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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)

FY2020/21 ANNUAL RESULTS ANNOUNCEMENT

ANNUAL RESULTS

The board of directors (the “Board”) of Lenovo Group Limited (the “Company”) announces the audited results of the Company and its subsidiaries (the “Group”) for the year ended March 31, 2021 together with comparative figures for last year, as follows:

FINANCIAL HIGHLIGHTS

- A record US\$10 billion added to revenue base after growing at the highest rate of 20 percent in 9 years. Profit attributable to equity holders grew 77 percent year-on-year to an all-time high, driven by consistent profit expansion across three business groups and successful execution of the Intelligent Transformation strategy
- Operational excellence, product innovation, and fast time-to-market contributed to 34 percent pre-tax profit growth in the PC and Smart Device business; the Group maintained global no.1 and raised industry-leading profitability to a new level
- The Data Center Group achieved 15 percent revenue growth on record-high sales, and improved bottom line by US\$57 million to a pre-tax loss of US\$169 million; positive catalysts including hyperscale customer expansion and upselling efforts to drive wallet share and growth in higher-margin products
- The Mobile Business Group sales recovered from earlier challenges from COVID-19 with a 39 percent revenue increase in the second half of the year, thanks to its record market share in Latin America and North America, portfolio expansion, and broader carrier ranging; full-year sales up 9 percent and a pre-tax loss narrowed to US\$41 million
- Software and Services business, which carries the highest margin profile among all products, saw its invoiced and deferred revenue surging by 39 and 32 percent, respectively, driven by a record penetration rate and landmark deals
- Net cash generated from operating activities was US\$3.7 billion, up US\$1.4 billion year-on-year

	3 months ended	Year ended	3 months ended	Year ended	Year-on-year change	
	March 31, 2021	March 31, 2021	March 31, 2020	March 31, 2020	3 months ended March 31	Full-year
	US\$ million	US\$ million	US\$ million	US\$ million		
Revenue	15,630	60,742	10,579	50,716	48%	20%
Gross profit	2,688	9,768	1,861	8,357	44%	17%
Gross profit margin	17.2%	16.1%	17.6%	16.5%	(0.4)pts	(0.4)pts
Operating expenses	(2,209)	(7,588)	(1,695)	(6,918)	30%	10%
Operating profit	479	2,180	166	1,439	188%	52%
Other non-operating income/ (expenses) - net	(99)	(406)	(89)	(421)	11%	(3)%
Profit before taxation	380	1,774	77	1,018	392%	74%
Profit for the period/year	285	1,313	63	805	350%	63%
Profit attributable to equity holders of the Company	260	1,178	43	665	512%	77%
Earnings per share attributable to equity holders of the Company						
Basic	US2.19 cents	US9.54 cents	US0.36 cents	US5.58 cents	US1.83 cents	US3.96 cents
Diluted	US1.94 cents	US8.91 cents	US0.35 cents	US5.43 cents	US1.59 cents	US3.48 cents

PROPOSED DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK24.0 cents per share for the year ended March 31, 2021 (2020: HK21.5 cents). Subject to shareholders' approval at the forthcoming annual general meeting to be held on July 20, 2021 ("AGM"), the proposed final dividend will be payable on August 10, 2021 to the shareholders whose names appear on the register of members of the Company on July 28, 2021.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the AGM, and entitlement to the proposed final dividend, the register of members of the Company will be closed. Details of such closures are set out below:

- (i) For determining shareholders' eligibility to attend and vote at the AGM:
- | | |
|--|-------------------------------|
| Latest time to lodge transfer documents for registration | 4:30 p.m. on July 12, 2021 |
| Closure of register of members | From July 13 to July 20, 2021 |
| Record date | July 13, 2021 |
- (ii) For determining shareholders' entitlement to the proposed final dividend:
- | | |
|--|----------------------------|
| Latest time to lodge transfer documents for registration | 4:30 p.m. on July 27, 2021 |
| Closure of register of members | July 28, 2021 |
| Record date | July 28, 2021 |

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the AGM, and to qualify for the proposed final 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 not later than the aforementioned latest times.

BUSINESS REVIEW AND OUTLOOK

Highlights

During the fiscal year ended March 31, 2021, Lenovo (the Group) achieved multiple performance records, despite challenges from the industry-wide component shortages. The Group added a record US\$10 billion to its revenue base with a 20 percent year-on-year increase, the highest rate of growth in 9 years. Its profit attributable to equity holders increased an unprecedented 77 percent while its Group pre-tax profit margin reached a 13-year high. The consistent margin expansion across the PC and Smart Device (PCSD), Data Center Group (DCG), and Mobile Business Group (MBG) was an important driver of the Group's strong profitability growth. The success of its Intelligent Transformation was another powerful catalyst in accelerating upselling opportunities and innovation. The Software and Services business, which delivers the highest margins among all products and contributes 8.0 percent of the Group's revenue, reported an invoiced revenue and a deferred revenue growth of 39 and 32 percent year-on-year, respectively, driven by a record penetration rate and a number of landmark deals.

Lenovo remains a truly global company despite the diverging world that it operates in. PCSD maintained global no. 1 position in the PC sector for the third year. MBG achieved its highest market shares in both of its focus markets, Latin America (LA) and North America (NA). DCG not only sustained its worldwide leadership in the High Performance Computing (HPC)/Artificial Intelligence (AI) sector, but also ranked as the second largest entry storage supplier in the world against a no. 5 ranking last year. The Group's governance, business performance, and operational excellence continue to earn global recognition. Corporate Knights' index ranked Lenovo no. 78 in its "2021 Global 100 Most Sustainable Corporations in the World", up 19 spots from last year, for its ongoing commitment to sustainability and social responsibility.

Net cash generated from operating activities was US\$3.7 billion for the period, a year-over-year increase of US\$1.4 billion. Given its strength in cash generation, the company reduced its net debt by US\$372 million year-on-year and paid off its perpetual securities amounting to US\$1,045 million. In Q3FY20/21, the company obtained an Investment Grade credit rating for the first time in its history. Since then, the Group has further optimized its long-term debt structure with the issuance of longer-tenor debt while reducing its finance costs through lower interest rates. These capital actions resulted in a year-on-year saving of 13% in financing costs and perpetual securities dividends.

Group Financial Performance

For the fiscal year under review, the Group's revenue reached US\$60.7 billion, up 20 percent year-on-year. The record-breaking performance, has been fueled by Lenovo's core competencies in operational excellence, product innovation, quick time-to-market, and global footprint to leverage new demand. The Group's relentless efforts in driving customer centricity also helped optimize its segment exposure and drive business transformation.

Lenovo's gross profit increased 17 percent although gross margin declined 40 basis points year-on-year to 16.1 percent. Upselling to high-margin products by both PCSD and DCG and their scale expansion, coupled with improved profitability by Cloud Service Provider (CSP), have laid the foundation for stable margin profiles of these business segments. In the earlier part of the year, the Group's gross margin was weighted down by MBG's lowered profitability as the business group navigated through COVID-led challenges including higher transportation costs. MBG has expanded its profitability quarter-over-quarter throughout the year by taking advantage of broader carrier ranging and expanded product portfolio to include a number of premium and 5G models.

The Group's operating expense-to-revenue ratio fell by 1.1 percentage points on an annual basis to 12.5 percent, driven by disciplined expense control. Profit attributable to equity holders rose 77 percent to US\$1.2 billion.

By business group, PCSD boosted its pre-tax profit by 34 percent year-on-year, fueled by its strong growth and share gains in high-growth, premium segments. DCG and MBG narrowed pre-tax losses by a total of US\$59 million year-on-year, representing the fourth consecutive year of improvement.

The Group recognized fair value gains from its strategic investments amounting to US\$233 million during the fiscal year. This change in fair value includes revaluation gains (losses) on new investment rounds by unlisted holding and mark-to-market gains (losses) on listed holdings.

Geographic Performance

Lenovo is a global business operating in more than 180 markets. For the period under review, the Group reported double-digit revenue increase across America, Europe-Middle East-Africa (EMEA), and China. Even in Asia Pacific (excluding China) where sector growth was impacted by a sharp slowdown in commercial PC spending, Group revenue grew 5 percent year-on-year benefiting from buoyant demand in the education sector and a booming cloud market.

In China, the Group delivered 31 percent year-on-year revenue growth on the back of swift market recovery and massive market share gain in its PCSD business and the Enterprise & Small and Medium Business (ESMB) segment under DCG. The significant premium to PC market growth in China was supported by the successful deployment of social media platforms, and product strength. For DCG's ESMB segment, China remained the bright spot throughout the year enabled by market coverage expansion and localized solutions. In EMEA, the Group achieved strong performance in both PC and smartphone businesses, and became the top PC vendor in the region for the first time in the second half of the year. Education, consumer, and SMB segments were bright spots in the Group's EMEA PC operation, while smartphone sales nearly doubled year-on-year as the number of carriers carrying MBG's smartphone tripled from last year. In North America (NA), sales from each of its three business groups posted strong double-digit growth, showcasing the company's ability to leverage its core competences to capture new demand.

Performance by Product Business Group

Intelligent Devices Group (IDG)

The IDG Group, consisting of the PCSD and MBG businesses, delivered many records and outperformed the sector in the fiscal year after swiftly recovering from COVID-led turbulence. The IDG Group revenue increased by 20 percent year-on-year to US\$54.4 billion while its pre-tax profit grew 35 percent to US\$3.1 billion, both representing all-time highs. The robust performance in PC throughout the year and recovery of smartphone sales in the second half of the year underscored the business group's strength. The PCSD business remained the no.1 PC brand globally by market share and maintained its industry leading profitability. MBG gained market shares across key regional markets, setting records in LA and NA, thanks to an expanded product portfolio, 5G launches and broader carrier ranging.

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

The PCSD business achieved all-time high revenue and pre-tax profit during the fiscal year, and further raised its industry-leading profitability to a new level. The worldwide PC market continued to deliver stronger-than-expected momentum in this challenging year as COVID-19 outbreak has brought many lifestyle changes, including the one-PC-per-person trend. Usage intensity of PC products also rose on accelerated market trends including work-from-home, e-learning, and e-commerce revolution. The Group's strength in operational excellence, product innovation, and market responsiveness proved to be an important driver in capturing these "new normal" demand changes. Its hybrid manufacturing strategy consisting of global operation and local knowledge have enabled the Group to optimize its operational flexibility to further widen the market share gap with the number two player.

PCSD revenue grew 22 percent year-on-year to a record US\$48.5 billion, contributing to 80 percent of the Group's total revenue. Its pre-tax margin expanded 0.6 percentage points year-on-year to an all-time high of 6.5 percent. Its pre-tax profit increased 34 percent year-on-year to US\$3.1 billion for the fiscal year.

The Group's investments in upselling are bearing fruit with stellar results in high-growth segments and high-margin services, driving a structural shift in the sales mix that in turn propels its long-term profitability. The Software and Services business showcased strong growth during the period and its invoiced revenue increased 47 percent year-on-year. The Group's e-commerce takeoff increased direct customer engagement and share gain in the consumer and SMB market segments. This has led to a record number of transactions, resulting in a 45 percent year-on-year growth in e-commerce revenue. High-growth segment sales also performed well. Work-from-home demand remained a strong impetus for sales of thin-and-light notebook PCs and tablets, which grew 40 percent and 127 percent year-on-year, respectively. The Gaming PC segment has been a beneficiary of casual gaming demand. Its improved product portfolio led to a revenue growth of 67 percent year-on-year. The popularity of E-learning has translated into a 219 percent year-on-year increase in Chromebook revenue.

Intelligent Devices Group – Mobile Business Group (MBG)

MBG's revenue increased by 9 percent to US\$5.7 billion in the period under review despite being hard-hit by COVID-led challenges in the early part of the year. The Group delivered a strong revenue growth of 39 percent year-on-year in the second half of the year with margin expansion, thanks to its continued product portfolio improvement to include premium models. Together with its deployment of "5G for all" strategy, MBG made a breakthrough in carrier ranging to drive market share gains and achieved record market shares in LA and NA, with sales in Europe almost doubling year-on-year. The MBG business accounted for 9 percent of the Group's total revenue.

Business challenges due to COVID-19 have negatively impacted MBG's operation and resulted in pre-tax losses of US\$72 million in the first half of the year. In the second half of the year, thanks to its immediate actions to further enhance product portfolio and expand market access, MBG's profitability improved significantly by US\$87 million year-on-year to reach a record US\$31 million. The business will continue to drive profitable growth and win market share by deploying its "5G for all" strategy, while further broadening carrier ranging to drive regional expansion.

Data Center Group (DCG)

DCG has achieved its highest-ever revenue of US\$6.3 billion, growing 15 percent year-on-year during the period under review and contributed to 10 percent of the Group's total sales. The DCG business continued to improve its bottom line for the fourth consecutive year by US\$57 million year-on-year to a pre-tax loss of US\$169 million. This accomplishment was made possible through a concerted effort in improving the segment profitability of CSP despite significantly higher costs in components and logistics. The DCG business continued to focus on driving its in-house design, manufacturing, product development, and customer diversification.

By segment, sales to CSPs increased at a strong double-digit rate year-on-year while profitability further improved for the fiscal year. The robust cloud demand and ongoing client diversification have led to strong growth across all regions. Revenue from the ESMB business of DCG grew by single-digit year-on-year despite COVID-led sluggish market demand, thanks to its market share gain across multiple high-growth products: software-defined infrastructure (SDI), storage, HPC/AI, and software and services, each setting a new sales record in the year. The services attach rate for DCG business has improved to its highest level in history. The strategic partnership with DreamWorks and SAP has strengthened its business opportunities and pipelines in HPC/AI. In HPC/AI, the business maintained its no.1 position in the global Top-500 Supercomputer list.

Outlook

With regional economies on pace to expand and signs of a rebound in certain areas of enterprise spending while the component supply remains a challenge, the Group will continue to ride on recovery-led opportunities, and leverage its operational excellence and global franchise to deliver sustainable growth. To capitalize on these structural growth opportunities, the Group recently announced new organizational changes, mainly to form a dedicated business group – the Solutions & Services Group (SSG) – to bring together services teams and capabilities across the company. This new business will deliver enhanced services capabilities and new solutions to supercharge its growth momentum through three key segments – Attached Services, Managed Services, and Project and Vertical Solutions. The business has been building a strong pipeline of new orders for **Attached Services** with the aim to further boost the penetration rate into the base of installed devices. **Managed Services**, which includes the popular As-a-Service offerings, will grow end-to-end solutions through enhanced delivery footprint, differentiated services solutions and core foundation platforms. For **Project and Vertical Solutions**, the Group has brought together services and solutions teams to facilitate vertical growth in manufacturing, education, retail, and smart cities.

PCSD will continue to address opportunities emerging from structural changes in the sector and extend its leading position. It will leverage its operational excellence, innovation, solution capabilities and global franchise to meet strong segment demand, drive consistent premium-to-market growth, and maintain profitability leadership.

MBG will focus on sustaining strong growth momentum in North America and Europe, while maintaining market leadership in Latin America. It will further push product innovation and accelerate 5G smartphone launches to score wins in more markets and stay on track to profitable growth.

DCG will grow its channel business with the One Lenovo platform while delivering premium-to-market growth and enhancing profitability. In the ESMB segment, the Group will grow its high-margin services attach rate, upsell premier services and expand hybrid cloud solutions to drive a paradigm shift in computing with its edge-to-cloud solutions. For its CSP business, the Group will continue to diversify its customer base and expand its share with existing accounts. To achieve that the business will leverage its unique strengths including in-house custom design and manufacturing capabilities with worldwide reach and expand its product portfolio with advanced configurations and storage platforms.

Strategic Highlights

The Group continues to execute its strategy to become the leader and enabler of Intelligent Transformation. It 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 structural growth in new businesses including Software and Services.

Smart Infrastructure provides the computing, storage, and networking power to support smart devices. The Group’s next-generation data center solutions in the hybrid cloud are based on the ThinkAgile platform, with strong growth coming from Smart City and data center project wins in China. The Group’s Smart Infrastructure invoiced revenue grew 12 percent year-on-year.

Smart Verticals combine big data generated by smart devices and the computing power of smart infrastructure to provide more insights and improve processes for customers. The Group has expanded its footprint to win multiple projects across different industry verticals such as Smart Health Care in North America, Smart Education, and Smart City in China. Invoiced revenue grew 62 percent year-on-year in the fiscal year.

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 AI in vertical industries. This will strengthen the Group’s capability as a competitive end-to-end solution provider in the era of Intelligent Transformation. The Smart IoT business has delivered a 43 percent year-on-year invoiced revenue growth. In particular, Attached and Managed Services has grown significantly thanks to its mega As-a-Service project wins across global tech leaders, sports events, leading retailers in food distribution, and financial services industry leaders.

FINANCIAL REVIEW

Results for the year ended March 31, 2021

	2021 <i>US\$ million</i>	2020 <i>US\$ million</i>	Year-on-year change
Revenue	60,742	50,716	20%
Gross profit	9,768	8,357	17%
Gross profit margin	16.1%	16.5%	(0.4)pts
Operating expenses	(7,588)	(6,918)	10%
Operating profit	2,180	1,439	52%
Other non-operating income/(expenses) – net	(406)	(421)	(3)%
Profit before taxation	1,774	1,018	74%
Profit for the year	1,313	805	63%
Profit attributable to equity holders of the Company	1,178	665	77%
Earnings per share attributable to equity holders of the Company			
Basic	US9.54 cents	US5.58 cents	US3.96 cents
Diluted	US8.91 cents	US5.43 cents	US3.48 cents

For the year ended March 31, 2021, the Group achieved total sales of approximately US\$60,742 million. Profit attributable to equity holders for the year surged by US\$513 million to approximately US\$1,178 million when compared to last year. Gross profit margin eroded 0.4 percentage points to 16.1 percent, mainly due to higher costs in freight and lower profitability of the Mobile Business Group in Latin America in the first quarter resulting from pandemic; while basic and diluted earnings per share were US9.54 cents and US8.91 cents respectively, representing an increase of US3.96 cents and US3.48 cents.

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

Analysis of operating expenses by function for the years ended March 31, 2021 and 2020 is as follows:

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Selling and distribution expenses	(3,044,967)	(2,972,260)
Administrative expenses	(2,984,356)	(2,524,818)
Research and development expenses	(1,453,912)	(1,335,744)
Other operating income/(expenses) – net	(104,245)	(85,886)
	(7,587,480)	(6,918,708)

Operating expenses for the year were 10 percent over last year which is primarily attributable to the growth of the business. Increase in employee benefit costs by US\$538 million reflected the increase in various performance-based benefits which was in line with the Group's strong revenue and profit growth for the year, and also the recognition of severance costs of US\$75 million in the first quarter. Amortization of intangible assets increased by US\$42 million as a result of more investments in patent and technology and internal use software, and the Group recorded an impairment loss on intangible assets related to patents and technology of US\$53 million (2020: nil). The Group also increased investments in research and development causing relevant expenses to increase by US\$87 million. Loss allowance of trade receivables increased by US\$97 million reflecting our assessment of the credit losses expected to arise due to the impact of the COVID-19 pandemic. Nonetheless, trade receivables that were past due decreased from last year. On the other hand, the Group recorded a gain on disposal of non-core property assets of US\$117 million (2020: nil), a gain on disposal of subsidiaries of US\$36 million (2020: US\$13 million), and a fair value gain from strategic investments amounting to US\$236 million (2020: US\$66 million), including a dilution gain on interest in an associate of US\$31 million (2020: nil) and a gain on deemed disposal of subsidiaries of US\$3 million (2020: nil), reflecting the change in value of the Group's portfolio.

Key expenses by nature comprise:

	2021 US\$'000	2020 US\$'000
Depreciation of property, plant and equipment	(161,468)	(155,156)
Depreciation of right-of-use assets	(84,224)	(89,278)
Amortization of intangible assets	(615,586)	(573,608)
Impairment of intangible assets	(52,606)	-
Employee benefit costs, including	(4,372,841)	(3,835,085)
- long-term incentive awards	(291,737)	(258,610)
- severance and related costs	(75,006)	-
Rental expenses	(7,484)	(11,356)
Net foreign exchange loss	(116,046)	(92,614)
Advertising and promotional expenses	(815,879)	(796,090)
Legal, professional and consulting expenses	(216,057)	(205,334)
Information technology expenses	(149,320)	(121,053)
Loss allowance of trade receivables	(108,070)	(11,099)
Research and development related services and supplies	(309,026)	(222,221)
Gain/(loss) on disposal of property, plant and equipment	110,004	(11,467)
Fair value gain on financial assets at fair value through profit or loss	201,597	66,036
Fair value loss on a financial liability at fair value through profit or loss	(13,721)	(23,826)
Dilution gain on interest in an associate	31,374	-
Gain on deemed disposal of subsidiaries	2,964	-
Gain on disposal of subsidiaries	36,029	12,844
Gain on disposal of interest in an associate	-	3,922
Others	(947,120)	(853,323)
	(7,587,480)	(6,918,708)

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

	2021 US\$'000	2020 US\$'000
Finance income	34,754	47,850
Finance costs	(408,640)	(454,194)
Share of losses of associates and joint ventures	(32,323)	(14,545)
	(406,209)	(420,889)

Finance income mainly represents interest on bank deposits.

Finance costs for the year decreased by 10 percent as compared with last year because the Group was granted strong investment-grade ratings by the ‘Big Three’ credit rating agencies that lowers our borrowing rates and improved the efficiency of the factoring program. The change is a combined effect of the decrease in interest on bank loans of US\$44 million and factoring costs of US\$53 million, partially offset by the increase in interest on notes of US\$46 million.

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

The Group adopts segments by business group as the reporting format. Segments by business group comprise IDG and DCG. Segment revenue and pre-tax income/(loss) for reportable segments are as follows:

	2021		2020	
	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	54,411,212	3,107,456	45,216,190	2,301,621
DCG	6,331,100	(168,766)	5,500,159	(225,497)
Segment total	<u>60,742,312</u>	<u>2,938,690</u>	<u>50,716,349</u>	<u>2,076,124</u>
Unallocated:				
Headquarters and corporate income/(expenses) - net		(967,114)		(725,457)
Depreciation and amortization		(242,225)		(168,485)
Impairment of intangible assets		(52,606)		-
Finance income		19,699		24,959
Finance costs		(221,937)		(216,106)
Share of losses of associates and joint ventures		(32,323)		(14,545)
Gain/(loss) on disposal of property, plant and equipment		85,038		(9,423)
Fair value gain on financial assets at fair value through profit or loss		201,597		66,036
Fair value loss on a financial liability at fair value through profit or loss		(13,721)		(23,826)
Dilution gain on interest in an associate		31,374		-
Gain on deemed disposal of subsidiaries		2,964		-
Gain on disposal of subsidiaries		22,978		-
Gain on disposal of interest in an associate		-		3,922
Dividend income		1,784		4,508
Consolidated profit before taxation		<u>1,774,198</u>		<u>1,017,707</u>

Headquarters and corporate income/(expenses) - net for the year comprise various expenses, after appropriate allocation to business groups, of US\$967 million (2020: US\$725 million) such as employee benefit costs, legal, professional and consulting expenses, and research and technology expenses. The increase was mainly due to employee benefit costs rising by US\$208 million primarily as a result of increase in performance-based bonus which was in line with the Group's strong profit growth for the year and recognition of severance costs of US\$75 million in the first quarter. The Group recorded a net exchange loss of US\$116 million (2020: US\$93 million). Also, fair value gain on bonus warrants decreased by US\$20 million as compared with last year.

Fourth Quarter 2020/21 compared to Fourth Quarter 2019/20

	3 months ended March 31, 2021 US\$ million	3 months ended March 31, 2020 US\$ million	Year-on-year change
Revenue	15,630	10,579	48%
Gross profit	2,688	1,861	44%
Gross profit margin	17.2%	17.6%	(0.4)pts
Operating expenses	(2,209)	(1,695)	30%
Operating profit	479	166	188%
Other non-operating income/(expenses) – net	(99)	(89)	11%
Profit before taxation	380	77	392%
Profit for the period	285	63	350%
Profit attributable to equity holders of the Company	260	43	512%
Earnings per share attributable to equity holders of the Company			
Basic	US2.19 cents	US0.36 cents	US1.83 cents
Diluted	US1.94 cents	US0.35 cents	US1.59 cents

For the three months ended March 31, 2021, the Group achieved total sales of approximately US\$15,630 million. Profit attributable to equity holders for the period increased by US\$217 million to approximately US\$260 million when compared to the corresponding period of last year. Gross profit margin eroded by 0.4 percentage points to 17.2 percent due to higher costs in freight and components; while basic and diluted earnings per share were US2.19 cents and US1.94 cents respectively, representing an increase of US1.83 cents and US1.59 cents.

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

	3 months ended March 31, 2021 US\$'000	3 months ended March 31, 2020 US\$'000
Selling and distribution expenses	(823,605)	(614,866)
Administrative expenses	(820,772)	(720,411)
Research and development expenses	(416,709)	(347,169)
Other operating income/(expenses) – net	(148,017)	(13,205)
	<u>(2,209,103)</u>	<u>(1,695,651)</u>

Operating expenses for the period increased by 30 percent as compared with the corresponding period of last year. The overall increase was attributable to the growth of business. Employee benefit costs increased by US\$130 million mainly due to increase in bonus, sales commission, long-term incentive awards, wages and salaries. Currency fluctuations during the period presented a challenge to the Group, resulting in a net exchange loss of US\$79 million (2020: US\$22 million). The increase in operating expenses also reflected an increased effort in the Group's marketing input in advertising and promotional expenses of US\$171 million to drive brand recognition and fuel future growth. The increase in research and development activities also drove operating expenses by US\$64 million. Loss allowance of trade receivables also increased by US\$87 million reflecting our assessment of the credit losses expected to arise due to the impact of the COVID-19 pandemic. Nonetheless, trade receivables that were past due decreased from last year. On the other hand, the Group recorded a gain on disposal of non-core property assets of US\$40 million (2020: nil), a fair value gain from strategic investments amounting to US\$4 million (2020:US\$17 million), reflecting the change in value of the Group's portfolio, and a gain on disposal of subsidiaries of US\$35 million (2020: nil).

Key expenses by nature comprise:

	3 months ended March 31, 2021 US\$'000	3 months ended March 31, 2020 US\$'000
Depreciation of property, plant and equipment	(40,516)	(38,816)
Depreciation of right-of-use assets	(23,151)	(22,761)
Amortization of intangible assets	(159,175)	(163,746)
Employee benefit costs, including	(1,141,646)	(1,011,193)
- long-term incentive awards	(102,619)	(65,935)
Rental expenses	(2,345)	(2,852)
Net foreign exchange loss	(78,611)	(22,304)
Advertising and promotional expenses	(246,997)	(76,313)
Legal, professional and consulting expenses	(50,352)	(56,209)
Information technology expenses	(45,602)	(45,770)
Loss allowance of trade receivables	(79,872)	7,393
Research and development related services and supplies	(106,128)	(42,502)
Gain/(loss) on disposal of property, plant and equipment	38,040	(10,119)
Fair value gain on financial assets at fair value through profit or loss	4,318	16,601
Fair value loss on a financial liability at fair value through profit or loss	(6,349)	(10,826)
Gain on disposal of subsidiaries	34,965	-
Others	(305,682)	(216,234)
	<u>(2,209,103)</u>	<u>(1,695,651)</u>

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

	3 months ended March 31, 2021 US\$'000	3 months ended March 31, 2020 US\$'000
Finance income	10,181	10,007
Finance costs	(100,268)	(95,359)
Share of losses of associates and joint ventures	(8,474)	(3,438)
	<u>(98,561)</u>	<u>(88,790)</u>

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 5 percent as compared with the corresponding period of last year. The change is a combined effect of the increase in interest on notes of US\$14 million, partially offset by the decrease in interest on bank loans and overdrafts of US\$10 million.

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

The Group adopts segments by business group as the reporting format. Segments by business group comprise IDG and DCG. Segment revenue and pre-tax income/(loss) for reportable segments are as follows:

	3 months ended March 31, 2021		3 months ended March 31, 2020	
	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	14,023,788	851,553	9,366,372	465,786
DCG	1,606,316	(30,426)	1,212,999	(75,781)
Segment total	<u>15,630,104</u>	<u>821,127</u>	<u>10,579,371</u>	<u>390,005</u>
Unallocated:				
Headquarters and corporate income/(expenses) - net		(327,047)		(222,185)
Depreciation and amortization		(83,835)		(50,147)
Finance income		5,745		5,433
Finance costs		(62,821)		(39,653)
Share of losses of associates and joint ventures		(8,474)		(3,438)
Gain/(loss) on disposal of property, plant and equipment		14,614		(8,697)
Fair value gain on financial assets at fair value through profit or loss		4,318		16,601
Fair value loss on a financial liability at fair value through profit or loss		(6,349)		(10,826)
Gain on disposal of subsidiaries		22,978		-
Dividend income		-		205
Consolidated profit before taxation		<u>380,256</u>		<u>77,298</u>

Headquarters and corporate income/(expenses) - net for the period comprise various expenses, after appropriate allocation to business groups, of US\$327 million (2020: US\$222 million) such as employee benefit costs, legal, professional and consulting expenses, and research and technology expenses. The increase is mainly due to employee benefit costs rising by US\$34 million primarily as a result of an increase in long-term incentive awards and an increase in net exchange loss of US\$56 million.

Capital Expenditure

The Group incurred capital expenditure of US\$844 million (2020:US\$953 million) during the year ended March 31, 2021, mainly for the acquisition of property, plant and equipment, additions to construction-in-progress and intangible assets. The higher capital expenditure incurred last year was mainly attributable to more investments in patent and technology particularly on cloud technology and internal use software.

Liquidity and Financial Resources

At March 31, 2021, total assets of the Group amounted to US\$37,991 million (2020: US\$32,128 million), which were financed by equity attributable to owners of the Company of US\$3,559 million (2020: US\$3,197 million), other non-controlling interests (net of put option written on non-controlling interests) of US\$52 million (2020: negative balance of US\$132 million), (2020: perpetual securities of US\$994 million) and total liabilities of US\$34,380 million (2020: US\$28,069 million). At March 31, 2021, the current ratio of the Group was 0.85 (2020: 0.81).

At March 31, 2021, bank deposits and cash and cash equivalents totalling US\$3,128 million (2020: US\$3,617 million) analyzed by major currency are as follows:

	2021	2020
	%	%
US dollar	34.9	35.3
Renminbi	25.7	25.4
Japanese Yen	11.3	10.3
Euro	5.5	7.8
Great British Pound	1.4	4.2
Other currencies	21.2	17.0
Total	100.0	100.0

The Group adopts a conservative policy to invest the surplus cash generated from operations. At March 31, 2021, 100.0 (2020: 85.6) percent of cash are bank deposits, and 0.0 (2020: 14.4) percent are investments in liquid money market funds of investment grade.

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

The Group has the following banking facilities:

Type	Date of agreement	Principal amount	Term	Utilized amount at March 31,	
				2021	2020
		<i>US\$ million</i>		<i>US\$ million</i>	<i>US\$ million</i>
Loan facility	May 26, 2015	300	5 years	N/A	300
Revolving loan facility	March 28, 2018	1,500	5 years	-	1,500
Loan facility	May 12, 2020	300	5 years	-	N/A
Revolving loan facility	May 14, 2020	200	5 years	-	N/A

Notes, convertible bonds and convertible preferred shares issued by the Group and outstanding as at March 31, 2021 are as follows:

	Issue date	Principal amount	Term	Interest rate / dividend per annum	Due date	Use of proceeds
2022 Notes	March 16, 2017	US\$337 million	5 years	3.875%	March 2022	For repayment of the outstanding amount under the promissory notes issued to Google Inc. and general corporate purposes
2023 Notes	March 29, 2018	US\$687 million	5 years	4.75%	March 2023	For repayment of previous Notes and general corporate purposes
Convertible bonds	January 24, 2019	US\$675 million	5 years (Note)	3.375%	January 2024	For repayment of previous Notes and general corporate purposes
Convertible preferred shares	June 21, 2019	US\$280 million	N/A	4%	N/A	For general corporate funding and capital expenditure
2025 Notes	April 24, 2020 and May 12, 2020	US\$1 billion	5 years	5.875%	April 2025	For repayment of previous Notes and general corporate purposes
2030 Notes	November 2, 2020	US\$1 billion	10 years	3.421%	November 2030	For repurchase of perpetual securities and previous Notes

Note: Please refer to Note 13(c) to the Financial Information for details.

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

Credit facilities	Total available amount at March 31,		Drawn down amount at March 31,	
	2021	2020	2021	2020
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
Trade lines	2,003	2,547	1,637	2,047
Short-term money market facilities	1,029	1,034	47	334
Forward foreign exchange contracts	12,023	9,278	11,975	9,222

Net debt position and gearing ratio of the Group as at March 31, 2021 and 2020 are as follows:

	2021	2020
	<i>US\$ million</i>	<i>US\$ million</i>
Bank deposits and cash and cash equivalents	3,128	3,617
Borrowings		
- Short-term loans	58	2,125
- Long-term loan	2	3
- Notes	3,011	1,807
- Convertible bonds	624	607
- Convertible preferred shares	303	318
Net debt position	(870)	(1,243)
Total equity	3,611	4,059
Gearing ratio (Borrowings divided by total equity)	1.11	1.20

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At March 31, 2021, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US\$11,975 million (2020: US\$9,222 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.

Human Resources

At March 31, 2021, the Group had a headcount of approximately 71,500 worldwide with 52,000 regular employees and 19,500 long-term contracting plant workers.

The Group implements remuneration policy, bonus, employee share purchase plan and long-term incentive scheme with reference to the performance of the Group and individual employees. The Group also provides benefits such as insurance, medical and retirement funds to employees to sustain competitiveness of the Group.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Revenue	2	60,742,312	50,716,349
Cost of sales		(50,974,425)	(42,359,045)
Gross profit		9,767,887	8,357,304
Selling and distribution expenses		(3,044,967)	(2,972,260)
Administrative expenses		(2,984,356)	(2,524,818)
Research and development expenses		(1,453,912)	(1,335,744)
Other operating income/(expenses) - net		(104,245)	(85,886)
Operating profit	3	2,180,407	1,438,596
Finance income	4(a)	34,754	47,850
Finance costs	4(b)	(408,640)	(454,194)
Share of losses of associates and joint ventures		(32,323)	(14,545)
Profit before taxation		1,774,198	1,017,707
Taxation	5	(461,199)	(213,204)
Profit for the year		1,312,999	804,503
Profit attributable to:			
Equity holders of the Company		1,178,307	665,091
Perpetual securities holders		32,532	53,760
Other non-controlling interests		102,160	85,652
		1,312,999	804,503
Earnings per share attributable to equity holders of the Company			
Basic	6(a)	US9.54 cents	US5.58 cents
Diluted	6(b)	US8.91 cents	US5.43 cents
Dividends	7	474,573	429,902

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Profit for the year	1,312,999	804,503
Other comprehensive income/(loss):		
<u>Items that will not be reclassified to profit or loss</u>		
Remeasurements of post-employment benefit obligations, net of taxes	35,735	(46,275)
Fair value change on financial assets at fair value through other comprehensive income, net of taxes	(5,081)	(10,925)
<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		177,545
- Fair value (loss)/gain, net of taxes	(240,325)	
- Reclassified to consolidated income statement	255,312	(142,296)
Currency translation differences	104,133	(424,422)
Other comprehensive income/(loss) for the year	149,774	(446,373)
Total comprehensive income for the year	1,462,773	358,130
Total comprehensive income attributable to:		
Equity holders of the Company	1,336,074	216,055
Perpetual securities holders	32,532	53,760
Other non-controlling interests	94,167	88,315
	1,462,773	358,130

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Non-current assets			
Property, plant and equipment		1,573,875	1,398,440
Right-of-use assets		893,422	812,235
Construction-in-progress		207,614	304,241
Intangible assets		8,405,005	7,984,582
Interests in associates and joint ventures		65,455	60,307
Deferred income tax assets		2,344,740	2,059,582
Financial assets at fair value through profit or loss		805,013	494,807
Financial assets at fair value through other comprehensive income		84,796	56,136
Other non-current assets		275,359	224,396
		14,655,279	13,394,726
Current assets			
Inventories	8	6,380,576	4,946,914
Trade receivables	9(a)	8,397,825	6,263,012
Notes receivable		78,939	11,529
Derivative financial assets		118,299	138,813
Deposits, prepayments and other receivables	10	4,977,501	3,559,239
Income tax recoverable		254,442	196,464
Bank deposits		59,385	66,480
Cash and cash equivalents		3,068,385	3,550,990
		23,335,352	18,733,441
Total assets		37,990,631	32,128,167

CONSOLIDATED BALANCE SHEET (CONTINUED)

		2021	2020
	<i>Note</i>	<i>US\$'000</i>	<i>US\$'000</i>
Share capital	14	3,203,913	3,185,923
Reserves		355,123	11,619
Equity attributable to owners of the Company		<u>3,559,036</u>	3,197,542
Perpetual securities	15	-	993,670
Other non-controlling interests		817,735	634,321
Put option written on non-controlling interests	12(b)	(766,238)	(766,238)
Total equity		<u>3,610,533</u>	4,059,295
Non-current liabilities			
Borrowings	13	3,299,582	1,564,619
Warranty provision	11(b)	266,313	258,840
Deferred revenue		1,183,247	864,805
Retirement benefit obligations		431,905	458,386
Deferred income tax liabilities		391,258	342,805
Other non-current liabilities	12	1,436,156	1,321,296
		<u>7,008,461</u>	4,810,751
Current liabilities			
Trade payables	9(b)	10,220,796	7,509,724
Notes payable		885,628	1,458,645
Derivative financial liabilities		35,944	73,784
Other payables and accruals	11(a)	13,178,498	9,025,643
Provisions	11(b)	910,380	718,771
Deferred revenue		1,046,677	819,199
Income tax payable		395,443	357,375
Borrowings	13	698,271	3,294,980
		<u>27,371,637</u>	23,258,121
Total liabilities		<u>34,380,098</u>	28,068,872
Total equity and liabilities		<u>37,990,631</u>	32,128,167

CONSOLIDATED CASH FLOW STATEMENT

	<i>Note</i>	2021 <i>US\$ '000</i>	2020 <i>US\$ '000</i>
Cash flows from operating activities			
Net cash generated from operations	16	4,585,995	3,006,556
Interest paid		(309,361)	(404,691)
Tax paid		(623,861)	(391,942)
Net cash generated from operating activities		3,652,773	2,209,923
Cash flows from investing activities			
Purchase of property, plant and equipment		(302,920)	(246,663)
Sale of property, plant and equipment		89,344	15,338
Acquisition of subsidiaries, net of cash acquired		(5,049)	-
Disposal of subsidiaries, net of cash disposed		(39,105)	(18,155)
Interest acquired in associates and a joint venture		(3,657)	(1,616)
Prepaid lease payments		-	(15,734)
Payment for construction-in-progress		(394,084)	(417,552)
Payment for intangible assets		(146,746)	(273,131)
Purchase of financial assets at fair value through profit or loss		(210,661)	(86,498)
Purchase of financial assets at fair value through other comprehensive income		(29,556)	(429)
Loan to a joint venture		-	(72,603)
Net proceeds from sale of financial assets at fair value through profit or loss		139,622	99,296
Net proceeds from sale of financial assets at fair value through other comprehensive income		557	2,803
Payment of contingent consideration		(117,390)	-
Decrease in bank deposits		7,095	3,730
Dividends received		1,897	6,411
Interest received		34,754	47,850
Net cash used in investing activities		(975,899)	(956,953)
Cash flows from financing activities			
Issue of warrant shares		17,990	-
Capital contribution from other non-controlling interests		87,175	76,357
Contribution to employee share trusts		(737,867)	(159,147)
Issue of convertible preferred shares		-	300,000
Issue of notes		2,003,500	-
Issuing costs of notes		(14,383)	-
Repayment of notes		(791,555)	(786,244)
Principal elements of lease payments		(165,150)	(130,993)
Dividends paid		(434,269)	(431,148)
Dividends paid to other non-controlling interests		(5,156)	(4,620)
Distribution to perpetual securities holders		(34,772)	(53,760)
Dividends paid to convertible preferred shares holders		(11,600)	(6,000)
Repurchase of convertible preferred shares		(16,575)	-
Proceeds from borrowings		4,925,628	4,092,870
Repayments of borrowings		(7,005,300)	(3,135,800)
Repurchase of perpetual securities		(1,045,320)	-
Redemption of convertible bonds		(500)	-
Net cash used in financing activities		(3,228,154)	(238,485)
(Decrease)/increase in cash and cash equivalents		(551,280)	1,014,485
Effect of foreign exchange rate changes		68,675	(126,349)
Cash and cash equivalents at the beginning of the year		3,550,990	2,662,854
Cash and cash equivalents at the end of the year		3,068,385	3,550,990

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										Total US\$'000	
	Share capital	Investment revaluation reserve	Employee share trusts	Share-based compensation reserve	Hedging reserve	Exchange reserve	Other reserve	Retained earnings	Perpetual securities	Other non-controlling interests		Put option written on non-controlling interests
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000		US\$'000
At April 1, 2020	3,185,923	(48,716)	(101,467)	287,574	58,489	(1,799,017)	176,642	1,438,114	993,670	634,321	(766,238)	4,059,295
Profit for the year	-	-	-	-	-	-	-	1,178,307	32,532	102,160	-	1,312,999
Other comprehensive (loss)/income	-	(5,081)	-	-	14,987	112,126	-	35,735	-	(7,993)	-	149,774
Total comprehensive (loss)/income for the year	-	(5,081)	-	-	14,987	112,126	-	1,214,042	32,532	94,167	-	1,462,773
Transfer to statutory reserve	-	-	-	-	-	-	8,890	(8,890)	-	-	-	-
Transfer of investment revaluation reserve upon disposal of financial assets at fair value through other comprehensive income to retained earnings	-	4,664	-	-	-	-	-	(4,664)	-	-	-	-
Repurchase of perpetual securities	-	-	-	-	-	-	(53,890)	-	(991,430)	-	-	(1,045,320)
Issue of warrant shares	17,990	-	-	-	-	-	-	-	-	-	-	17,990
Vesting of shares under long-term incentive program	-	-	339,057	(472,153)	-	-	-	-	-	-	-	(133,096)
Deferred tax in relation to long-term incentive program	-	-	-	45,774	-	-	-	-	-	-	-	45,774
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	2,113	-	2,113
Disposal and deemed disposal of subsidiaries	-	-	-	-	-	(4,057)	(1,819)	-	-	3,006	-	(2,870)
Settlement of bonus through long-term incentive program	-	-	-	34,444	-	-	-	-	-	-	-	34,444
Share-based compensation	-	-	-	291,737	-	-	-	-	-	-	-	291,737
Contribution to employee share trusts	-	-	(737,867)	-	-	-	-	-	-	-	-	(737,867)
Dividends paid	-	-	-	-	-	-	-	(434,269)	-	-	-	(434,269)
Dividends paid to other non-controlling interests	-	-	-	-	-	-	-	-	-	(5,156)	-	(5,156)
Capital contribution from other non-controlling interests	-	-	-	-	-	-	-	-	-	89,758	-	89,758
Change of ownership of subsidiaries without loss of control	-	-	-	-	-	-	474	-	-	(474)	-	-
Distribution to perpetual securities holders	-	-	-	-	-	-	-	-	(34,772)	-	-	(34,772)
Redemption of convertible bonds	-	-	-	-	-	-	(57)	56	-	-	-	(1)
At March 31, 2021	3,203,913	(49,133)	(500,277)	187,376	73,476	(1,690,948)	130,240	2,204,389	-	817,735	(766,238)	3,610,533
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 year	-	-	-	-	-	-	-	665,091	53,760	85,652	-	804,503
Other comprehensive (loss)/income	-	(10,925)	-	-	35,249	(427,085)	-	(46,275)	-	2,663	-	(446,373)
Total comprehensive (loss)/income for the year	-	(10,925)	-	-	35,249	(427,085)	-	618,816	53,760	88,315	-	358,130
Transfer to statutory reserve	-	-	-	-	-	-	11,995	(11,995)	-	-	-	-
Transfer of investment revaluation reserve upon disposal of financial assets at fair value through other comprehensive income to retained earnings	-	(1,696)	-	-	-	-	-	1,696	-	-	-	-
Vesting of shares under long-term incentive program	-	-	197,889	(275,551)	-	-	-	-	-	-	-	(77,662)
Deferred tax in relation to long-term incentive program	-	-	-	(7,025)	-	-	-	-	-	-	-	(7,025)
Disposal of subsidiaries	-	-	-	-	-	-	(267)	-	-	-	-	(267)
Share-based compensation	-	-	-	258,610	-	-	-	-	-	-	-	258,610
Contribution to employee share trusts	-	-	(159,147)	-	-	-	-	-	-	-	-	(159,147)
Dividends paid	-	-	-	-	-	-	-	(431,148)	-	-	-	(431,148)
Capital contribution from other non-controlling interests	-	-	-	-	-	-	-	-	-	79,121	-	79,121
Change of ownership of subsidiaries without loss of control	-	-	-	-	-	-	1,673	-	-	(1,673)	-	-
Dividends paid to other non-controlling interests	-	-	-	-	-	-	-	-	-	(4,620)	-	(4,620)
Distribution to perpetual securities holders	-	-	-	-	-	-	-	-	(53,760)	-	-	(53,760)
At March 31, 2020	3,185,923	(48,716)	(101,467)	287,574	58,489	(1,799,017)	176,642	1,438,114	993,670	634,321	(766,238)	4,059,295

1 General information and basis of preparation

The financial information relating to the years ended March 31, 2021 and 2020 included in the FY2020/21 annual results announcement does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. Further information relating to these statutory consolidated 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, 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended March 31, 2021 in due course.

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 reclassified right-of-use assets related to leasehold land and buildings, which was previously classified as "property, plant and equipment", and "prepaid lease payments" to "right-of-use assets" in the consolidated balance sheet.

The below amended standards became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amended standards.

- Amendments to HKFRS 3, Definition of a business
- Amendments to HKAS 1 and HKAS 8, Definition of material
- Amendments to HKFRS 9, HKAS 39 and HKFRS 7, Interest rate benchmark reform

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 ended March 31, 2021 and have not been early adopted:

	Effective for annual periods beginning on or after
Amendments to HKFRS 16, COVID-19-Related rent concessions	June 1, 2020
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest Rate Benchmark Reform – Phase 2	January 1, 2021
Amendments to HKAS 37, Onerous contracts – Cost of fulfilling a contract	January 1, 2022
Annual improvements to HKFRS Standards 2018-2020 Cycle	January 1, 2022
Amendments to HKAS 16, Property, plant and equipment: Proceeds before Intended Use	January 1, 2022
Amendments to HKFRS 3, Reference to the conceptual framework	January 1, 2022
Amendments to HKAS 1, Classification of liabilities as current or non-current	January 1, 2023
Amendments to HKFRS 10 and HKAS 28, Consolidated financial statements and investments in associates	Date to be determined

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

2 Segment information

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. Segments by business group comprise IDG and DCG.

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 property, plant and equipment 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

	2021		2020	
	Revenue from external customers <i>US\$'000</i>	Pre-tax income/ (loss) <i>US\$'000</i>	Revenue from external customers <i>US\$'000</i>	Pre-tax income/ (loss) <i>US\$'000</i>
IDG	54,411,212	3,107,456	45,216,190	2,301,621
DCG	6,331,100	(168,766)	5,500,159	(225,497)
Segment total	<u>60,742,312</u>	<u>2,938,690</u>	<u>50,716,349</u>	<u>2,076,124</u>
Unallocated:				
Headquarters and corporate income/(expenses) - net		(967,114)		(725,457)
Depreciation and amortization		(242,225)		(168,485)
Impairment of intangible assets		(52,606)		-
Finance income		19,699		24,959
Finance costs		(221,937)		(216,106)
Share of losses of associates and joint ventures		(32,323)		(14,545)
Gain/(loss) on disposal of property, plant and equipment		85,038		(9,423)
Fair value gain on financial assets at fair value through profit or loss		201,597		66,036
Fair value loss on a financial liability at fair value through profit or loss		(13,721)		(23,826)
Dilution gain on interest in an associate		31,374		-
Gain on deemed disposal of subsidiaries		2,964		-
Gain on disposal of subsidiaries		22,978		-
Gain on disposal of interest in an associate		-		3,922
Dividend income		1,784		4,508
Consolidated profit before taxation		<u>1,774,198</u>		<u>1,017,707</u>

(b) Segment assets for reportable segments

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
IDG	24,832,408	20,045,317
DCG	5,192,122	4,656,685
Segment assets for reportable segments	<u>30,024,530</u>	<u>24,702,002</u>
Unallocated:		
Deferred income tax assets	2,344,740	2,059,582
Financial assets at fair value through profit or loss	805,013	494,807
Financial assets at fair value through other comprehensive income	84,796	56,136
Derivative financial assets	118,299	138,813
Interests in associates and joint ventures	65,455	60,307
Bank deposits and cash and cash equivalents	3,127,770	3,617,470
Unallocated deposits, prepayments and other receivables	650,892	379,429
Income tax recoverable	254,442	196,464
Other unallocated assets	514,694	423,157
Total assets per consolidated balance sheet	<u>37,990,631</u>	<u>32,128,167</u>

(c) Segment liabilities for reportable segments

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
IDG	26,543,826	20,271,781
DCG	2,202,485	1,666,557
Segment liabilities for reportable segments	<u>28,746,311</u>	<u>21,938,338</u>
Unallocated:		
Deferred income tax liabilities	391,258	342,805
Derivative financial liabilities	35,944	73,784
Borrowings	3,997,853	4,859,599
Unallocated other payables and accruals	786,028	470,200
Unallocated other non-current liabilities	27,261	26,771
Income tax payable	395,443	357,375
Total liabilities per consolidated balance sheet	<u><u>34,380,098</u></u>	<u><u>28,068,872</u></u>

(d) Analysis of revenue by geography

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
China	14,257,290	10,857,955
AP	11,797,083	11,263,518
EMEA	15,882,576	12,419,641
AG	18,805,363	16,175,235
	<u><u>60,742,312</u></u>	<u><u>50,716,349</u></u>

(e) Analysis of revenue by timing of revenue recognition

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Point in time	59,080,578	49,406,643
Over time	1,661,734	1,309,706
	<u><u>60,742,312</u></u>	<u><u>50,716,349</u></u>

(f) Other segment information

	IDG		DCG		Total	
	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
For the year ended March 31						
Depreciation and amortization	571,606	562,748	246,187	238,554	817,793	801,302
Finance income	13,781	20,101	1,274	2,790	15,055	22,891
Finance costs	133,327	218,726	53,376	19,362	186,703	238,088
Additions to non-current assets (Note)	1,394,699	919,915	177,283	244,487	1,571,982	1,164,402

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\$6,119 million (2020: US\$5,983 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At March 31, 2021

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

At March 31, 2020

	China <i>US\$ million</i>	AP <i>US\$ million</i>	EMEA <i>US\$ million</i>	AG <i>US\$ million</i>	Mature Market <i>US\$ million</i>	Emerging Market <i>US\$ million</i>	Total <i>US\$ million</i>
Goodwill							
- PCSD	1,002	686	215	297	-	-	2,200
- MBG	-	-	-	-	666	799	1,465
- DCG	471	159	77	343	-	-	1,050
Trademarks and trade names							
- PCSD	209	59	103	67	-	-	438
- 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 March 31, 2021 (2020: Nil).

3 Operating profit

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

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Depreciation of property, plant and equipment	301,483	276,453
Depreciation of right-of-use assets	99,795	103,600
Amortization of intangible assets	658,740	589,734
Impairment of intangible assets	52,606	-
Employee benefit costs, including	5,149,862	4,446,884
– long-term incentive awards	291,737	258,610
– severance and other related costs	75,006	-
Rental expenses	14,361	15,820
(Gain)/loss on disposal of property, plant and equipment	(110,004)	11,467
Loss on disposal of intangible assets	1,574	1,067
Fair value gain on financial assets at fair value through profit or loss	(201,597)	(66,036)
Fair value loss on a financial liability at fair value through profit or loss	13,721	23,826
Dilution gain on interest in an associate	(31,374)	-
Gain on deemed disposal of subsidiaries	(2,964)	-
Gain on disposal of subsidiaries	(36,029)	(12,844)
Gain on disposal of interest in an associate	-	(3,922)
	_____	_____

4 Finance income and costs

(a) Finance income

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Interest on bank deposits	32,788	40,050
Interest on money market funds	1,966	7,800
	_____	_____
	34,754	47,850
	_____	_____

(b) Finance costs

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Interest on bank loans and overdrafts	43,845	87,859
Interest on convertible bonds	39,853	39,488
Interest on notes	136,983	90,529
Interest on lease liabilities	20,005	17,270
Factoring costs	136,820	189,363
Interest on contingent consideration and written put option liabilities	26,329	26,556
Others	4,805	3,129
	_____	_____
	408,640	454,194
	_____	_____

5 Taxation

The amount of taxation in the consolidated income statement represents:

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Current tax		
Hong Kong S.A.R. of China profits tax	118,751	73,957
Taxation outside Hong Kong S.A.R. of China	537,973	398,905
Deferred tax		
Credit for the year	(195,525)	(259,658)
	<u>461,199</u>	<u>213,204</u>

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

6 Earnings per share

(a) Basic

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

	2021	2020
Weighted average number of ordinary shares in issue	12,024,746,107	12,014,791,614
Adjustment for shares held by employee share trusts	(114,835,047)	(92,013,352)
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	<u>11,909,911,060</u>	<u>11,922,778,262</u>
	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Profit attributable to equity holders of the Company	1,178,307	665,091
Adjustment for tender premium on repurchase of perpetual securities	(42,609)	-
Profit attributable to equity holders of the Company used to determine basic earnings per share	<u>1,135,698</u>	<u>665,091</u>

(b) Diluted

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

The Group has five (2020: five) categories of potential ordinary shares, namely long-term incentive awards, bonus warrants, put option written on non-controlling interests, convertible bonds and convertible preferred shares. Long-term incentive awards and convertible bonds were dilutive for the years ended March 31, 2021 and 2020. Put option written on non-controlling interests and convertible preferred shares were anti-dilutive for the years ended March 31, 2021 and 2020. Bonus warrants were anti-dilutive for the year ended March 31, 2021 and dilutive for the year ended March 31, 2020. On November 16, 2020, 26,914,000 units of bonus warrants were exercised, the remaining units were expired during the year.

	2021	2020
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	11,909,911,060	11,922,778,262
Adjustment for long-term incentive awards	471,364,397	233,802,440
Adjustment for bonus warrants	-	7,856,832
Adjustment for convertible bonds	741,902,700	694,709,646
	<hr/>	<hr/>
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	13,123,178,157	12,859,147,180
	<hr/>	<hr/>
	2021	2020
	US\$'000	US\$'000
Profit attributable to equity holders of the Company used to determine basic earnings per share	1,135,698	665,091
Adjustment for interest on convertible bonds, net of tax	33,278	32,972
	<hr/>	<hr/>
Profit attributable to equity holders of the Company used to determine diluted earnings per share	1,168,976	698,063
	<hr/>	<hr/>

7 Dividends

	2021	2020
	US\$'000	US\$'000
Interim dividend of HK6.6 cents (2020: HK6.3 cents) per ordinary share, paid on December 10, 2020	102,298	96,640
Proposed final dividend – HK24.0 cents (2020: HK21.5 cents) per ordinary share	372,275	333,262
	<hr/>	<hr/>
	474,573	429,902
	<hr/>	<hr/>

8 Inventories

	2021 <i>US\$ '000</i>	2020 <i>US\$ '000</i>
Raw materials and work-in-progress	4,155,268	3,571,141
Finished goods	1,920,660	1,020,718
Service parts	304,648	355,055
	<u>6,380,576</u>	<u>4,946,914</u>

9 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:

	2021 <i>US\$ '000</i>	2020 <i>US\$ '000</i>
0 – 30 days	6,301,112	4,768,436
31 – 60 days	1,315,788	878,135
61 – 90 days	457,658	192,075
Over 90 days	468,473	519,822
	<u>8,543,031</u>	<u>6,358,468</u>
Less: loss allowance	(145,206)	(95,456)
Trade receivables – net	<u>8,397,825</u>	<u>6,263,012</u>

Trade receivables that are not past due are fully performing and not considered impaired.

At March 31, 2021, trade receivables, net of loss allowance, of US\$562,648,000 (2020: US\$805,741,000) were past due. The ageing of these receivables, based on due date, is as follows:

	2021 <i>US\$ '000</i>	2020 <i>US\$ '000</i>
Within 30 days	332,784	521,544
31 – 60 days	95,211	149,096
61 – 90 days	53,241	72,646
Over 90 days	81,412	62,455
	<u>562,648</u>	<u>805,741</u>

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

	2021 <i>US\$ '000</i>	2020 <i>US\$ '000</i>
At the beginning of the year	95,456	100,342
Exchange adjustment	(4,954)	(1,059)
Increase in loss allowance recognized in profit or loss	142,663	44,423
Uncollectible receivables written off	(53,366)	(14,926)
Unused amounts reversed	(34,593)	(33,324)
At the end of the year	<u>145,206</u>	<u>95,456</u>

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

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
0 – 30 days	6,824,377	4,793,837
31 – 60 days	2,049,369	1,699,192
61 – 90 days	949,294	596,027
Over 90 days	397,756	420,668
	<u>10,220,796</u>	<u>7,509,724</u>

10 Deposits, prepayments and other receivables

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

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Deposits	16,731	14,502
Other receivables	3,787,734	2,379,850
Prepayments	1,173,036	1,164,887
	<u>4,977,501</u>	<u>3,559,239</u>

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

11 Provisions, other payables and accruals

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

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Accruals	3,385,903	2,340,811
Allowance for billing adjustments (i)	2,464,020	1,618,374
Contingent consideration (Note 12 (a))	-	117,387
Written put option liabilities (Note 12 (b)(ii))	324,277	-
Other payables (ii)	6,870,636	4,857,095
Lease liabilities	133,662	91,976
	<u>13,178,498</u>	<u>9,025,643</u>

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 <i>US\$'000</i>	Environmental restoration <i>US\$'000</i>	Restructuring <i>US\$'000</i>	Total <i>US\$'000</i>
Year ended March 31, 2020				
At the beginning of the year	976,278	33,297	15,486	1,025,061
Exchange adjustment	(32,815)	626	(91)	(32,280)
Provisions made	824,687	20,126	-	844,813
Amounts utilized	(793,311)	(18,445)	(15,395)	(827,151)
	<u>974,839</u>	<u>35,604</u>	<u>-</u>	<u>1,010,443</u>
Long-term portion classified as non-current liabilities	(258,840)	(32,832)	-	(291,672)
At the end of the year	<u>715,999</u>	<u>2,772</u>	<u>-</u>	<u>718,771</u>
Year ended March 31, 2021				
At the beginning of the year	974,839	35,604	-	1,010,443
Exchange adjustment	42,328	(431)	-	41,897
Provisions made	992,112	18,172	-	1,010,284
Amounts utilized	(835,397)	(21,195)	-	(856,592)
	<u>1,173,882</u>	<u>32,150</u>	<u>-</u>	<u>1,206,032</u>
Long-term portion classified as non-current liabilities	(266,313)	(29,339)	-	(295,652)
At the end of the year	<u>907,569</u>	<u>2,811</u>	<u>-</u>	<u>910,380</u>

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

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

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.

12 Other non-current liabilities

Details of other non-current liabilities are as follows:

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Deferred consideration (a)	25,072	25,072
Written put option liabilities (b)	518,499	802,273
Lease liabilities	333,264	346,806
Environmental restoration (Note 11(b))	29,339	32,832
Government incentives and grants received in advance (c)	66,234	51,938
Others	463,748	62,375
	<u>1,436,156</u>	<u>1,321,296</u>

- (a) Pursuant to the completion of business combinations, the Group is required to pay in cash to the 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.

The contingent consideration to Fujitsu Limited (“Fujitsu”) was paid in May 2020 (Note 11(a)). As at March 31, 2021, the potential undiscounted amount of future payment in respect of the deferred consideration that the Group could be required to make to the respective seller under such arrangement is as follows:

Joint venture with NEC Corporation US\$25 million

- (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\$351 million). As at March 31, 2021, the written put option liabilities to Yuan Jia has been reclassified to current liabilities as it may fall due for settlement within the next twelve months.

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 incentives and grants are credited to the consolidated income statement upon fulfillment of those conditions and on a straight line basis over the expected life of the related assets respectively.

13 Borrowings

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Current liabilities		
Short-term loans (a)	58,190	2,124,562
Notes (b)	336,709	563,249
Convertible bonds (c)	-	607,169
Convertible preferred shares (d)	303,372	-
	698,271	3,294,980
Non-current liabilities		
Long-term loan (a)	2,070	3,079
Notes (b)	2,673,688	1,243,714
Convertible bonds (c)	623,824	-
Convertible preferred shares (d)	-	317,826
	3,299,582	1,564,619
	3,997,853	4,859,599

- (a) Majority of the short-term and long-term loans are denominated in United States dollars. As at March 31, 2021, the Group has total revolving and short-term loan facilities of US\$3,029 million (2020: US\$2,834 million) which has been utilized to the extent of US\$47 million (2020: US\$2,134 million).

(b)	Issue date	Principal amount	Term	Interest rate per annum	Due date	2021 US\$'000	2020 US\$'000
	June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	-	563,249
	March 16, 2017	US\$337 million / US\$500 million	5 years	3.875%	March 2022	336,709	498,225
	March 29, 2018	US\$687 million / US\$750 million	5 years	4.75%	March 2023	683,982	745,489
	April 24, 2020 and May 12, 2020	US\$1 billion	5 years	5.875%	April 2025	999,199	-
	November 2, 2020	US\$1 billion	10 years	3.421%	November 2030	990,507	-
						3,010,397	1,806,963

On November 3, 2020, approximately US\$163 million in principal amount of the 2022 Notes and approximately US\$63 million in principal amount of the 2023 Notes were purchased by the Company. Approximately US\$337 million in principal amount of the 2022 Notes and approximately US\$687 million in principal amount of the 2023 Notes remain outstanding.

- (c) On January 24, 2019, the Company completed the issuance of 5-Year US\$675 million convertible bonds bearing annual interest at 3.375% due in January 2024 (“the Bonds”) to third party professional investors (“the bondholders”). The proceeds were used to repay previous notes and for general corporate purposes. The bondholders have the right, at any time on or after 41 days after the date of issue up to the 10th day prior to the maturity date, to convert part or all of the outstanding principal amount of the Bonds into ordinary shares of the Company at a conversion price of HK\$7.99 per share, subject to adjustments. The conversion price was adjusted to HK\$7.13 per share effective on November 28, 2020. 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.

The outstanding principal amount of the Bonds is repayable by the Company upon the maturity of the Bonds on January 24, 2024, if not previously redeemed, converted or purchased and cancelled. On January 24, 2021, the bondholders had the right, at the bondholders’ option, to require the Company to redeem part or all of the Bonds on January 24, 2021 at their principal amount, US\$0.5 million were redeemed. The remaining principal amount of the Bonds has been reclassified to non-current liabilities as a result of the lapse of the redemption option. Assuming full conversion of the Bonds at the adjusted conversion price of HK\$7.13 per share, the Bonds will be convertible into 741,902,700 shares.

- (d) On June 21, 2019, the Group completed the issuance of 2,054,791 convertible preferred shares through its wholly owned subsidiary, Lenovo Enterprise Technology Company Limited (“LETCL”).

The convertible preferred shares are convertible to 20% of the enlarged issued ordinary share capital of LETCL on an as-converted and fully-diluted basis. The holders of the convertible preferred shares will be entitled cash dividends of 4% per annum payable semi-annually on the original subscription price until December 31, 2023. As at March 31, 2021, due to the occurrence of certain specified conditions, the holders of convertible preferred shares have the right to require LETCL to redeem or the Company to purchase all of their convertible preferred shares at the predetermined consideration and the convertible preferred shares have been reclassified to current liabilities. 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 were 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 March 31, 2021 and 2020 are as follows:

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Within 1 year	698,271	3,294,980
Over 1 to 2 years	685,008	499,234
Over 2 to 5 years	1,624,067	1,065,385
Over 5 years	990,507	-
	3,997,853	4,859,599

14 Share capital

	2021		2020	
	<i>Number of shares</i>	<i>US\$'000</i>	<i>Number of shares</i>	<i>US\$'000</i>
<i>Issued and fully paid:</i>				
Voting ordinary shares:				
At the beginning of the year	12,014,791,614	3,185,923	12,014,791,614	3,185,923
Issue of warrant shares	26,914,000	17,990	-	-
At the end of the year	12,041,705,614	3,203,913	12,014,791,614	3,185,923

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

15 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.

On November 3, 2020, approximately US\$819 million in principal amount of the perpetual securities were purchased and cancelled by the issuer pursuant to a tender offer made by the issuer on October 22, 2020, and the remaining approximately US\$181 million in principal amount of the perpetual securities were redeemed and cancelled on December 10, 2020.

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

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Profit before taxation	1,774,198	1,017,707
Share of losses of associates and joint ventures	32,323	14,545
Finance income	(34,754)	(47,850)
Finance costs	408,640	454,194
Depreciation of property, plant and equipment	301,483	276,453
Depreciation of right-of-use assets	99,795	103,600
Amortization of intangible assets	658,740	589,734
Impairment of intangible assets	52,606	-
Share-based compensation	291,737	258,610
(Gain)/loss on disposal of property, plant and equipment	(110,004)	11,467
Loss on disposal of intangible assets	1,574	1,067
Dilution gain on interest in an associate	(31,374)	-
Gain on deemed disposal of subsidiaries	(2,964)	-
Gain on disposal of subsidiaries	(36,029)	(12,844)
Gain on disposal of interest in an associate	-	(3,922)
Fair value change on bonus warrants	(1,138)	(20,856)
Fair value change on financial instruments	(1,201)	(12,378)
Fair value change on financial assets at fair value through profit or loss	(201,597)	(66,036)
Fair value change on a financial liability at fair value through profit or loss	13,721	23,826
Dividend income	(1,897)	(6,411)
Increase in inventories	(1,481,367)	(1,526,131)
(Increase)/decrease in trade receivables, notes receivable, deposits, prepayments and other receivables	(3,646,837)	674,050
Increase in trade payables, notes payable, provisions, other payables and accruals	6,789,649	1,128,570
Effect of foreign exchange rate changes	(289,309)	149,161
Net cash generated from operations	<u>4,585,995</u>	<u>3,006,556</u>

Reconciliation of financing liabilities

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

	2021 <i>US\$'000</i>	2020 <i>US\$'000</i>
Financing liabilities		
Short-term loans – current	58,190	2,124,562
Long-term loan – non-current	2,070	3,079
Notes – current	336,709	563,249
Notes – non-current	2,673,688	1,243,714
Convertible bonds – current	-	607,169
Convertible bonds – non-current	623,824	-
Convertible preferred shares – current	303,372	-
Convertible preferred shares – non-current	-	317,826
Lease liabilities – current	133,662	91,976
Lease liabilities – non-current	333,264	346,806
	<u>4,464,779</u>	<u>5,298,381</u>
Short-term loans – variable interest rates	39,672	2,123,571
Short-term loan – fixed interest rates	18,518	991
Long-term loan – fixed interest rates	2,070	3,079
Notes – fixed interest rates	3,010,397	1,806,963
Convertible bonds – fixed interest rates	623,824	607,169
Convertible preferred shares – fair value	303,372	317,826
Lease liabilities – fixed interest rates	466,926	438,782
	<u>4,464,779</u>	<u>5,298,381</u>

	Short-term loans current US\$'000	Long- term loan non- current US\$'000	Notes current US\$'000	Notes non- current US\$'000	Convertible bonds current US\$'000	Convertible bonds non- current US\$'000	Convertible preferred shares current US\$'000	Convertible preferred shares non- current US\$'000	Lease liabilities current US\$'000	Lease liabilities non- current US\$'000	Total US\$'000
Financing liabilities as at											
April 1, 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	4,089,791	3,079	-	-	-	-	-	-	-	-	4,092,870
Repayments of borrowings	(3,135,800)	-	-	-	-	-	-	-	-	-	(3,135,800)
Repayments of note	-	-	(786,244)	-	-	-	-	-	-	-	(786,244)
Transfer	-	-	581,389	(581,389)	602,983	(602,983)	-	-	91,422	(91,422)	-
Issue of convertible preferred shares	-	-	-	-	-	-	-	300,000	-	-	300,000
Principal elements of lease payments	-	-	-	-	-	-	-	-	(130,993)	-	(130,993)
Dividends paid	-	-	-	-	-	-	-	(6,000)	-	-	(6,000)
Foreign exchange adjustments	-	-	(18,770)	(13,548)	-	-	-	-	(370)	(863)	(33,551)
Other non-cash movements	3,664	-	738	2,387	4,186	12,477	-	23,826	54,014	107,650	208,942
Financing liabilities as at March 31, 2020	<u>2,124,562</u>	<u>3,079</u>	<u>563,249</u>	<u>1,243,714</u>	<u>607,169</u>	<u>-</u>	<u>-</u>	<u>317,826</u>	<u>91,976</u>	<u>346,806</u>	<u>5,298,381</u>
Financing liabilities as at											
April 1, 2020	2,124,562	3,079	563,249	1,243,714	607,169	-	-	317,826	91,976	346,806	5,298,381
Proceeds from borrowings	4,925,628	-	-	-	-	-	-	-	-	-	4,925,628
Repayments of borrowings	(7,005,300)	-	-	-	-	-	-	-	-	-	(7,005,300)
Repayment of notes	-	-	(565,643)	(225,912)	-	-	-	-	-	-	(791,555)
Repurchase of convertible preferred shares	-	-	-	-	-	-	-	(16,575)	-	-	(16,575)
Redemption of convertible bonds	-	-	-	-	-	(500)	-	-	-	-	(500)
Transfer	1,009	(1,009)	336,709	(336,709)	(619,537)	619,537	303,372	(303,372)	107,474	(107,474)	-
Issue of notes	-	-	-	2,003,500	-	-	-	-	-	-	2,003,500
Issuing costs of notes	-	-	-	(14,383)	-	-	-	-	-	-	(14,383)
Principal elements of lease payments	-	-	-	-	-	-	-	-	(165,150)	-	(165,150)
Acquisition of a subsidiary	1,770	-	-	-	-	-	-	-	-	-	1,770
Dividends paid	-	-	-	-	-	-	-	(11,600)	-	-	(11,600)
Foreign exchange adjustments	292	-	2,058	-	-	-	-	-	13,907	5,474	21,731
Other non-cash movements	10,229	-	336	3,478	12,368	4,787	-	13,721	85,455	88,458	218,832
Financing liabilities as at March 31, 2021	<u>58,190</u>	<u>2,070</u>	<u>336,709</u>	<u>2,673,688</u>	<u>-</u>	<u>623,824</u>	<u>303,372</u>	<u>-</u>	<u>133,662</u>	<u>333,264</u>	<u>4,464,779</u>

CONVERTIBLE BONDS

On January 24, 2019, the Company issued US\$675,000,000 3.375% convertible bonds (“Bonds”) due 2024 to third party professional investors only and the Bonds were listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on January 25, 2019.

On January 24, 2021, the bondholder exercised its redemption rights to require the Company to redeem and the Company redeemed part of the Bonds at the principal amount of US\$0.5 million which is the aggregate amount paid by the Company. There had not been any conversion of the Bonds, and no redemption right had been exercised by the Company for the period ended March 31, 2021 since the issue date of the Bonds. As at March 31, 2021, the total outstanding principal amount of the Bonds was US\$674.5 million. Please refer to the relevant note to the consolidated financial statements and the Company’s 2020/21 annual report to be published for further details of the Bonds.

DEBENTURES ISSUED

On April 24, 2020, the Company issued US\$650,000,000 5.875% unsecured notes due 2025 under the medium term note programme established by the Company on March 8, 2020. The Company has received a consideration of US\$649,846,340 and the proceeds were applied for refinancing and general corporate purposes. On May 12, 2020, the Company further issued US\$350,000,000 5.875% unsecured notes due 2025. The Company has received a consideration of US\$354,493,125 and the proceeds were applied for refinancing and general corporate purposes. The 2025 notes were listed on the Stock Exchange.

On November 2, 2020, the Company issued US\$1,000,000,000 3.421% notes due 2030. The notes are listed on the Stock Exchange. The Company has received a consideration of US\$1,000,000,000 from the issuance. The proceeds of this issuance were used to repurchase part of (i) the outstanding US\$1,000,000,000 5.375% perpetual securities issued by Lenovo Perpetual Securities Limited (“LPSL”) (a wholly owned subsidiary of the Company) and guaranteed by the Company, (ii) the Company’s US\$500,000,000 3.875% notes due 2022 (“2022 Notes”), and (iii) the Company’s US\$750,000,000 4.750% notes due 2023 (“2023 Notes”), in accordance with the terms of the tender offer announced by the Company on October 22, 2020. The 2022 Notes and 2023 Notes are listed on the Stock Exchange. Details as to the aggregate principal amount of such outstanding perpetual securities purchased by LPSL and notes repurchased by the Company, as well as the aggregate principal amount of such securities and notes outstanding are set out in the announcement of the Company dated November 3, 2020 regarding settlement of the tender offer.

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

During the year ended March 31, 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities, except that the respective trustee of the long-term incentive program and the employee share purchase plan of the Company purchased a total of 707,963,793 shares from the market for award to employees upon vesting. Details of these program and plan will be set out in the 2020/21 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 the 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 audited annual results of the Group for the year ended March 31, 2021. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended March 31, 2021, the Company has complied 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, and where appropriate, met the recommended best practices in the CG Code, 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.

Apart from the foregoing, the Company met the recommended best practices in the CG Code as to be disclosed in the respective sections of the 2020/21 Annual Report. Particularly, the Company published quarterly financial results and business reviews in addition to interim and annual results. Quarterly financial results enhanced the shareholders’ ability to assess the performance, financial position and prospects of the Company. The quarterly financial results were prepared using the accounting standards consistent with the policies applied to the interim and annual financial statements.

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

May 27, 2021

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. William O. Grabe, Mr. William Tudor Brown, Mr. Yang Chih-Yuan Jerry, Mr. Gordon Robert Halyburton Orr, Mr. Woo Chin Wan Raymond and Ms. Yang Lan.