Lenovo Group Limited 聯想集團有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 992)**

# FY2020/21 INTERIM RESULTS ANNOUNCEMENT

## INTERIM RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") announces the unaudited results of the Company and its subsidiaries (the "Group") for the three and six months ended September 30, 2020 together with comparative figures for the corresponding period of last year, as follows:

## FINANCIAL HIGHLIGHTS

- Profit attributable to equity holders increased by 44 percent year-on-year to an all-time high, thanks to the Group's success in leveraging demand tailwinds and its growth strategy
- The PC and Smart Device business regained its global no.1 position due to strengths in the consumer, education, and e-Commerce segments; sales grew by 9 percent to reach a new record; pre-tax profit was up 23 percent with a record pre-tax profit margin of 6.3 percent
- The Data Center Group achieved 15 percent revenue growth in 1HFY21, driven by a new sales record in its Cloud Service Provider business which benefited from the surge of cloud demand and share gains; pre-tax losses in the second quarter further narrowed from same period last year
- The Mobile Business Group registered double-digit revenue decline in 1HFY21 due to weak market demand; successful model launches have led to improved momentum in the second quarter with pre-tax losses narrowing by US$28 million as a result
- Invoiced revenue of software and services increased by 39 percent and contributed 8 percent of the Group's revenue; carrying the highest margin profile among all products

| | 3 months ended September 30, 2020 (unaudited) *US$ million* | 6 months ended September 30, 2020 (unaudited) *US$ million* | 3 months ended September 30, 2019 (unaudited) *US$ million* | 6 months ended September 30, 2019 (unaudited) *US$ million* | Year-on-year change 3 months ended September 30 | Year-on-year change 6 months ended September 30 |
|---|---|---|---|---|---|---|
| Revenue | 14,519 | 27,867 | 13,522 | 26,034 | 7% | 7% |
| Gross profit | 2,253 | 4,294 | 2,183 | 4,231 | 3% | 1% |
| Gross profit margin | 15.5% | 15.4% | 16.1% | 16.3% | (0.6) pts | (0.9) pts |
| Operating expenses | (1,688) | (3,294) | (1,741) | (3,447) | (3)% | (4)% |
| Operating profit | 565 | 1,000 | 442 | 784 | 28% | 28% |
| Other non-operating expenses - net | (95) | (198) | (132) | (234) | (29)% | (15)% |
| Profit before taxation | 470 | 802 | 310 | 550 | 52% | 46% |
| Profit for the period | 350 | 596 | 244 | 436 | 43% | 37% |
| Profit attributable to equity holders of the Company | 310 | 523 | 202 | 364 | 53% | 44% |
| Earnings per share attributable to equity holders of the Company | | | | | | |
| Basic | US2.59 cents | US4.39 cents | US1.69 cents | US3.06 cents | US0.90 cents | US1.33 cents |
| Diluted | US2.48 cents | US4.24 cents | US1.62 cents | US2.94 cents | US0.86 cents | US1.30 cents |

## INTERIM DIVIDEND

The Board has declared an interim dividend of HK6.6 cents (2019/20: HK6.3 cents) per share for the six months ended September 30, 2020, absorbing an aggregate amount of approximately US$102.3 million (2019/20: approximately US$96.6 million), to shareholders whose names appear on the register of members of the Company on Friday, November 27, 2020. The interim dividend will be paid on Thursday, December 10, 2020.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Friday, November 27, 2020, during which no transfer of shares will be registered. In order to qualify for the interim dividend, all properly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Abacus Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Thursday, November 26, 2020. Shares of the Company will be traded ex-dividend as from Wednesday, November 25, 2020.

## BUSINESS REVIEW AND OUTLOOK

### Highlights

During the six months ended September 30, 2020, Lenovo (the Group) set new performance records. The Group achieved 43.5 percent year-on-year growth in profit attributable to equity holders for the period under review. Despite market challenges arising from the COVID-19 pandemic, in the second quarter the PC and Smart Device (PCSD), Mobile Business Group (MBG), and Data Center Group (DCG) grew their revenues together for the first time in six quarters.

The impact of the COVID-19 pandemic around the world has reinforced the emergence of a "new normal" in response to dynamic shifts in people's daily work, study and entertainment. The "new normal" has continued to fuel growth trends in e-learning, work-from-home (WFH) and play-from-home, further enabled by the acceleration of cloud demand and e-commerce evolution. While the company's operations have not been completely immune from slower growth in global consumer and IT spending, the company swiftly initiated a strategy to accelerate growth and mitigate slowdown in market demand.

Net cash generated from operating activities was US$1.1 billion in 1HFY21 and declined US$152 million year-on-year due mainly to the Group's strategic actions to buy ahead critical components. Given its strength in cash generation, the company's net debt was reduced by US$319 million year-on-year. The Group has received strong inaugural investment-grade ratings on October 14, 2020 from three leading credit rating agencies. The debut of its first 144A US$1 billion senior unsecured notes was successfully completed on November 2, 2020. The proceeds of the bond will be used to finance the repurchase of outstanding perpetual securities and unsecured notes due in 2022 and 2023. Such a move will improve the efficiency of the Group's liability management while reducing financing costs over time.

### Group Financial Performance

The Group has achieved record performance across revenue, pre-tax income, and profit attributable to equity holders during the period under review. Its revenue reached US$27.9 billion, up 7.0 percent year-on-year. Profit attributable to equity holders rose by 43.5 percent to US$523 million, a testament to the Group's strengths in weathering market uncertainties. The company has leveraged demand tailwinds and executed its strategy well across its three business groups.

The Group's gross profit in dollar terms has increased 1.5 percent although gross margin declined 0.9 percentage points year-on-year to 15.4 percent during the six months ended September 30, 2020. The primary negative catalyst was the lower margin rate on the MBG owing to higher costs in freight and transportation. The product mix shift in the PCSD business towards consumer and education sales has had a negative but limited impact on the Group's gross margin as PCSD took measures to optimize its segment mix and expand profitability. As a result, the average selling prices (ASP) of both consumer PCs and Chromebooks increased significantly year-on-year in the second quarter. The business took the opportunity to expand its profitability across multiple segments including consumer, Chromebook, e-Commerce and Gaming to mitigate the potential impact on margins.

The Group's operating expense-to-revenue ratio was reduced by 1.4 percentage points to 11.8 percent on disciplined cost control and product mix change. It is worthwhile to note that the consumer and Chromebook businesses of PCSD have lower operating costs. The Group recognized fair value gains from its strategic investments amounting to US$164 million and gains from non-core property asset sales of US$73 million, offset by redundancy costs of US$75 million and an impairment provision against intellectual property (IP) intangible assets of US$53 million. The total segment pre-tax profit, which excludes the impact of one-time items, grew by 16 percent year-on-year to US$1,215 million.

By business group, PCSD and DCG grew their revenues by 8.8 percent and 15.0 percent year-on-year, respectively. In particular, the PCSD business has demonstrated solid strategy execution to achieve record-breaking revenue and pre-tax profit with an all-time high pre-tax margin of 6.3 percent. DCG also achieved a new sales record on its Cloud Service Provider business by capitalizing on the surge of cloud demand and its continued segment expansion. The MBG and DCG businesses further narrowed their losses sequentially in the second fiscal quarter, after a challenging first quarter as a result of COVID-19. The Software and Services business, which carries the highest margin profile among all products, reported invoiced revenue and deferred revenue growth of 39 and 26 percent year-on-year, respectively, contributing to around 8.0 percent of the Group's revenue.

**Geographic Performance**

Lenovo is a global business operating in more than 180 markets. For the period under review, the Group reported 19 percent year-on-year revenue growth in China and Europe-Middle East-Africa (EMEA), driven by strong consumer PC and solid performance in DCG. The previous investments by the DCG business in China started to pay off with double-digit growth in its Cloud Service Provider (CSP) business reflecting enhanced product portfolio and client diversification. The Enterprise and SMB business of DCG also outgrew the market capitalizing on its on-going product localization. The Group's revenue decreased by 4 and 1 percent year-on-year in Asia Pacific and America, respectively. For Asia Pacific, in the first quarter of last year, the PCSD business won a major one-time education tender in India and thereby the comparison base was unusually high. Sales in America were negatively impacted by a sharp downturn in smartphone sales in the first quarter but a rebound in sales in the second quarter supported by successful model launches mitigated the overall impact on sales for the period under review.

**Performance by Product Business Group**

***Intelligent Devices Group (IDG)***

The IDG Group, consisting of the PCSD and MBG businesses, executed its growth strategy well to set new records in quarterly revenue and pre-tax profit in the second fiscal quarter. Together with a solid performance in the first quarter, the Group's revenue grew 6.1 percent year-on-year to US$24,776 million while its pre-tax profit increased 15.0 percent to reach US$1,321 million. Market share gains in the PC and recovery of smartphone sales were the key growth drivers for IDG's strong profit performance. The PCSD business regained its global no.1 position by leveraging its operational excellence and global franchise to ride on the "new normal" tailwinds in the second quarter. MBG also saw its revenue recovering rapidly from a recent trough in 4QFY20 when its production was severely impacted by COVID-19.

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

During the period under review, the PCSD business achieved all-time high revenue and pre-tax profit on the back of multiple market opportunities. The PCSD revenue grew 8.8 percent year-on-year to US$22,065 million, contributing to 79 percent of the Group's total revenue. Over the six-month period, the demand tailwind from COVID-19 remained a strong catalyst for growth: work-from-home demand has been a clear propellant for thin-and-light notebook PC sales which grew 32 percent year-on year. The Gaming PC segment has been a beneficiary of the demand for PCs that meet play-from-home requirements and its revenue growth accelerated to 66 percent year-on-year. The e-commerce evolution has led to a record number of transactions through Lenovo's on-line franchise, resulting in a 47 percent year-on-year growth in e-commerce revenue. E-learning has emerged as a consistent growth driver across all regions and the company's Chromebook shipments grew by 59 percent year-on-year. The Software and Services business showcased strong growth during the period under review and its invoiced revenue increased 42 percent year-on-year.

The PCSD Group's pre-tax margin expanded 0.7 percentage points year-on-year to 6.3 percent, the highest level ever for the business. Its pre-tax profit increased 22.7 percent year-on-year to US$1,393 million for the period under review. By segment, there was a notable sales mix shift towards consumer and Chromebook segments, which historically carry a lower gross margin than commercial segment sales. To overcome such a challenge, the Group took initiatives to improve profitability across consumer, Chromebook and e-Commerce segments, as well as driving high-margin software and services sales to set a new record in pre-tax profit margin.

***Intelligent Devices Group - Mobile Business Group (MBG)***

The MBG business reported revenue of US$2,612 million, declining 13.3 percent from the same period last year during the period under review. The continuing impact from the COVID-19 pandemic resulted in sluggish market demand for smartphones. Following a weak first fiscal quarter, the MBG business was able to mitigate market weakness through its robust execution of strategic initiatives. Its revenue rebounded in the second quarter with 39 percent sequential and 0.6 percent year-on-year growth. The revenue contribution from 5G models more than doubled quarter-on-quarter in the second quarter. The MBG business accounted for 9 percent of the Group's total revenue.

The primary strategic initiatives by MBG included the expansion of its product portfolio and carrier ranging. Its recent launch of the flagship foldable 5G razr phone has been well received by the market and new Gaming phones are selling out fast. MBG's product portfolio now carries attractive models across all price spectrums. Its "5G for all" strategy will bring 5G models to all price segments. This product strategy has been successful in driving a mix shift towards higher-end models and ASP expansion. The average selling prices of MBG products increased 10 percent quarter-on-quarter and 5 percent year-on-year in the second fiscal quarter as the new premium and flagship models gained popularity. On the distribution network, the business has developed strong carrier relationships in North America, Latin America, and Europe.

For the period under review, MBG's pretax loss amounted to US$72 million, versus a gain of US$13 million over the same period last year. The reason for the lower profit was the significant hike in freight and logistics costs due to limited flight capacity. In the second quarter, the MBG business narrowed its loss before taxation by US$28 million quarter-on-quarter to US$22 million. The business will continue to execute its strategy to resume profitability and drive profitable growth.

***Data Center Group (DCG)***

In the period under review, DCG's revenue increased by 15.0 percent year-on-year to US$3,091 million, contributing 11 percent of the Group's total sales. The CSP revenue grew 33 percent on cloud momentum and client diversification. Strong cloud demand remained the bright spot in light of continued investment in cloud computing and the DCG Group has been a clear beneficiary of this structural trend.

The business has doubled down on its investments to drive new design wins across different products and platforms. In addition, new product wins feature higher-end designs as well as utilize the Group's in-house design and manufacturing capability. Moreover, the company is starting to ramp up solutions for two years down the road. The combined effect of a richer mix of platforms, in-house design and higher-end models should lead to improved profitability and sustainability in the growth of its CSP business.

Revenue in the Enterprise and SMB segment increased 3 percent year-on-year and outperformed the broader market during the period under review. The market demand for the Enterprise and SMB segment has been sluggish since the start of the COVID-19 pandemic. The business was successful in driving double-digit year-on-year sales growth across its four growth segments: software defined infrastructure, storage, software and services. Being the number one player in the global high-performance computing (HPC) segment, the business further strengthened its market leadership by winning more orders from key customers including DreamWorks, Max Planck, Korea Meteorological Administration and Karlsruhe Institute of Technology.

The Group continued to grow its services attach rate by selling more service contracts together with its server sales. Its TruScale solution is a scalable consumption-based services offering and a landmark partnership with SAP has been formed, signaling accelerated market interest in this new business model.

Pre-tax losses of the DCG group reached US$105 million and slightly increased by US$2 million year-on-year. Profit improvement is already on-going. Its pre-tax losses narrowed by US$11 million quarter-on-quarter and US$4 million year-on-year in the second quarter to US$47 million. The business aims to scale up and enhance profitability to pursue a long-term growth trajectory.

**Outlook**

The fundamental change in consumer behavior and the Group's robust order book, especially for the PCSD business, is a solid proof that long-term structural demand tailwinds will enlarge the addressable market and support future growth. In its PCSD business, the Group will continue to leverage operational excellence and its global franchise to improve supply to meet strong segment demand and drive consistent premium-to-market growth.

For its Mobile business, the Group will drive further product innovation and accelerate 5G smartphone launches to strengthen its stronghold markets. It will also seek to enhance competitiveness in Latin America, North America and Europe to grow at a premium to the sector and drive profitable growth.

In its DCG business, the Group aims to deliver premium-to-market growth and drive profitability. In the Enterprise and SMB segment, the Group will grow its high-margin services attach rate, upsell premier services and expand hybrid cloud solutions to continue driving a paradigm shift in computing with its edge-to-cloud solutions. For its Cloud Service Provider business, the Group's recent design wins will attract new customers and expand its share with existing accounts by leveraging its unique strengths in the global supply chain and worldwide reach while expanding its product portfolio with advanced configuration and storage platforms. The business will also grow its in-house design and manufacturing capabilities to drive sustainable growth in scale.

Since the outbreak of the pandemic, the Group has been seeing a surge in market interest in its service capability and continues to build a strong pipeline of new orders for Attached Services, Managed Services which includes Device as a Service, and Complex Solutions. The comprehensive Software and Services offerings and well-established e-commerce infrastructure will lead to new growth opportunities.

**Strategic Highlights**

The Group continues to execute its strategy to be the leader and enabler of Intelligent Transformation. The Group has the vision of bringing smarter technology to all - through Smart Infrastructure, Smart Verticals, and Smart IoT. This "3S" strategy, in parallel with its customer-centric positioning, has led to structural growth in new businesses including Software and Services.

**Smart Infrastructure** provides the computing, storage, and networking power to support smart devices. The Group's next-generation data center solutions in hybrid cloud are based on the ThinkAgile platform and have penetrated Smart City projects in both Europe and China. The Group's Smart Infrastructure revenue grew almost 20 percent year-on-year, supported by the momentum from Managed Services and Complex Solutions sub-segments during the period under review.

**Smart Verticals** combine big data generated by smart devices and the computing power of smart infrastructure to provide more insights and improve processes for customers. The Data Intelligence Business Group has expanded its footprint to win projects in the smart cities and healthcare industries to grow its revenue by more than 40 percent year-on-year during the period under review.

The Group will continue to invest in **Smart IoT**, consisting of a network of many touchpoints for the connected world we live in. Specifically, the Group's investments will accelerate in the area of edge computing, cloud, big data, and AI in vertical industries to strengthen the Group's capability as a competitive end-to-end solution provider in the era of Intelligent Transformation. The Smart IoT business has delivered more than 30 percent year-on-year revenue growth thanks to strong growth in Attached and Managed Services including Device as a Service.

## FINANCIAL REVIEW

***Results for the six months ended September 30, 2020***

| | **6 months ended September 30, 2020 (unaudited)** ***US$ million*** | 6 months ended September 30, 2019 (unaudited) *US$ million* | Year-on-year change |
|---|---|---|---|
| Revenue | **27,867** | 26,034 | 7% |
| Gross profit | **4,294** | 4,231 | 1% |
| Gross profit margin | **15.4%** | 16.3% | (0.9) pts |
| Operating expenses | **(3,294)** | (3,447) | (4)% |
| Operating profit | **1,000** | 784 | 28% |
| Other non-operating expenses – net | **(198)** | (234) | (15)% |
| Profit before taxation | **802** | 550 | 46% |
| Profit for the period | **596** | 436 | 37% |
| Profit attributable to equity holders of the Company | **523** | 364 | 44% |
| Earnings per share attributable to equity holders of the Company | | | |
| Basic | **US4.39 cents** | US3.06 cents | US1.33 cents |
| Diluted | **US4.24 cents** | US2.94 cents | US1.30 cents |

For the six months ended September 30, 2020, the Group achieved total sales of approximately US$27,867 million. Profit attributable to equity holders for the period surged by US$159 million to approximately US$523 million when compared to the corresponding period of last year. In the same reporting period, gross profit margin eroded 0.9 percentage points to 15.4 percent, mainly due to lower margin rate on MBG as a result of higher costs in freight and transportation; while basic and diluted earnings per share were US4.39 cents and US4.24 cents respectively, representing an increase of US1.33 cents and US1.30 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, 2020 and 2019 is as follows:

| | **6 months ended September 30, 2020** ***US$'000*** | 6 months ended September 30, 2019 *US$'000* |
|---|---|---|
| Selling and distribution expenses | **(1,358,341)** | (1,541,133) |
| Administrative expenses | **(1,304,317)** | (1,195,250) |
| Research and development expenses | **(639,101)** | (647,343) |
| Other operating income/(expenses) – net | **8,280** | (62,818) |
| | **(3,293,479)** | (3,446,544) |

Operating expenses for the period decreased by 4 percent as compared with the corresponding period of last year. Employee benefit costs increased by US$146 million mainly due to increase in bonus and recognition of severance costs of US$75 million, and the Group recorded an impairment loss of intangible assets related to patent and technology of US$53 million (2019/20: nil). On the other hand, the Group recorded gain on disposal of non-core property assets of US$73 million (2019/20: nil), and fair value gain from strategic investments amounting to US$164 million (2019/20: loss of US$0.1 million), including dilution gain on interest in an associate of US$31 million (2019/20: nil), reflecting the change in value of the Group’s portfolio. The decrease in operating expenses also reflected a fall in advertising and promotional expenses of US$173 million.

Key expenses by nature comprise:

| | **6 months ended September 30, 2020** *US$'000* | 6 months ended September 30, 2019 *US$'000* |
|---|---|---|
| Depreciation of property, plant and equipment | **(81,741)** | (78,554) |
| Depreciation of right-of-use assets | **(39,077)** | (42,225) |
| - *prepaid lease payments* | ***(1,302)*** | *(1,306)* |
| - *other right-of-use assets* | ***(37,775)*** | *(40,919)* |
| Amortization of intangible assets | **(301,348)** | (259,572) |
| Impairment of intangible assets | **(52,606)** | - |
| Employee benefit costs, including | **(2,027,074)** | (1,881,027) |
| - *long-term incentive awards* | ***(127,752)*** | *(123,697)* |
| - *severance and related costs* | ***(75,006)*** | - |
| Rental expenses under operating leases | **(3,091)** | (5,756) |
| Net foreign exchange loss | **(32,869)** | (48,451) |
| Advertising and promotional expenses | **(298,830)** | (472,222) |
| Legal and professional fees | **(110,315)** | (86,615) |
| Information technology expenses | **(55,012)** | (43,799) |
| Gain/(loss) on disposal of property, plant and equipment | **70,872** | (706) |
| Fair value gain/(loss) on financial assets at fair value through profit or loss | **132,920** | (108) |
| Fair value loss on a financial liability at fair value through profit or loss | **(1,773)** | (3,000) |
| Dilution gain on interest in an associate | **31,374** | - |
| Gain on disposal of subsidiaries | **1,064** | 12,844 |
| Others | **(525,973)** | (537,353) |
| | **(3,293,479)** | (3,446,544) |

Other non-operating expenses (net) for the six months ended September 30, 2020 and 2019 comprise:

| | **6 months ended September 30, 2020** *US$'000* | 6 months ended September 30, 2019 *US$'000* |
|---|---|---|
| Finance income | **17,333** | 24,474 |
| Finance costs | **(198,449)** | (251,240) |
| Share of losses of associates and joint ventures | **(16,803)** | (7,448) |
| | **(197,919)** | (234,214) |

Finance income mainly represents interest on bank deposits.

Finance costs for the period decreased by 21 percent as compared with the corresponding period of last year. The change is a combined effect of the decrease in interest on bank loans and overdrafts of US$23 million and factoring costs of US$43 million, partially offset by the increase in interest on notes of US$12 million.

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

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

| | **6 months ended September 30, 2020** | | 6 months ended September 30, 2019 | |
|---|---|---|---|---|
| | **Revenue from external customers** | **Pre-tax income/ (loss)** | Revenue from external customers | Pre-tax income/ (loss) |
| | ***US$'000*** | ***US$'000*** | *US$'000* | *US$'000* |
| IDG | **24,776,256** | **1,320,948** | 23,347,543 | 1,148,786 |
| DCG | **3,090,509** | **(105,630)** | 2,686,599 | (103,171) |
| Segment total | **27,866,765** | **1,215,318** | 26,034,142 | 1,045,615 |
| Unallocated: | | | | |
| Headquarters and corporate (expenses)/income - net | | **(380,167)** | | (272,320) |
| Depreciation and amortization | | **(102,620)** | | (76,832) |
| Impairment of intangible assets | | **(52,606)** | | - |
| Finance income | | **10,574** | | 12,940 |
| Finance costs | | **(101,131)** | | (148,084) |
| Share of losses of associates and joint ventures | | **(16,803)** | | (7,448) |
| Gain/(loss) on disposal of property, plant and equipment | | **67,106** | | (582) |
| Fair value gain/(loss) on financial assets at fair value through profit or loss | | **132,920** | | (108) |
| Fair value loss on a financial liability at fair value through profit or loss | | **(1,773)** | | (3,000) |
| Dilution gain on interest in an associate | | **31,374** | | - |
| Dividend income | | **271** | | - |
| Consolidated profit before taxation | | **802,463** | | 550,181 |

Headquarters and corporate (expenses)/income for the period comprise various expenses, after appropriate allocation to business groups, of US$380 million (2019/20: US$272 million) such as employee benefit costs, legal and professional fees and research and technology expenses. The increase is mainly due to employee benefit costs rose by US$88 million as a result of recognition of severance costs of US$75 million; and the decrease in fair value gain on bonus warrants by US$17 million as compared with the corresponding period of last year.

***Second Quarter 2020/21 compared to Second Quarter 2019/20***

| | **3 months ended September 30, 2020 (unaudited)** ***US$ million*** | 3 months ended September 30, 2019 (unaudited) *US$ million* | Year-on-year change |
|---|---|---|---|
| Revenue | **14,519** | 13,522 | 7% |
| Gross profit | **2,253** | 2,183 | 3% |
| Gross profit margin | **15.5%** | 16.1% | (0.6) pts |
| Operating expenses | **(1,688)** | (1,741) | (3)% |
| Operating profit | **565** | 442 | 28% |
| Other non-operating expenses – net | **(95)** | (132) | (29)% |
| Profit before taxation | **470** | 310 | 52% |
| Profit for the period | **350** | 244 | 43% |
| Profit attributable to equity holders of the Company | **310** | 202 | 53% |
| Earnings per share attributable to equity holders of the Company | | | |
| Basic | **US2.59 cents** | US1.69 cents | US0.90 cents |
| Diluted | **US2.48 cents** | US1.62 cents | US0.86 cents |

For the three months ended September 30, 2020, the Group achieved total sales of approximately US$14,519 million. Profit attributable to equity holders for the period increased by US$108 million to approximately US$310 million when compared to the corresponding period of last year. In the same reporting period, gross profit margin eroded 0.6 percentage points to 15.5 percent, mainly due to lower margin rate on MBG as a result of higher costs in freight and transportation; while basic and diluted earnings per share were US2.59 cents and US2.48 cents respectively, representing an increase of US0.90 cents and US0.86 cents.

Analysis of operating expenses by function for the three months ended September 30, 2020 and 2019 is as follows:

| | **3 months ended September 30, 2020** ***US$'000*** | 3 months ended September 30, 2019 *US$'000* |
|---|---|---|
| Selling and distribution expenses | **(726,174)** | (777,804) |
| Administrative expenses | **(643,215)** | (584,534) |
| Research and development expenses | **(306,531)** | (318,028) |
| Other operating expenses – net | **(12,128)** | (60,438) |
| | **(1,688,048)** | (1,740,804) |

Operating expenses for the period decreased by 3 percent as compared with the corresponding period of last year. During the period, the Group recorded an impairment loss of intangible assets related to patent and technology of US$53 million (2019/20: nil). On the other hand, the Group recorded fair value gain from strategic investments amounting to US$104 million (2019/20: US$9 million) reflecting the change in value of the Group's portfolio. The decrease in operating expenses also reflected a fall in advertising and promotional expenses of US$43 million.

Key expenses by nature comprise:

| | **3 months ended September 30, 2020** *US$'000* | 3 months ended September 30, 2019 *US$'000* |
|---|---|---|
| Depreciation of property, plant and equipment | **(42,150)** | (39,085) |
| Depreciation of right-of-use assets | **(20,404)** | (26,102) |
| - *prepaid lease payments* | ***(662)*** | *(644)* |
| - *other right-of-use assets* | ***(19,742)*** | *(25,458)* |
| Amortization of intangible assets | **(151,785)** | (135,582) |
| Impairment of intangible assets | **(52,606)** | - |
| Employee benefit costs, including | **(922,905)** | (916,195) |
| - *long-term incentive awards* | ***(62,122)*** | *(65,004)* |
| Rental expenses under operating leases | **(1,415)** | (1,823) |
| Net foreign exchange loss | **(20,730)** | (35,936) |
| Advertising and promotional expenses | **(180,779)** | (223,983) |
| Legal and professional fees | **(64,209)** | (44,231) |
| Information technology expenses | **(27,872)** | (22,573) |
| Gain on disposal of property, plant and equipment | **8,703** | 1,769 |
| Fair value gain on financial assets at fair value through profit or loss | **104,289** | 8,848 |
| Fair value loss on a financial liability at fair value through profit or loss | **(5,600)** | (3,000) |
| Others | **(310,585)** | (302,911) |
| | **(1,688,048)** | (1,740,804) |

Other non-operating expenses (net) for the three months ended September 30, 2020 and 2019 comprise:

| | **3 months ended September 30, 2020** *US$'000* | 3 months ended September 30, 2019 *US$'000* |
|---|---|---|
| Finance income | **9,342** | 10,602 |
| Finance costs | **(91,617)** | (136,218) |
| Share of losses of associates and joint ventures | **(11,843)** | (6,072) |
| | **(94,118)** | (131,688) |

Finance income mainly represents interest on bank deposits.

Finance costs for the period decreased by 33 percent as compared with the corresponding period of last year. The change is a combined effect of the decrease in interest on bank loans and overdrafts of US$14 million and factoring costs of US$40 million, partially offset by the increase in interest on notes of US$8 million.

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

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

| | **3 months ended September 30, 2020** | | 3 months ended September 30, 2019 | |
|---|---|---|---|---|
| | **Revenue from external customers** | **Pre-tax income/ (loss)** | Revenue from external customers | Pre-tax income/ (loss) |
| | ***US$'000*** | ***US$'000*** | *US$'000* | *US$'000* |
| IDG | **13,040,476** | **701,098** | 12,191,310 | 620,022 |
| DCG | **1,478,433** | **(47,167)** | 1,330,679 | (51,503) |
| Segment total | **14,518,909** | **653,931** | 13,521,989 | 568,519 |
| Unallocated: | | | | |
| Headquarters and corporate (expenses)/income - net | | **(120,273)** | | (140,984) |
| Depreciation and amortization | | **(55,802)** | | (42,299) |
| Impairment of intangible assets | | **(52,606)** | | - |
| Finance income | | **5,665** | | 4,534 |
| Finance costs | | **(50,682)** | | (81,565) |
| Share of losses of associates and joint ventures | | **(11,843)** | | (6,072) |
| Gain on disposal of property, plant and equipment | | **3,229** | | 2,075 |
| Fair value gain on financial assets at fair value through profit or loss | | **104,289** | | 8,848 |
| Fair value loss on a financial liability at fair value through profit or loss | | **(5,600)** | | (3,000) |
| Dividend income | | **79** | | - |
| Consolidated profit before taxation | | **470,387** | | 310,056 |

Headquarters and corporate (expenses)/income for the period comprise various expenses, after appropriate allocation to business groups, of US$120 million (2019/20: US$141 million) such as employee benefit costs, legal and professional fees, and research and technology expenses. The decrease is mainly due to the Group recording a lower net exchange loss of US$23 million (2019/20: US$36 million) from balance sheet hedges.

## Capital Expenditure

The Group incurred capital expenditure of US$360 million (2019/20: US$474 million) during the six months ended September 30, 2020, mainly for the acquisition of property, plant and equipment, additions to construction-in-progress and intangible assets. The higher capital expenditure incurred in the corresponding period of last year was mainly attributable to more investments in patent and technology particularly on cloud technology and internal use software.

## Liquidity and Financial Resources

At September 30, 2020, total assets of the Group amounted to US$35,084 million (March 31, 2020: US$32,128 million), which were financed by equity attributable to owners of the Company of US$3,522 million (March 31, 2020: US$3,197 million), perpetual securities of US$994 million (March 31, 2020: US$994 million), a negative balance of other non-controlling interests (net of put option written on non-controlling interests) of US$60 million (March 31, 2020: US$132 million), and total liabilities of US$30,628 million (March 31, 2020: US$28,069 million). At September 30, 2020, the current ratio of the Group was 0.87 (March 31, 2020: 0.81).

At September 30, 2020, bank deposits and cash and cash equivalents totalling US$3,753 million (March 31, 2020: US$3,617 million) analyzed by major currency are as follows:

| | **September 30, 2020** | March 31, 2020 |
|---|---|---|
| | **%** | % |
| US dollar | **46.3** | 35.3 |
| Renminbi | **22.8** | 25.4 |
| Japanese Yen | **5.7** | 10.3 |
| Euro | **9.0** | 7.8 |
| Great British Pound | **0.9** | 4.2 |
| Other currencies | **15.3** | 17.0 |
| Total | **100.0** | 100.0 |

The Group adopts a conservative policy to invest the surplus cash generated from operations. At September 30, 2020, 71.0 (March 31, 2020: 85.6) percent of cash are bank deposits, and 29.0 (March 31, 2020: 14.4) 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 for liquidity.

The Group has the following banking facilities:

| | | | | **Utilized amount at** | |
|---|---|---|---|---|---|
| **Type** | **Date of agreement** | **Principal amount** | **Term** | **September 30, 2020** | March 31, 2020 |
| | | *US$ million* | | ***US$ million*** | *US$ million* |
| Loan facility | May 26, 2015 | 300 | 5 years | **N/A** | 300 |
| Revolving loan facility | March 28, 2018 | 1,500 | 5 years | **1,245** | 1,500 |
| Loan facility | May 12, 2020 | 300 | 5 years | **300** | N/A |
| Revolving loan facility | May 14, 2020 | 200 | 5 years | **105** | N/A |

Notes, perpetual securities, convertible bonds and convertible preferred shares issued by the Group and outstanding as at September 30, 2020 are as follows:

| | Issue date | Principal Amount | Term | Interest rate / dividend per annum | Due date | Use of proceeds |
|---|---|---|---|---|---|---|
| 2022 Notes | March 16, 2017 | US$500 million | 5 years | 3.875% | March 2022 | For repayment of the outstanding amount under the promissory notes issued to Google Inc. and general corporate purposes |
| Perpetual securities | March 16, 2017 and April 6, 2017 | US$1 billion | N/A | 5.375% | N/A | |
| 2023 Notes | March 29, 2018 | US$750 million | 5 years | 4.75% | March 2023 | For repayment of previous Notes and general corporate purposes |
| Convertible bonds | January 24, 2019 | US$675 million | 5 years (Note) | 3.375% | January 2024 | For repayment of previous Notes and general corporate purposes |
| Convertible preferred shares | June 21, 2019 | US$300 million | N/A | 4% | N/A | For general corporate funding and capital expenditure |
| 2025 Notes | April 24, 2020 and May 12, 2020 | US$1 billion | 5 years | 5.875% | April 2025 | For repayment of previous Notes and general corporate purposes |

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

On November 2, 2020, the Company completed the issuance of a 10-Year US$1 billion notes bearing annual interest at 3.421% due in November 2030. On November 3, 2020, the proceeds were used to purchase a portion of (i) the US$1 billion 5.375% perpetual securities issued by the Group, (ii) the US$500 million 3.875% notes due in March 2022 issued by the Company, and (iii) the US$750 million 4.75% notes due in March 2023 issued by the Company.

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

| | Total available amount at | | Drawn down amount at | |
|---|---|---|---|---|
| **Credit facilities** | **September 30, 2020** | March 31, 2020 | **September 30, 2020** | March 31, 2020 |
| | ***US$ million*** | *US$ million* | ***US$ million*** | *US$ million* |
| Trade lines | **2,234** | 2,547 | **1,649** | 2,047 |
| Short-term money market facilities | **1,075** | 1,034 | **50** | 334 |
| Forward foreign exchange contracts | **10,777** | 9,278 | **10,697** | 9,222 |

Net debt position and gearing ratio of the Group as at September 30 and March 31, 2020 are as follows:

| | **September 30, 2020** | March 31, 2020 |
|---|---|---|
| | ***US$ million*** | *US$ million* |
| Bank deposits and cash and cash equivalents | **3,753** | 3,617 |
| Borrowings | | |
| - Short-term loans | **1,688** | 2,125 |
| - Long-term loan | **2** | 3 |
| - Notes | **2,244** | 1,807 |
| - Convertible bonds | **616** | 607 |
| - Convertible preferred shares | **297** | 318 |
| Net debt position | **(1,094)** | (1,243) |
| Total equity | **4,456** | 4,059 |
| Gearing ratio (Borrowings divided by total equity) | **1.09** | 1.20 |

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At September 30, 2020, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$10,697 million (March 31, 2020: US$9,222 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

**Contingent Liabilities**

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

## FINANCIAL INFORMATION

## CONSOLIDATED INCOME STATEMENT

| | Note | **3 months ended September 30, 2020 (unaudited)** *US$'000* | **6 months ended September 30, 2020 (unaudited)** *US$'000* | 3 months ended September 30, 2019 (unaudited) *US$'000* | 6 months ended September 30, 2019 (unaudited) *US$'000* |
|---|---|---|---|---|---|
| Revenue | *2* | **14,518,909** | **27,866,765** | 13,521,989 | 26,034,142 |
| Cost of sales | | **(12,266,356)** | **(23,572,904)** | (11,339,441) | (21,803,203) |
| Gross profit | | **2,252,553** | **4,293,861** | 2,182,548 | 4,230,939 |
| Selling and distribution expenses | | **(726,174)** | **(1,358,341)** | (777,804) | (1,541,133) |
| Administrative expenses | | **(643,215)** | **(1,304,317)** | (584,534) | (1,195,250) |
| Research and development expenses | | **(306,531)** | **(639,101)** | (318,028) | (647,343) |
| Other operating (expenses)/income - net | | **(12,128)** | **8,280** | (60,438) | (62,818) |
| Operating profit | *3* | **564,505** | **1,000,382** | 441,744 | 784,395 |
| Finance income | *4(a)* | **9,342** | **17,333** | 10,602 | 24,474 |
| Finance costs | *4(b)* | **(91,617)** | **(198,449)** | (136,218) | (251,240) |
| Share of losses of associates and joint ventures | | **(11,843)** | **(16,803)** | (6,072) | (7,448) |
| Profit before taxation | | **470,387** | **802,463** | 310,056 | 550,181 |
| Taxation | *5* | **(120,833)** | **(206,102)** | (66,417) | (114,600) |
| Profit for the period | | **349,554** | **596,361** | 243,639 | 435,581 |
| Profit attributable to: | | | | | |
| Equity holders of the Company | | **310,195** | **523,017** | 202,194 | 364,421 |
| Perpetual securities holders | | **13,440** | **26,880** | 13,440 | 26,880 |
| Other non-controlling interests | | **25,919** | **46,464** | 28,005 | 44,280 |
| | | **349,554** | **596,361** | 243,639 | 435,581 |
| Earnings per share attributable to equity holders of the Company | | | | | |
| Basic | *6(a)* | **US2.59 cents** | **US4.39 cents** | US1.69 cents | US3.06 cents |
| Diluted | *6(b)* | **US2.48 cents** | **US4.24 cents** | US1.62 cents | US2.94 cents |
| Dividend | *7* | | **102,298** | | 96,640 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | **3 months ended September 30, 2020 (unaudited)** ***US$'000*** | **6 months ended September 30, 2020 (unaudited)** ***US$'000*** | 3 months ended September 30, 2019 (unaudited) *US$'000* | 6 months ended September 30, 2019 (unaudited) *US$'000* |
|---|---|---|---|---|
| Profit for the period | **349,554** | **596,361** | 243,639 | 435,581 |
| Other comprehensive income/(loss): | | | | |
| Items that will not be reclassified to profit or loss | | | | |
| Remeasurements of post-employment benefit obligations, net of taxes | **27** | **27** | - | 380 |
| Fair value change on financial assets at fair value through other comprehensive income, net of taxes | **(2,502)** | **(7,106)** | (414) | (3,458) |
| 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 (loss)/gain, net of taxes | **(111,703)** | **(205,323)** | 121,486 | 97,611 |
| - Reclassified to consolidated income statement | **135,879** | **142,619** | (46,779) | (64,888) |
| Currency translation differences | **153,246** | **129,199** | (234,636) | (240,519) |
| Other comprehensive income/(loss) for the period | **174,947** | **59,416** | (160,343) | (210,874) |
| Total comprehensive income for the period | **524,501** | **655,777** | 83,296 | 224,707 |
| Total comprehensive income attributable to: | | | | |
| Equity holders of the Company | **481,026** | **576,504** | 42,326 | 149,835 |
| Perpetual securities holders | **13,440** | **26,880** | 13,440 | 26,880 |
| Other non-controlling interests | **30,035** | **52,393** | 27,530 | 47,992 |
| | **524,501** | **655,777** | 83,296 | 224,707 |

## CONSOLIDATED BALANCE SHEET

| | Note | **September 30, 2020 (unaudited)** *US$'000* | March 31, 2020 (audited) *US$'000* |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **1,438,749** | 1,398,440 |
| Right-of-use assets | | **808,439** | 812,235 |
| Construction-in-progress | | **307,911** | 304,241 |
| Intangible assets | | **7,980,138** | 7,984,582 |
| Interests in associates and joint ventures | | **75,350** | 60,307 |
| Deferred income tax assets | | **2,167,258** | 2,059,582 |
| Financial assets at fair value through profit or loss | | **692,279** | 494,807 |
| Financial assets at fair value through other comprehensive income | | **76,544** | 56,136 |
| Other non-current assets | | **232,542** | 224,396 |
| | | **13,779,210** | 13,394,726 |
| Current assets | | | |
| Inventories | *8* | **5,242,331** | 4,946,914 |
| Trade receivables | *9(a)* | **7,215,297** | 6,263,012 |
| Notes receivable | | **36,879** | 11,529 |
| Derivative financial assets | | **50,533** | 138,813 |
| Deposits, prepayments and other receivables | *10* | **4,772,195** | 3,559,239 |
| Income tax recoverable | | **235,144** | 196,464 |
| Bank deposits | | **53,967** | 66,480 |
| Cash and cash equivalents | | **3,698,658** | 3,550,990 |
| | | **21,305,004** | 18,733,441 |
| Total assets | | **35,084,214** | 32,128,167 |

## CONSOLIDATED BALANCE SHEET (CONTINUED)

| | Note | **September 30, 2020 (unaudited) *US$'000*** | March 31, 2020 (audited) *US$'000* |
|---|---|---|---|
| Share capital | *14* | **3,185,923** | 3,185,923 |
| Reserves | | **336,108** | 11,619 |
| Equity attributable to owners of the Company | | **3,522,031** | 3,197,542 |
| Perpetual securities | *15* | **993,670** | 993,670 |
| Other non-controlling interests | | **706,969** | 634,321 |
| Put option written on non-controlling interests | *12(b)* | **(766,238)** | (766,238) |
| Total equity | | **4,456,432** | 4,059,295 |
| Non-current liabilities | | | |
| Borrowings | *13* | **2,543,552** | 1,564,619 |
| Warranty provision | *11(b)* | **262,514** | 258,840 |
| Deferred revenue | | **1,027,642** | 864,805 |
| Retirement benefit obligations | | **485,055** | 458,386 |
| Deferred income tax liabilities | | **364,881** | 342,805 |
| Other non-current liabilities | *12* | **1,369,072** | 1,321,296 |
| | | **6,052,716** | 4,810,751 |
| Current liabilities | | | |
| Trade payables | *9(b)* | **8,525,712** | 7,509,724 |
| Notes payable | | **1,108,077** | 1,458,645 |
| Derivative financial liabilities | | **54,137** | 73,784 |
| Other payables and accruals | *11(a)* | **10,518,603** | 9,025,643 |
| Provisions | *11(b)* | **786,180** | 718,771 |
| Deferred revenue | | **929,871** | 819,199 |
| Income tax payable | | **349,064** | 357,375 |
| Borrowings | *13* | **2,303,422** | 3,294,980 |
| | | **24,575,066** | 23,258,121 |
| Total liabilities | | **30,627,782** | 28,068,872 |
| Total equity and liabilities | | **35,084,214** | 32,128,167 |

## CONSOLIDATED CASH FLOW STATEMENT

| | Note | **6 months ended September 30, 2020 (unaudited) *US$'000*** | 6 months ended September 30, 2019 (unaudited) *US$'000* |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Net cash generated from operations | *16* | **1,561,912** | 1,700,743 |
| Interest paid | | **(146,162)** | (264,028) |
| Tax paid | | **(327,276)** | (196,715) |
| Net cash generated from operating activities | | **1,088,474** | 1,240,000 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | **(119,849)** | (106,153) |
| Sale of property, plant and equipment | | **28,965** | 6,352 |
| Acquisition of subsidiaries, net of cash acquired | | **(5,049)** | - |
| Disposal of subsidiaries, net of cash disposed | | **(5,161)** | (18,155) |
| Interest acquired in an associate and a joint venture | | **(303)** | (1,616) |
| Payment for construction-in-progress | | **(167,681)** | (201,867) |
| Payment for intangible assets | | **(72,094)** | (165,697) |
| Purchase of financial assets at fair value through profit or loss | | **(103,256)** | (27,450) |
| Purchase of financial assets at fair value through other comprehensive income | | **(24,714)** | - |
| Loan to a joint venture | | **-** | (72,603) |
| Net proceeds from sale of financial assets at fair value through profit or loss | | **56,452** | 51,540 |
| Net proceeds from sale of a financial asset at fair value through other comprehensive income | | **493** | - |
| Payment of contingent consideration | | **(117,390)** | - |
| Decrease in bank deposits | | **12,513** | 4,983 |
| Dividends received | | **384** | 2,390 |
| Interest received | | **17,333** | 24,474 |
| Net cash used in investing activities | | **(499,357)** | (503,802) |
| Cash flows from financing activities | | | |
| Capital contribution from other non-controlling interests | | **18,420** | 17,638 |
| Contribution to employee share trusts | | **(54,838)** | (34,361) |
| Issue of convertible preferred shares | | **-** | 300,000 |
| Issue of notes | | **1,003,500** | - |
| Issuing costs of notes | | **(4,485)** | - |
| Repayment of notes | | **(565,643)** | (786,244) |
| Principal elements of lease payments | | **(59,778)** | (67,219) |
| Dividends paid | | **(332,359)** | (334,775) |
| Distribution to perpetual securities holders | | **(26,880)** | (26,880) |
| Dividends paid to convertible preferred shares holders | | **(6,000)** | - |
| Repurchase of convertible preferred shares | | **(16,575)** | - |
| Proceeds from borrowings | | **2,267,961** | 2,320,000 |
| Repayments of borrowings | | **(2,702,288)** | (1,400,000) |
| Net cash used in financing activities | | **(478,965)** | (11,841) |
| Increase in cash and cash equivalents | | **110,152** | 724,357 |
| Effect of foreign exchange rate changes | | **37,516** | (76,271) |
| Cash and cash equivalents at the beginning of the period | | **3,550,990** | 2,662,854 |
| Cash and cash equivalents at the end of the period | | **3,698,658** | 3,310,940 |

# 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, 2020** | 3,185,923 | (48,716) | (101,467) | 287,574 | 58,489 | (1,799,017) | 176,642 | 1,438,114 | 993,670 | 634,321 | (766,238) | 4,059,295 |
| **Profit for the period** | – | – | – | – | – | – | – | 523,017 | 26,880 | 46,464 | – | 596,361 |
| **Other comprehensive (loss)/income** | – | (7,106) | – | – | (62,704) | 123,270 | – | 27 | – | 5,929 | – | 59,416 |
| **Total comprehensive (loss)/income for the period** | – | (7,106) | – | – | (62,704) | 123,270 | – | 523,044 | 26,880 | 52,393 | – | 655,777 |
| **Transfer to statutory reserve** | – | – | – | – | – | – | 8,890 | (8,890) | – | – | – | – |
| **Transfer of investment revaluation reserve upon disposal of a financial asset at fair value through other comprehensive income to retained earnings** | – | (53) | – | – | – | – | – | 53 | – | – | – | – |
| **Vesting of shares under long-term incentive program** | – | – | 125,853 | (157,333) | – | – | – | – | – | – | – | (31,480) |
| **Deferred tax in relation to long-term incentive program** | – | – | – | 6,009 | – | – | – | – | – | – | – | 6,009 |
| **Acquisition of subsidiaries** | – | – | – | – | – | – | – | – | – | 2,113 | – | 2,113 |
| **Disposal of subsidiaries** | – | – | – | – | – | 306 | (1,819) | – | – | – | – | (1,513) |
| **Settlement of bonus through long-term incentive program** | – | – | – | 34,444 | – | – | – | – | – | – | – | 34,444 |
| **Share-based compensation** | – | – | – | 127,752 | – | – | – | – | – | – | – | 127,752 |
| **Contribution to employee share trusts** | – | – | (54,838) | – | – | – | – | – | – | – | – | (54,838) |
| **Dividends paid** | – | – | – | – | – | – | – | (332,359) | – | – | – | (332,359) |
| **Capital contribution from other non-controlling interests** | – | – | – | – | – | – | – | – | – | 18,112 | – | 18,112 |
| **Change of ownership of subsidiaries without loss of control** | – | – | – | – | – | – | (30) | – | – | 30 | – | – |
| **Distribution to perpetual securities holders** | – | – | – | – | – | – | – | – | (26,880) | – | – | (26,880) |
| **At September 30, 2020** | 3,185,923 | (55,875) | (30,452) | 298,446 | (4,215) | (1,675,441) | 183,683 | 1,619,962 | 993,670 | 706,969 | (766,238) | 4,456,432 |
| 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 investment revaluation reserve upon 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 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 |

Notes

## 1 General information and basis of preparation

The financial information relating to the year ended March 31, 2020 included in the FY2020/21 interim results announcement as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company will deliver the consolidated financial statements for the year ended March 31, 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

<u>Basis of preparation</u>

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

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

The accounting policies adopted are consistent with those of the previous financial year. The Group has reclassified right-of-use assets related to leasehold land and buildings, which was previously classified as “property, plant and equipment”, and “prepaid lease payments” to “right-of-use assets” in the consolidated balance sheet.

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

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

New amendments to existing standards not yet effective

The following new amendments to existing standards, which are considered appropriate and relevant to the Group's operations, have been issued but are not effective for the year ending March 31, 2021 and have not been early adopted:

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

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

## 2 Segment information

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

The LEC assesses the performance of the operating segments based on a measure of pre-tax income/(loss). This measurement basis excludes the effects of non-recurring expenses such as restructuring costs from the operating segments. The measurement basis also excludes the effects of certain income and expenses such as fair value change of financial instruments and disposal gain/(loss) of 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, 2020** | | 6 months ended September 30, 2019 | |
|---|---|---|---|---|
| | **Revenue from external customers** | **Pre-tax income/ (loss)** | Revenue from external customers | Pre-tax income/ (loss) |
| | ***US$'000*** | ***US$'000*** | *US$'000* | *US$'000* |
| IDG | **24,776,256** | **1,320,948** | 23,347,543 | 1,148,786 |
| DCG | **3,090,509** | **(105,630)** | 2,686,599 | (103,171) |
| Segment total | **27,866,765** | **1,215,318** | 26,034,142 | 1,045,615 |
| Unallocated: | | | | |
| Headquarters and corporate (expenses)/ income - net | | **(380,167)** | | (272,320) |
| Depreciation and amortization | | **(102,620)** | | (76,832) |
| Impairment of intangible assets | | **(52,606)** | | - |
| Finance income | | **10,574** | | 12,940 |
| Finance costs | | **(101,131)** | | (148,084) |
| Share of losses of associates and joint ventures | | **(16,803)** | | (7,448) |
| Gain/(loss) on disposal of property, plant and equipment | | **67,106** | | (582) |
| Fair value gain/(loss) on financial assets at fair value through profit or loss | | **132,920** | | (108) |
| Fair value loss on a financial liability at fair value through profit or loss | | **(1,773)** | | (3,000) |
| Dilution gain on interest in an associate | | **31,374** | | - |
| Dividend income | | **271** | | - |
| Consolidated profit before taxation | | **802,463** | | 550,181 |

(b) Segment assets for reportable segments

| | **September 30, 2020** | March 31, 2020 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| IDG | **22,060,266** | 20,045,317 |
| DCG | **4,887,247** | 4,656,685 |
| Segment assets for reportable segments | **26,947,513** | 24,702,002 |
| Unallocated: | | |
| Deferred income tax assets | **2,167,258** | 2,059,582 |
| Financial assets at fair value through profit or loss | **692,279** | 494,807 |
| Financial assets at fair value through other comprehensive income | **76,544** | 56,136 |
| Derivative financial assets | **50,533** | 138,813 |
| Interests in associates and joint ventures | **75,350** | 60,307 |
| Bank deposits and cash and cash equivalents | **3,752,625** | 3,617,470 |
| Unallocated deposits, prepayments and other receivables | **593,571** | 379,429 |
| Income tax recoverable | **235,144** | 196,464 |
| Other unallocated assets | **493,397** | 423,157 |
| Total assets per consolidated balance sheet | **35,084,214** | 32,128,167 |

(c) Segment liabilities for reportable segments

| | **September 30, 2020** *US$'000* | March 31, 2020 *US$'000* |
|---|---|---|
| IDG | **22,694,021** | 20,271,781 |
| DCG | **1,733,750** | 1,666,557 |
| Segment liabilities for reportable segments | **24,427,771** | 21,938,338 |
| Unallocated: | | |
| Deferred income tax liabilities | **364,881** | 342,805 |
| Derivative financial liabilities | **54,137** | 73,784 |
| Borrowings | **4,846,974** | 4,859,599 |
| Unallocated other payables and accruals | **558,028** | 470,200 |
| Unallocated other non-current liabilities | **26,927** | 26,771 |
| Income tax payable | **349,064** | 357,375 |
| Total liabilities per consolidated balance sheet | **30,627,782** | 28,068,872 |

(d) Analysis of revenue by geography

| | **6 months ended September 30, 2020** *US$'000* | 6 months ended September 30, 2019 *US$'000* |
|---|---|---|
| China | **6,530,255** | 5,507,563 |
| AP | **5,779,299** | 6,013,844 |
| EMEA | **7,016,055** | 5,890,192 |
| AG | **8,541,156** | 8,622,543 |
| | **27,866,765** | 26,034,142 |

(e) Analysis of revenue by timing of revenue recognition

| | **6 months ended September 30, 2020** *US$'000* | 6 months ended September 30, 2019 *US$'000* |
|---|---|---|
| Point in time | **27,114,536** | 25,433,884 |
| Over time | **752,229** | 600,258 |
| | **27,866,765** | 26,034,142 |

(f) Other segment information

| | IDG | | DCG | | Total | |
|---|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| For the six months ended September 30 | | | | | | |
| Depreciation and amortization | **279,265** | 258,842 | **123,544** | 116,345 | **402,809** | 375,187 |
| Finance income | **6,402** | 10,296 | **357** | 1,238 | **6,759** | 11,534 |
| Finance costs | **76,254** | 95,280 | **21,064** | 7,876 | **97,318** | 103,156 |
| Additions to non-current assets (Note) | **317,896** | 344,076 | **93,678** | 171,656 | **411,574** | 515,732 |

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

(g) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$6,090 million (March 31, 2020: US$5,983 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At September 30, 2020

| | **China** | **AP** | **EMEA** | **AG** | **Mature Market** | **Emerging Market** | **Total** |
|---|---|---|---|---|---|---|---|
| | ***US$ million*** | ***US$ million*** | ***US$ million*** | ***US$ million*** | ***US$ million*** | ***US$ million*** | ***US$ million*** |
| **Goodwill** | | | | | | | |
| **- PCSD** | **1,053** | **707** | **231** | **295** | **-** | **-** | **2,286** |
| **- MBG** | **-** | **-** | **-** | **-** | **672** | **779** | **1,451** |
| **- DCG** | **485** | **163** | **90** | **343** | **-** | **-** | **1,081** |
| **Trademarks and trade names** | | | | | | | |
| **- PCSD** | **209** | **59** | **107** | **67** | **-** | **-** | **442** |
| **- MBG** | **-** | **-** | **-** | **-** | **197** | **263** | **460** |
| **- DCG** | **162** | **54** | **31** | **123** | **-** | **-** | **370** |

At March 31, 2020

| | China | AP | EMEA | AG | Mature Market | Emerging Market | Total |
|---|---|---|---|---|---|---|---|
| | *US$ million* | *US$ million* | *US$ million* | *US$ million* | *US$ million* | *US$ million* | *US$ million* |
| Goodwill | | | | | | | |
| - PCSD | 1,002 | 686 | 215 | 297 | - | - | 2,200 |
| - MBG | - | - | - | - | 666 | 799 | 1,465 |
| - DCG | 471 | 159 | 77 | 343 | - | - | 1,050 |
| Trademarks and trade names | | | | | | | |
| - PCSD | 209 | 59 | 103 | 67 | - | - | 438 |
| - MBG | - | - | - | - | 197 | 263 | 460 |
| - DCG | 162 | 54 | 31 | 123 | - | - | 370 |

The directors are of the view that there was no impairment of goodwill and trademarks and trade names based on impairment tests performed as at September 30, 2020 (March 31, 2020: Nil).

## 3 Operating profit

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

| | **3 months ended September 30, 2020** ***US$'000*** | **6 months ended September 30, 2020** ***US$'000*** | 3 months ended September 30, 2019 *US$'000* | 6 months ended September 30, 2019 *US$'000* |
|---|---|---|---|---|
| Depreciation of property, plant and equipment | **75,692** | **147,617** | 68,286 | 136,537 |
| Depreciation of right-of-use assets | **24,539** | **45,963** | 26,133 | 50,409 |
| *- prepaid lease payments* | ***691*** | ***1,359*** | *673* | *1,364* |
| *- other right-of-use assets* | ***23,848*** | ***44,604*** | *25,460* | *49,045* |
| Amortization of intangible assets | **156,870** | **311,849** | 138,308 | 265,073 |
| Impairment of intangible assets | **52,606** | **52,606** | - | - |
| Employee benefit costs, including | **1,101,363** | **2,372,169** | 1,060,388 | 2,162,982 |
| *- long-term incentive awards* | ***62,122*** | ***127,752*** | *65,004* | *123,697* |
| *- severance and other related costs* | **-** | ***75,006*** | - | - |
| Rental expenses under operating leases | **3,251** | **6,678** | 1,823 | 8,039 |
| (Gain)/loss on disposal of property, plant and equipment | **(8,703)** | **(70,872)** | (1,769) | 706 |
| Loss/(gain) on disposal of intangible assets | **-** | **450** | (773) | 1,016 |
| Fair value (gain)/loss on financial assets at fair value through profit or loss | **(104,289)** | **(132,920)** | (8,848) | 108 |
| Fair value loss on a financial liability at fair value through profit or loss | **5,600** | **1,773** | 3,000 | 3,000 |
| Dilution gain on interest in an associate | **-** | **(31,374)** | - | - |
| Gain on disposal of subsidiaries | **-** | **(1,064)** | - | (12,844) |

## 4 Finance income and costs

### (a) Finance income

| | **3 months ended September 30, 2020** ***US$'000*** | **6 months ended September 30, 2020** ***US$'000*** | 3 months ended September 30, 2019 *US$'000* | 6 months ended September 30, 2019 *US$'000* |
|---|---|---|---|---|
| Interest on bank deposits | **8,309** | **15,557** | 9,432 | 19,769 |
| Interest on money market funds | **1,033** | **1,776** | 1,170 | 4,705 |
| | **9,342** | **17,333** | 10,602 | 24,474 |

### (b) Finance costs

| | **3 months ended September 30, 2020** ***US$'000*** | **6 months ended September 30, 2020** ***US$'000*** | 3 months ended September 30, 2019 *US$'000* | 6 months ended September 30, 2019 *US$'000* |
|---|---|---|---|---|
| Interest on bank loans and overdrafts | **10,255** | **24,512** | 23,810 | 47,612 |
| Interest on convertible bonds | **10,003** | **19,914** | 9,893 | 19,720 |
| Interest on notes | **29,331** | **58,793** | 21,527 | 47,208 |
| Interest on lease liabilities | **4,844** | **9,051** | 3,858 | 7,962 |
| Factoring costs | **29,647** | **70,825** | 69,807 | 114,151 |
| Interest on contingent considerations and written put option liabilities | **6,542** | **12,823** | 6,608 | 13,264 |
| Others | **995** | **2,531** | 715 | 1,323 |
| | **91,617** | **198,449** | 136,218 | 251,240 |

## 5 Taxation

The amount of taxation in the consolidated income statement represents:

| | **3 months ended September 30, 2020** | **6 months ended September 30, 2020** | 3 months ended September 30, 2019 | 6 months ended September 30, 2019 |
|---|---|---|---|---|
| | ***US$'000*** | ***US$'000*** | *US$'000* | *US$'000* |
| Current tax | | | | |
| Hong Kong profits tax | **17,499** | **27,702** | 23,298 | 30,984 |
| Taxation outside Hong Kong | **137,409** | **252,950** | 140,482 | 204,359 |
| Deferred tax | | | | |
| Credit for the period | **(34,075)** | **(74,550)** | (97,363) | (120,743) |
| | **120,833** | **206,102** | 66,417 | 114,600 |

Hong Kong profits tax has been provided for at the rate of 16.5% (2019/20: 16.5%) on the estimated assessable profit for the period. Taxation outside Hong Kong represents income and irrecoverable withholding taxes of subsidiaries operating in the Chinese Mainland and overseas, calculated at rates applicable in the respective jurisdictions.

## 6 Earnings per share

(a) Basic

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

| | **3 months ended September 30, 2020** | **6 months ended September 30, 2020** | 3 months ended September 30, 2019 | 6 months ended September 30, 2019 |
|---|---|---|---|---|
| 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 | **(50,787,295)** | **(107,862,340)** | (21,900,919) | (107,502,874) |
| Weighted average number of ordinary shares in issue for calculation of basic earnings per share | **11,964,004,319** | **11,906,929,274** | 11,992,890,695 | 11,907,288,740 |
| | ***US$'000*** | ***US$'000*** | *US$'000* | *US$'000* |
| Profit attributable to equity holders of the Company used to determine basic earnings per share | **310,195** | **523,017** | 202,194 | 364,421 |

(b) Diluted

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

The Group has five (2019/20: five) categories of potential ordinary shares, namely long-term incentive awards, bonus warrants, put option written on non-controlling interests, convertible bonds and convertible preferred shares. Long-term incentive awards and convertible bonds were dilutive for the respective three months and six months ended September 30, 2020 and 2019. Bonus warrants were anti-dilutive for the three months and six months ended September 30, 2020 and dilutive for the three months and six months ended September 30, 2019. Put option written on non-controlling interests and convertible preferred shares were anti-dilutive for the respective three months and six months ended September 30, 2020 and 2019.

| | **3 months ended September 30, 2020** | **6 months ended September 30, 2020** | 3 months ended September 30, 2019 | 6 months ended September 30, 2019 |
|---|---|---|---|---|
| Weighted average number of ordinary shares in issue for calculation of basic earnings per share | **11,964,004,319** | **11,906,929,274** | 11,992,890,695 | 11,907,288,740 |
| Adjustment for long-term incentive awards | **149,492,774** | **79,031,164** | 278,360,312 | 355,504,784 |
| Adjustment for bonus warrants | **-** | **-** | 9,305,137 | 13,646,640 |
| Adjustment for convertible bonds | **732,183,610** | **732,183,610** | 686,600,195 | 686,600,195 |
| Weighted average number of ordinary shares in issue for calculation of diluted earnings per share | **12,845,680,703** | **12,718,144,048** | 12,967,156,339 | 12,963,040,359 |
| | ***US$'000*** | ***US$'000*** | *US$'000* | *US$'000* |
| Profit attributable to equity holders of the Company used to determine basic earnings per share | **310,195** | **523,017** | 202,194 | 364,421 |
| Adjustment for interest on convertible bonds, net of tax | **8,352** | **16,628** | 8,261 | 16,466 |
| Profit attributable to equity holders of the Company used to determine diluted earnings per share | **318,547** | **539,645** | 210,455 | 380,887 |

## 7 Dividend

| | **6 months ended September 30, 2020** | 6 months ended September 30, 2019 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Interim dividend, declared after period end – HK6.6 cents (2019/20: HK6.3 cents) per ordinary share | **102,298** | 96,640 |

## 8 Inventories

| | **September 30, 2020** | March 31, 2020 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Raw materials and work-in-progress | **3,243,486** | 3,571,141 |
| Finished goods | **1,650,291** | 1,020,718 |
| Service parts | **348,554** | 355,055 |
| | **5,242,331** | 4,946,914 |

## 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, 2020** | March 31, 2020 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| 0 – 30 days | **4,944,568** | 4,768,436 |
| 31 – 60 days | **1,402,983** | 878,135 |
| 61 – 90 days | **462,388** | 192,075 |
| Over 90 days | **505,221** | 519,822 |
| | **7,315,160** | 6,358,468 |
| Less: loss allowance | **(99,863)** | (95,456) |
| Trade receivables – net | **7,215,297** | 6,263,012 |

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

| | **September 30, 2020** | March 31, 2020 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| 0 – 30 days | **5,668,516** | 4,793,837 |
| 31 – 60 days | **1,597,676** | 1,699,192 |
| 61 – 90 days | **877,475** | 596,027 |
| Over 90 days | **382,045** | 420,668 |
| | **8,525,712** | 7,509,724 |

## 10 Deposits, prepayments and other receivables

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

| | **September 30, 2020** | March 31, 2020 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Deposits | **12,631** | 14,502 |
| Other receivables | **3,719,835** | 2,379,850 |
| Prepayments | **1,039,729** | 1,164,887 |
| | **4,772,195** | 3,559,239 |

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

## 11 Provisions, other payables and accruals

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

| | **September 30, 2020** | March 31, 2020 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Accruals | **2,462,618** | 2,340,811 |
| Allowance for billing adjustments (i) | **1,863,240** | 1,618,374 |
| Contingent consideration (Note 12(a)) | **-** | 117,387 |
| Other payables (ii) | **6,095,945** | 4,857,095 |
| Lease liabilities | **96,800** | 91,976 |
| | **10,518,603** | 9,025,643 |

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, 2020 | | | | |
| At the beginning of the year | 976,278 | 33,297 | 15,486 | 1,025,061 |
| Exchange adjustment | (32,815) | 626 | (91) | (32,280) |
| Provisions made | 824,687 | 20,126 | - | 844,813 |
| Amounts utilized | (793,311) | (18,445) | (15,395) | (827,151) |
| | 974,839 | 35,604 | - | 1,010,443 |
| Long-term portion classified as non-current liabilities | (258,840) | (32,832) | - | (291,672) |
| At the end of the year | 715,999 | 2,772 | - | 718,771 |
| Period ended September 30, 2020 | | | | |
| At the beginning of the period | **974,839** | **35,604** | **-** | **1,010,443** |
| Exchange adjustment | **29,674** | **910** | **-** | **30,584** |
| Provisions made | **445,594** | **6,713** | **-** | **452,307** |
| Amounts utilized | **(403,635)** | **(11,013)** | **-** | **(414,648)** |
| | **1,046,472** | **32,214** | **-** | **1,078,686** |
| Long-term portion classified as non-current liabilities | **(262,514)** | **(29,992)** | **-** | **(292,506)** |
| At the end of the period | **783,958** | **2,222** | **-** | **786,180** |

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, 2020** | March 31, 2020 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Deferred consideration (a) | **25,072** | 25,072 |
| Written put option liabilities (b) | **841,736** | 802,273 |
| Lease liabilities | **329,436** | 346,806 |
| Environmental restoration (Note 11(b)) | **29,992** | 32,832 |
| Government incentives and grants received in advance (c) | **61,119** | 51,938 |
| Others | **81,717** | 62,375 |
| | **1,369,072** | 1,321,296 |

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

The contingent consideration to Fujitsu Limited ("Fujitsu") was paid in May 2020 (Note 11(a)). As at September 30, 2020, the potential undiscounted amount of future payment in respect of the deferred consideration that the Group could be required to make to the respective seller under such arrangement is as follows:

| | |
|---|---|
| Joint venture with NEC Corporation | US$25 million |

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

(ii) During the year ended March 31, 2019, Hefei Zhi Ju Sheng Bao Equity Investment Co., Ltd ("ZJSB") acquired the 49% interest in a joint venture company ("JV Co") from Compal Electronics, Inc. The Company and ZJSB respectively own 51% and 49% of the interest in the JV Co. Pursuant to the option agreement entered into between a wholly owned subsidiary of the Group and Hefei Yuan Jia Start-up Investment LLP ("Yuan Jia"), which holds 99.31% interest in ZJSB, the Group and Yuan Jia are respectively granted call and put options which entitle the Group to purchase from Yuan Jia, or Yuan Jia to sell to the Group, the 99.31% interest in ZJSB. The call and put options will be exercisable at any time after August 31, 2022 and August 31, 2021 respectively. The exercise price for the call and put options will be determined in accordance with the joint venture agreement, and up to a maximum of RMB2,300 million (approximately US$338 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 incentives and grants are credited to the consolidated income statement upon fulfillment of those conditions and on a straight line basis over the expected life of the related assets respectively.

## 13 Borrowings

| | **September 30, 2020** | March 31, 2020 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Current liabilities | | |
| Short-term loans (i) | **1,687,747** | 2,124,562 |
| Notes (ii) | **-** | 563,249 |
| Convertible bonds (iii) | **615,675** | 607,169 |
| | **2,303,422** | 3,294,980 |
| Non-current liabilities | | |
| Long-term loan (i) | **2,576** | 3,079 |
| Notes (ii) | **2,243,952** | 1,243,714 |
| Convertible preferred shares (iv) | **297,024** | 317,826 |
| | **2,543,552** | 1,564,619 |
| | **4,846,974** | 4,859,599 |

(i) Majority of the short-term and long-term loans are denominated in United States dollars. As at September 30, 2020, the Group has total revolving and short-term loan facilities of US$3,075 million (March 31, 2020: US$2,834 million) which has been utilized to the extent of US$1,700 million (March 31, 2020: US$2,134 million).

(ii)

| Issue date | Principal amount | Term | Interest rate per annum | Due date | September 30, 2020 US$'000 | March 31, 2020 US$'000 |
|---|---|---|---|---|---|---|
| June 10, 2015 | RMB4 billion | 5 years | 4.95% | June 2020 | **-** | 563,249 |
| March 16, 2017 | US$500 million | 5 years | 3.875% | March 2022 | **498,655** | 498,225 |
| March 29, 2018 | US$750 million | 5 years | 4.75% | March 2023 | **746,196** | 745,489 |
| April 24, 2020 and May 12, 2020 | US$1 billion | 5 years | 5.875% | April 2025 | **999,101** | - |
| | | | | | **2,243,952** | 1,806,963 |

(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 proceeds were used to repay previous notes and for general corporate purposes. The bondholders have the right, at any time on or after 41 days after the date of issue up to the 10th day prior to the maturity date, to convert part or all of the outstanding principal amount of the Bonds into ordinary shares of the Company at a conversion price of HK$7.99 per share, subject to adjustments. The conversion price was adjusted to HK$7.23 per share effective on July 16, 2020. Assuming full conversion of the Bonds at the adjusted conversion price of HK$7.23 per share, the Bonds will be convertible into 732,183,610 shares. The Group expects that it will be able to meet its redemption obligations based on the financial position of the Group.

The outstanding principal amount of the Bonds is repayable by the Company upon the maturity of the Bonds on January 24, 2024, if not previously redeemed, converted or purchased and cancelled. On January 24, 2021, the bondholders will have the right, at the bondholders' option, to require the Company to redeem part or all of the Bonds on January 24, 2021 at their principal amount. To exercise such right, the bondholders must complete, sign and deposit a duly completed and signed notice of redemption not earlier than 60 days and not later than 30 days prior to January 24, 2021.

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 were used by LETCL and its subsidiaries towards general corporate funding and capital expenditure of LETCL and its subsidiaries.

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

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at September 30, 2020 and March 31, 2020 are as follows:

| | **September 30, 2020** | March 31, 2020 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Within 1 year | **2,303,422** | 3,294,980 |
| Over 1 to 3 years | **1,544,451** | 1,564,619 |
| Over 3 to 5 years | **999,101** | - |
| | **4,846,974** | 4,859,599 |

## 14 Share capital

| | **September 30, 2020** | | March 31, 2020 | |
|---|---|---|---|---|
| | ***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.

On November 3, 2020, US$819,397,000 in principal amount of the perpetual securities were purchased and cancelled by the issuer pursuant to a tender offer made by the issuer on October 22, 2020, and US$180,603,000 in principal amount of the perpetual securities remain outstanding.

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

| | **6 months ended September 30, 2020** ***US$'000*** | 6 months ended September 30, 2019 *US$'000* |
|---|---|---|
| Profit before taxation | **802,463** | 550,181 |
| Share of losses of associates and joint ventures | **16,803** | 7,448 |
| Finance income | **(17,333)** | (24,474) |
| Finance costs | **198,449** | 251,240 |
| Depreciation of property, plant and equipment | **147,617** | 136,537 |
| Depreciation of right-of-use assets | | |
| - prepaid lease payments | **1,359** | 1,364 |
| - other right-of-use assets | **44,604** | 49,045 |
| Amortization of intangible assets | **311,848** | 265,073 |
| Impairment of intangible assets | **52,606** | - |
| Share-based compensation | **127,752** | 123,697 |
| (Gain)/loss on disposal of property, plant and equipment | **(70,872)** | 706 |
| Loss on disposal of intangible assets | **450** | 1,016 |
| Dilution gain on interest in an associate | **(31,374)** | - |
| Gain on disposal of subsidiaries | **(1,064)** | (12,844) |
| Fair value change on bonus warrants | **1,288** | (15,562) |
| Fair value change on financial instruments | **4,641** | (7,841) |
| Fair value change on financial assets at fair value through profit or loss | **(132,920)** | 108 |
| Fair value change on a financial liability at fair value through profit or loss | **1,773** | 3,000 |
| Dividend income | **(384)** | (2,390) |
| Increase in inventories | **(343,089)** | (396,127) |
| Increase in trade receivables, notes receivable, deposits, prepayments and other receivables | **(2,178,297)** | (2,092,949) |
| Increase in trade payables, notes payable, provisions, other payables and accruals | **2,752,982** | 2,765,202 |
| Effect of foreign exchange rate changes | **(127,390)** | 98,313 |
| Net cash generated from operations | **1,561,912** | 1,700,743 |

### Reconciliation of financing liabilities

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

| **Financing liabilities** | **September 30, 2020** ***US$'000*** | March 31, 2020 *US$'000* |
|---|---|---|
| Short-term loans – current | **1,687,747** | 2,124,562 |
| Long-term loan – non-current | **2,576** | 3,079 |
| Notes – current | **-** | 563,249 |
| Notes – non-current | **2,243,952** | 1,243,714 |
| Convertible bonds – current | **615,675** | 607,169 |
| Convertible preferred shares – non-current | **297,024** | 317,826 |
| Lease liabilities – current | **96,800** | 91,976 |
| Lease liabilities – non-current | **329,436** | 346,806 |
| | **5,273,210** | 5,298,381 |
| Short-term loans – variable interest rates | **1,679,214** | 2,123,571 |
| Short-term loan – fixed interest rates | **8,533** | 991 |
| Long-term loan – fixed interest rates | **2,576** | 3,079 |
| Notes – fixed interest rates | **2,243,952** | 1,806,963 |
| Convertible bonds – fixed interest rates | **615,675** | 607,169 |
| Convertible preferred shares – fair value | **297,024** | 317,826 |
| Lease liabilities – fixed interest rates | **426,236** | 438,782 |
| | **5,273,210** | 5,298,381 |

| | Short-term loans current *US$'000* | Long-term loan non-current *US$'000* | Notes current *US$'000* | Notes non-current *US$'000* | Convertible bonds current *US$'000* | Convertible bonds non-current *US$'000* | Convertible preferred shares non-current *US$'000* | Lease liabilities current *US$'000* | Lease liabilities non-current *US$'000* | Total *US$'000* |
|---|---|---|---|---|---|---|---|---|---|---|
| Financing liabilities as at April 1, 2019 | 1,166,907 | - | 786,136 | 1,836,264 | - | 590,506 | - | - | - | 4,379,813 |
| Change in accounting policy | - | - | - | - | - | - | - | 77,903 | 331,441 | 409,344 |
| Proceeds from borrowings | 4,089,791 | 3,079 | - | - | - | - | - | - | - | 4,092,870 |
| Repayments of borrowings | (3,135,800) | - | - | - | - | - | - | - | - | (3,135,800) |
| Repayments of notes | - | - | (786,244) | - | - | - | - | - | - | (786,244) |
| Transfer | - | - | 581,389 | (581,389) | 602,983 | (602,983) | - | 91,422 | (91,422) | - |
| Issue of convertible preferred shares | - | - | - | - | - | - | 300,000 | - | - | 300,000 |
| Principal elements of lease payments | - | - | - | - | - | - | - | (130,993) | - | (130,993) |
| Dividends paid | - | - | - | - | - | - | (6,000) | - | - | (6,000) |
| Foreign exchange adjustments | - | - | (18,770) | (13,548) | - | - | - | (370) | (863) | (33,551) |
| Other non-cash movements | 3,664 | - | 738 | 2,387 | 4,186 | 12,477 | 23,826 | 54,014 | 107,650 | 208,942 |
| Financing liabilities as at March 31, 2020 | 2,124,562 | 3,079 | 563,249 | 1,243,714 | 607,169 | - | 317,826 | 91,976 | 346,806 | 5,298,381 |
| **Financing liabilities as at April 1, 2020** | **2,124,562** | **3,079** | **563,249** | **1,243,714** | **607,169** | **-** | **317,826** | **91,976** | **346,806** | **5,298,381** |
| Proceeds from borrowings | **2,267,961** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **2,267,961** |
| Repayments of borrowings | **(2,702,288)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(2,702,288)** |
| Repayment of notes | **-** | **-** | **(565,643)** | **-** | **-** | **-** | **-** | **-** | **-** | **(565,643)** |
| Repurchase of convertible preferred shares | **-** | **-** | **-** | **-** | **-** | **-** | **(16,575)** | **-** | **-** | **(16,575)** |
| Transfer | **503** | **(503)** | **-** | **-** | **-** | **-** | **-** | **52,728** | **(52,728)** | **-** |
| Issue of notes | **-** | **-** | **-** | **1,003,500** | **-** | **-** | **-** | **-** | **-** | **1,003,500** |
| Issuing costs of notes | **-** | **-** | **-** | **(4,485)** | **-** | **-** | **-** | **-** | **-** | **(4,485)** |
| Principal elements of lease payments | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(59,778)** | **-** | **(59,778)** |
| Acquisition of a subsidiary | **1,770** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **1,770** |
| Dividends paid | **-** | **-** | **-** | **-** | **-** | **-** | **(6,000)** | **-** | **-** | **(6,000)** |
| Foreign exchange adjustments | **233** | **-** | **2,058** | **-** | **-** | **-** | **-** | **4,174** | **6,792** | **13,257** |
| Other non-cash movements | **(4,994)** | **-** | **336** | **1,223** | **8,506** | **-** | **1,773** | **7,700** | **28,566** | **43,110** |
| Financing liabilities as at September 30, 2020 | **1,687,747** | **2,576** | **-** | **2,243,952** | **615,675** | **-** | **297,024** | **96,800** | **329,436** | **5,273,210** |

## 17 Non-adjusting post balance sheet date event

On November 2, 2020, the Company completed the issuance of a 10-Year US$1 billion notes bearing annual interest at 3.421% due in November 2030. On November 3, 2020, the proceeds were used to purchase a portion of (i) the US$1 billion 5.375% perpetual securities issued by the Group, (ii) the US$500 million 3.875% notes due in March 2022 issued by the Company, and (iii) the US$750 million 4.75% notes due in March 2023 issued by the Company.

## DEBENTURES ISSUED

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

On November 2, 2020, the Company issued US$1,000,000,000 3.421% notes due 2030. The notes are listed on the Stock Exchange.

The Company has received a consideration of US$1,000,000,000 from the issuance. The proceeds of this issuance were used to repurchase part of (i) the outstanding US$1,000,000,000 5.375% perpetual securities issued by Lenovo Perpetual Securities Limited (a wholly owned subsidiary of the Company) and guaranteed by the Company, (ii) the Company's US$500,000,000 3.875% notes due 2022, and (iii) the Company's US$750,000,000 4.750% notes due 2023, in accordance with the terms of the tender offer announced by the Company on October 22, 2020. Please refer to the announcement of the Company dated November 3, 2020 regarding settlement of the tender offer for details.

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

During the six months ended September 30, 2020, 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 98,676,931 shares from the market for award to employees upon vesting. Details of these program and plan are set out in the 2019/20 annual report of the Company.

## REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the unaudited interim results of the Group for the six months ended September 30, 2020. 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, 2020, in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, with the exception that the roles of the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "CEO") have not been segregated as required by code provision A.2.1 of the CG Code.

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

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

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

November 3, 2020

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