Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

FY2021/22 FIRST QUARTER RESULTS ANNOUNCEMENT

QUARTERLY 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 months ended June 30, 2021 together with comparative figures for the corresponding period of last year, as follows:

FINANCIAL HIGHLIGHTS

- Profit attributable to equity holders up 119 percent year-on-year; Highest net income margin in years as revenue surges 27 percent year-on-year
- New Solutions and Services Group (SSG) saw a 51 percent growth in operating profit and a 38 percent hypergrowth in revenue, both year-on-year; SSG already contributing 20 percent of total operating profit of the three Business Groups
- Intelligent Devices Group (IDG) posted a 43 percent operating profit growth year-on-year for record first quarter, as PC average selling price grew 6 percent year-on-year on commercial demand recovery; IDG continued to gain share in premium segments
- Infrastructure Solutions Group had the best performance in 5 years, with record revenue and operating loss reduced by US$49 million year-on-year as it nears profitability
- Overall, delivering long-term profitable growth by leveraging strong leadership position to capture innovation opportunities in accelerated Digital and Intelligent Transformation; Expanding into high-margin businesses including solutions and services, infrastructure upgrade, premium PC and adjacent non-PC sales

	3 months ended June 30, 2021 (unaudited) ***US$ million***	**3 months ended June 30, 2020 (unaudited)** ***US$ million***	**Year-on-year change**
Revenue	16,929	13,348	27%
Gross profit	2,824	2,041	38%
Gross profit margin	16.7%	15.3%	1.4pts
Operating expenses	(2,081)	(1,605)	30%
Operating profit	743	436	70%
Other non-operating income/(expenses) – net	(93)	(104)	(11)%
Profit before taxation	650	332	96%
Profit for the period	485	247	97%
Profit attributable to equity holders of the Company	466	213	119%
Earnings per share attributable to equity holders of the Company			
Basic	US4.02 cents	US1.80 cents	US2.22 cents
Diluted	US3.53 cents	US1.76 cents	US1.77 cents

BUSINESS REVIEW AND OUTLOOK

Highlights

During the three months ended June 30, 2021, Lenovo (the Group) achieved record performances across all three of its business groups. Its profit attributable to equity holders more than doubled year-on-year and reached an all-time high. The global trend towards Digital and Service-led Transformation benefited the Group's full-range products, including those of its newly established Solutions & Services Group (SSG). The emergence of "New IT" in response to dynamic shifts in people's daily work, study and entertainment should fuel secular growth in cloud demand and service opportunities. The recovery in IT spending continued to strengthen commercial demand and supported higher average selling prices (ASP) of the company's products. The total available market size of PC will be structurally higher in next 5-year period as compared to the preceding period. These long-lasting changes will positively impact the Group's service business, commercial sales, premium mix, and product innovation.

These high-growth and high-margin opportunities have the potential to drive the Group's net income margin to a higher level over the medium term. To achieve such target, the Group will improve its profitability across all three Business Groups by building a profitable Infrastructure Solutions Group (ISG) business and further expanding its SSG business. The Group has been effective in consistently expanding its annual net income margin for the last thirteen quarters except for 4QFY19/20 when the Covid-19 outbreak briefly disrupted market demand. The strong track record is demonstrative of the Group's ability to deliver despite the market challenges. One such challenge has been the industry-wide component shortages in various integrated circuits (ICs), causing delays in order fulfillment. Despite significant back-log orders across PC, smartphone and servers, the Group will continue to excel in operational efficiency by securing more supply than peers to outgrow the market.

The Group's net cash generated from operating activities was US$448 million with a year-over-year increase of US$131 million in the fiscal quarter, attributable to strong profitability. The company reduced its net debt by US$541 million year on year pivoting on its strength in cash generation. To substantiate long-term growth and enhance service competitiveness, the Group increased its research and development (R&D) spending by 40 percent year-on-year on innovative applications ranging from Artificial Intelligence (AI), 5G, product designs in high-margin products including Smarter PC, Smart Office, hybrid cloud, and Green datacenter, to service systems and tools to enhance competitiveness. An example of such R&D projects included Lenovo Advanced Production Scheduling System, a unique system powered by AI to enhance manufacturing efficiency.

In the recently announced 2021 Fortune Global 500 list, the Group's ranking advanced 65 places to reach no. 159 for the first time and is now no.15 in the overall technology sector. The Group's outlook has also been revised upward to "positive" by two credit rating agencies since this June and July.

Group Financial Performance

For the first fiscal quarter, the Group's profit attributable to equity holders rose by 119 percent to US$466 million, while its revenue grew 27 percent to US$16.9 billion. The Group's net income margin, driven by strength in its core business, set a new milestone. The Group's gross profit increased 38 percent while its gross margin expanded 139 basis points year-on-year to 16.7 percent.

The Group's record-breaking performance has been supported not only by its bread-and-butter product business but also its fast-growing services. By business group, SSG's revenue posted a 38 percent year-on-year growth to US$1.2 billion thanks to strong double-digit revenue growth across three product segments and all regions. Its operating profit increased 51 percent to US$264 million and operating margin improved by 2 percentage points year-on-year to 22 percent, nearly three times of total business groups average.

Intelligent Devices Group (IDG) boosted its operating profit by 43 percent year-on-year on revenue increase of 28 percent. The performance was fueled by strong growth and share gains in high-growth, premium segments in PC and smart devices, and stellar margin expansion in its smartphone business segment. As a major beneficiary of the recovery in enterprise spending, commercial PC in IDG was a bright spot with a 23 percent year-on-year growth in revenue. Together with the buoyant demand for high-growth and premium products including gaming notebook PC, thin-and-light, and Yoga-series within the consumer PC segment, the Group grew its ASPs by 6 percent year-on-year and its profitability further advanced to an all-time high. Its smartphone business reported a 64 percent annual growth, driven by aggressive market share gains across America and Europe. Much of IDG's growth has been propelled by non-PC products which, on an aggregate basis, grew their revenue by 57 percent year-on-year contributing to 18 percent of its top-line.

ISG achieved its best results in 5 years and narrowed its losses by US$49 million year-on-year during the quarter under review. ISG is another key beneficiary of the New IT trend aspired by Digital Transformation. Its revenue increased 14 percent year-on-year, driven by consistent performances across the Cloud Service Provider (CSP) and the Enterprise & Small and Medium Business (ESMB) segment.

The Group recognized fair value gains from its strategic investments amounting to US$131 million during the fiscal quarter. The change in fair value included revaluation gains (losses) on new investment rounds by unlisted holdings and mark-to-market gains (losses) on listed holdings.

Geographic Performance

Lenovo is a global business operating in more than 180 markets. For the period under review, in China, the Group delivered a phenomenal 54 percent year-on-year sales growth and saw healthy momentum across its three business groups. Its PC business continued to capture market share with growth rate exceeding the market by 13.9 percentage points, as driven by successful channel reform in Small & Medium Business segment, e-Commerce strength, enterprise recovery, and innovations especially in the gaming segment. Its ISG business also reported a strong double-digit year-on-year revenue growth in China, while its revenue in the CSP business more than doubled and its revenue in the ESMB staying strong. The smart city, smart manufacturing, and as-a-Service (aaS) solutions also continued to gain traction boosting SSG's performance in China.

In America (AG), the Group delivered a 39 percent year-on-year increase in sales. Its IDG business continued to shine. In the smartphone sector, Motorola rose to become a top-3 brand for the first time in North America while strengthening its number two position in Latin America. Its ISG and SSG also posted solid growth, showcasing the company's ability to leverage its core competencies to capture new demand. In Europe-Middle East-Africa (EMEA), the Group regained leadership in the PC sector, thanks to robust growth in the SMB segments. Its smartphone sales remained on a strong growth trajectory supported by new channel expansions. As a result, its market share grew 1.1 percentage points year-on-year, representing its largest share gain since FY16/17. By securing a number of aaS signature deals, its SSG business achieved its fastest growth rate among the regions in EMEA. Asia Pacific (excluding China) is the only regional market where a year-on-year sales decline was reported, due to fewer educational deals in Japan.

Performance by Business Group

Intelligent Devices Group (IDG)

The IDG Group, consisting of the PC, tablet, smartphone, and other smart devices businesses, delivered stellar profit growth of 43 percent and revenue growth of 28 percent. Its operating margin expanded 0.8 percentage points year-on-year to a record 7.5 percent. According to an industry research, the use of PCs continued to dominate the center of Digital Life and the sector's total available market size should remain or exceed current level, representing an enlarged scale compared to in 2017-2020. With this market outlook, IDG targets to further strengthen its leading position in the PC sector. In the first fiscal quarter, the business remained a strong global no. 1 with share gains across PRC, North America, and Latin America. In addition, its ASP and operating margin continued to improve. Premiumization is accelerating as the change in lifestyles towards remote learning and remote working has raised the bar for designs, set higher requirements for video and audio, and increased demand for gaming PC, workstation, and the Group's premium Think-series. Digital Transformation also took a new turn as more economies re-opened, creating strong commercial demand, which translated into higher ASP and stronger profitability than its PC business average.

IDG will continue to stay on a higher margin trajectory and leverage its leadership position to enable positive mix shift with a favorable cost structure. Non-PC sales was the strongest growth area within IDG, which grew 57 percent year-on-year amounting to 18 percent of the business group's revenue. The Group reported record smartphone profit of US$87 million, and revenue rapidly growing at 64 percent year-on-year, as driven by market share gain across all geographic markets. Its long-term growth strategy by leveraging product optimization and broader carrier ranging will support future growth. IDG's tablet sales grew at a strong double-digit rate from a year ago on the back of online education opportunities.

Infrastructure Solutions Group (ISG)

The ISG business is shifting from foundation building to fueling the market transformation. It is also a clear beneficiary of the global super cycle enabled by Digital Transformation. ISG's revenue increased 14 percent year-on-year to an all-time high of US$1.8 billion (since its x86 acquisition). Its operating margin expanded by 3.2 percentage points year-on-year. ISG achieved its best results in 5 years and its loss was narrowed by US$49 million year-on-year to US$11 million. This accomplishment was made possible through a concerted effort in improving the segment profitability of CSP and ESMB. The revenue of CSP increased at a double-digit rate year-on-year to an all-time high while its ESMB also set a new 5-year record in first quarter sales.

In the CSP segment, priorities have been set to focus on growing its client base, product portfolio and design-in projects. Its fully integrated ODM+ and hybrid CSP/ESMB model have provided unique advantages in achieving these targets. Its global design-in projects now extended from server to storage, liquid cooling, more advanced system designs and multiple platforms. New capacities are being added to its Mexico and Hungary plants to eye on clear growth opportunities in the next two years. ESMB business further gained in market share across multiple high-growth products: server, storage, and software and services while continuing to expand its footprints in Hybrid Cloud Solutions. In mainstream storage market, the Group was one of the fastest-growing vendors and is now the second largest global player. In High-Performance Computing (HPC), it has further secured its leading position in worldwide market with the launch of the largest ever water-cooling supercomputer at Korea Meteorological Administration.

Solutions & Services Group (SSG)

Targeted at the fastest-growing "New IT" service segment, SSG made a successful debut in the first fiscal quarter with strong revenue growth and superior profitability. The financial results of SSG underscored the Group's strategic focus on service-led transformation which has started to bear fruits. SSG's revenue increased by 38 percent year-on-year to US$1.2 billion, with strong double-digit revenue growth across three segments and all regions. SSG's operating profit surged by 51 percent to US$264 million year-on-year during the quarter under review, driven by strong revenue growth and solid operating margin expansion by 2 percentage points year-on-year to 22 percent, topping all business groups.

SSG continued to enrich its service offerings across all three segments to position for better profitability and business scale. Revenue of **Support Service** increased 24 percent year-on-year, thanks to rising penetration rate and strengthening Premier Service attach and new solutions, such as Asset Recovery Service. **Managed Services** fully took advantage of surging demand for as-a-Service solutions, posting a 64 percent revenue growth year-on-year. As-a-Service (aaS) more than doubled in total contract value during the quarter on strong momentum driven by several landmark deals and strategic partnerships concluded in the period under review. **Project & Solutions** segment also reported a strong revenue growth of 56 percent year-on-year, on rapidly growing scaling capability with over US$100 million total contract value signed for smart city projects, several lighthouse projects, Internet Data Center, and retail projects. These achievements combined to develop repeatable solutions and contributed to fast-growing deferred revenues of US$2.4 billion, up 34 percent year-on-year.

Outlook

Digital and Service-led Transformation accelerated by New IT should continue to benefit Lenovo's full-range products. Service-led transformation, the accelerated pace of business recovery, favorable product mix, and product innovation, including full-stake offerings (Client-Edge-network-Intelligence) from ISG, are all positive catalysts for reaching the Group's medium-term financial target of increasing its net income on a sustainable basis.

Within IDG, the PC business will continue to address opportunities emerging from structural changes in the sector to further extend its leading position. The PC business will leverage its operational excellence, innovation, solution capabilities and global franchise to meet strong segment demand, drive consistent premium-to-market growth, and maintain profitability leadership. Its smartphone business will focus on sustaining strong growth momentum in North America and Europe, while maintaining market leadership in Latin America. It will further drive product innovation and accelerate 5G smartphone launches to score wins in more markets while staying on track for profitable growth.

ISG will grow its channel business with the One Lenovo platform while delivering premium-to-market growth and driving quarter-on-quarter improvement in profitability. The Group has been building industry-leading end-to-end infrastructure solutions and expanding from server to full-stack offerings including storage, Software-defined Infrastructure, software, and services. In the ESMB segment, the Group will grow its high-margin services attach rate, upsell premier services and expand hybrid cloud solutions to drive a paradigm shift in computing with its edge-to-cloud solutions. For its CSP business, the Group will continue to diversify its customer base and expand its share with existing accounts. To achieve that the business will leverage its unique strengths including in-house custom design and manufacturing capabilities with worldwide reach. It will also expand its product portfolio with advanced configurations and storage platforms.

For SSG, by targeting the fast-growing “New IT” opportunities, Lenovo’s extensive exposure to commercial PC and ESMB infrastructure will offer huge service potentials for all three segments. For Attached Service, solid growth will be driven by increasing penetration and service upselling through One Lenovo platform. By enhancing delivery footprint, differentiation and core platforms, Managed Service is well-positioned to capture strong as-a-Service demand, which, according to an industry forecast, is estimated to account for 17 percent of commercial PC, 12 percent of x86 server, and over 50 percent of storage spend in 2024. Project & Solutions will facilitate vertical growth in manufacturing, education, retail, and smart cities, and are instrumental to building Lenovo’s Intellectual Property and landmark deals. Further investments in team, systems & tools, IP portfolio, and delivery capabilities will build a competitive edge for future growth.

Strategic Highlights

The Group continues to execute its strategy to become the leader and enabler of Intelligent Transformation. New business growth is brought by the vision of bringing smarter technology to all and the “3S” strategy in Smart Infrastructure, Smart Verticals, and Smart IoT. The Project & Solutions under SSG aims to combine big data and computing power to provide more insights and improve business processes. The Group has also won multiple industry projects including Smart Health Care in North America and Smart Education in China.

Smart Infrastructure provides the computing, storage, and networking power to smart devices. The Group’s next-generation data center solutions in the hybrid cloud are based on the ThinkAgile platform with strong Smart City and data center project wins. The Group will continue to invest in its end-to-end solutions ranging from Smart IoT, edge computing, cloud, Big Data to AI.

Innovation strategy is also important in driving future profitability in a sustainable way. The Group is planning to double down on its R&D investment in the medium term to uplift its competitive edges in next-generation product design, solutions, and operational efficiency to a new level. One such example is Lenovo Advanced Production Scheduling System (LAPS), which can improve production efficiency by 18 percent and reduce idle time for the manufacturing lines. As a socially responsible corporation, the Group will also place emphasis on environmentally conscious design programs, from materials selection, energy efficiency and product carbon footprint mitigation, to green packaging features and circular designs.

FINANCIAL REVIEW

Results for the three months ended June 30, 2021

	3 months ended June 30, 2021 (unaudited) ***US$ million***	3 months ended June 30, 2020 (unaudited) *US$ million*	Year-on-year change
Revenue	**16,929**	13,348	27%
Gross profit	**2,824**	2,041	38%
Gross profit margin	**16.7%**	15.3%	1.4pts
Operating expenses	**(2,081)**	(1,605)	30%
Operating profit	**743**	436	70%
Other non-operating income/(expenses) – net	**(93)**	(104)	(11)%
Profit before taxation	**650**	332	96%
Profit for the period	**485**	247	97%
Profit attributable to equity holders of the Company	**466**	213	119%
Earnings per share attributable to equity holders of the Company			
Basic	**US4.02 cents**	US1.80 cents	US2.22 cents
Diluted	**US3.53 cents**	US1.76 cents	US1.77 cents

For the three months ended June 30, 2021, the Group achieved total sales of approximately US$16,929 million. Compared to the corresponding period of last year, profit attributable to equity holders for the period surged by US$253 million to approximately US$466 million. In the same reporting period, gross profit margin rose 1.4 percentage points to 16.7 percent, mainly due to increase in average selling prices of PCs and smartphones, while basic and diluted earnings per share were US4.02 cents and US3.53 cents respectively, representing an increase of US2.22 cents and US1.77 cents.

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

Analysis of operating expenses by function for the three months ended June 30, 2021 and 2020 is as follows:

	3 months ended June 30, 2021 ***US$'000***	3 months ended June 30, 2020 *US$'000*
Selling and distribution expenses	**(847,043)**	(632,167)
Administrative expenses	**(812,243)**	(661,102)
Research and development expenses	**(466,463)**	(332,570)
Other operating income/(expenses) – net	**44,778**	20,408
	(2,080,971)	(1,605,431)

Operating expenses for the period were 30 percent over the corresponding period of last year. Employee benefit costs increased by US$129 million mainly due to increase in headcount and bonus. The increase in operating expenses reflected an increased effort in the Group's marketing input in advertising and promotional expenses of US$123 million to drive brand recognition and fuel future growth. The Group also increased investments in research and development causing relevant expenses to increase by US$36 million. During the period, the Group recorded a fair value gain from strategic investments amounted to US$131 million (2020/21: US$60 million), reflecting the change in value of the Group's portfolio. While in the corresponding period of last year, a gain on disposal of non-core property assets of US$65 million was recognized.

Key expenses by nature comprise:

	3 months ended June 30, 2021 *US$'000*	3 months ended June 30, 2020 *US$'000*
Depreciation of property, plant and equipment	**(43,504)**	(39,591)
Depreciation of right-of-use assets	**(28,934)**	(18,673)
Amortization of intangible assets	**(161,163)**	(149,563)
Impairment of intangible assets	**(15,000)**	-
Impairment of property, plant and equipment	**(10,189)**	-
Employee benefit costs, including	**(1,232,785)**	(1,104,169)
- long-term incentive awards	***(95,415)***	*(65,630)*
- severance and related costs	**-**	*(75,006)*
Rental expenses	**(5,029)**	(1,676)
Net foreign exchange loss	**(38,827)**	(12,139)
Advertising and promotional expenses	**(241,287)**	(118,051)
Legal, professional and consulting expenses	**(90,919)**	(46,106)
Information technology expenses	**(21,424)**	(27,140)
Loss allowance of trade receivables	**(12,611)**	(7,774)
Research and development related services and supplies	**(86,103)**	(49,823)
Gain on disposal of property, plant and equipment	**479**	62,169
Fair value gain on financial assets at fair value through profit or loss	**131,270**	28,631
Fair value (loss)/gain on a financial liability at fair value through profit or loss	**(4,165)**	3,827
Dilution gain on interest in an associate	**-**	31,374
Gain on disposal of subsidiaries	**825**	1,064
Others	**(221,605)**	(157,791)
	(2,080,971)	(1,605,431)

Other non-operating income/(expenses) - net for the three months ended June 30, 2021 and 2020 comprise:

	3 months ended June 30, 2021 *US$'000*	3 months ended June 30, 2020 *US$'000*
Finance income	**9,076**	7,991
Finance costs	**(100,581)**	(106,832)
Share of losses of associates and joint ventures	**(1,043)**	(4,960)
	(92,548)	(103,801)

Finance income mainly represents interest on bank deposits.

Finance costs for the period decreased by 6 percent as compared with the corresponding period of last year because the Group was granted strong investment-grade ratings by the 'Big Three' credit rating agencies that lowers our borrowing rates and improved the efficiency of the factoring program. The change is a combined effect of the decrease in interest on bank loans and overdrafts of US$6 million and factoring costs of US$7 million, partially offset by the increase in interest on notes of US$6 million.

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

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

	3 months ended June 30, 2021		3 months ended June 30, 2020	
	Revenue *US$'000*	**Operating profit/(loss)** *US$'000*	Revenue *US$'000*	Operating profit/(loss) *US$'000*
IDG	**14,665,833**	**1,095,486**	11,483,715	768,013
ISG	**1,834,908**	**(10,791)**	1,605,084	(60,109)
SSG	**1,184,366**	**263,631**	861,035	174,765
Total	**17,685,107**	**1,348,326**	13,949,834	882,669
Intersegment eliminations	**(755,860)**	**(222,625)**	(601,978)	(154,801)
	16,929,247	**1,125,701**	13,347,856	727,868
Unallocated:				
Headquarters and corporate income/(expenses) - net		**(393,392)**		(346,445)
Depreciation and amortization		**(165,215)**		(123,612)
Impairment of intangible assets		**(15,000)**		-
Finance income		**5,075**		4,909
Finance costs		**(34,422)**		(53,585)
Share of losses of associates and joint ventures		**(1,043)**		(4,960)
Gain on disposal of property, plant and equipment		**435**		63,877
Fair value gain on financial assets at fair value through profit or loss		**131,270**		28,631
Fair value (loss)/gain on a financial liability at fair value through profit or loss		**(4,165)**		3,827
Dilution gain on interest in an associate		**-**		31,374
Gain on disposal of subsidiaries		**825**		-
Dividend income		**154**		192
Consolidated profit before taxation		**650,223**		332,076

Headquarters and corporate income/(expenses) - net for the period comprise various expenses, after appropriate allocation to business groups, of US$393 million (2020/21: US$346 million) such as employee benefit costs, legal, professional and consulting expenses, and research and technology expenses. The increase is mainly due to employee benefit cost rising by US$27 million primarily as a result of increase in performance-based bonus and increase in net exchange loss of US$27 million as compared with the corresponding period of last year.

Capital Expenditure

The Group incurred capital expenditure of US$279 million (2020/21: US$167 million) during the three months ended June 30, 2021, mainly for the acquisition of property, plant and equipment, additions in construction-in-progress and intangible assets. The higher capital expenditure incurred in the current period was mainly attributable to more investments in plant and machinery, patent and technology and internal use software.

Liquidity and Financial Resources

At June 30, 2021, total assets of the Group amounted to US$40,461 million (March 31, 2021: US$37,991 million), which were financed by equity attributable to owners of the Company of US$4,060 million (March 31, 2021: US$3,559 million), other non-controlling interests (net of put option written on non-controlling interests) of US$100 million (March 31, 2021: US$52 million), and total liabilities of US$36,301 million (March 31, 2021: US$34,380 million). At June 30, 2021, the current ratio of the Group was 0.87 (March 31, 2021: 0.85).

At June 30, 2021, bank deposits and cash and cash equivalents totalling US$3,259 million (March 31, 2021: US$3,128 million) analyzed by major currency as follows:

	June 30, 2021	March 31, 2021
	%	%
US dollar	**28.4**	34.9
Renminbi	**31.4**	25.7
Japanese Yen	**12.9**	11.3
Euro	**5.1**	5.5
Australian dollar	**3.1**	3.4
Other currencies	**19.1**	19.2
Total	**100.0**	100.0

The Group adopts a conservative policy to invest the surplus cash generated from operations. At June 30 and March 31, 2021, all cash and cash equivalents are bank deposits.

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

The Group has the following banking facilities:

				Utilized amount at	
Type	**Date of agreement**	**Principal amount**	**Term**	**June 30, 2021**	March 31, 2021
		US$ million		***US$ million***	*US$ million*
Revolving loan facility	March 28, 2018	1,500	5 years	**-**	-
Revolving loan facility	May 12, 2020	300	5 years	**-**	-
Revolving loan facility	May 14, 2020	200	5 years	**-**	-

Notes, convertible bonds and convertible preferred shares issued by the Group and outstanding as at June 30, 2021 are as follows:

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

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

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

	Total available amount at		**Drawn down amount at**	
Credit facilities	**June 30, 2021**	March 31, 2021	**June 30, 2021**	March 31, 2021
	US$ million	*US$ million*	***US$ million***	*US$ million*
Trade lines	**2,265**	2,003	**1,796**	1,637
Short-term money market facilities	**1,077**	1,029	**52**	47
Forward foreign exchange contracts	**13,277**	12,023	**13,209**	11,975

Net debt position and gearing ratio of the Group as at June 30 and March 31, 2021 are as follows:

	June 30, 2021	March 31, 2021
	US$ million	*US$ million*
Bank deposits and cash and cash equivalents	**3,259**	3,128
Borrowings		
- Short-term loans	**55**	58
- Long-term loan	**2**	2
- Notes	**3,011**	3,011
- Convertible bonds	**628**	624
- Convertible preferred shares	**302**	303
Net debt position	**(739)**	(870)
Total equity	**4,160**	3,611
Gearing ratio (Borrowings divided by total equity)	**0.96**	1.11

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At June 30, 2021, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$13,209 million (March 31, 2021: US$11,975 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

Contingent Liabilities

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

CONSOLIDATED INCOME STATEMENT

	Note	**3 months ended June 30, 2021 (unaudited)** ***US$'000***	3 months ended June 30, 2020 (unaudited) *US$'000*
Revenue	*2*	**16,929,247**	13,347,856
Cost of sales		**(14,105,505)**	(11,306,548)
Gross profit		**2,823,742**	2,041,308
Selling and distribution expenses		**(847,043)**	(632,167)
Administrative expenses		**(812,243)**	(661,102)
Research and development expenses		**(466,463)**	(332,570)
Other operating income/(expenses) - net		**44,778**	20,408
Operating profit	*3*	**742,771**	435,877
Finance income	*4(a)*	**9,076**	7,991
Finance costs	*4(b)*	**(100,581)**	(106,832)
Share of losses of associates and joint ventures		**(1,043)**	(4,960)
Profit before taxation		**650,223**	332,076
Taxation	*5*	**(165,056)**	(85,269)
Profit for the period		**485,167**	246,807
Profit attributable to:			
Equity holders of the Company		**466,065**	212,822
Perpetual securities holders		**-**	13,440
Other non-controlling interests		**19,102**	20,545
		485,167	246,807
Earnings per share attributable to equity holders of the Company			
Basic	*6(a)*	**US4.02 cents**	US1.80 cents
Diluted	*6(b)*	**US3.53 cents**	US1.76 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended June 30, 2021 (unaudited) ***US$'000***	3 months ended June 30, 2020 (unaudited) *US$'000*
Profit for the period	**485,167**	246,807
Other comprehensive (loss)/income:		
Items that will not be reclassified to profit or loss		
Remeasurements of post-employment benefit obligations, net of taxes	**(5,269)**	-
Fair value change on financial assets at fair value through other comprehensive income, net of taxes	**(744)**	(4,604)
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, net of taxes	**(46,710)**	(93,620)
- Reclassified to consolidated income statement	**3,505**	6,740
Currency translation differences	**192,676**	(24,047)
Other comprehensive income/(loss) for the period	**143,458**	(115,531)
Total comprehensive income for the period	**628,625**	131,276
Total comprehensive income attributable to:		
Equity holders of the Company	**609,399**	95,478
Perpetual securities holders	**-**	13,440
Other non-controlling interests	**19,226**	22,358
	628,625	131,276

CONSOLIDATED BALANCE SHEET

	Note	**June 30, 2021 (unaudited) *US$'000***	March 31, 2021 (audited) *US$'000*
Non-current assets			
Property, plant and equipment		**1,562,298**	1,573,875
Right-of-use assets		**875,648**	893,422
Construction-in-progress		**219,064**	207,614
Intangible assets		**8,447,629**	8,405,005
Interests in associates and joint ventures		**64,412**	65,455
Deferred income tax assets		**2,413,731**	2,344,740
Financial assets at fair value through profit or loss		**972,252**	805,013
Financial assets at fair value through other comprehensive income		**83,721**	84,796
Other non-current assets		**311,554**	275,359
		14,950,309	14,655,279
Current assets			
Inventories	*7*	**7,825,770**	6,380,576
Trade receivables	*8(a)*	**8,922,923**	8,397,825
Notes receivable		**66,403**	78,939
Derivative financial assets		**75,197**	118,299
Deposits, prepayments and other receivables	*9*	**5,038,401**	4,977,501
Income tax recoverable		**323,058**	254,442
Bank deposits		**82,760**	59,385
Cash and cash equivalents		**3,175,812**	3,068,385
		25,510,324	23,335,352
Total assets		**40,460,633**	37,990,631

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**June 30, 2021 (unaudited) *US$'000***	March 31, 2021 (audited) *US$'000*
Share capital	*13*	**3,203,913**	3,203,913
Reserves		**856,445**	355,123
Equity attributable to owners of the Company		**4,060,358**	3,559,036
Other non-controlling interests		**865,937**	817,735
Put option written on non-controlling interests	*11(b)*	**(766,238)**	(766,238)
Total equity		**4,160,057**	3,610,533
Non-current liabilities			
Borrowings	*12*	**3,304,335**	3,299,582
Warranty provision	*10(b)*	**268,124**	266,313
Deferred revenue		**1,283,908**	1,183,247
Retirement benefit obligations		**436,093**	431,905
Deferred income tax liabilities		**392,192**	391,258
Other non-current liabilities	*11*	**1,397,335**	1,436,156
		7,081,987	7,008,461
Current liabilities			
Trade payables	*8(b)*	**11,198,180**	10,220,796
Notes payable		**1,023,427**	885,628
Derivative financial liabilities		**31,396**	35,944
Other payables and accruals	*10(a)*	**13,694,252**	13,178,498
Provisions	*10(b)*	**941,015**	910,380
Deferred revenue		**1,145,905**	1,046,677
Income tax payable		**490,715**	395,443
Borrowings	*12*	**693,699**	698,271
		29,218,589	27,371,637
Total liabilities		**36,300,576**	34,380,098
Total equity and liabilities		**40,460,633**	37,990,631

CONSOLIDATED CASH FLOW STATEMENT

	Note	**3 months ended June 30, 2021 (unaudited)** *US$'000*	3 months ended June 30, 2020 (unaudited) *US$'000*
Cash flows from operating activities			
Net cash generated from operations	*14*	**742,464**	624,511
Interest paid		**(94,032)**	(71,242)
Tax paid		**(200,789)**	(236,152)
Net cash generated from operating activities		**447,643**	317,117
Cash flows from investing activities			
Purchase of property, plant and equipment		**(97,935)**	(50,229)
Sale of property, plant and equipment		**4,961**	17,658
Disposal of subsidiaries, net of cash disposed		**123,647**	(5,161)
Interest acquired in an associate		**-**	(303)
Payment for construction-in-progress		**(105,211)**	(73,412)
Payment for intangible assets		**(76,199)**	(43,643)
Purchase of financial assets at fair value through profit or loss		**(50,515)**	(42,598)
Purchase of financial assets at fair value through other comprehensive income		**-**	(10,415)
Net proceeds from sale of financial assets at fair value through profit or loss		**23,547**	16,345
Payment of contingent consideration		**-**	(117,390)
(Increase)/decrease in bank deposits		**(23,375)**	15,799
Dividend received		**425**	305
Interest received		**9,076**	7,991
Net cash used in investing activities		**(191,579)**	(285,053)
Cash flows from financing activities			
Capital contribution from other non-controlling interests		**8,337**	2,269
Contribution to employee share trusts		**(161,182)**	(37,257)
Repurchase of convertible preferred shares		**-**	(16,575)
Issue of a note		**-**	1,003,500
Issuing costs of a note		**-**	(4,485)
Repayment of a note		**-**	(565,643)
Principal elements of lease payments		**(26,869)**	(25,653)
Dividends paid to convertible preferred shares holders		**(5,600)**	(6,000)
Proceeds from borrowings		**2,803,396**	1,429,000
Repayments of borrowings		**(2,797,848)**	(1,870,246)
Net cash used in financing activities		**(179,766)**	(91,090)
Increase/(decrease) in cash and cash equivalents		**76,298**	(59,026)
Effect of foreign exchange rate changes		**31,129**	3,668
Cash and cash equivalents at the beginning of the period		**3,068,385**	3,550,990
Cash and cash equivalents at the end of the period		**3,175,812**	3,495,632

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, 2021	**3,203,913**	**(49,133)**	**(500,277)**	**187,376**	**73,476**	**(1,690,948)**	**130,240**	**2,204,389**	**–**	**817,735**	**(766,238)**	**3,610,533**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**466,065**	**–**	**19,102**	**–**	**485,167**
Other comprehensive (loss)/income	**–**	**(744)**	**–**	**–**	**(43,205)**	**192,552**	**–**	**(5,269)**	**–**	**124**	**–**	**143,458**
Total comprehensive (loss)/income for the period	**–**	**(744)**	**–**	**–**	**(43,205)**	**192,552**	**–**	**460,796**	**–**	**19,226**	**–**	**628,625**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**–**	**8,134**	**(8,134)**	**–**	**–**	**–**	**–**
Vesting of shares under long-term incentive program	**–**	**–**	**231,335**	**(291,422)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(60,087)**
Disposal of subsidiaries	**–**	**–**	**–**	**–**	**–**	**(10,749)**	**(89)**	**–**	**–**	**–**	**–**	**(10,838)**
Settlement of bonus through long-term incentive program	**–**	**–**	**–**	**27,789**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**27,789**
Share-based compensation	**–**	**–**	**–**	**95,415**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**95,415**
Contribution to employee share trusts	**–**	**–**	**(161,182)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(161,182)**
Capital contribution from other non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**29,802**	**–**	**29,802**
Change of ownership of subsidiaries without loss of control	**–**	**–**	**–**	**–**	**–**	**–**	**826**	**–**	**–**	**(826)**	**–**	**–**
At June 30, 2021	**3,203,913**	**(49,877)**	**(430,124)**	**19,158**	**30,271**	**(1,509,145)**	**139,111**	**2,657,051**	**–**	**865,937**	**(766,238)**	**4,160,057**
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	–	–	–	–	–	–	–	212,822	13,440	20,545	–	246,807
Other comprehensive (loss)/income	–	(4,604)	–	–	(86,880)	(25,860)	–	–	–	1,813	–	(115,531)
Total comprehensive (loss)/income for the period	–	(4,604)	–	–	(86,880)	(25,860)	–	212,822	13,440	22,358	–	131,276
Transfer to statutory reserve	–	–	–	–	–	–	5,321	(5,321)	–	–	–	–
Vesting of shares under long-term incentive program	–	–	105,111	(130,725)	–	–	–	–	–	–	–	(25,614)
Deferred tax in relation to long-term incentive program	–	–	–	23	–	–	–	–	–	–	–	23
Disposal of subsidiaries	–	–	–	–	–	306	(1,819)	–	–	–	–	(1,513)
Settlement of bonus through long-term incentive program	–	–	–	34,444	–	–	–	–	–	–	–	34,444
Share-based compensation	–	–	–	65,630	–	–	–	–	–	–	–	65,630
Contribution to employee share trusts	–	–	(37,257)	–	–	–	–	–	–	–	–	(37,257)
Capital contribution from other non-controlling interests	–	–	–	–	–	–	–	–	–	4,022	–	4,022
Change of ownership of subsidiaries without loss of control	–	–	–	–	–	–	(30)	–	–	30	–	–
At June 30, 2020	3,185,923	(53,320)	(33,613)	256,946	(28,391)	(1,824,571)	180,114	1,645,615	1,007,110	660,731	(766,238)	4,230,306

Notes

1 General information and basis of preparation

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

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

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

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

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

New amendments to existing standards not yet effective

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

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

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

2 Segment information

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

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

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

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

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

	3 months ended June 30, 2021		3 months ended June 30, 2020	
	Revenue *US$'000*	**Operating profit/(loss)** *US$'000*	Revenue *US$'000*	Operating profit/(loss) *US$'000*
IDG	**14,665,833**	**1,095,486**	11,483,715	768,013
ISG	**1,834,908**	**(10,791)**	1,605,084	(60,109)
SSG	**1,184,366**	**263,631**	861,035	174,765
Total	**17,685,107**	**1,348,326**	13,949,834	882,669
Intersegment eliminations	**(755,860)**	**(222,625)**	(601,978)	(154,801)
	16,929,247	**1,125,701**	13,347,856	727,868
Unallocated:				
Headquarters and corporate income/(expenses) – net		**(393,392)**		(346,445)
Depreciation and amortization		**(165,215)**		(123,612)
Impairment of intangible assets		**(15,000)**		-
Finance income		**5,075**		4,909
Finance costs		**(34,422)**		(53,585)
Share of losses of associates and joint ventures		**(1,043)**		(4,960)
Gain on disposal of property, plant and equipment		**435**		63,877
Fair value gain on financial assets at fair value through profit or loss		**131,270**		28,631
Fair value (loss)/gain on a financial liability at fair value through profit or loss		**(4,165)**		3,827
Dilution gain on interest in an associate		**-**		31,374
Gain on disposal of subsidiaries		**825**		-
Dividend income		**154**		192
Consolidated profit before taxation		**650,223**		332,076

(b) Analysis of revenue by geography

	3 months ended June 30, 2021 *US$'000*	3 months ended June 30, 2020 *US$'000*
China	**4,508,904**	2,937,372
AP	**2,634,044**	2,815,326
EMEA	**4,243,382**	3,614,729
AG	**5,542,917**	3,980,429
	16,929,247	13,347,856

(c) Analysis of revenue by timing of revenue recognition

	3 months ended June 30, 2021 *US$'000*	3 months ended June 30, 2020 *US$'000*
Point in time	**16,511,768**	13,005,677
Over time	**417,479**	342,179
	16,929,247	13,347,856

(d) Other segment information

	IDG		ISG		SSG		Total	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020
	US$'000	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*
For the three months ended June 30								
Depreciation and amortization	**106,434**	91,133	**34,965**	32,769	**680**	814	**142,079**	124,716
Finance income	**3,405**	2,725	**452**	208	**144**	149	**4,001**	3,082
Finance costs	**50,569**	45,046	**15,435**	8,079	**155**	122	**66,159**	53,247

(e) The directors review goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$6,203 million (March 31, 2021: US$6,119 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At June 30, 2021

	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	**933**	**626**	**233**	**289**	**-**	**-**	**2,081**
- MBG	**-**	**-**	**-**	**-**	**678**	**816**	**1,494**
- ISG	**477**	**159**	**89**	**346**	**-**	**-**	**1,071**
- SSG (Note)	**-**	**-**	**-**	**-**	**-**	**-**	**284**
Trademarks and trade names							
- PCSD	**177**	**54**	**106**	**63**	**-**	**-**	**400**
- MBG	**-**	**-**	**-**	**-**	**197**	**263**	**460**
- ISG	**151**	**54**	**31**	**123**	**-**	**-**	**359**
- SSG (Note)	**-**	**-**	**-**	**-**	**-**	**-**	**54**

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

At March 31, 2021

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

The directors are of the view that there was no impairment of goodwill and trademarks and trade names based on impairment tests performed as at June 30, 2021 (March 31, 2021: Nil).

3 Operating profit

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

	3 months ended June 30, 2021 ***US$'000***	3 months ended June 30, 2020 *US$'000*
Depreciation of property, plant and equipment	**85,297**	71,925
Depreciation of right-of-use assets	**32,376**	21,424
Amortization of intangible assets	**189,621**	154,979
Impairment of intangible assets	**15,000**	-
Impairment of property, plant and equipment	**10,189**	-
Employee benefit costs, including	**1,457,762**	1,135,995
- long-term incentive awards	***95,415***	*65,630*
- severance and other related costs	**-**	*75,006*
Rental expenses	**8,602**	3,427
Gain on disposal of property, plant and equipment	**(479)**	(62,169)
Loss on disposal of intangible assets	**-**	450
Fair value gain on financial assets at fair value through profit or loss	**(131,270)**	(28,631)
Fair value loss/(gain) on a financial liability at fair value through profit or loss	**4,165**	(3,827)
Dilution gain on interest in an associate	**-**	(31,374)
Gain on disposal of subsidiaries	**(825)**	(1,064)

4 Finance income and costs

(a) Finance income

	3 months ended June 30, 2021 ***US$'000***	3 months ended June 30, 2020 *US$'000*
Interest on bank deposits	**8,978**	7,248
Interest on money market funds	**98**	743
	9,076	7,991

(b) Finance costs

	3 months ended June 30, 2021 ***US$'000***	3 months ended June 30, 2020 *US$'000*
Interest on bank loans and overdrafts	**8,419**	14,257
Interest on convertible bonds	**10,087**	9,911
Interest on notes	**35,244**	29,462
Interest on lease liabilities	**4,579**	4,207
Factoring costs	**33,948**	41,178
Interest on contingent consideration and written put option liabilities	**6,805**	6,281
Others	**1,499**	1,536
	100,581	106,832

5 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended June 30, 2021 ***US$'000***	3 months ended June 30, 2020 *US$'000*
Current tax		
Profits tax in Hong Kong S.A.R. of China	**39,957**	10,203
Taxation outside Hong Kong S.A.R. of China	**181,015**	115,541
Deferred tax		
Credit for the period	**(55,916)**	(40,475)
	165,056	85,269

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

6 Earnings per share

(a) Basic

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

	3 months ended June 30, 2021	3 months ended June 30, 2020
Weighted average number of ordinary shares in issue	**12,041,705,614**	12,014,791,614
Adjustment for shares held by employee share trusts	**(442,772,438)**	(165,576,068)
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**11,598,933,176**	11,849,215,546
	US$'000	*US$'000*
Profit attributable to equity holders of the Company used to determine basic earnings per share	**466,065**	212,822

(b) Diluted

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

The Group has four (2020/21: five) categories of potential ordinary shares, namely long-term incentive awards, put option written on non-controlling interests, convertible bonds and convertible preferred shares (2020/21: long-term incentive awards, bonus warrants, put option written on non-controlling interests, convertible bonds and convertible preferred shares). Long-term incentive awards and convertible bonds were dilutive for the respective three months ended June 30, 2021 and 2020. Put option written on non-controlling interests and convertible preferred shares were anti-dilutive for the respective three months ended June 30, 2021 and 2020. Bonus warrants were anti-dilutive for the three months ended June 30, 2020.

	3 months ended June 30, 2021	3 months ended June 30, 2020
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**11,598,933,176**	11,849,215,546
Adjustment for long-term incentive awards	**1,115,441,546**	20,062,213
Adjustment for convertible bonds	**741,902,700**	694,709,646
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**13,456,277,422**	12,563,987,405
	US$'000	*US$'000*
Profit attributable to equity holders of the Company used to determine basic earnings per share	**466,065**	212,822
Adjustment for interest on convertible bonds, net of tax	**8,423**	8,275
Profit attributable to equity holders of the Company used to determine diluted earnings per share	**474,488**	221,097

7 Inventories

	June 30, 2021	March 31, 2021
	US$'000	*US$'000*
Raw materials and work-in-progress	**5,418,896**	4,155,268
Finished goods	**2,051,340**	1,920,660
Service parts	**355,534**	304,648
	7,825,770	6,380,576

8 Trade receivables and trade payables

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

	June 30, 2021	March 31, 2021
	US$'000	*US$'000*
0 – 30 days	**7,046,473**	6,301,112
31 – 60 days	**1,225,936**	1,315,788
61 – 90 days	**363,451**	457,658
Over 90 days	**437,896**	468,473
	9,073,756	8,543,031
Less: loss allowance	**(150,833)**	(145,206)
Trade receivables – net	**8,922,923**	8,397,825

At June 30, 2021, trade receivables, net of loss allowance, of US$629,085,000 (March 31, 2021: US$562,648,000) were past due. The ageing of these receivables, based on due date, is as follows:

	June 30, 2021	March 31, 2021
	US$'000	*US$'000*
Within 30 days	**384,600**	332,784
31 – 60 days	**101,658**	95,211
61 – 90 days	**53,845**	53,241
Over 90 days	**88,982**	81,412
	629,085	562,648

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

	3 months ended June 30, 2021	Year ended March 31, 2021
	US$'000	*US$'000*
At the beginning of the period/year	**145,206**	95,456
Exchange adjustment	**198**	(4,954)
Increase in loss allowance recognized in profit or loss	**24,553**	142,663
Uncollectible receivables written off	**(7,182)**	(53,366)
Unused amounts reversed	**(11,942)**	(34,593)
At the end of the period/year	**150,833**	145,206

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

	June 30, 2021	March 31, 2021
	US$'000	*US$'000*
0 – 30 days	**7,362,511**	6,824,377
31 – 60 days	**2,278,361**	2,049,369
61 – 90 days	**1,058,794**	949,294
Over 90 days	**498,514**	397,756
	11,198,180	10,220,796

9 Deposits, prepayments and other receivables

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

	June 30, 2021	March 31, 2021
	US$'000	*US$'000*
Deposits	**174,549**	16,731
Other receivables	**3,717,120**	3,787,734
Prepayments	**1,146,732**	1,173,036
	5,038,401	4,977,501

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

10 Provisions, other payables and accruals

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

	June 30, 2021	March 31, 2021
	US$'000	*US$'000*
Accruals	**3,476,303**	3,385,903
Allowance for billing adjustments (i)	**2,893,660**	2,464,020
Written put option liabilities (ii)	**332,857**	324,277
Other payables (iii)	**6,854,788**	6,870,636
Lease liabilities	**136,644**	133,662
	13,694,252	13,178,498

Notes:

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

(ii) During the year ended March 31, 2019, Hefei Zhi Ju Sheng Bao Equity Investment Co., Ltd ("ZJSB") acquired the 49% interest in a joint venture company ("JV Co") from Compal Electronics, Inc. The Company and ZJSB respectively own 51% and 49% of the interest in the JV Co. Pursuant to the option agreement entered into between a wholly owned subsidiary of the Group and Hefei Yuan Jia Start-up Investment LLP ("Yuan Jia"), which holds 99.31% interest in ZJSB, the Group and Yuan Jia are respectively granted call and put options which entitle the Group to purchase from Yuan Jia, or Yuan Jia to sell to the Group, the 99.31% interest in ZJSB. The call and put options will be exercisable at any time after August 31, 2022 and August 31, 2021 respectively. The exercise price for the call and put options will be determined in accordance with the joint venture agreement, and up to a maximum of RMB2,300 million (approximately US$356 million).

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.

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

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

(b) The components of provisions are as follows:

	Warranty	**Environmental restoration**	**Total**
	US$'000	***US$'000***	***US$'000***
Year ended March 31, 2021			
At the beginning of the year	974,839	35,604	1,010,443
Exchange adjustment	42,328	(431)	41,897
Provisions made	992,112	18,172	1,010,284
Amounts utilized	(835,397)	(21,195)	(856,592)
	1,173,882	32,150	1,206,032
Long-term portion classified as non-current liabilities	(266,313)	(29,339)	(295,652)
At the end of the year	907,569	2,811	910,380
Three months ended June 30, 2021			
At the beginning of the period	**1,173,882**	**32,150**	**1,206,032**
Exchange adjustment	**11,983**	**47**	**12,030**
Provisions made	**249,715**	**7,716**	**257,431**
Amounts utilized	**(230,181)**	**(6,770)**	**(236,951)**
	1,205,399	**33,143**	**1,238,542**
Long-term portion classified as non-current liabilities	**(268,124)**	**(29,403)**	**(297,527)**
At the end of the period	**937,275**	**3,740**	**941,015**

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

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

11 Other non-current liabilities

Details of other non-current liabilities are as follows:

	June 30, 2021	March 31, 2021
	US$'000	*US$'000*
Deferred consideration (a)	**25,072**	25,072
Written put option liabilities (b)	**522,243**	518,499
Lease liabilities	**317,631**	333,264
Environmental restoration (Note 10(b))	**29,403**	29,339
Government incentives and grants received in advance (c)	**75,684**	66,234
Others	**427,302**	463,748
	1,397,335	1,436,156

(a) Pursuant to the joint venture agreement entered into with NEC Corporation, the Group is required to pay in cash to NEC Corporation deferred consideration. As at June 30, 2021, the potential undiscounted amount of future payment in respect of the deferred consideration that the Group could be required to make amounted to US$25 million (March 31, 2021: US$25 million).

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

The financial liability that may become payable under the put option 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.

12 Borrowings

	June 30, 2021 US$'000	March 31, 2021 US$'000
Current liabilities		
Short-term loans (a)	**54,898**	58,190
Notes (b)	**336,864**	336,709
Convertible preferred shares (d)	**301,937**	303,372
	693,699	698,271
Non-current liabilities		
Long-term loan (a)	**1,815**	2,070
Notes (b)	**2,674,331**	2,673,688
Convertible bonds (c)	**628,189**	623,824
	3,304,335	3,299,582
	3,998,034	3,997,853

(a) Majority of the short-term and long-term loans are denominated in United States dollars. As at June 30, 2021, the Group has total revolving and short-term loan facilities of US$3,077 million (March 31, 2021: US$3,029 million) which has been utilized to the extent of US$52 million (March 31, 2021: US$47 million).

(b)

Issue date	Outstanding principal amount	Term	Interest rate per annum	Due date	June 30, 2021 US$'000	March 31, 2021 US$'000
March 16, 2017	US$337 million	5 years	3.875%	March 2022	**336,864**	336,709
March 29, 2018	US$687 million	5 years	4.75%	March 2023	**684,331**	683,982
April 24, 2020 and May 12, 2020	US$1 billion	5 years	5.875%	April 2025	**999,248**	999,199
November 2, 2020	US$1 billion	10 years	3.421%	November 2030	**990,752**	990,507
					3,011,195	3,010,397

(c) On January 24, 2019, the Company completed the issuance of 5-Year US$675 million convertible bonds bearing annual interest at 3.375% due in January 2024 ("the Bonds") to third party professional investors ("the bondholders"). The proceeds were used to repay previous notes and for general corporate purposes. The bondholders have the right, at any time on or after 41 days after the date of issue up to the 10th day prior to the maturity date, to convert part or all of the outstanding principal amount of the Bonds into ordinary shares of the Company at a conversion price of HK$7.99 per share, subject to adjustments. The conversion price was adjusted to HK$6.94 per share effective on July 29, 2021. The Group expects that it will be able to meet its redemption obligations based on the financial position of the Group.

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

The outstanding principal amount of the Bonds is repayable by the Company upon the maturity of the Bonds on January 24, 2024, if not previously redeemed, converted or purchased and cancelled. On January 24, 2021, the bondholders had the right, at the bondholders' option, to require the Company to redeem part or all of the Bonds on January 24, 2021 at their principal amount and US$0.5 million were redeemed. The remaining principal amount of the Bonds has been reclassified to non-current liabilities as a result of the lapse of the redemption option. Assuming full conversion of the Bonds at the adjusted conversion price of HK$6.94 per share, the Bonds will be convertible into 762,214,157 shares.

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

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

The aggregated subscription price of convertible preferred shares was 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 June 30, 2021 and March 31, 2021 are as follows:

	June 30, 2021	March 31, 2021
	US$'000	*US$'000*
Within 1 year	**693,699**	698,271
Over 1 to 2 years	**685,361**	685,008
Over 2 to 5 years	**1,628,222**	1,624,067
Over 5 years	**990,752**	990,507
	3,998,034	3,997,853

13 Share capital

	June 30, 2021		March 31, 2021	
	Number of shares	***US$'000***	*Number of shares*	*US$'000*
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the period/year	**12,041,705,614**	**3,203,913**	12,014,791,614	3,185,923
Issue of warrant shares	**-**	**-**	26,914,000	17,990
At the end of the period/year	**12,041,705,614**	**3,203,913**	12,041,705,614	3,203,913

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

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

	3 months ended June 30, 2021 *US$'000*	3 months ended June 30, 2020 *US$'000*
Profit before taxation	**650,223**	332,076
Share of losses of associates and joint ventures	**1,043**	4,960
Finance income	**(9,076)**	(7,991)
Finance costs	**100,581**	106,832
Depreciation of property, plant and equipment	**85,297**	71,925
Depreciation of right-of-use assets	**32,376**	21,424
Amortization of intangible assets	**189,621**	154,979
Impairment of intangible assets	**15,000**	-
Share-based compensation	**95,415**	65,630
Gain on disposal of property, plant and equipment	**(479)**	(62,169)
Loss on disposal of intangible assets	**-**	450
Impairment of property, plant and equipment	**10,189**	-
Dilution gain on interest in an associate	**-**	(31,374)
Gain on disposal of subsidiaries	**(825)**	(1,064)
Fair value change on bonus warrants	**-**	(289)
Fair value change on financial instruments	**(4,651)**	4,764
Fair value change on financial assets at fair value through profit or loss	**(131,270)**	(28,631)
Fair value change on a financial liability at fair value through profit or loss	**4,165**	(3,827)
Dividend income	**(425)**	(305)
Increase in inventories	**(1,450,324)**	(227,842)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(607,953)**	(1,260,288)
Increase in trade payables, notes payable, provisions, other payables and accruals	**1,736,037**	1,544,728
Effect of foreign exchange rate changes	**27,520**	(59,477)
Net cash generated from operations	**742,464**	624,511

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	**June 30, 2021** *US$'000*	March 31, 2021 *US$'000*
Short-term loans – current	**54,898**	58,190
Long-term loan – non-current	**1,815**	2,070
Notes – current	**336,864**	336,709
Notes – non-current	**2,674,331**	2,673,688
Convertible bonds – non-current	**628,189**	623,824
Convertible preferred shares – current	**301,937**	303,372
Lease liabilities – current	**136,644**	133,662
Lease liabilities – non-current	**317,631**	333,264
	4,452,309	4,464,779
Short-term loans – variable interest rates	**53,884**	39,672
Short-term loans – fixed interest rates	**1,014**	18,518
Long-term loan – fixed interest rates	**1,815**	2,070
Notes – fixed interest rates	**3,011,195**	3,010,397
Convertible bonds – fixed interest rates	**628,189**	623,824
Convertible preferred shares – fair value	**301,937**	303,372
Lease liabilities – fixed interest rates	**454,275**	466,926
	4,452,309	4,464,779

	Short-term loans current *US$'000*	Long-term loan non-current *US$'000*	Notes current *US$'000*	Notes non-current *US$'000*	Convertible bonds current *US$'000*	Convertible bonds non-current *US$'000*	Convertible preferred shares current *US$'000*	Convertible preferred shares non-current *US$'000*	Lease liabilities current *US$'000*	Lease liabilities non-current *US$'000*	Total *US$'000*
Financing liabilities as at April 1, 2020	2,124,562	3,079	563,249	1,243,714	607,169	-	-	317,826	91,976	346,806	5,298,381
Proceeds from borrowings	4,925,628	-	-	-	-	-	-	-	-	-	4,925,628
Repayments of borrowings	(7,005,300)	-	-	-	-	-	-	-	-	-	(7,005,300)
Repayment of notes	-	-	(565,643)	(225,912)	-	-	-	-	-	-	(791,555)
Repurchase of convertible preferred shares	-	-	-	-	-	-	-	(16,575)	-	-	(16,575)
Redemption of convertible bonds	-	-	-	-	-	(500)	-	-	-	-	(500)
Transfer	1,009	(1,009)	336,709	(336,709)	(619,537)	619,537	303,372	(303,372)	107,474	(107,474)	-
Issue of notes	-	-	-	2,003,500	-	-	-	-	-	-	2,003,500
Issuing costs of notes	-	-	-	(14,383)	-	-	-	-	-	-	(14,383)
Principal elements of lease payments	-	-	-	-	-	-	-	-	(165,150)	-	(165,150)
Acquisition of a subsidiary	1,770	-	-	-	-	-	-	-	-	-	1,770
Dividends paid	-	-	-	-	-	-	-	(11,600)	-	-	(11,600)
Foreign exchange adjustments	292	-	2,058	-	-	-	-	-	13,907	5,474	21,731
Other non-cash movements	10,229	-	336	3,478	12,368	4,787	-	13,721	85,455	88,458	218,832
Financing liabilities as at March 31, 2021	58,190	2,070	336,709	2,673,688	-	623,824	303,372	-	133,662	333,264	4,464,779
Financing liabilities as at April 1, 2021	**58,190**	**2,070**	**336,709**	**2,673,688**	**-**	**623,824**	**303,372**	**-**	**133,662**	**333,264**	**4,464,779**
Proceeds from borrowings	**2,803,396**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**2,803,396**
Repayments of borrowings	**(2,797,848)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,797,848)**
Transfer	**255**	**(255)**	**-**	**-**	**-**	**-**	**-**	**-**	**24,828**	**(24,828)**	**-**
Principal elements of lease payments	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(26,869)**	**-**	**(26,869)**
Disposal of a subsidiary	**(9,319)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(9,319)**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**(5,600)**	**-**	**-**	**-**	**(5,600)**
Foreign exchange adjustments	**224**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,766**	**1,111**	**3,101**
Other non-cash movements	**-**	**-**	**155**	**643**	**-**	**4,365**	**4,165**	**-**	**3,257**	**8,084**	**20,669**
Financing liabilities as at June 30, 2021	**54,898**	**1,815**	**336,864**	**2,674,331**	**-**	**628,189**	**301,937**	**-**	**136,644**	**317,631**	**4,452,309**

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

During the three months ended June 30, 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the respective trustee of the long-term incentive program and the employee share purchase plan of the Company purchased a total of 147,858,526 shares from the market for award to employees upon vesting. Details of these program and plan are set out in the 2020/21 Annual Report of the Company.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the unaudited financial results of the Group for the three months ended June 30, 2021. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the three months ended June 30, 2021, in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with the exception that the roles of the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "CEO") have not been segregated as required by code provision A.2.1 of the CG Code.

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

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

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

August 11, 2021

As at the date of this announcement, the executive director is Mr. Yang Yuanqing; the non-executive directors are Mr. Zhu Linan and Mr. Zhao John Huan; and the independent non-executive directors are Mr. 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.