Lenovo Group Limited | 2019/20 Interim Report

Stock Code 992

Smarter technology for all

ThinkSystem SE350

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Smarter transforms infrastructure solutions

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CONSOLIDATED INCOME STATEMENT

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED BALANCE SHEET

	Note	September 30, 2019 (unaudited) US$'000	March 31, 2019 (audited) US$'000
Non-current assets			
Property, plant and equipment		**1,683,495**	1,430,817
Prepaid lease payments		**431,503**	463,996
Construction-in-progress		**254,424**	232,097
Intangible assets		**8,196,730**	8,324,575
Interests in associates and joint ventures		**73,229**	79,061
Deferred income tax assets		**1,961,594**	1,862,902
Financial assets at fair value through profit or loss		**416,563**	449,363
Financial assets at fair value through other comprehensive income		**66,551**	71,486
Other non-current assets		**188,606**	187,985
		13,272,695	13,102,282
Current assets			
Inventories		**3,816,910**	3,434,660
Trade receivables	9(a)	**8,253,337**	6,661,484
Notes receivable		**55,834**	46,454
Derivative financial assets		**90,017**	70,972
Deposits, prepayments and other receivables	10	**4,316,133**	3,753,926
Income tax recoverable		**208,355**	185,643
Bank deposits		**65,227**	70,210
Cash and cash equivalents		**3,310,940**	2,662,854
		20,116,753	16,886,203
Total assets		**33,389,448**	29,988,485

CONSOLIDATED BALANCE SHEET

	Note	September 30, 2019 (unaudited) US$'000	March 31, 2019 (audited) US$'000
Share capital	14	**3,185,923**	3,185,923
Reserves		**62,721**	210,530
Equity attributable to owners of the Company		**3,248,644**	3,396,453
Perpetual securities		**993,670**	993,670
Other non-controlling interests		**538,435**	473,178
Put option written on non-controlling interests	12(b)	**(766,238)**	(766,238)
Total equity		**4,014,511**	4,097,063
Non-current liabilities			
Borrowings	13	**2,141,383**	2,426,770
Warranty provision	11(b)	**254,769**	254,601
Deferred revenue		**784,061**	678,137
Retirement benefit obligations		**424,934**	434,246
Deferred income tax liabilities		**355,037**	359,679
Other non-current liabilities	12	**1,375,067**	1,247,646
		5,335,251	5,401,079
Current liabilities			
Trade payables	9(b)	**7,857,686**	6,429,835
Notes payable		**1,253,503**	1,272,840
Derivative financial liabilities		**37,345**	74,426
Other payables and accruals	11(a)	**10,428,998**	8,942,336
Provisions	11(b)	**715,332**	738,688
Deferred revenue		**770,229**	780,951
Income tax payable		**328,442**	298,224
Borrowings	13	**2,648,151**	1,953,043
		24,039,686	20,490,343
Total liabilities		**29,374,937**	25,891,422
Total equity and liabilities		**33,389,448**	29,988,485

CONSOLIDATED CASH FLOW STATEMENT

	Note	**6 months ended September 30, 2019 (unaudited) US$'000**	6 months ended September 30, 2018 (unaudited) US$'000
Cash flows from operating activities			
Net cash generated from operations	16	**1,700,743**	659,597
Interest paid		**(264,028)**	(152,167)
Tax paid		**(196,715)**	(104,354)
Net cash generated from operating activities		**1,240,000**	403,076
Cash flows from investing activities			
Purchase of property, plant and equipment		**(106,153)**	(72,116)
Sale of property, plant and equipment		**6,352**	90,523
Acquisition of subsidiaries, net of cash acquired	17	**-**	(107,002)
Disposal of subsidiaries, net of cash disposed		**(18,155)**	–
Interest acquired in a joint venture		**(1,616)**	–
Payment for construction-in-progress		**(201,867)**	(119,769)
Payment for intangible assets		**(165,697)**	(83,730)
Purchase of financial assets at fair value through profit or loss		**(27,450)**	(24,919)
Purchase of financial assets at fair value through other comprehensive income		**-**	(1,744)
Loan to a joint venture		**(72,603)**	–
Net proceeds from sale of financial assets at fair value through profit or loss		**51,540**	33,996
Decrease/(increase) in bank deposits		**4,983**	(27,997)
Dividends received		**2,390**	163
Interest received		**24,474**	11,474
Net cash used in investing activities		**(503,802)**	(301,121)
Cash flows from financing activities			
Capital contribution from other non-controlling interests		**17,638**	32,485
Contribution to employee share trusts		**(34,361)**	(18,823)
Issue of convertible preferred shares		**300,000**	–
Repayment of a note		**(786,244)**	–
Principal elements of lease payments		**(67,219)**	–
Dividends paid		**(334,775)**	(312,980)
Distribution to perpetual securities holders		**(26,880)**	(26,880)
Proceeds from borrowings		**2,320,000**	3,390,000
Repayments of borrowings		**(1,400,000)**	(2,690,000)
Net cash (used in)/generated from financing activities		**(11,841)**	373,802
Increase in cash and cash equivalents		**724,357**	475,757
Effect of foreign exchange rate changes		**(76,271)**	(111,242)
Cash and cash equivalents at the beginning of the period		**2,662,854**	1,848,017
Cash and cash equivalents at the end of the period		**3,310,940**	2,212,532

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

NOTES

1 GENERAL INFORMATION AND BASIS OF PREPARATION

The financial information relating to the year ended March 31, 2019 included in the 2019/20 interim report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong S.A.R. of China Companies Ordinance is as follows:

The Company has delivered the consolidated financial statements for the year ended March 31, 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong S.A.R. of China Companies Ordinance.

The Company's auditor has reported on those consolidated financial statements of the Group. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong S.A.R. of China 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 S.A.R. of China 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 S.A.R. of China Financial Reporting Standards. The consolidated financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are stated at fair values.

The Group has adopted the following new standard, interpretation and amendments to existing standards that are mandatory for the year ending March 31, 2020 which the Group considers is appropriate and relevant to its operations:

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

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

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

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

1 GENERAL INFORMATION AND BASIS OF PREPARATION *(continued)*

Adjustments recognized on adoption on HKFRS 16

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

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

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

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

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

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

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

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

1 GENERAL INFORMATION AND BASIS OF PREPARATION *(continued)*

Adjustments recognized on adoption on HKFRS 16 *(continued)*

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

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

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

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

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

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

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

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

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

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

1 GENERAL INFORMATION AND BASIS OF PREPARATION *(continued)*

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

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

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

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

New amendments to existing standards not yet effective

The following new amendments to existing standards, which are considered appropriate and relevant to the Group's operations, have been issued but are not effective for the year ending March 31, 2020 and have not been early adopted:

	Effective for annual periods beginning on or after
Amendments to HKFRS 3, Definition of a business	January 1, 2020
Amendments to HKAS 1 and HKAS 8, Definition of material	January 1, 2020
Amendments to HKFRS 10 and HKAS 28, Consolidated financial statements and investments in associates	Date to be determined

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

2 SEGMENT INFORMATION

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

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

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

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

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

2 SEGMENT INFORMATION *(continued)*

(b) Segment assets for reportable segments

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

(c) Segment liabilities for reportable segments

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

2 SEGMENT INFORMATION *(continued)*

(d) Analysis of revenue by geography

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

(e) Analysis of revenue by timing of revenue recognition

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

(f) Other segment information

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

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

NOTES

2 SEGMENT INFORMATION *(continued)*

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

At September 30, 2019

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

At March 31, 2019

	China US$ million	AP US$ million	EMEA US$ million	AG US$ million	Mature Market US$ million	Emerging Market US$ million	Total US$ million
Goodwill							
- PCSD	1,051	679	221	320	-	-	2,271
- MBG	-	-	-	-	679	905	1,584
- DCG	490	158	88	351	-	-	1,087
Trademarks and trade names							
- PCSD	209	59	104	67	-	-	439
- MBG	-	-	-	-	197	263	460
- DCG	162	54	31	123	-	-	370

The directors are of the view that there was no impairment of goodwill and trademarks and trade names based on impairment tests performed as at September 30, 2019 (March 31, 2019: Nil).

3 OPERATING PROFIT

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

	3 months ended September 30, 2019 US$'000	**6 months ended September 30, 2019 US$'000**	3 months ended September 30, 2018 US$'000	6 months ended September 30, 2018 US$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**68,959**	**137,901**	78,496	144,256
Depreciation of right-of-use assets	**25,460**	**49,045**	–	–
Amortization of intangible assets	**138,308**	**265,073**	128,275	250,467
Employee benefit costs, including	**1,060,388**	**2,162,982**	945,813	1,946,453
– long-term incentive awards	***65,004***	***123,697***	*52,811*	*99,626*
Rental expenses under operating leases	**1,823**	**8,039**	35,798	71,774
(Gain)/loss on disposal of property, plant and equipment	**(1,769)**	**706**	1,523	2,456
(Gain)/loss on disposal of intangible assets	**(773)**	**1,016**	–	–
Fair value (gain)/loss on financial assets at fair value through profit or loss	**(8,848)**	**108**	(43,214)	(104,407)
Fair value loss on a financial liability at fair value through profit or loss	**3,000**	**3,000**	–	–
Dilution gain on interest in an associate	**-**	**-**	(18,121)	(18,121)
Gain on disposal of subsidiaries	**-**	**(12,844)**	–	–

4 FINANCE INCOME AND COSTS

(a) Finance income

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

(b) Finance costs

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

5 TAXATION

The amount of taxation in the consolidated income statement represents:

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

Hong Kong S.A.R. of China profits tax has been provided for at the rate of 16.5% (2018/19: 16.5%) on the estimated assessable profit for the period. Taxation outside Hong Kong S.A.R. of China represents income and irrecoverable withholding taxes of subsidiaries operating in the Chinese Mainland and overseas, calculated at rates applicable in the respective jurisdictions.

6 EARNINGS PER SHARE

(a) Basic

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

	3 months ended September 30, 2019	**6 months ended September 30, 2019**	3 months ended September 30, 2018	6 months ended September 30, 2018
Weighted average number of ordinary shares in issue	**12,014,791,614**	**12,014,791,614**	12,014,791,614	12,014,791,614
Adjustment for shares held by employee share trusts	**(21,900,919)**	**(107,502,874)**	(50,086,866)	(122,719,181)
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**11,992,890,695**	**11,907,288,740**	11,964,704,748	11,892,072,433
	US$'000	**US$'000**	US$'000	US$'000
Profit attributable to equity holders of the Company	**202,194**	**364,421**	168,403	245,447

6 EARNINGS PER SHARE *(continued)*

(b) Diluted

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

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

On September 29, 2017, the Company as issuer and Union Star Limited as subscriber ("the Subscriber") entered into a subscription agreement in relation to issuance of new shares and bonus warrants. On November 17, 2017, the Company issued and the Subscriber subscribed for 90,613,689 units of bonus warrants at exercise price of HK$5.17. The gross proceeds from the share subscription is approximately HK$3,905,450,000. Upon certain changes in the shareholding of the Subscriber immediately before or after the subscription, 32% of the Subscriber will be indirectly held by Legend Holdings Corporation (through Legion Elite Limited) and 68% of the Subscriber will be indirectly held by senior management of the Group.

6 EARNINGS PER SHARE *(continued)*

(b) Diluted *(continued)*

The subscription and issuance of bonus warrants increase the total number of shares in issue of the Company ("the Company's shares"). Shares from the subscription represent (i) approximately 8.16% of the Company's shares and (ii) approximately 7.54% of the Company's shares as enlarged by the subscription. The exercise in full of the subscription rights attaching to the bonus warrants will result in the issue of 90,613,689 shares which represent (i) approximately 0.75% of the Company's shares as enlarged by the subscription and (ii) approximately 0.75% of the Company's shares as enlarged by the subscription and the full exercise of the bonus warrants (assuming there will be no other changes in the Company's shares). As at September 30, 2019, all of bonus warrants remains outstanding.

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

7 DIVIDEND

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

NOTES

8 NON-CURRENT ASSETS

Analysis of the movements in major non-current assets is as follows:

	Property, plant and equipment US$'000	Intangible assets US$'000	Deferred income tax assets US$'000
Year ended March 31, 2019			
At the beginning of the year	1,304,751	8,514,504	1,580,308
Exchange adjustment	(44,719)	(320,260)	(27,244)
Additions	234,682	163,094	–
Transfers	214,494	131,918	–
Disposals	(23,552)	(743)	–
Depreciation/amortization	(288,965)	(506,860)	–
Credited to consolidated income statement	–	–	290,015
Credited to share-based compensation reserve	–	–	2,178
Deemed disposal of a subsidiary	(138)	–	–
Acquisition of subsidiaries	34,264	342,922	25,898
At the end of the year	1,430,817	8,324,575	1,871,155
Six months ended September 30, 2019			
At the beginning of the period	**1,430,817**	**8,324,575**	**1,871,155**
Change in accounting policy (Note 1)	**320,174**	**-**	**-**
Exchange adjustment	**(50,514)**	**(138,272)**	**(8,648)**
Additions	**139,168**	**174,697**	**-**
Transfers	**38,743**	**101,819**	**-**
Disposals	**(9,159)**	**(1,016)**	**-**
Depreciation/amortization	**(185,582)**	**(265,073)**	**-**
Credited to consolidated income statement	**-**	**-**	**126,140**
Charged to share-based compensation reserve	**-**	**-**	**(4,999)**
Disposal of subsidiaries	**(152)**	**-**	**-**
At the end of the period	**1,683,495**	**8,196,730**	**1,983,648**

The movements in deferred income tax assets presented above are prior to offsetting of balances within the same jurisdiction. Deferred income tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The amounts shown in the consolidated balance sheet are determined after appropriate offset.

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:

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

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

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

10 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

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

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

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

NOTES

11 PROVISIONS, OTHER PAYABLES AND ACCRUALS

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

	September 30, 2019 US$'000	March 31, 2019 US$'000
Accruals	**1,962,647**	1,969,914
Allowance for billing adjustments (i)	**1,769,566**	1,650,226
Contingent consideration (Note 12(a))	**117,204**	–
Other payables (ii)	**6,579,581**	5,322,196
	10,428,998	8,942,336

Notes:

(i) Allowance for billing adjustments relates primarily to allowances for future volume discounts, price protection, rebates, and customer sales returns.

(ii) Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors.

(iii) The carrying amounts of other payables and accruals approximate their fair values.

(b) The components of provisions are as follows:

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

11 PROVISIONS, OTHER PAYABLES AND ACCRUALS *(continued)*

(b) *(continued)*

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:

	September 30, 2019 US$'000	March 31, 2019 US$'000
Contingent consideration (a)	**–**	113,283
Deferred consideration (a)	**25,072**	25,072
Written put option liabilities (b)	**791,454**	783,505
Lease liabilities	**311,459**	–
Environmental restoration (Note 11(b))	**32,780**	31,772
Government incentives and grants received in advance (c)	**48,969**	50,087
Deferred rent liabilities	**–**	83,977
Others	**165,333**	159,950
	1,375,067	1,247,646

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

12 OTHER NON-CURRENT LIABILITIES *(continued)*

(a) *(continued)*

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

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

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

(ii) During the year ended March 31, 2019, Hefei Zhi Ju Sheng Bao Equity Investment Co., Ltd ("ZJSB") acquired the 49% interest in a joint venture company ("JV Co") from Compal Electronics, Inc. The Company and ZJSB respectively own 51% and 49% of the interest in the JV Co. Pursuant to the option agreement entered into between a wholly owned subsidiary of the Group and Hefei Yuan Jia Start-up Investment LLP ("Yuan Jia"), which holds 99.31% interest in ZJSB, the Group and Yuan Jia are respectively granted call and put options which entitle the Group to purchase from Yuan Jia, or Yuan Jia to sell to the Group, the 99.31% interest in ZJSB. The call and put options will be exercisable at any time after August 31, 2022 and August 31, 2021 respectively. The exercise price for the call and put options will be determined in accordance with the joint venture agreement, and up to a maximum of RMB2,300 million (approximately US$322 million).

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

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

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

13 BORROWINGS

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

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

(ii)

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

(iii) On January 24, 2019, the Company completed the issuance of 5-Year US$675 million convertible bonds bearing annual interest at 3.375% due in January 2024 ("the Bonds") to third party professional investors ("the bondholders"). The bondholders have the right, at any time on or after 41 days after the date of issue up to the 10th day prior to the maturity date, to convert part or all of the outstanding principal amount of the Bonds into ordinary shares of the Company at a conversion price of HK$7.99 per share, subject to adjustments. The conversion price was adjusted from HK$7.99 per share to HK$7.71 per share effective on July 16, 2019.

The outstanding principal amount of the Bonds is repayable by the Company upon the maturity of the Bonds on January 24, 2024, if not previously redeemed, converted or purchased and cancelled. The proceeds would be used to repay previous notes and for general corporate purposes. Assuming full conversion of the Bonds at the adjusted conversion price of HK$7.71 per share, the Bonds will be convertible into 686,600,195 shares, representing (i) approximately 5.71% of the issued share capital of the Company as at September 30, 2019; and (ii) approximately 5.41% of the issued share capital of the Company, as enlarged by full conversion of the Bonds. The Group expects that it will be able to meet its redemption obligations based on the financial position of the Group.

13 BORROWINGS *(continued)*

(iii) *(continued)*

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

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

The convertible preferred shares are convertible to 20% of the enlarged issued ordinary share capital of LETCL on an as-converted and fully-diluted basis. The holders of the convertible preferred shares will be entitled cash dividends of 4% per annum payable semi-annually on the original subscription price until December 31, 2023. Upon the occurrence of certain specified conditions, the holders of convertible preferred shares will have the right to require LETCL to redeem or the Company to purchase all of their convertible preferred shares at the predetermined consideration. Accordingly, the convertible preferred shares are classified as a financial liability.

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

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

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

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

14 SHARE CAPITAL

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

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.

NOTES

16 RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH GENERATED FROM OPERATIONS

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

16 RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH GENERATED FROM OPERATIONS *(continued)*

Reconciliation of financing liabilities

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

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

16 RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH GENERATED FROM OPERATIONS *(continued)*

Reconciliation of financing liabilities *(continued)*

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

17 BUSINESS COMBINATION

On May 2, 2018, the Group acquired 51% interest of FCCL. Details of this business combination were disclosed in Note 36 of the Group's 2018/19 Annual Report.

18 COMMITMENTS

The Group had the following capital commitments:

	September 30, 2019 US$'000	March 31, 2019 US$'000
Contracted but not provided for:		
– Property, plant and equipment	**98,481**	92,948
– Investment in financial assets	**3,376**	10,924
	101,857	103,872

19 CONTINGENT LIABILITIES

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

FINANCIAL REVIEW

Results

For the six months ended September 30, 2019 and 2018

	2019 US$'000	2018 US$'000
Revenue	**26,034,142**	25,292,534
Gross profit	**4,230,939**	3,425,776
Gross profit margin	**16.3%**	13.5%
Operating expenses	**(3,446,544)**	(2,955,856)
Operating profit	**784,395**	469,920
Other non-operating expenses – net	**(234,214)**	(143,827)
Profit before taxation	**550,181**	326,093
Profit for the period	**435,581**	258,802
Profit attributable to equity holders of the Company	**364,421**	245,447
Earnings per share attributable to equity holders of the Company (US cents)		
– Basic	**3.06**	2.06
– Diluted	**2.94**	2.06
EBITDA	**1,360,111**	964,269
Dividend per ordinary share (HK cents)		
– Interim dividend	**6.3**	6.0

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

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

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

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

FINANCIAL REVIEW *(continued)*

Results *(continued)*

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

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

Key expenses by nature comprise:

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

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

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

FINANCIAL REVIEW *(continued)*

Results *(continued)*

Finance income mainly represents interest on bank deposits.

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

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

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

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

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

Financial Position

The Group's major balance sheet items are set out below:

Non-current assets	**September 30, 2019 US$'000**	March 31, 2019 US$'000
Property, plant and equipment	**1,683,495**	1,430,817
Prepaid lease payments	**431,503**	463,996
Construction-in-progress	**254,424**	232,097
Intangible assets	**8,196,730**	8,324,575
Interests in associates and joint ventures	**73,229**	79,061
Deferred income tax assets	**1,961,594**	1,862,902
Financial assets at fair value through profit or loss	**416,563**	449,363
Financial assets at fair value through other comprehensive income	**66,551**	71,486
Other non-current assets	**188,606**	187,985
	13,272,695	13,102,282

Property, plant and equipment

Property, plant and equipment comprise mainly the Group's freehold land and buildings, leasehold improvements, plant and machinery, office equipment and right-of-use assets. The increase of 18 percent is mainly attributable to the recognition of right-of-use assets resulting from the adoption of the new accounting standard effective from the beginning of the period, the Group's further investments in plant and machinery and office equipment, partly offset by current period depreciation and exchange adjustment.

Prepaid lease payments

Prepaid lease payments, representing the land use rights in respect of the manufacturing sites and headquarters in China, saw a decrease of 7 percent mainly caused by exchange adjustment.

Construction-in-progress

Construction-in-progress comprises mainly the Group's investments in its headquarters in China, internal use software and research and development laboratories. The 10 percent increase is mainly attributable to further investment in internal use software, partly offset by transfer of completed assets to property, plant and equipment and intangible assets.

Intangible assets

Intangible assets comprise goodwill and other intangible assets including trademarks and trade names, customer relationships, patent and technology and internal use software. It fell by 2 percent mainly due to the current period amortization and exchange adjustment, partly offset by acquisition of patent and technology.

Interests in associates and joint ventures

Interests in associates and joint ventures decreased by 7 percent, which is mainly impacted by the shared results of associates and joint ventures in the current period.

Financial Position *(continued)*

Deferred income tax assets

Deferred income tax assets amounted to US$1,962 million as at current period end, representing an increase of 5 percent over March 31, 2019, which is mainly attributable to tax losses arising from the normal course of business.

Financial assets at fair value through profit or loss

Decrement in financial assets at fair value through profit or loss during the period is mainly attributable to disposal of financial assets and exchange adjustment, partly offset by additional investments.

Current assets	**September 30, 2019 US$'000**	March 31, 2019 US$'000
Inventories	**3,816,910**	3,434,660
Trade receivables	**8,253,337**	6,661,484
Notes receivable	**55,834**	46,454
Derivative financial assets	**90,017**	70,972
Deposits, prepayments and other receivables	**4,316,133**	3,753,926
Income tax recoverable	**208,355**	185,643
Bank deposits	**65,227**	70,210
Cash and cash equivalents	**3,310,940**	2,662,854
	20,116,753	16,886,203

Inventories

Inventories increased by 11 percent which is in line with the Group's business growth and seasonality.

Trade receivables and Notes receivable

Trade receivables and notes receivable increased by 24 percent, as a result of seasonality where higher sales were recognized during the second quarter of the current period as compared with the fourth quarter of the previous year.

Derivative financial assets/liabilities

Derivatives relate to foreign currency forward contracts that are designated as hedges for the fair value of recognized assets or liabilities or a firm commitment, or of highly probable forecast transactions. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair values.

Deposits, prepayments and other receivables

Majority of other receivables of the Group are amounts due from subcontractors for components sold during the ordinary course of business. The increase is mainly caused by seasonality whereby more components were sold during the second quarter of the current period than in the fourth quarter of the previous year, as well as loan to a joint venture during the period.

FINANCIAL REVIEW *(continued)*

Financial Position *(continued)*

Total equity

Total equity fell from US$4,097 million to US$4,015 million during the period. The decrease is mainly due to payment of final dividend and currency translation difference, partly offset by profit for the period.

Non-current liabilities	**September 30, 2019 US$'000**	March 31, 2019 US$'000
Borrowings	**2,141,383**	2,426,770
Warranty provision	**254,769**	254,601
Deferred revenue	**784,061**	678,137
Retirement benefit obligations	**424,934**	434,246
Deferred income tax liabilities	**355,037**	359,679
Other non-current liabilities	**1,375,067**	1,247,646
	5,335,251	5,401,079

Borrowings

Borrowings (classified as non-current) decreased by US$285 million, mainly attributable to the reclassification of a note from non-current to current with maturity falling within the next 12 months after the period end date, partly offset by the issuance of the convertible preferred shares during the period.

Warranty provision

The Group registers warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it is sold, but generally includes technical support, repair parts and labour associated with warranty repair and service actions. The period ranges from one to three years. The Group revaluates its estimates on a quarterly basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Retirement benefit obligations

The Group operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

Deferred income tax liabilities

Deferred income tax liabilities comprise withholding tax on undistributed earnings, tax liabilities on upward valuation of intangibles arising from business combination and accelerated tax depreciation.

Financial Position *(continued)*

Other non-current liabilities

Other non-current liabilities mainly comprise liabilities arising from written put options granted, lease liabilities, and government incentives and grants received in advance. The increase of 10 percent is mainly due to recognition of lease liabilities resulting from the adoption of new accounting standard effective from the beginning of the period, partly offset by the reclassification of contingent consideration from non-current to current as it will be due within the next 12 months after the period end date.

Current liabilities	**September 30, 2019 US$'000**	March 31, 2019 US$'000
Trade payables	**7,857,686**	6,429,835
Notes payable	**1,253,503**	1,272,840
Derivative financial liabilities	**37,345**	74,426
Other payables and accruals	**10,428,998**	8,942,336
Provisions	**715,332**	738,688
Deferred revenue	**770,229**	780,951
Income tax payable	**328,442**	298,224
Borrowings	**2,648,151**	1,953,043
	24,039,686	20,490,343

Trade payables and Notes payable

The increase in trade payables and notes payable is due to seasonality leading to more purchases made during the second quarter of the current period than in the fourth quarter of the previous year.

Other payables and accruals

Other payables and accruals comprise the allowance for billing adjustments related primarily to allowance for future volume discounts, price protection, rebates, and customer sales returns. Majority of other payables are obligations to pay for finished goods that have been acquired during the ordinary course of business from subcontractors. The balances increased in line with seasonality where more purchases from subcontractors were made during the second quarter of the current period as compared with the fourth quarter of the previous year.

Provisions

Provisions comprise warranty liabilities (due within one year), environmental restorations and restructuring provision. The decrease of 3 percent over March 31, 2019 is mainly due to the settlement of severance costs and exchange adjustment during the period.

Borrowings

Borrowings (classified as current) increased by 36 percent, which is mainly due to the net drawdown of short term loans, and the reclassification of a note from non-current to current with maturity falling within the next 12 months after the period end date, partly offset by the settlement of a note.

Capital Expenditure

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

Liquidity and Financial Resources

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

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

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

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

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

The Group has the following banking facilities:

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

Liquidity and Financial Resources *(continued)*

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

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

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

Credit facilities	Total facilities amount at **September 30, 2019 US$ million**	Total facilities amount at March 31, 2019 US$ million	Drawn down amount at **September 30, 2019 US$ million**	Drawn down amount at March 31, 2019 US$ million
Trade lines	**2,461**	2,195	**1,844**	1,637
Short-term and revolving money market facilities	**851**	701	**301**	56
Forward foreign exchange contracts	**10,776**	9,525	**10,776**	9,525

FINANCIAL REVIEW *(continued)*

Liquidity and Financial Resources *(continued)*

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

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

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At September 30, 2019, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$10,776 million (March 31, 2019: US$9,525 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

BUSINESS REVIEW AND OUTLOOK

Highlights

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

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

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

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

Financial Performance

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

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

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

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

BUSINESS REVIEW AND OUTLOOK *(continued)*

Performance by Product Business Group

Intelligent Devices Group (IDG)

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

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

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

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

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

Intelligent Devices Group – Mobile Business Group (MBG)

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

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

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

BUSINESS REVIEW AND OUTLOOK *(continued)*

Performance by Product Business Group *(continued)*

Intelligent Devices Group – Mobile Business Group (MBG) *(continued)*

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

Data Center Group (DCG)

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

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

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

Outlook

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

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

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

BUSINESS REVIEW AND OUTLOOK *(continued)*

Strategic Highlights

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

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

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

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

HUMAN RESOURCES

At September 30, 2019, the Group had a headcount of more than 66,000 worldwide.

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.

The Company has launched an employee share purchase plan ("Plan") in October 2016. The purpose of the Plan is to facilitate and encourage Lenovo share ownership by the general employee population. Under the Plan, eligible employees will be awarded one matching restricted share unit for every four ordinary shares of the Company purchased through qualified employee contributions. The matching restricted share unit are subject to a vesting schedule of up to two years. Executive and non-executive directors and senior management of the Company are not eligible to participate in the Plan.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Long-Term Incentive Program

The Company operates a Long-Term Incentive Program ("LTI Program") which was adopted by the Company in 2005 and amended in 2008 and 2016 respectively. The purpose of the LTI Program is to attract, retain, reward and motivate executive and non-executive directors, senior management and selected top-performing employees of the Company and its subsidiaries, while reinforcing direct alignment with shareholders.

Under the LTI Program, the Company maintains two types of equity-based compensation vehicles: (i) share appreciation rights, and (ii) restricted share units. These vehicles are described in more detail below.

(i) Share Appreciation Rights ("SARs")

SARs entitle the holder to receive the appreciation in value of the Company's share price above a predetermined level. SARs are typically subject to a vesting schedule of up to four years.

(ii) Restricted Share Units ("RSUs")

RSU is equivalent to the value of one ordinary share of the Company. Once vested, RSU is converted to ordinary share, or its cash equivalent. RSUs are typically subject to a vesting schedule of up to four years. Dividends are typically not paid on RSUs.

The Company reserves the right to settle any awards under the LTI Program in cash or in ordinary shares at its discretion. The Company has created and funded a trust to pay shares to eligible recipients. In the case of SARs, shares are due after exercise by the recipient. In the case of RSUs, shares are due after the employee satisfies any vesting conditions.

The number of units that are awarded under the LTI Program is set and reviewed annually, reflecting competitive market positioning, market practices, especially those among Lenovo's competitors, as well as the Company's performance and each individual's actual and expected contribution to the business. In certain circumstances, awards under the LTI Program may be made to support the attraction of new hires. Award levels and mix may vary by individual, role and level.

Details of the movements in the share awards of executive and non-executive directors of the Company as of September 30, 2019 under the LTI program are presented below.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(continued)*

Long-Term Incentive Program *(continued)*

The movements in the share awards of the executive and non-executive directors of the Company during the period are as follows:

				Number of units							
Name	Award type	Fiscal year of award	Effective price (HK$)	As at April 1, 2019 (Unvested)	Awarded during the period	Vested during the period	Exercised during the period	Lapsed/ nullified during the period *(Note 1)*	As at September 30, 2019 (Unvested)	Total outstanding as at September 30, 2019	Vesting period (mm.dd.yyyy)
Mr. Yang Yuanqing	SAR	12/13	8.22	-	-	-	-	-	-	14,059,573	02.04.2014 - 02.04.2017
	SAR	13/14	9.815	-	-	-	-	-	-	14,520,062	06.03.2015 - 06.03.2018
	SAR	15/16	12.29	3,175,916	-	3,175,916	-	-	-	12,703,664	06.01.2016 - 06.01.2019
	SAR	16/17	4.90	31,743,117	-	31,743,117	-	-	-	126,972,471	06.01.2017 - 06.01.2019
	SAR	17/18	4.95	30,595,849	-	15,297,924	-	-	15,297,925	45,893,773	06.01.2018 - 06.01.2020
	SAR	18/19	4.00	39,305,643	-	13,100,571	-	-	26,205,072	39,305,643	06.01.2019 - 06.01.2021
	SAR	19/20	5.79	-	79,451,149	-	-	-	79,451,149	79,451,149	06.03.2020 - 06.03.2022
	RSU	15/16	12.29	1,220,503	-	1,220,503	-	-	-	-	06.01.2016 - 06.01.2019
	RSU	17/18	4.95	7,930,443	-	3,965,221	-	-	3,965,222	3,965,222	06.01.2018 - 06.01.2020
	RSU	18/19	4.00	9,368,500	-	3,122,521	-	-	6,245,979	6,245,979	06.01.2019 - 06.01.2021
	RSU	19/20	5.79	-	15,564,480	-	-	-	15,564,480	15,564,480	06.03.2020 - 06.03.2022
Mr. Zhu Linan	SAR	13/14	7.88	-	-	-	-	-	-	242,723	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	-	-	-	-	-	-	275,884	08.15.2015 - 08.15.2017
	SAR	15/16	7.49	-	-	-	-	-	-	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	205,253	-	205,253	-	-	-	205,253	08.19.2017 - 08.19.2019
	SAR	17/18	4.74	636,877	-	318,439	-	-	318,438	636,877	08.21.2018 - 08.21.2020
	SAR	18/19	4.39	1,125,232	-	375,077	-	-	750,155	1,125,232	08.17.2019 - 08.17.2021
	RSU	16/17	5.38	48,030	-	48,030	-	-	-	-	08.19.2017 - 08.19.2019
	RSU	17/18	4.74	110,053	-	55,026	-	-	55,027	55,027	08.21.2018 - 08.21.2020
	RSU	18/19	4.39	178,799	-	59,600	-	-	119,199	119,199	08.17.2019 - 08.17.2021
	RSU	19/20	5.48	-	328,629	-	-	-	328,629	328,629	09.19.2020 - 09.19.2022
Mr. Zhao John Huan	SAR	13/14	7.88	-	-	-	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	-	-	-	-	-	-	275,884	08.15.2015 - 08.15.2017
	SAR	15/16	7.49	-	-	-	-	-	-	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	205,253	-	205,253	-	-	-	615,761	08.19.2017 - 08.19.2019
	SAR	17/18	4.74	636,877	-	318,439	-	-	318,438	955,316	08.21.2018 - 08.21.2020
	SAR	18/19	4.39	1,125,232	-	375,077	-	-	750,155	1,125,232	08.17.2019 - 08.17.2021
	RSU	16/17	5.38	48,030	-	48,030	-	-	-	-	08.19.2017 - 08.19.2019
	RSU	17/18	4.74	110,053	-	55,026	-	-	55,027	55,027	08.21.2018 - 08.21.2020
	RSU	18/19	4.39	178,799	-	59,600	-	-	119,199	119,199	08.17.2019 - 08.17.2021
	RSU	19/20	5.48	-	328,629	-	-	-	328,629	328,629	09.19.2020 - 09.19.2022

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(continued)*

Long-Term Incentive Program *(continued)*

Name	Award type	Fiscal year of award	Effective price (HK$)	Number of units: As at April 1, 2019 (Unvested)	Awarded during the period	Vested during the period	Exercised during the period	Lapsed/ nullified during the period *(Note 1)*	As at September 30, 2019 (Unvested)	Total outstanding as at September 30, 2019	Vesting period (mm.dd.yyyy)
Mr. Nicholas C. Allen	SAR	12/13	6.36	-	-	-	-	274,316	-	-	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	-	-	-	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	-	-	-	-	-	-	275,884	08.15.2015 - 08.15.2017
	SAR	15/16	7.49	-	-	-	-	-	-	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	205,254	-	205,254	-	-	-	615,761	08.19.2017 - 08.19.2019
	SAR	17/18	4.74	636,878	-	318,439	-	-	318,439	955,316	08.21.2018 - 08.21.2020
	SAR	18/19	4.39	1,125,232	-	375,077	-	-	750,155	1,125,232	08.17.2019 - 08.17.2021
	RSU	16/17	5.38	48,030	-	48,030	-	-	-	-	08.19.2017 - 08.19.2019
	RSU	17/18	4.74	110,053	-	55,026	-	-	55,027	55,027	08.21.2018 - 08.21.2020
	RSU	18/19	4.39	178,799	-	59,599	-	-	119,200	119,200	08.17.2019 - 08.17.2021
	RSU	19/20	5.48	-	328,629	-	-	-	328,629	328,629	09.19.2020 - 09.19.2022
Mr. Nobuyuki Idei	SAR	12/13	6.36	-	-	-	-	274,316	-	-	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	-	-	-	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	-	-	-	-	-	-	275,884	08.15.2015 - 08.15.2017
	SAR	15/16	7.49	-	-	-	-	-	-	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	205,254	-	205,254	-	-	-	615,761	08.19.2017 - 08.19.2019
	SAR	17/18	4.74	636,878	-	318,439	-	-	318,439	955,316	08.21.2018 - 08.21.2020
	SAR	18/19	4.39	1,125,232	-	375,077	-	-	750,155	1,125,232	08.17.2019 - 08.17.2021
	RSU	16/17	5.38	48,030	-	48,030	-	-	-	-	08.19.2017 - 08.19.2019
	RSU	17/18	4.74	110,053	-	55,026	-	-	55,027	55,027	08.21.2018 - 08.21.2020
	RSU	18/19	4.39	178,799	-	59,599	-	-	119,200	119,200	08.17.2019 - 08.17.2021
	RSU	19/20	5.48	-	328,629	-	-	-	328,629	328,629	09.19.2020 - 09.19.2022
Mr. William O. Grabe	SAR	12/13	6.36	-	-	-	-	274,316	-	-	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	-	-	-	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	-	-	-	-	-	-	275,884	08.15.2015 - 08.15.2017
	SAR	15/16	7.49	-	-	-	-	-	-	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	205,254	-	205,254	-	-	-	615,761	08.19.2017 - 08.19.2019
	SAR	17/18	4.74	636,878	-	318,439	-	-	318,439	955,316	08.21.2018 - 08.21.2020
	SAR	18/19	4.39	1,125,232	-	375,077	-	-	750,155	1,125,232	08.17.2019 - 08.17.2021
	RSU	16/17	5.38	48,030	-	48,030	-	-	-	-	08.19.2017 - 08.19.2019
	RSU	17/18	4.74	110,053	-	55,026	-	-	55,027	55,027	08.21.2018 - 08.21.2020
	RSU	18/19	4.39	178,799	-	59,599	-	-	119,200	119,200	08.17.2019 - 08.17.2021
	RSU	19/20	5.48	-	328,629	-	-	-	328,629	328,629	09.19.2020 - 09.19.2022
	RSU (Deferral)	18/19	5.48	-	46,883	46,883	-	-	-	-	*Note 2*
	RSU (Deferral)	19/20	5.48	-	46,883	46,883	-	-	-	-	*Note 2*

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(continued)*

Long-Term Incentive Program *(continued)*

Name	Award type	Fiscal year of award	Effective price (HK$)	Number of units: As at April 1, 2019 (Unvested)	Awarded during the period	Vested during the period	Exercised during the period	Lapsed/ nullified during the period *(Note 1)*	As at September 30, 2019 (Unvested)	Total outstanding as at September 30, 2019	Vesting period (mm.dd.yyyy)
Mr. William Tudor Brown	SAR	12/13	8.07	-	-	-	-	-	-	53,476	01.31.2014 - 01.31.2016
	SAR	13/14	7.88	-	-	-	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	-	-	-	-	-	-	275,884	08.15.2015 - 08.15.2017
	SAR	15/16	7.49	-	-	-	-	-	-	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	205,254	-	205,254	-	-	-	615,761	08.19.2017 - 08.19.2019
	SAR	17/18	4.74	636,878	-	318,439	-	-	318,439	955,316	08.21.2018 - 08.21.2020
	SAR	18/19	4.39	1,125,232	-	375,077	-	-	750,155	1,125,232	08.17.2019 - 08.17.2021
	RSU	16/17	5.38	48,030	-	48,030	-	-	-	-	08.19.2017 - 08.19.2019
	RSU	17/18	4.74	110,053	-	55,026	-	-	55,027	55,027	08.21.2018 - 08.21.2020
	RSU	18/19	4.39	178,799	-	59,599	-	-	119,200	119,200	08.17.2019 - 08.17.2021
	RSU	19/20	5.48	-	328,629	-	-	-	328,629	328,629	09.19.2020 - 09.19.2022
Mr. Yang Chih-Yuan Jerry	SAR	12/13	8.63	-	-	-	-	-	-	24,593	02.20.2014 - 02.20.2016
	SAR	13/14	7.88	-	-	-	-	-	-	245,757	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	-	-	-	-	-	-	186,221	08.15.2015 - 08.15.2017
	SAR	14/15	11.07	-	-	-	-	-	-	37,202	11.16.2015 - 11.16.2017
	SAR	15/16	7.49	-	-	-	-	-	-	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	205,254	-	205,254	-	-	-	615,761	08.19.2017 - 08.19.2019
	SAR	17/18	4.74	636,878	-	318,439	-	-	318,439	955,316	08.21.2018 - 08.21.2020
	SAR	18/19	4.39	1,125,232	-	375,077	-	-	750,155	1,125,232	08.17.2019 - 08.17.2021
	RSU	16/17	5.38	48,030	-	48,030	-	-	-	-	08.19.2017 - 08.19.2019
	RSU	17/18	4.74	110,053	-	55,026	-	-	55,027	55,027	08.21.2018 - 08.21.2020
	RSU	18/19	4.39	178,799	-	59,599	-	-	119,200	119,200	08.17.2019 - 08.17.2021
	RSU	19/20	5.48	-	328,629	-	-	-	328,629	328,629	09.19.2020 - 09.19.2022
Mr. Gordon Robert Halyburton Orr	SAR	15/16	7.25	-	-	-	-	-	-	224,107	09.18.2016 - 09.18.2022
	SAR	16/17	5.38	205,254	-	205,254	-	-	-	615,761	08.19.2017 - 08.19.2023
	SAR	17/18	4.74	636,878	-	318,439	-	-	318,439	955,316	08.21.2018 - 08.21.2020
	SAR	18/19	4.39	1,125,232	-	375,077	-	-	750,155	1,125,232	08.17.2019 - 08.17.2021
	RSU	16/17	5.38	48,030	-	48,030	-	-	-	-	08.19.2017 - 08.19.2019
	RSU	17/18	4.74	110,053	-	55,026	-	-	55,027	55,027	08.21.2018 - 08.21.2020
	RSU	18/19	4.39	178,799	-	59,599	-	-	119,200	119,200	08.17.2019 - 08.17.2021
	RSU	19/20	5.48	-	328,629	-	-	-	328,629	328,629	09.19.2020 - 09.19.2022
Mr. Woo Chin Wan, Raymond	RSU	19/20	5.48	-	358,380	-	-	-	358,380	328,629	09.19.2020 - 09.19.2022

Note 1: These units were nullified in accordance with the operation of the SAR plan rules.

Note 2: Proceeds in respect of quarterly deferral grants to be paid only at point of termination from the board of directors or unforeseen emergency.

DIRECTORS' INTERESTS

As at September 30, 2019, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong S.A.R. of China Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(i) Interests in the shares and underlying shares of the Company

		Capacity and number of shares/ underlying shares held			
Name of director	**Interests in shares/ underlying shares** *(Note 1)*	**Personal interests**	**Corporate interests**	**Aggregate long position**	**Approximate percentage of interests** *(Note 2)*
Mr. Yang Yuanqing	Ordinary shares	92,732,658	622,804,000 *(Note 3)*	715,536,658	
	Share awards	358,682,016	-	358,682,016	
				1,074,218,674	8.94%
Mr. Zhu Linan	Ordinary shares	2,762,986	-	2,762,986	
	Share awards	3,392,794	-	3,392,794	
				6,155,780	0.05%
Mr. Zhao John Huan	Ordinary shares	766,093	-	766,093	
	Share awards	4,243,102	-	4,243,102	
				5,009,195	0.04%
Mr. Nicholas C. Allen	Ordinary shares	1,208,779	-	1,208,779	
	Share awards	4,243,103	-	4,243,103	
				5,451,882	0.05%
Mr. Nobuyuki Idei	Ordinary shares	776,470	-	776,470	
	Share awards	4,243,103	-	4,243,103	
				5,019,573	0.04%
Mr. William O. Grabe	Ordinary shares	3,112,283	744,281	3,856,564	
	Share awards	4,336,869	-	4,336,869	
				8,193,433	0.07%
Mr. William Tudor Brown	Ordinary shares	693,148	-	693,148	
	Share awards	4,296,579	-	4,296,579	
				4,989,727	0.04%

DIRECTORS' INTERESTS *(continued)*

(i) Interests in the shares and underlying shares of the Company *(continued)*

Name of director	Interests in shares/ underlying shares *(Note 1)*	Capacity and number of shares/ underlying shares held: Personal interests	Capacity and number of shares/ underlying shares held: Corporate interests	Aggregate long position	Approximate percentage of interests *(Note 2)*
Mr. Yang Chih-Yuan Jerry	Ordinary shares	581,635	-	581,635	
	Share awards	4,096,908	-	4,096,908	
				4,678,543	0.04%
Mr. Gordon Robert Halyburton Orr	Ordinary shares	384,142	-	384,142	
	Share awards	3,423,272	-	3,423,272	
				3,807,414	0.03%
Mr. Woo Chin Wan, Raymond	Ordinary shares	-	-	-	
	Share awards	358,380	-	358,380	
				358,380	0.01%

DIRECTORS' INTERESTS *(continued)*

(ii) Interests in shares and underlying shares of the associated corporations of the Company

Name of director	Name of associated corporations	Long position/ short position	Capacity/ nature of interests	Number and class of shares/ underlying shares/ registered capital held	Approximate percentage of interests
Mr. Yang Yuanqing	SHAREit Technology Holdings Inc.	Long position	Personal interests held as beneficial owner	5,500,000 series A preferred shares	15.98%
	北京平安聯想智慧醫療信息技術有限公司 (formerly 北京聯想智慧醫療信息技術有限公司)	Long position	Personal interests held as beneficial owner	registered capital of RMB2,400,000	1.25% *(Note 5)*
	國民認證科技(北京)有限公司	Long position	Personal interests held as beneficial owner	registered capital of RMB1,097,144	4.72% *(Note 5)*
	北京聯想雲科技有限公司	Long position	Personal interests held as beneficial owner	registered capital of RMB3,200,000	5.33% *(Note 5)*
	深圳聯想懂的通信有限公司	Long position	Personal interests held as beneficial owner	registered capital of RMB2,584,615	3.93% *(Note 5)*
	聯想教育科技(北京)有限公司	Long position	Personal interests held as beneficial owner	registered capital of RMB1,000,000	2.00% *(Note 5)*

Notes:

1. Share awards represent underlying shares convertible into ordinary shares. Details of share awards are set out under the section "Long-Term Incentive Program".
2. The approximate percentage of interests is based on the shares/underlying shares comprising the interests held as a percentage of the total number of shares in issue of the Company of the same class immediately after the relevant event and as recorded in the register maintained under section 352 of the SFO.
3. The shares are held by Sureinvest Holdings Limited in which Mr. Yang Yuanqing holds more than one-third of the voting power at its general meetings. Therefore, Mr. Yang is taken to have an interest in 622,804,000 shares under the SFO and such interest is also reported under the below section headed "Substantial Shareholders' and Other Persons' Interests".
4. The approximate percentage of interests is based on the shares comprising the interests held as a percentage of the total number of shares in issue of the associated corporation of the same class immediately after the relevant event and as recorded in the register maintained under 352 of the SFO.
5. Mr. Yang Yuanqing holds the interests of RMB2,400,000 (being 1.25%), RMB1,097,144 (being 4.72%), RMB3,200,000 (being 5.33%), RMB2,584,615 (being 3.93%) and RMB1,000,000 (being 2%) in the registered capital in 北京平安聯想智慧醫療信息技術有限公司(formerly北京聯想智慧醫療信息技術有限公司), 國民認證科技(北京)有限公司, 北京聯想雲科技有限公司, 深圳聯想懂的通信有限公司 and 聯想教育科技(北京)有限公司 respectively.

Save as disclosed above, as at September 30, 2019, none of the directors or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at September 30, 2019, the following persons (other than the directors and chief executive of the Company as disclosed above) had interests or short positions in the shares and/or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Long position/ short position	Capacity and number of shares/ underlying shares held: Beneficial owner	Capacity and number of shares/ underlying shares held: Corporate interests	Aggregate long/short positions *(Note 1)*	Approximate percentage of interests
Legend Holdings Corporation	Long position	2,867,636,724	628,919,317 *(Note 2)*	3,496,556,041	29.10%
Right Lane Limited	Long position	388,819,317	240,100,000 *(Note 3)*	628,919,317	5.23%
Red Eagle Group (PTC) Limited	Long position	-	996,750,579	996,750,579 *(Notes 4 & 6)*	8.30%
Harvest Star Limited	Long position	-	996,750,579	996,750,579 *(Notes 5 & 6)*	8.30%
Union Star Limited	Long position	996,750,579	-	996,750,579	8.30%
Sureinvest Holdings Limited	Long position	622,804,000	-	622,804,000 *(Note 7)*	5.18%
BlackRock, Inc.	Long position	-	714,913,230	714,913,230	5.95%

Notes:

1. The interests include underlying shares as follows:–

Name	Long position: Convertible instruments unlisted equity derivatives	Long position: Cash settled unlisted equity derivatives
BlackRock, Inc.	–	8,950,000
Red Eagle Group (PTC) Limited	90,613,689	–
Harvest Star Limited	90,613,689	–
Union Star Limited	90,613,689	–

2. Out of 628,919,317 shares, 388,819,317 shares are directly held by Right Lane Limited ("Right Lane"), a direct wholly-owned subsidiary of Legend Holdings Corporation, and 240,100,000 shares are indirectly held by Right Lane through its wholly-owned subsidiary, Legion Elite Limited ("Legion Elite").
3. These shares are held by Legion Elite.
4. These shares/underlying shares of the Company are indirectly held by Harvest Star Limited through Union Star Limited ("Union Star").
5. These shares/underlying shares of the Company are directly held through Union Star.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS *(continued)*

6. The interests represent 906,136,890 shares and 90,613,689 units of bonus warrants issued to Union Star under the subscription agreement dated September 29, 2017 entered into between the Company and Union Star and as disclosed in the Company's announcements dated September 29, 2017 and November 17, 2017 and circular dated October 16, 2017.
7. Mr. Yang Yuanqing holds more than one-third of the voting power at general meetings of Sureinvest Holdings Limited ("Sureinvest"). Accordingly, Mr. Yang is deemed to have interests in those 622,804,000 shares of the Company held by Sureinvest under the SFO. This interest is also included as corporate interests of Mr. Yang in the above section headed "Directors' Interests".

Save as disclosed above, as at September 30, 2019, no other persons (other than the directors and chief executive of the Company, whose interests are set out in the above section headed "Directors' Interests") had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

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

During the six months ended September 30, 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the respective trustee of the long-term incentive program and the employee share purchase plan of the Company purchased a total of 43,408,229 shares from the market for award to employees upon vesting. Details of these program and plan are set out under sections headed "Long-Term Incentive Program" and "Human Resources" in this interim report.

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 on January 25, 2019.

There had not been any conversion of the Bonds, and no redemption right had been exercised by the bondholders or the Company for the period ended September 30, 2019 since the issue date of the Bonds.

As at September 30, 2019, the total outstanding principal amount of the Bonds was US$675 million. Please refer to note 13 to the consolidated financial statements and the Company's 2018/19 annual report for further details of the Bonds.

BONUS WARRANTS

Pursuant to the subscription agreement entered into between the Company and the subscriber dated September 29, 2017, the Company issued and the subscriber subscribed for 90,613,689 units of bonus warrants ("Bonus Warrants") at the initial exercise price of HK$5.17 per Bonus Warrant on November 17, 2017. The exercise in full of the subscription rights attaching to the Bonus Warrants will result in the issue of 90,613,689 shares of the Company. As at September 30, 2019, all the units of Bonus Warrants remained outstanding. For further details of the Bonus Warrants, please refer to note 6(b) to the financial statements, and also the Company's announcements dated September 29, 2017 and November 17, 2017 and circular dated October 16, 2017 in relation to, among other things, issuance of the Bonus Warrants.

INTERIM DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

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

CHANGES IN DIRECTORS' EMOLUMENTS AND INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in directors' emoluments and information of the Company subsequent to the date of the 2018/19 Annual Report or the latest pertaining publication of the Company (whichever later) are set out below:

Director		**Details of Changes**
Mr. Yang Yuanqing	–	For the financial year ending March 31, 2020, Mr. Yang Yuanqing is granted share awards under the long-term incentive program of the Company with a value of US$19,165,167 (or approximately RMB136,852,994). *(Note: The translation of RMB into USD is based on the exchange rate of RMB1.00 to USD0.140042 as at September 30, 2019 and is for information purposes only).*
Non-Executive Directors	–	For the financial year ending March 31, 2020, the remuneration for a non-executive director is increased from US$292,500 to US$330,000 per annum, comprising cash director's fees of US$100,000 and equity rights with a value of US$230,000.
Dr. Tian Suning	–	Retired as an independent non-executive director and a member of the Nomination and Governance Committee of the Company with effect from July 9, 2019.
Mr. Zhao John Huan	–	Resigned as the chief executive officer of Best Food Holding Company Limited with effect from August 26, 2019.
Ms. Ma Xuezheng	–	Ms. Ma, an independent non-executive director, a member of the Audit Committee and the Chairman of the Compensation Committee of the Company, passed away on August 31, 2019.
Mr. Gordon Robert Halyburton Orr	–	Being a director of EQT AB which listed on the NASDAQ on September 24, 2019.
Mr. William Tudor Brown	–	Appointed as the Chairman of the Compensation Committee of the Company with effect from November 7, 2019.

Save as disclosed above, there is no other information to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the unaudited interim results of the Group for the six months ended September 30, 2019. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended September 30, 2019, in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Listing Rules, 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.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules along with its guidance note to govern directors' securities transactions. Having made specific enquiry of the directors of the Company, all the directors of the Company have confirmed their compliance with the required standard set out in the Model Code and the guidance note at all applicable times during the six months ended September 30, 2019.

The Company has also adopted its own trading in securities policy applicable to designated senior management of the Company which is on terms no less exacting than the required standard as set out in the Model Code.

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

November 7, 2019

CORPORATE INFORMATION

HONORARY CHAIRMAN
Mr. Liu Chuanzhi

BOARD OF DIRECTORS

Chairman and executive director
Mr. Yang Yuanqing

Non-executive directors
Mr. Zhu Linan
Mr. Zhao John Huan

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

CHIEF FINANCIAL OFFICER
Mr. Wong Wai Ming

COMPANY SECRETARY
Mr. Mok Chung Fu, Eric

REGISTERED OFFICE
23rd Floor, Lincoln House, Taikoo Place
979 King's Road, Quarry Bay,
Hong Kong S.A.R. of China

PRINCIPAL BANKERS
Bank of China
BNP Paribas
Citibank, N.A.
DBS Bank Ltd.

INDEPENDENT AUDITOR
PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong S.A.R. of China

SHARE REGISTRAR
Tricor Abacus Limited
Level 54, Hopewell Centre
183 Queen's Road East, Hong Kong S.A.R. of China

AMERICAN DEPOSITARY RECEIPTS
(Depositary and Registrar)
Citibank, N.A.
6th Floor, 388 Greenwich Street
New York, NY 10013, USA

STOCK CODES
Hong Kong S.A.R. of China Stock Exchange: 992
American Depositary Receipts: LNVGY

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