'000 | 6 months ended September 30, 2018 US\$'000 |
|--|---|---|
| Interim dividend, declared after period end – HK6.3 cents (2018/19: HK6.0 cents) per ordinary share | 96,640 | 92,071 |

8 Ageing analysis

- (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:

| | September 30, 2019 US\$'000 | March 31, 2019 US\$'000 |
|----------------------|--|----------------------------|
| 0 – 30 days | 6,073,110 | 4,560,771 |
| 31 – 60 days | 1,382,310 | 1,332,471 |
| 61 – 90 days | 349,413 | 430,207 |
| Over 90 days | 556,781 | 438,377 |
| | 8,361,614 | 6,761,826 |
| Less: loss allowance | (108,277) | (100,342) |
| | 8,253,337 | 6,661,484 |

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

| | September 30, 2019 US\$'000 | March 31, 2019 US\$'000 |
|--------------|--|----------------------------|
| 0 – 30 days | 5,132,492 | 4,279,000 |
| 31 – 60 days | 1,601,719 | 1,046,525 |
| 61 – 90 days | 768,623 | 757,718 |
| Over 90 days | 354,852 | 346,592 |
| | 7,857,686 | 6,429,835 |

9 Deposits, prepayments and other receivables

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

| | September 30, 2019 US\$'000 | March 31, 2019 US\$'000 |
|-------------------|--|-----------------------------------|
| Deposits | 14,025 | 14,632 |
| Other receivables | 3,130,504 | 2,587,439 |
| Prepayments | 1,171,604 | 1,151,855 |
| | <hr/> | <hr/> |
| | 4,316,133 | 3,753,926 |
| | <hr/> | <hr/> |

Other receivables mainly comprise amounts due from subcontractors for components sold in the ordinary course of business. As at September 30, 2019, loan to a joint venture of US\$73 million is included in other receivables (March 31, 2019: Nil).

10 Provisions, other payables and accruals

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

| | September 30, 2019 US\$'000 | March 31, 2019 US\$'000 |
|---------------------------------------|--|-----------------------------------|
| Accruals | 1,962,647 | 1,969,914 |
| Allowance for billing adjustments (i) | 1,769,566 | 1,650,226 |
| Contingent consideration (Note 11(a)) | 117,204 | - |
| Other payables (ii) | 6,579,581 | 5,322,196 |
| | <hr/> | <hr/> |
| | 10,428,998 | 8,942,336 |
| | <hr/> | <hr/> |

Notes:

- (i) Allowance for billing adjustments relates primarily to allowances for future volume discounts, price protection, rebates, and customer sales returns.
- (ii) Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors.
- (iii) The carrying amounts of other payables and accruals approximate their fair values.

(b) The components of provisions are as follows:

| | Warranty US\$'000 | Environmental restoration US\$'000 | Restructuring US\$'000 | Total US\$'000 |
|---|------------------------------------|---|---|---------------------------------|
| Year ended March 31, 2019 | | | | |
| At the beginning of the year | 1,081,218 | 8,919 | 54,053 | 1,144,190 |
| Exchange adjustment | (37,163) | (274) | (1,991) | (39,428) |
| Provisions made | 807,636 | 14,545 | - | 822,181 |
| Amounts utilized | (875,413) | (14,403) | (36,576) | (926,392) |
| Acquisition of subsidiaries | - | 24,510 | - | 24,510 |
| | 976,278 | 33,297 | 15,486 | 1,025,061 |
| Long-term portion classified as non-current liabilities | (254,601) | (31,772) | - | (286,373) |
| At the end of the year | 721,677 | 1,525 | 15,486 | 738,688 |
| Period ended September 30, 2019 | | | | |
| At the beginning of the period | 976,278 | 33,297 | 15,486 | 1,025,061 |
| Exchange adjustment | (16,863) | 831 | (91) | (16,123) |
| Provisions made | 398,897 | 9,910 | - | 408,807 |
| Amounts utilized | (390,848) | (8,621) | (15,395) | (414,864) |
| | 967,464 | 35,417 | - | 1,002,881 |
| Long-term portion classified as non-current liabilities | (254,769) | (32,780) | - | (287,549) |
| At the end of the period | 712,695 | 2,637 | - | 715,332 |

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.

Restructuring costs provision mainly comprises lease termination obligations and employee termination payments, arising from a series of restructuring actions to reduce costs and enhance operational efficiency. The Group records its restructuring costs provision when it has a present legal or constructive obligation as a result of restructuring actions.

11 Other non-current liabilities

Details of other non-current liabilities are as follows:

| | September 30, 2019 US\$'000 | March 31, 2019 US\$'000 |
|--|--------------------------------|------------------------------|
| Contingent consideration (a) | - | 113,283 |
| Deferred consideration (a) | 25,072 | 25,072 |
| Written put option liabilities (b) | 791,454 | 783,505 |
| Lease liabilities | 311,459 | - |
| Environmental restoration (Note 10(b)) | 32,780 | 31,772 |
| Government incentives and grants received in advance (c) | 48,969 | 50,087 |
| Deferred rent liabilities | - | 83,977 |
| Others | 165,333 | 159,950 |
| | <hr/> 1,375,067 <hr/> | <hr/> 1,247,646 <hr/> |

- (a) Pursuant to the completion of business combinations, the Group is required to pay in cash to the then respective sellers' contingent consideration with reference to certain performance indicators as written in the respective agreements with the sellers; and deferred consideration. Accordingly, current and non-current liabilities in respect of the fair value of contingent consideration and present value of deferred consideration have been recognized. The contingent consideration is subsequently re-measured at its fair values as a result of change in the expected performance at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. Deferred consideration is subsequently carried at amortized cost.

During the period, the contingent consideration to Fujitsu Limited ("Fujitsu") has been reclassified to current liabilities as it will fall due in May 2020. As at September 30, 2019, the potential undiscounted amounts of future payments in respect of the contingent and deferred considerations that the Group could be required to make to the then respective sellers under such arrangements are as follows:

| | |
|------------------------------------|-------------------------------------|
| Joint venture with NEC Corporation | US\$25 million |
| Fujitsu | JPY2.55 billion to JPY12.75 billion |

- (b) (i) Pursuant to the joint venture agreement entered into between the Company and 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.

- (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\$322 million).

The financial liability that may become payable under the put option and dividend requirement 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 incentive and grants are credited to the income statement upon fulfillment of those conditions and on a straight line basis over the expected life of the related assets respectively.

12 Borrowings

| | September 30, 2019 US\$'000 | March 31, 2019 US\$'000 |
|-----------------------------------|--------------------------------|----------------------------|
| Current liabilities | | |
| Short-term loans (i) | 2,088,739 | 1,166,907 |
| Note (ii) | <u>559,412</u> | <u>786,136</u> |
| | <u>2,648,151</u> | <u>1,953,043</u> |
| Non-current liabilities | | |
| Notes (ii) | 1,242,603 | 1,836,264 |
| Convertible bonds (iii) | 598,780 | 590,506 |
| Convertible preferred shares (iv) | <u>300,000</u> | <u>-</u> |
| | <u>2,141,383</u> | <u>2,426,770</u> |
| | <u>4,789,534</u> | <u>4,379,813</u> |

- (i) The short-term bank loans are all denominated in United States dollars. As at September 30, 2019, the Group has total revolving and short-term loan facilities of US\$2,651 million (March 31, 2019: US\$2,501 million) which has been utilized to the extent of US\$2,101 million (March 31, 2019: US\$1,181 million).

| (ii) | Issue date | Principal amount | Term | Interest rate per annum | Due date | September 30, 2019 | March 31, 2019 |
|------|----------------|------------------|---------|-------------------------|------------|--------------------|----------------|
| | | | | | | US\$'000 | US\$'000 |
| | May 8, 2014 | US\$786 million | 5 years | 4.7% | May 2019 | - | 786,136 |
| | June 10, 2015 | RMB4 billion | 5 years | 4.95% | June 2020 | 559,412 | 594,747 |
| | March 16, 2017 | US\$500 million | 5 years | 3.875% | March 2022 | 497,803 | 497,391 |
| | March 29, 2018 | US\$750 million | 5 years | 4.75% | March 2023 | 744,800 | 744,126 |
| | | | | | | 1,802,015 | 2,622,400 |

(iii) 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 bondholders have the right, at any time on or after 41 days after the date of issue 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 from HK\$7.99 per share to HK\$7.71 per share effective on July 16, 2019.

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. The proceeds would be used to repay previous notes and for general corporate purposes. Assuming full conversion of the Bonds at the adjusted conversion price of HK\$7.71 per share, the Bonds will be convertible into 686,600,195 shares. The Group expects that it will be able to meet its redemption obligations based on the financial position of the Group.

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.

(iv) 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. Upon the occurrence of certain specified conditions, the holders of convertible preferred shares will have the right to require LETCL to redeem or the Company to purchase all of their convertible preferred shares at the predetermined consideration. Accordingly, the convertible preferred shares are classified as a financial liability.

The aggregated subscription price of convertible preferred shares is approximately US\$300 million. The net proceeds from the issuance will be used by LETCL and its subsidiaries towards general corporate funding and capital expenditure of LETCL and its subsidiaries.

The Group expects that it will be able to meet its redemption obligations based on the financial position of the Group.

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at September 30, 2019 and March 31, 2019 are as follows:

| | September 30, 2019 US\$'000 | March 31, 2019 US\$'000 |
|-------------------|--------------------------------|----------------------------|
| Within 1 year | 2,648,151 | 1,953,043 |
| Over 1 to 3 years | 497,803 | 1,092,138 |
| Over 3 to 5 years | 1,643,580 | 1,334,632 |
| | 4,789,534 | 4,379,813 |

13 Share capital

| | September 30, 2019 Number of Shares | US\$'000 | March 31, 2019 Number of shares | US\$'000 |
|---|---|------------------|---------------------------------------|-----------|
| <i>Issued and fully paid:</i> | | | | |
| Voting ordinary shares: | | | | |
| At the beginning and end of the period/year | 12,014,791,614 | 3,185,923 | 12,014,791,614 | 3,185,923 |

14 Perpetual securities

In March 2017, the Group issued a total of US\$850 million perpetual securities through its wholly owned subsidiary, Lenovo Perpetual Securities Limited (“the issuer”). The net proceeds amounted to approximately US\$842 million. The securities are perpetual, non-callable in the first 5 years and entitle the holders to receive distributions at a distribution rate of 5.375% per annum in the first 5 years, floating thereafter and with a fixed step up margin, payable semi-annually in arrears, cumulative and compounding. As the perpetual securities do not contain any contractual obligation to pay cash or other financial assets pursuant to the terms and conditions of the issue; in accordance with HKAS 32, they are classified as equity and for accounting purpose regarded as part of non-controlling interests.

In April 2017, the Group issued an additional US\$150 million perpetual securities under the same terms, which are fungible with and form a single series with the aforementioned US\$850 million perpetual securities.

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

| | 6 months ended September 30, 2019 US\$'000 | 6 months ended September 30, 2018 US\$'000 |
|--|---|---|
| Profit before taxation | 550,181 | 326,093 |
| Share of losses of associates and joint ventures | 7,448 | 1,721 |
| Finance income | (24,474) | (11,474) |
| Finance costs | 251,240 | 153,580 |
| Depreciation of property, plant and equipment and amortization of prepaid lease payments | 137,901 | 144,256 |
| Depreciation of right-of-use assets | 49,045 | - |
| Amortization of intangible assets | 265,073 | 250,467 |
| Share-based compensation | 123,697 | 99,626 |
| Loss on disposal of property, plant and equipment | 706 | 2,456 |
| Loss on disposal of intangible assets | 1,016 | - |
| Gain on disposal of subsidiaries | (12,844) | - |
| Dilution gain on interest in an associate | - | (18,121) |
| Fair value change on bonus warrants | (15,562) | 6,683 |
| Fair value change on financial instruments | (7,841) | (32,937) |
| Fair value change on financial assets at fair value through profit or loss | 108 | (104,407) |
| Fair value change on a financial liability at fair value through profit or loss | 3,000 | - |
| Dividend income | (2,390) | (163) |
| Increase in inventories | (396,127) | (349,565) |
| Increase in trade receivables, notes receivable, deposits, prepayments and other receivables | (2,092,949) | (1,208,265) |
| Increase in trade payables, notes payable, provisions, other payables and accruals | 2,765,202 | 1,323,480 |
| Effect of foreign exchange rate changes | 98,313 | 76,167 |
| Net cash generated from operations | 1,700,743 | 659,597 |

Reconciliation of financing liabilities

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

| Financing liabilities | September 30, 2019 US\$'000 | March 31, 2019 US\$'000 |
|--|--------------------------------|----------------------------|
| Short-term loans – current | 2,088,739 | 1,166,907 |
| Note – current | 559,412 | 786,136 |
| Notes – non-current | 1,242,603 | 1,836,264 |
| Convertible bonds – non-current | 598,780 | 590,506 |
| Convertible preferred shares – non-current | 300,000 | - |
| Lease liabilities – current | 76,503 | - |
| Lease liabilities – non-current | 311,459 | - |
| Short-term loans – variable interest rates | 2,088,739 | 1,166,907 |
| Notes – fixed interest rates | 1,802,015 | 2,622,400 |
| Convertible bonds – fixed interest rates | 598,780 | 590,506 |
| Convertible preferred shares – fair value | 300,000 | - |
| Lease liabilities – fixed interest rates | 387,962 | - |
| 5,177,496 | 4,379,813 | |

| | Short-term loans | Note current | Notes non-current | Convertible bonds | Convertible preferred shares | Lease liabilities | Lease liabilities | Total |
|--|------------------|----------------|-------------------|-------------------|------------------------------|-------------------|-------------------|------------------|
| | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 | US\$'000 |
| Financing liabilities as at April 1, 2018 | 1,166,692 | - | 2,648,725 | - | - | - | - | 3,815,417 |
| Proceeds from borrowings | 5,700,215 | - | - | - | - | - | - | 5,700,215 |
| Repayments of borrowings | (5,700,000) | - | - | - | - | - | - | (5,700,000) |
| Transfer | - | 774,341 | (774,341) | - | - | - | - | - |
| Issue of convertible bonds | - | - | - | 675,000 | - | - | - | 675,000 |
| Issuing cost of convertible bonds | - | - | - | (10,107) | - | - | - | (10,107) |
| Foreign exchange adjustments | - | - | (41,014) | - | - | - | - | (41,014) |
| Other non-cash movements | - | 11,795 | 2,894 | (74,387) | - | - | - | (59,698) |
| Financing liabilities as at March 31, 2019 | <u>1,166,907</u> | <u>786,136</u> | <u>1,836,264</u> | <u>590,506</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,379,813</u> |
| Financing liabilities as at April 1, 2019 | 1,166,907 | 786,136 | 1,836,264 | 590,506 | - | - | - | 4,379,813 |
| Change in accounting policy | - | - | - | - | - | 77,903 | 331,441 | 409,344 |
| Proceeds from borrowings | 2,320,000 | - | - | - | - | - | - | 2,320,000 |
| Repayments of borrowings | (1,400,000) | (786,244) | - | - | - | - | - | (2,186,244) |
| Transfer | - | 581,389 | (581,389) | - | - | 29,601 | (29,601) | - |
| Issue of convertible preferred shares | - | - | - | - | 300,000 | - | - | 300,000 |
| Principal elements of lease payments | - | - | - | - | - | (67,219) | - | (67,219) |
| Foreign exchange adjustments | - | (22,226) | (13,548) | - | - | - | - | (35,774) |
| Other non-cash movements | <u>1,832</u> | <u>357</u> | <u>1,276</u> | <u>8,274</u> | <u>-</u> | <u>36,218</u> | <u>9,619</u> | <u>57,576</u> |
| Financing liabilities as at September 30, 2019 | 2,088,739 | 559,412 | 1,242,603 | 598,780 | 300,000 | 76,503 | 311,459 | 5,177,496 |

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

During the six months ended September 30, 2019, 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 43,408,229 shares from the market for award to employees upon vesting. Details of these program and plan are set out in the 2018/19 annual 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 is chaired by an independent non-executive director, Mr. Nicholas C. Allen, and comprises four members including Mr. Nicholas C. Allen and other three independent non-executive directors, Mr. William Tudor Brown, Mr. Gordon Robert Halyburton Orr and Mr. Woo Chin Wan Raymond.

The Audit Committee of the Company has reviewed the unaudited interim results of the Group for the six months ended September 30, 2019. 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 six months ended September 30, 2019, in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report (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 A.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*

November 7, 2019

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. Nicholas C. Allen, Mr. Nobuyuki Idei, Mr. William O. Grabe, Mr. William Tudor Brown, Mr. Yang Chih-Yuan Jerry, Mr. Gordon Robert Halyburton Orr and Mr. Woo Chin Wan Raymond.