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Lenovo Group Limited 聯想集團有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 992)

FY2021/22 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, 2021 together with comparative figures for the corresponding period of last year, as follows:

FINANCIAL HIGHLIGHTS

- Profit attributable to equity holders increased 87 percent year-on-year in 1HFY22. Highest net income margin in years demonstrated management delivering on its commitment to raise long-term profitability
- Record Group revenue supported by strong mix shift to higher value-added segments and commercial recovery; Strong sales mix of Intelligent Devices Group (IDG) boosted 24 percent revenue growth and the highest operating margin in its history
- Infrastructure Solutions Group (ISG) also benefited from strong commercial upgrades and reported record-breaking revenue, while narrowing its operating loss by 81 percent year-on-year to US\$17 million
- Solutions and Services Group (SSG) reported a 41 percent operating profit growth year-on-year; On top of strong momentum on existing service scope, exciting growth emerged from new as-a-Service opportunities
- Investments accelerated in innovation, high-margin products and solutions to drive Digital Transformation; Research and development expenses grew 48 percent year-on-year
- Strong cash generation with operating cashflow up US\$920 million year-on-year to exceed US\$2.0 billion

	3 months ended September 30, 2021 (unaudited) US\$ million	6 months ended September 30, 2021 (unaudited) US\$ million	3 months ended September 30, 2020 (unaudited) US\$ million	6 months ended September 30, 2020 (unaudited) US\$ million	Year-on-year change	
					3 months ended September 30	6 months ended September 30
Revenue	17,869	34,798	14,519	27,867	23%	25%
Gross profit	3,006	5,830	2,253	4,294	33%	36%
Gross profit margin	16.8%	16.8%	15.5%	15.4%	1.3 pts	1.4 pts
Operating expenses	(2,189)	(4,271)	(1,688)	(3,294)	30%	30%
Operating profit	817	1,559	565	1,000	45%	56%
Other non-operating income/(expenses) - net	(75)	(167)	(95)	(198)	(21)%	(16)%
Profit before taxation	742	1,392	470	802	58%	74%
Profit for the period	557	1,042	350	596	59%	75%
Profit attributable to equity holders of the Company	512	978	310	523	65%	87%
Earnings per share attributable to equity holders of the Company						
Basic	US4.42 cents	US8.44 cents	US2.59 cents	US4.39 cents	US1.83 cents	US4.05 cents
Diluted	US3.96 cents	US7.50 cents	US2.48 cents	US4.24 cents	US1.48 cents	US3.26 cents

INTERIM DIVIDEND

The Board has declared an interim dividend of HK8.0 cents (2020/21: HK6.6 cents) per share for the six months ended September 30, 2021, absorbing an aggregate amount of approximately US\$123.8 million (2020/21: approximately US\$102.3 million), to shareholders whose names appear on the register of members of the Company on Tuesday, November 30, 2021. The interim dividend will be paid on Friday, December 10, 2021.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Tuesday, November 30, 2021, 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 Monday, November 29, 2021. Shares of the Company will be traded ex-dividend as from Friday, November 26, 2021.

BUSINESS REVIEW AND OUTLOOK

Highlights

During the six months ended September 30, 2021, Lenovo (the Group) succeeded in delivering record-breaking revenue across all three of its business groups. Thanks to record profitability, its profit attributable to equity holders increased 87 percent year-on-year to set an all-time high. The Group grew its market leading share in several technology segments and took advantage of the growing global trend of Digital and Service-led Transformation. The accelerated transformation in response to dynamic shifts in people's daily work, study and entertainment is driving secular growth in service opportunities and a commercial upgrade cycle. The ICT (Information and Communication Technology) infrastructure upgrade cycle should fuel spending in datacenters and the commercial PC segment, both of which, according to an industry research, are likely to reach or exceed double-digit growth.

The positive impacts from these powerful industry changes synergized with rising revenue contribution from high value-added sales, higher average selling prices (ASP) and better profitability of the company's products. The Group is on track to deliver its medium-term target of doubling its net income margin through high-growth and high-margin opportunities. Its gross and net income margin expanded consistently on annual basis in last four years except for a brief period during COVID-19 outbreak when the global economy experienced a downturn. The industry-wide component shortage of various integrated circuits (ICs) remained a business challenge, causing delays in order fulfillment and significant back-log orders across PCs, smartphones, and servers. The Group was able to excel in operational efficiency by securing more supply of components than peers to outgrow the market. All business groups showcased their capabilities in achieving record profitability for the period under review, thanks to rising contribution from high-margin Solutions & Services Group (SSG) business as well as improved profitability of Infrastructure Solutions Group (ISG) and Intelligent Devices Group (IDG).

The Group's net operating cash inflows was US\$2.0 billion with a year-over-year increase of US\$920 million in the six-month period under review. The company reduced its net debt by US\$1.0 billion year-on-year pivoting on its strength in cashflow generation. Its research and development (R&D) expenses increased by 48 percent year-on-year to enhance service and product competitiveness. At its flagship event Lenovo TechWorld 2021, the Group unveiled TruScale as-a-Service brand, an enhanced edge to cloud portfolio, Lenovo Artificial Intelligence (AI) brain, AI edge products ThinkEdge platform for enterprises, and premium Yoga products such as Lenovo Yoga Slim 7.

Group Financial Performance

During the period under review, the Group achieved record profit attributable to equity holders with an 87 percent surge to US\$978 million, while its revenue grew 25 percent to US\$34.8 billion. The Group's net income margin, driven by strength in its core business, set a new milestone at 2.8 percent. Its gross profit increased 36 percent while its gross margin expanded 134 basis points year-on-year to 16.8 percent.

The Group's record-breaking performances have been supported not only by its bread-and-butter product business but also by its fast-growing services. By business group, SSG's revenue posted a 33 percent year-on-year growth to US\$2.5 billion thanks to strong double-digit revenue growth across three service segments. Its operating profit increased 41 percent to US\$548 million and operating margin improved by 1.1 percentage points year-on-year to 21.5 percent.

IDG boosted its operating profit by 38 percent year-on-year on a revenue increase of 24 percent. As a major beneficiary of the recovery in enterprise spending, commercial PC was a bright spot showcasing a year-on-year revenue growth rate exceeding 20 percent. Supported by buoyant demand for high-growth and premium products including thin-and-light, workstation, and premium Yoga-series, the Group grew its ASPs by double-digits year-on-year. IDG's smartphone business reported a 43 percent revenue growth, driven by outstanding performances across America and Europe.

ISG achieved another record result and narrowed its losses by US\$73 million year-on-year during the period under review. ISG is another key beneficiary of the New IT trend aspired by Digital Transformation. Its revenue increased 24 percent year-on-year, driven by robust performances across the Cloud Service Provider (CSP) segment and the Enterprise & Small and Medium Business (ESMB) segment.

The Group recognized fair value gains from its strategic investments amounting to US\$111 million during the period under review. The change in fair value included revaluation gains (losses) on unlisted holdings after new investment rounds 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 44 percent year-on-year sales growth and saw healthy momentum across its three business groups. Its PC business continued to capture market share, driven by enterprise recovery, robust growth in sales of premium products, and strength in the e-Commerce segment. Its ISG business also reported a strong double-digit year-on-year revenue growth in China. The Support Services, Managed Services & as-a-Service (aaS) solutions continued to gain traction and boosted SSG's performance in China.

In America (AG), the Group delivered a 33 percent year-on-year increase in sales. Its IDG business continued to drive solid performance during the period under review. The SSG business posted robust growth, showcasing the company's ability to leverage its core competencies to capture new demand. In Europe-Middle East-Africa (EMEA), its IDG business maintained a double-digit growth in both the PC and smartphone business. Asia Pacific (excluding China) was 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 device businesses, delivered stellar revenue growth of 24 percent and profit growth of 38 percent. Its operating margin expanded 0.8 percentage points year on year to a record high of 7.5 percent.

Demand for commercial PCs grew at a near-record rate, benefitting from Digital Transformation on a global scale. In addition, PC demand is shifting towards high value-added segments as the use of PCs has become an essential aspect of modern life. This premiumization trend has led to 27-124 percent year-on-year revenue growth across workstation, thin-and-light, Visual, gaming, and premium Yoga product series.

IDG is also making positive progress in non-PC products, which together grew 37 percent year-on-year and contributed 19 percent of the business group's revenue during the period under review. There was a number of high-growth areas, including accessories, tablets, and smartphone business. IDG continued to invest in innovation to enhance its smartphone portfolio, thereby securing gains in market share across Latin America, North America, and Europe.

Infrastructure Solutions Group (ISG)

For the period under review, ISG saw a strong infrastructure upgrade cycle from cloud and enterprise customers, as well as accelerated growth in Edge computing, hybrid cloud, and AI deployment. The ISG business demonstrated strong capabilities to grow amid these industry trends. Its revenue increased 24 percent year-on-year to an all-time high of US\$3.8 billion while operating margin improved by 2.5 percentage points year on year. ISG narrowed its losses by 81 percent, or US\$73 million year-on-year, to US\$17 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 sales also set a new 5-year record during the period under review. In the CSP segment, ISG further expanded its client base, capitalizing on a broader range of product portfolio offerings to acquire several key new accounts. Its unique ODM+ business model provided a holistic solution to CSP customers encompassing a fully integrated operation including motherboard design, system, and full-rack assembly across server and storage products. Its ESMB business made market share gains in several high-growth and high-margin products, with more prominent growth seen in storage, server, software and services. For example, in the mainstream storage market, the Group further solidified its number two position by reducing the gap with the number one player.

Solutions and Services Group (SSG)

Riding on strong "New IT" service opportunities and the trend of commercial recovery, SSG is becoming an important profit engine to lead the Group's Service-led Transformation. For the period under review, its revenue grew 33 percent year-on-year to \$2.5 billion. Operating profit surged by 41 percent year-on-year to US\$548 million, with an operating margin of 21.5 percentage points. SSG progressed along its growth trajectory by building on the advantages of the Group's strong platform, leveraging its partnerships, and launching new services to tap into new opportunities. These strategic moves will ensure the Group thrive and sustain future growth.

Its **Support Services** revenue grew a solid 24 percent year-on-year by driving an increase of penetration rate towards industry best practice and by upselling customers with high value-added services. Premier Services and Asset Recovery Services were well-received by customers, addressing their need for a more optimized remote workforce and faster Environmental, Social, Governance (ESG) deployment. **Managed Services** further accelerated with revenue up by 77 percent year-on-year. The supercharge growth has been powered by rapid industry growth as well as enhanced service portfolio. SSG now integrates all 18 as-a-service solutions into Lenovo TruScale, offering customers the best tools with flexibility and simplicity. **Project Services & Solutions** segment saw healthy revenue growth of 36 percent while continuing to focus on building repeatable solutions and in-house intellectual patents. Strong performance across three segments contributed to a rapid 31 percent growth in deferred revenue to a total of US\$2.6 billion.

Outlook

Strategic opportunities in Digital and Service-led Transformation should continue to benefit Lenovo's full-range products. Service-led transformation, accelerated recovery in enterprise demand, favorable product mix, and innovation are all positive catalysts that help deliver the Group's medium-term financial target of increasing its net income on a sustainable basis. The Group continues to pursue an accelerating innovation strategy and plans to boost its R&D investments by a significant margin, which is critical to supporting sustainable growth in profitability.

Within IDG, the PC business will continue to address opportunities arising from the robust commercial upgrade cycle and growing demand for high value-added product categories. The PC business will leverage its operational excellence, innovation, solution capabilities, and global franchise to drive consistent premium-to-market growth. The business plans to continue its strong ASP trajectory, maintain leading profitability, capture the demand shift towards high value-added segments, lead Windows 11 PC launches, as well as pioneer new innovations such as ThinkShield Security. Its smartphone business will focus on sustaining strong growth momentum in North America and Europe, while maintaining market leadership in Latin America. Other non-PC products are playing an increasingly important role for IDG, which plans to accelerate its investments to score wins in areas including the fast-growing accessories market.

For ISG, its customers are accelerating their pace of infrastructure upgrades. As one of the fastest-growing vendors in global infrastructure sector, ISG 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, ISG will expand its portfolio to enable higher profitability. The Group will also capitalize on its past investments to capture growth opportunities in AI powered Edge, Hybrid Cloud, High Performance Computing, and solutions for Telco/communication sectors. For the CSP segment, the Group will continue to diversify its customer base and expand its share with existing accounts.

For SSG, Lenovo's extensive exposure to commercial PC and ESMB infrastructure will offer huge service potentials. For Support Services, increasing penetration and new opportunities from rising ESG priorities will bring additional growth. By enhancing delivery footprint, differentiation, and core platforms, Managed Services business is well-positioned to capture strong as-a-Service demand. Project Services & Solutions will facilitate vertical growth in manufacturing, education, retail, and smart cities, to build Lenovo's Intellectual Property and repeatable solution portfolio. Further investments in technical talents, systems & tools, IP portfolio, and delivery capabilities should enable the Group to strengthen its competitive edges.

Strategic Highlights

The Group continues to execute its strategy to become the leader and enabler of Intelligent Transformation. The vision of bringing smarter technology to all, coupled with the company's "3S" strategy in Smart Infrastructure, Smart Verticals, and Smart IoT, has brought new business growth opportunities. The Group aims to combine big data and computing power to provide more insights and improve business processes.

Smart Infrastructure provides 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 to capture emerging opportunities in AI-powered Edge and Hybrid Cloud. The Group will continue to invest in its end-to-end solutions ranging from Smart IoT, edge computing, cloud, Big Data to AI. Software solution is another focus area under Smart Infrastructure and the Group has recently introduced the enhanced Lenovo Open Cloud Automation management software designed to support edge computing.

The Group is planning to double down on investments in innovation to further elevate its competitive positions in next-generation product design, solutions, and operational efficiency. An important focus of this innovation strategy is related to ESG initiatives. The Group has committed to achieving carbon emission reduction with a pledge to source 90 percent of electricity used in its global operations from renewable sources and remove one million tons of greenhouse gas emissions from its entire supply chain by FY25/26. On product and solution development, the Group is also proactively promoting its as-a-Service and sustainability solutions. For example, its Asset Recovery Services is not only integral to the end-to-end lifecycle management, but also instrumental in helping customers meet their environmental goals with secure and responsible disposal.

FINANCIAL REVIEW

Results for the six months ended September 30, 2021

	6 months ended September 30, 2021 (unaudited) US\$ million	6 months ended September 30, 2020 (unaudited) US\$ million	Year-on-year change
Revenue	34,798	27,867	25%
Gross profit	5,830	4,294	36%
Gross profit margin	16.8%	15.4%	1.4 pts
Operating expenses	(4,271)	(3,294)	30%
Operating profit	1,559	1,000	56%
Other non-operating income/(expenses) – net	(167)	(198)	(16)%
Profit before taxation	1,392	802	74%
Profit for the period	1,042	596	75%
Profit attributable to equity holders of the Company	978	523	87%
Earnings per share attributable to equity holders of the Company			
Basic	US8.44 cents	US4.39 cents	US4.05 cents
Diluted	US7.50 cents	US4.24 cents	US3.26 cents

For the six months ended September 30, 2021, the Group achieved total sales of approximately US\$34,798 million. Compared to the corresponding period of last year, profit attributable to equity holders for the period surged by US\$455 million to approximately US\$978 million. In the same reporting period, gross profit margin rose 1.4 percentage points to 16.8 percent, mainly due to increase in average selling prices of PCs, while basic and diluted earnings per share were US8.44 cents and US7.50 cents respectively, representing an increase of US4.05 cents and US3.26 cents.

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

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

	6 months ended September 30, 2021 US\$'000	6 months ended September 30, 2020 US\$'000
Selling and distribution expenses	(1,771,021)	(1,358,341)
Administrative expenses	(1,512,711)	(1,304,317)
Research and development expenses	(948,434)	(639,101)
Other operating income/(expenses) – net	(37,999)	8,280
	(4,270,165)	(3,293,479)

Operating expenses for the period were 30 percent over the corresponding period of last year. Employee benefit costs increased by US\$410 million mainly due to increase in headcount and performance-based bonus. The increase in operating expenses reflected an increased effort in the Group's marketing input in advertising and promotional expenses of US\$210 million to drive brand recognition and fuel future growth. The Group also increased spending on research and development related laboratory testing, services and supplies by US\$103 million. Currency fluctuations during the period presented a challenge to the Group, resulting in a net exchange loss of US\$74 million (2020/21: US\$33 million). During the period, the Group recorded a fair value gain from strategic investments amounted to US\$111 million (2020/21: US\$164 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\$73 million was recognized.

Key expenses by nature comprise:

	6 months ended September 30, 2021 US\$'000	6 months ended September 30, 2020 US\$'000
Depreciation of property, plant and equipment	(86,719)	(81,741)
Depreciation of right-of-use assets	(58,557)	(39,077)
Amortization of intangible assets	(329,333)	(301,348)
Impairment of intangible assets	(31,434)	(52,606)
Impairment of property, plant and equipment	(10,189)	-
Employee benefit costs, including	(2,436,658)	(2,027,074)
- long-term incentive awards	(173,594)	(127,752)
- severance and related costs	-	(75,006)
Rental expenses	(7,703)	(3,091)
Net foreign exchange loss	(73,795)	(32,869)
Advertising and promotional expenses	(509,153)	(298,830)
Legal, professional and consulting expenses	(121,755)	(110,315)
Information technology expenses	(58,927)	(55,012)
Provision for loss allowance of trade receivables	(7,534)	(11,279)
Research and development related laboratory testing, services and supplies	(202,073)	(98,738)
Gain on disposal of property, plant and equipment	4,948	70,872
Loss on disposal of intangible assets	(4,590)	-
Fair value gain on financial assets at fair value through profit or loss	110,684	132,920
Fair value loss on a financial liability at fair value through profit or loss	(9,851)	(1,773)
Dilution gain on interest in an associate	-	31,374
Gain on disposal of subsidiaries	32,303	1,064
Others	(469,829)	(415,956)
	<u>(4,270,165)</u>	<u>(3,293,479)</u>

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

	6 months ended September 30, 2021 US\$'000	6 months ended September 30, 2020 US\$'000
Finance income	23,224	17,333
Finance costs	(187,070)	(198,449)
Share of losses of associates and joint ventures	(3,119)	(16,803)
	<u>(166,965)</u>	<u>(197,919)</u>

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\$18 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 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:

	6 months ended September 30, 2021		6 months ended September 30, 2020	
	Revenue US\$ '000	Operating profit/(loss) US\$ '000	Revenue US\$ '000	Operating profit/(loss) US\$ '000
IDG	30,004,546	2,260,510	24,169,617	1,635,644
ISG	3,802,635	(16,946)	3,077,325	(90,421)
SSG	2,547,616	548,472	1,909,939	390,331
Total	36,354,797	2,792,036	29,156,881	1,935,554
Intersegment eliminations	(1,556,871)	(466,316)	(1,290,116)	(343,134)
	<u>34,797,926</u>	<u>2,325,720</u>	<u>27,866,765</u>	<u>1,592,420</u>
Unallocated:				
Headquarters and corporate income/(expenses) - net		(682,689)		(596,326)
Depreciation and amortization		(330,939)		(257,354)
Impairment of intangible assets		(25,434)		(52,606)
Finance income		14,684		10,574
Finance costs		(40,593)		(107,344)
Share of losses of associates and joint ventures		(3,119)		(16,803)
Gain on disposal of property, plant and equipment		525		67,110
Fair value gain on financial assets at fair value through profit or loss		110,684		132,920
Fair value loss on a financial liability at fair value through profit or loss		(9,851)		(1,773)
Dilution gain on interest in an associate		-		31,374
Gain on disposal of subsidiaries		32,303		-
Dividend income		1,079		271
Consolidated profit before taxation		<u>1,392,370</u>		<u>802,463</u>

Headquarters and corporate income/(expenses) - net for the period comprise various expenses, after appropriate allocation to business groups, of US\$683 million (2020/21: US\$596 million) such as employee benefit costs, legal, professional and consulting expenses, and research and technology expenses. The increase is primarily in relation to employee benefit costs as a result of increased performance-based bonus of US\$75 million as compared with the corresponding period of last year.

Second Quarter 2021/22 compared to Second Quarter 2020/21

	3 months ended September 30, 2021 (unaudited) US\$ million	3 months ended September 30, 2020 (unaudited) US\$ million	Year-on-year change
Revenue	17,869	14,519	23%
Gross profit	3,006	2,253	33%
Gross profit margin	16.8%	15.5%	1.3 pts
Operating expenses	(2,189)	(1,688)	30%
Operating profit	817	565	45%
Other non-operating income/(expenses) – net	(75)	(95)	(21)%
Profit before taxation	742	470	58%
Profit for the period	557	350	59%
Profit attributable to equity holders of the Company	512	310	65%
Earnings per share attributable to equity holders of the Company			
Basic	US\$4.42 cents	US\$2.59 cents	US\$1.83 cents
Diluted	US\$3.96 cents	US\$2.48 cents	US\$1.48 cents

For the three months ended September 30, 2021, the Group achieved total sales of approximately US\$17,869 million. Compared to the corresponding period of last year, profit attributable to equity holders for the period surged by US\$202 million to approximately US\$512 million. In the same reporting period, gross profit margin rose 1.3 percentage points to 16.8 percent, mainly due to increase in average selling prices of PCs, while basic and diluted earnings per share were US\$4.42 cents and US\$3.96 cents respectively, representing an increase of US\$1.83 cents and US\$1.48 cents.

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

	3 months ended September 30, 2021 US\$'000	3 months ended September 30, 2020 US\$'000
Selling and distribution expenses	(923,978)	(726,174)
Administrative expenses	(700,468)	(643,215)
Research and development expenses	(481,971)	(306,531)
Other operating income/(expenses) – net	(82,777)	(12,128)
	<u>(2,189,194)</u>	<u>(1,688,048)</u>

Operating expenses for the period were 30 percent over the corresponding period of last year. Employee benefit costs increased by US\$281 million mainly due to increase in headcount and performance-based bonus. The increase in operating expenses reflected an increased effort in the Group's marketing input in advertising and promotional expenses of US\$87 million to drive brand recognition and fuel future growth. The Group also increased spending on research and development related laboratory testing, services and supplies by US\$67 million. During the period, the Group recorded a fair value loss from strategic investments amounted to US\$21 million (2020/21: gain of US\$104 million), reflecting the change in value of the Group's portfolio. Impairment loss on intangible assets of US\$16 million (2020/21: US\$53 million) was recognized.

Key expenses by nature comprise:

	3 months ended September 30, 2021 US\$'000	3 months ended September 30, 2020 US\$'000
Depreciation of property, plant and equipment	(43,215)	(42,150)
Depreciation of right-of-use assets	(29,623)	(20,404)
Amortization of intangible assets	(168,170)	(151,785)
Impairment of intangible assets	(16,434)	(52,606)
Employee benefit costs, including	(1,203,874)	(922,905)
- long-term incentive awards	(78,179)	(62,122)
Rental expenses	(2,674)	(1,415)
Net foreign exchange loss	(34,968)	(20,730)
Advertising and promotional expenses	(267,866)	(180,779)
Legal, professional and consulting expenses	(30,836)	(64,209)
Information technology expenses	(37,503)	(27,872)
Reversal of/(provision for) loss allowance of trade receivables	5,077	(3,505)
Research and development related laboratory testing, services and supplies	(115,970)	(48,915)
Gain on disposal of property, plant and equipment	4,469	8,703
Loss on disposal of intangible assets	(4,590)	-
Fair value (loss)/gain on financial assets at fair value through profit or loss	(20,586)	104,289
Fair value loss on a financial liability at fair value through profit or loss	(5,686)	(5,600)
Gain on disposal of subsidiaries	31,478	-
Others	(248,223)	(258,165)
	<u>(2,189,194)</u>	<u>(1,688,048)</u>

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

	3 months ended September 30, 2021 US\$'000	3 months ended September 30, 2020 US\$'000
Finance income	14,148	9,342
Finance costs	(86,489)	(91,617)
Share of losses of associates and joint ventures	(2,076)	(11,843)
	<u>(74,417)</u>	<u>(94,118)</u>

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 improved the efficiency of the factoring program. The change is a combined effect of the decrease in factoring costs of US\$11 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 IDG, ISG and SSG. Revenue and operating profit/(loss) for reportable segments are as follows:

	3 months ended September 30, 2021		3 months ended September 30, 2020	
	Revenue US\$'000	Operating profit/(loss) US\$'000	Revenue US\$'000	Operating profit/(loss) US\$'000
IDG	15,338,713	1,165,024	12,685,902	867,631
ISG	1,967,727	(6,155)	1,472,241	(30,312)
SSG	1,363,250	284,841	1,048,904	215,566
Total	18,669,690	1,443,710	15,207,047	1,052,885
Intersegment eliminations	(801,011)	(243,691)	(688,138)	(188,333)
	17,868,679	1,200,019	14,518,909	864,552
Unallocated:				
Headquarters and corporate income/(expenses) - net		(289,297)		(249,881)
Depreciation and amortization		(165,724)		(133,742)
Impairment of intangible assets		(10,434)		(52,606)
Finance income		9,609		5,665
Finance costs		(6,171)		(53,759)
Share of losses of associates and joint ventures		(2,076)		(11,843)
Gain on disposal of property, plant and equipment		90		3,233
Fair value (loss)/gain on financial assets at fair value through profit or loss		(20,586)		104,289
Fair value loss on a financial liability at fair value through profit or loss		(5,686)		(5,600)
Gain on disposal of subsidiaries		31,478		-
Dividend income		925		79
Consolidated profit before taxation		742,147		470,387

Headquarters and corporate income/(expenses) - net for the period comprise various expenses, after appropriate allocation to business groups, of US\$289 million (2020/21: US\$250 million) such as employee benefit costs, legal, professional and consulting expenses, and research and technology expenses. The increase is primarily in relation to employee benefit costs as a result of increased performance-based bonus of US\$50 million as compared with the corresponding period of last year.

Capital Expenditure

The Group incurred capital expenditure of US\$558 million (2020/21: US\$360 million) during the six months ended September 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 September 30, 2021, total assets of the Group amounted to US\$42,575 million (March 31, 2021: US\$37,991 million), which were financed by equity attributable to owners of the Company of US\$4,003 million (March 31, 2021: US\$3,559 million), other non-controlling interests (net of put option written on non-controlling interests) of US\$136 million (March 31, 2021: US\$52 million), and total liabilities of US\$38,436 million (March 31, 2021: US\$34,380 million). At September 30, 2021, the current ratio of the Group was 0.88 (March 31, 2021: 0.85).

At September 30, 2021, bank deposits and cash and cash equivalents totaling US\$3,731 million (March 31, 2021: US\$3,128 million) analyzed by major currency are as follows:

	September 30, 2021	March 31, 2021
	%	%
US dollar	39.5	34.9
Renminbi	22.7	25.7
Japanese Yen	7.9	11.3
Euro	5.4	5.5
Australian dollar	3.0	3.4
Other currencies	21.5	19.2
Total	100.0	100.0

The Group adopts a conservative policy to invest the surplus cash generated from operations. At September 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:

Type	Date of agreement	Principal amount	Term	Utilized amount at	
				September 30, 2021	March 31, 2021
		<i>US\$ million</i>		<i>US\$ million</i>	<i>US\$ million</i>
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	-	-

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

Credit facilities	Total available amount at		Drawn down amount at	
	September 30, 2021	March 31, 2021	September 30, 2021	March 31, 2021
	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>	<i>US\$ million</i>
Trade lines	2,472	2,003	1,907	1,637
Short-term money market facilities	1,077	1,029	52	47
Forward foreign exchange contracts	12,754	12,023	12,698	11,975

Apart from the above facilities, notes, convertible bonds and convertible preferred shares issued by the Group and outstanding as at September 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\$90 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 13(c) to the Financial Information for details.
- (b) Please refer to Note 13(d) to the Financial Information for details.

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

	September 30, 2021	March 31, 2021
	<i>US\$ million</i>	<i>US\$ million</i>
Bank deposits and cash and cash equivalents	3,731	3,128
Borrowings		
- Short-term loans	55	58
- Long-term loan	1	2
- Notes	3,012	3,011
- Convertible bonds	633	624
- Convertible preferred shares	90	303
Net debt position	(60)	(870)
Total equity	4,139	3,611
Gearing ratio (Borrowings divided by total equity)	0.92	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 September 30, 2021, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US\$12,698 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.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

		3 months ended September 30, 2021 (unaudited) <i>US\$ '000</i>	6 months ended September 30, 2021 (unaudited) <i>US\$ '000</i>	3 months ended September 30, 2020 (unaudited) <i>US\$ '000</i>	6 months ended September 30, 2020 (unaudited) <i>US\$ '000</i>
	<i>Note</i>				
Revenue	2	17,868,679	34,797,926	14,518,909	27,866,765
Cost of sales		<u>(14,862,921)</u>	<u>(28,968,426)</u>	<u>(12,266,356)</u>	<u>(23,572,904)</u>
Gross profit		3,005,758	5,829,500	2,252,553	4,293,861
Selling and distribution expenses		(923,978)	(1,771,021)	(726,174)	(1,358,341)
Administrative expenses		(700,468)	(1,512,711)	(643,215)	(1,304,317)
Research and development expenses		(481,971)	(948,434)	(306,531)	(639,101)
Other operating income/(expenses) - net		<u>(82,777)</u>	<u>(37,999)</u>	<u>(12,128)</u>	<u>8,280</u>
Operating profit	3	816,564	1,559,335	564,505	1,000,382
Finance income	4(a)	14,148	23,224	9,342	17,333
Finance costs	4(b)	(86,489)	(187,070)	(91,617)	(198,449)
Share of losses of associates and joint ventures		<u>(2,076)</u>	<u>(3,119)</u>	<u>(11,843)</u>	<u>(16,803)</u>
Profit before taxation		742,147	1,392,370	470,387	802,463
Taxation	5	<u>(185,057)</u>	<u>(350,113)</u>	<u>(120,833)</u>	<u>(206,102)</u>
Profit for the period		<u>557,090</u>	<u>1,042,257</u>	<u>349,554</u>	<u>596,361</u>
Profit attributable to:					
Equity holders of the Company		511,985	978,050	310,195	523,017
Perpetual securities holders		-	-	13,440	26,880
Other non-controlling interests		<u>45,105</u>	<u>64,207</u>	<u>25,919</u>	<u>46,464</u>
		<u>557,090</u>	<u>1,042,257</u>	<u>349,554</u>	<u>596,361</u>
Earnings per share attributable to equity holders of the Company					
Basic	6(a)	<u>US4.42 cents</u>	<u>US8.44 cents</u>	<u>US2.59 cents</u>	<u>US4.39 cents</u>
Diluted	6(b)	<u>US3.96 cents</u>	<u>US7.50 cents</u>	<u>US2.48 cents</u>	<u>US4.24 cents</u>
Dividend	7		<u>123,771</u>		<u>102,298</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended September 30, 2021 (unaudited) US\$ '000	6 months ended September 30, 2021 (unaudited) US\$ '000	3 months ended September 30, 2020 (unaudited) US\$ '000	6 months ended September 30, 2020 (unaudited) US\$ '000
Profit for the period	557,090	1,042,257	349,554	596,361
Other comprehensive income/(loss):				
<u>Items that will not be reclassified to profit or loss</u>				
Remeasurements of post-employment benefit obligations, net of taxes	1	(5,268)	27	27
Fair value change on financial assets at fair value through other comprehensive income, net of taxes	(3,151)	(3,895)	(2,502)	(7,106)
<u>Items that have been reclassified or may be subsequently reclassified to profit or loss</u>				
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes				
- Fair value gain/(loss), net of taxes	119,559	72,849	(111,703)	(205,323)
- Reclassified to consolidated income statement	(58,224)	(54,719)	135,879	142,619
Currency translation differences	(143,202)	49,474	153,246	129,199
Other comprehensive (loss)/income for the period	(85,017)	58,441	174,947	59,416
Total comprehensive income for the period	472,073	1,100,698	524,501	655,777
Total comprehensive income attributable to:				
Equity holders of the Company	430,781	1,040,180	481,026	576,504
Perpetual securities holders	-	-	13,440	26,880
Other non-controlling interests	41,292	60,518	30,035	52,393
	472,073	1,100,698	524,501	655,777

CONSOLIDATED BALANCE SHEET

		September 30, 2021 (unaudited) <i>US\$'000</i>	March 31, 2021 (audited) <i>US\$'000</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		1,555,768	1,573,875
Right-of-use assets		869,174	893,422
Construction-in-progress		286,658	207,614
Intangible assets		8,238,925	8,405,005
Interests in associates and joint ventures		86,090	65,455
Deferred income tax assets		2,462,103	2,344,740
Financial assets at fair value through profit or loss		1,027,518	805,013
Financial assets at fair value through other comprehensive income		79,809	84,796
Other non-current assets		396,897	275,359
		15,002,942	14,655,279
Current assets			
Inventories	8	8,727,816	6,380,576
Trade receivables	9(a)	9,500,770	8,397,825
Notes receivable		67,937	78,939
Derivative financial assets		140,239	118,299
Deposits, prepayments and other receivables	10	5,000,156	4,977,501
Income tax recoverable		403,784	254,442
Bank deposits		83,543	59,385
Cash and cash equivalents		3,647,478	3,068,385
		27,571,723	23,335,352
Total assets		42,574,665	37,990,631

CONSOLIDATED BALANCE SHEET (CONTINUED)

		September 30, 2021 (unaudited) US\$'000	March 31, 2021 (audited) US\$'000
	<i>Note</i>		
Share capital	14	3,203,913	3,203,913
Reserves		799,083	355,123
		<hr/>	<hr/>
Equity attributable to owners of the Company		4,002,996	3,559,036
Other non-controlling interests		902,058	817,735
Put option written on non-controlling interests	11(a)(ii),12(b)	(766,238)	(766,238)
		<hr/>	<hr/>
Total equity		4,138,816	3,610,533
		<hr/>	<hr/>
Non-current liabilities			
Borrowings	13	3,309,173	3,299,582
Warranty provision	11(b)	254,384	266,313
Deferred revenue		1,334,636	1,183,247
Retirement benefit obligations		428,514	431,905
Deferred income tax liabilities		387,993	391,258
Other non-current liabilities	12	1,376,481	1,436,156
		<hr/>	<hr/>
		7,091,181	7,008,461
		<hr/>	<hr/>
Current liabilities			
Trade payables	9(b)	11,491,984	10,220,796
Notes payable		1,235,486	885,628
Derivative financial liabilities		57,333	35,944
Other payables and accruals	11(a)	15,195,359	13,178,498
Provisions	11(b)	929,555	910,380
Deferred revenue		1,236,632	1,046,677
Income tax payable		716,188	395,443
Borrowings	13	482,131	698,271
		<hr/>	<hr/>
		31,344,668	27,371,637
		<hr/>	<hr/>
Total liabilities		38,435,849	34,380,098
		<hr/>	<hr/>
Total equity and liabilities		42,574,665	37,990,631
		<hr/>	<hr/>

CONSOLIDATED CASH FLOW STATEMENT

		6 months ended September 30, 2021 (unaudited) US\$'000	6 months ended September 30, 2020 (unaudited) US\$'000
	<i>Note</i>		
Cash flows from operating activities			
Net cash generated from operations	15	2,471,820	1,561,912
Interest paid		(160,000)	(146,162)
Tax paid		(303,585)	(327,276)
Net cash generated from operating activities		2,008,235	1,088,474
Cash flows from investing activities			
Purchase of property, plant and equipment		(172,016)	(119,849)
Sale of property, plant and equipment		12,094	28,965
Acquisition of subsidiaries, net of cash acquired		-	(5,049)
Disposal of subsidiaries, net of cash disposed		114,312	(5,161)
Interests acquired in associates		(325)	(303)
Payment for construction-in-progress		(226,403)	(167,681)
Payment for intangible assets		(159,399)	(72,094)
Purchase of financial assets at fair value through profit or loss		(134,499)	(103,256)
Purchase of financial assets at fair value through other comprehensive income		-	(24,714)
Net proceeds from sale of financial assets at fair value through profit or loss		30,861	56,452
Net proceeds from sale of a financial asset at fair value through other comprehensive income		-	493
Payment of contingent consideration		-	(117,390)
(Increase)/decrease in bank deposits		(24,158)	12,513
Dividends received		1,350	384
Interest received		23,224	17,333
Net cash used in investing activities		(534,959)	(499,357)
Cash flows from financing activities			
Capital contribution from other non-controlling interests		41,127	18,420
Contribution to employee share trusts		(311,035)	(54,838)
Issue of notes		-	1,003,500
Issuing costs of notes		-	(4,485)
Repayment of notes		-	(565,643)
Principal elements of lease payments		(55,378)	(59,778)
Dividends paid		(359,037)	(332,359)
Distribution to perpetual securities holders		-	(26,880)
Dividends paid to convertible preferred shares holders		(14,751)	(6,000)
Repurchase of convertible preferred shares		(208,378)	(16,575)
Cash received for disposal of subsidiaries without loss of control		5,185	-
Proceeds from borrowings		5,887,118	2,267,961
Repayments of borrowings		(5,881,692)	(2,702,288)
Net cash used in financing activities		(896,841)	(478,965)
Increase in cash and cash equivalents		576,435	110,152
Effect of foreign exchange rate changes		2,658	37,516
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		3,647,478	3,698,658

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										Total (unaudited) US\$'000	
	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
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	-	-	-	-	-	-	-	978,050	-	64,207	-	1,042,257
Other comprehensive (loss)/income	-	(3,895)	-	-	18,130	53,163	-	(5,268)	-	(3,689)	-	58,441
Total comprehensive (loss)/income for the period	-	(3,895)	-	-	18,130	53,163	-	972,782	-	60,518	-	1,100,698
Transfer to statutory reserve	-	-	-	-	-	-	10,352	(10,352)	-	-	-	-
Vesting of shares under long-term incentive program	-	-	320,767	(435,890)	-	-	-	-	-	-	-	(115,123)
Disposal of subsidiaries	-	1	-	-	-	(15,295)	(552)	-	-	(365)	-	(16,211)
Settlement of bonus through long-term incentive program	-	-	-	27,789	-	-	-	-	-	-	-	27,789
Share-based compensation	-	-	-	173,594	-	-	-	-	-	-	-	173,594
Contribution to employee share trusts	-	-	(311,035)	-	-	-	-	-	-	-	-	(311,035)
Dividends paid	-	-	-	-	-	-	-	(359,037)	-	-	-	(359,037)
Dividends provided for other non-controlling interests	-	-	-	-	-	-	-	-	-	(26,273)	-	(26,273)
Capital contribution from other non-controlling interests	-	-	-	-	-	-	-	-	-	48,696	-	48,696
Change of ownership of subsidiaries without loss of control	-	-	-	-	-	-	3,438	-	-	1,747	-	5,185
At September 30, 2021	3,203,913	(53,027)	(490,545)	(47,131)	91,606	(1,653,080)	143,478	2,807,782	-	902,058	(766,238)	4,138,816
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

1 General information and basis of preparation

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

The Company has delivered the consolidated financial statements for the year ended March 31, 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.

Basis of preparation

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

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

The 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 HKAS 12, Deferred tax related to assets and liabilities arising from a single transaction	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

	6 months ended September 30, 2021		6 months ended September 30, 2020	
	Revenue US\$'000	Operating profit/(loss) US\$'000	Revenue US\$'000	Operating profit/(loss) US\$'000
IDG	30,004,546	2,260,510	24,169,617	1,635,644
ISG	3,802,635	(16,946)	3,077,325	(90,421)
SSG	2,547,616	548,472	1,909,939	390,331
Total	36,354,797	2,792,036	29,156,881	1,935,554
Intersegment eliminations	(1,556,871)	(466,316)	(1,290,116)	(343,134)
	<u>34,797,926</u>	<u>2,325,720</u>	<u>27,866,765</u>	<u>1,592,420</u>

Unallocated:

Headquarters and corporate income/(expenses)				
- net		(682,689)		(596,326)
Depreciation and amortization		(330,939)		(257,354)
Impairment of intangible assets		(25,434)		(52,606)
Finance income		14,684		10,574
Finance costs		(40,593)		(107,344)
Share of losses of associates and joint ventures		(3,119)		(16,803)
Gain on disposal of property, plant and equipment		525		67,110
Fair value gain on financial assets at fair value through profit or loss		110,684		132,920
Fair value loss on a financial liability at fair value through profit or loss		(9,851)		(1,773)
Dilution gain on interest in an associate		-		31,374
Gain on disposal of subsidiaries		32,303		-
Dividend income		1,079		271
Consolidated profit before taxation		<u>1,392,370</u>		<u>802,463</u>

(b) Analysis of revenue by geography

	6 months ended September 30, 2021 US\$'000	6 months ended September 30, 2020 US\$'000
China	9,391,121	6,530,255
AP	5,580,380	5,779,299
EMEA	8,494,202	7,016,055
AG	11,332,223	8,541,156
	<u>34,797,926</u>	<u>27,866,765</u>

(c) Analysis of revenue by timing of revenue recognition

	6 months ended September 30, 2021 US\$'000	6 months ended September 30, 2020 US\$'000
Point in time	33,911,047	27,114,536
Over time	886,879	752,229
	<u>34,797,926</u>	<u>27,866,765</u>

(d) Other segment information

	IDG		ISG		SSG		Total	
	2021	2020	2021	2020	2021	2020	2021	2020
	US\$'000							
For the six months ended September 30								
Depreciation and amortization	214,331	179,766	73,866	66,440	1,260	1,869	289,457	248,075
Finance income	7,091	6,084	1,145	357	304	318	8,540	6,759
Finance costs	110,880	69,727	35,263	21,064	334	314	146,477	91,105

- (e) The directors review goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US\$6,134 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 September 30, 2021

	China	AP	EMEA	AG	Mature Market	Emerging Market	Total
	US\$ million	US\$ million	US\$ million				
Goodwill							
- PCSD	956	553	189	235	-	-	1,933
- MBG	-	-	-	-	675	788	1,463
- ISG	513	158	82	343	-	-	1,096
- SSG (Note)	-	-	-	-	-	-	371
Trademarks and trade names							
- PCSD	181	48	87	53	-	-	369
- MBG	-	-	-	-	197	263	460
- ISG	162	54	31	123	-	-	370
- SSG (Note)	-	-	-	-	-	-	72

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				
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 with indefinite useful lives based on impairment tests performed as at September 30, 2021 (March 31, 2021: Nil).

3 Operating profit

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

	3 months ended September 30, 2021 US\$'000	6 months ended September 30, 2021 US\$'000	3 months ended September 30, 2020 US\$'000	6 months ended September 30, 2020 US\$'000
Depreciation of property, plant and equipment	82,607	167,904	75,692	147,617
Depreciation of right-of-use assets	33,244	65,620	24,539	45,963
Amortization of intangible assets	197,251	386,872	156,870	311,849
Impairment of intangible assets	16,434	31,434	52,606	52,606
Impairment of property, plant and equipment	-	10,189	-	-
Employee benefit costs, including	1,435,339	2,893,101	1,101,363	2,372,169
- long-term incentive awards	78,179	173,594	62,122	127,752
- severance and related costs	-	-	-	75,006
Rental expenses	4,326	12,928	3,251	6,678
Gain on disposal of property, plant and equipment	(4,469)	(4,948)	(8,703)	(70,872)
Loss on disposal of intangible assets	4,590	4,590	-	450
Fair value loss/(gain) on financial assets at fair value through profit or loss	20,586	(110,684)	(104,289)	(132,920)
Fair value loss on a financial liability at fair value through profit or loss	5,686	9,851	5,600	1,773
Dilution gain on interest in an associate	-	-	-	(31,374)
Gain on disposal of subsidiaries	(31,478)	(32,303)	-	(1,064)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

4 Finance income and costs

(a) Finance income

	3 months ended September 30, 2021 US\$'000	6 months ended September 30, 2021 US\$'000	3 months ended September 30, 2020 US\$'000	6 months ended September 30, 2020 US\$'000
Interest on bank deposits and trust	14,098	23,075	8,309	15,557
Interest on money market funds	50	149	1,033	1,776
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	14,148	23,224	9,342	17,333

(b) Finance costs

	3 months ended September 30, 2021 US\$'000	6 months ended September 30, 2021 US\$'000	3 months ended September 30, 2020 US\$'000	6 months ended September 30, 2020 US\$'000
Interest on bank loans and overdrafts	10,345	18,764	10,255	24,512
Interest on convertible bonds	10,160	20,247	10,003	19,914
Interest on notes	35,571	70,815	29,331	58,793
Interest on lease liabilities	4,828	9,407	4,844	9,051
Factoring costs	18,731	52,679	29,647	70,825
Interest on contingent consideration and written put option liabilities	6,803	13,608	6,542	12,823
Others	51	1,550	995	2,531
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	86,489	187,070	91,617	198,449

5 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended September 30, 2021 US\$'000	6 months ended September 30, 2021 US\$'000	3 months ended September 30, 2020 US\$'000	6 months ended September 30, 2020 US\$'000
Current tax				
Profits tax in Hong Kong S.A.R. of China	45,298	85,255	17,499	27,702
Taxation outside Hong Kong S.A.R. of China	205,210	386,225	137,409	252,950
Deferred tax				
Credit for the period	(65,451)	(121,367)	(34,075)	(74,550)
	<u>185,057</u>	<u>350,113</u>	<u>120,833</u>	<u>206,102</u>

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 September 30, 2021	6 months ended September 30, 2021	3 months ended September 30, 2020	6 months ended September 30, 2020
Weighted average number of ordinary shares in issue	12,041,705,614	12,041,705,614	12,014,791,614	12,014,791,614
Adjustment for shares held by employee share trusts	(456,325,542)	(449,585,970)	(50,787,295)	(107,862,340)
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	<u>11,585,380,072</u>	<u>11,592,119,644</u>	<u>11,964,004,319</u>	<u>11,906,929,274</u>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit attributable to equity holders of the Company used to determine basic earnings per share	<u>511,985</u>	<u>978,050</u>	<u>310,195</u>	<u>523,017</u>

(b) Diluted

The calculation of the diluted earnings per share is based on the profit attributable to equity holders of the Company, adjusted to reflect the impact from any dilutive potential ordinary shares issued by the Group, as appropriate. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue during the 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 and six months ended September 30, 2021 and 2020. 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, 2021 and 2020. Bonus warrants were anti-dilutive for the three months and six months ended September 30, 2020.

	3 months ended September 30, 2021	6 months ended September 30, 2021	3 months ended September 30, 2020	6 months ended September 30, 2020
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	11,585,380,072	11,592,119,644	11,964,004,319	11,906,929,274
Adjustment for long-term incentive awards	784,471,895	914,914,178	149,492,774	79,031,164
Adjustment for convertible bonds	762,214,157	762,214,157	732,183,610	732,183,610
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	<u>13,132,066,124</u>	<u>13,269,247,979</u>	<u>12,845,680,703</u>	<u>12,718,144,048</u>
	US\$'000	US\$'000	US\$'000	US\$'000
Profit attributable to equity holders of the Company used to determine basic earnings per share	511,985	978,050	310,195	523,017
Adjustment for interest on convertible bonds, net of tax	8,483	16,906	8,352	16,628
Profit attributable to equity holders of the Company used to determine diluted earnings per share	<u>520,468</u>	<u>994,956</u>	<u>318,547</u>	<u>539,645</u>

7 Dividend

	6 months ended September 30, 2021 US\$'000	6 months ended September 30, 2020 US\$'000
Interim dividend, declared after period end – HK8.0 cents (2020/21: HK6.6 cents) per ordinary share	<u>123,771</u>	<u>102,298</u>

8 Inventories

	September 30, 2021 <i>US\$'000</i>	March 31, 2021 <i>US\$'000</i>
Raw materials and work-in-progress	6,119,851	4,155,268
Finished goods	2,185,754	1,920,660
Service parts	422,211	304,648
	<u>8,727,816</u>	<u>6,380,576</u>

9 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:

	September 30, 2021 <i>US\$'000</i>	March 31, 2021 <i>US\$'000</i>
0 – 30 days	7,521,862	6,301,112
31 – 60 days	1,285,132	1,315,788
61 – 90 days	436,763	457,658
Over 90 days	394,198	468,473
	<u>9,637,955</u>	8,543,031
Less: loss allowance	<u>(137,185)</u>	(145,206)
Trade receivables – net	<u>9,500,770</u>	<u>8,397,825</u>

At September 30, 2021, trade receivables, net of loss allowance, of US\$619,387,000 (March 31, 2021: US\$562,648,000) were past due. The ageing of these receivables, based on due date, is as follows:

	September 30, 2021 <i>US\$'000</i>	March 31, 2021 <i>US\$'000</i>
Within 30 days	371,760	332,784
31 – 60 days	104,364	95,211
61 – 90 days	52,020	53,241
Over 90 days	91,243	81,412
	<u>619,387</u>	<u>562,648</u>

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

	6 months ended September 30, 2021 US\$'000	Year ended March 31, 2021 US\$'000
At the beginning of the period/year	145,206	95,456
Exchange adjustment	(383)	(4,954)
Increase in loss allowance recognized in profit or loss	34,887	142,663
Uncollectible receivables written off	(15,172)	(53,366)
Unused amounts reversed	(27,353)	(34,593)
	<u>137,185</u>	<u>145,206</u>

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

	September 30, 2021 US\$'000	March 31, 2021 US\$'000
0 – 30 days	7,632,785	6,824,377
31 – 60 days	2,249,998	2,049,369
61 – 90 days	1,008,115	949,294
Over 90 days	601,086	397,756
	<u>11,491,984</u>	<u>10,220,796</u>

10 Deposits, prepayments and other receivables

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

	September 30, 2021 US\$'000	March 31, 2021 US\$'000
Deposits	175,850	16,731
Other receivables	3,725,741	3,787,734
Prepayments	1,098,565	1,173,036
	<u>5,000,156</u>	<u>4,977,501</u>

Other receivables mainly comprise amounts due from subcontractors for parts 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, 2021 <i>US\$'000</i>	March 31, 2021 <i>US\$'000</i>
Accruals	3,719,810	3,385,903
Allowance for billing adjustments (i)	3,063,393	2,464,020
Written put option liabilities (ii)	336,426	324,277
Other payables (iii)	7,936,431	6,870,636
Lease liabilities	139,299	133,662
	15,195,359	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 <i>US\$'000</i>	Environmental restoration <i>US\$'000</i>	Total <i>US\$'000</i>
Year ended March 31, 2021			
At the beginning of the year	974,839	35,604	1,010,443
Exchange adjustment	42,328	(431)	41,897
Provisions made	992,112	18,172	1,010,284
Amounts utilized	(835,397)	(21,195)	(856,592)
	<u>1,173,882</u>	<u>32,150</u>	<u>1,206,032</u>
Long-term portion classified as non-current liabilities	(266,313)	(29,339)	(295,652)
At the end of the year	<u><u>907,569</u></u>	<u><u>2,811</u></u>	<u><u>910,380</u></u>
Six months ended September 30, 2021			
At the beginning of the period	1,173,882	32,150	1,206,032
Exchange adjustment	2,137	(364)	1,773
Provisions made	478,110	13,482	491,592
Amounts utilized	(473,635)	(12,646)	(486,281)
	<u>1,180,494</u>	<u>32,622</u>	<u>1,213,116</u>
Long-term portion classified as non-current liabilities	(254,384)	(29,177)	(283,561)
At the end of the period	<u><u>926,110</u></u>	<u><u>3,445</u></u>	<u><u>929,555</u></u>

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

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

12 Other non-current liabilities

Details of other non-current liabilities are as follows:

	September 30, 2021 <i>US\$'000</i>	March 31, 2021 <i>US\$'000</i>
Deferred consideration (a)	25,072	25,072
Written put option liabilities (b)	517,955	518,499
Lease liabilities	317,875	333,264
Environmental restoration (Note 11(b))	29,177	29,339
Government incentives and grants received in advance (c)	71,030	66,234
Others	415,372	463,748
	<u><u>1,376,481</u></u>	<u><u>1,436,156</u></u>

(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 September 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 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, 2021 US\$ '000	March 31, 2021 US\$ '000
Current liabilities		
Short-term loans (a)	55,016	58,190
Notes (b)	337,022	336,709
Convertible preferred shares (d)	90,093	303,372
	<u>482,131</u>	<u>698,271</u>
Non-current liabilities		
Long-term loan (a)	1,559	2,070
Notes (b)	2,674,981	2,673,688
Convertible bonds (c)	632,633	623,824
	<u>3,309,173</u>	<u>3,299,582</u>
	<u>3,791,304</u>	<u>3,997,853</u>

- (a) Majority of the short-term and long-term loans are denominated in United States dollars. As at September 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)	Outstanding principal amount	Term	Interest rate per annum	Due date	September 30, 2021 US\$'000	March 31, 2021 US\$'000
Issue date						
March 16, 2017	US\$337 million	5 years	3.875%	March 2022	337,022	336,709
March 29, 2018	US\$687 million	5 years	4.75%	March 2023	684,683	683,982
April 24, 2020 and May 12, 2020	US\$1 billion	5 years	5.875%	April 2025	999,298	999,199
November 2, 2020	US\$1 billion	10 years	3.421%	November 2030	991,000	990,507
					3,012,003	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 and 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. 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.

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.

The Group expects that it will be able to meet its redemption obligations based on the financial position of the Group had conversion of the Bonds not exercised on maturity.

- (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. The Group has purchased 136,986 convertible preferred shares during the year ended March 31, 2021 at the consideration of approximately US\$17 million.

During the period, 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. Holders of 1,301,368 convertible preferred shares have exercised their rights and the Group has purchased these convertible preferred shares at the consideration of approximately US\$208 million. The aggregate number of 1,438,354 convertible preferred shares purchased by the Group were subsequently converted into ordinary shares of LETCL.

During the period, additional 54,794 convertible preferred shares have been issued as dividend shares. At September 30, 2021, 671,231 convertible preferred shares remained outstanding, representing 6.53% of the enlarged issued ordinary share capital of LETCL on an as-converted and fully diluted basis.

The Group expects that it will be able to meet its redemption obligations based on the financial position of the Group had conversion of these convertible preferred shares not exercised.

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at September 30, 2021 and March 31, 2021 are as follows:

	September 30, 2021	March 31, 2021
	<i>US\$'000</i>	<i>US\$'000</i>
Within 1 year	482,131	698,271
Over 1 to 2 years	685,718	685,008
Over 2 to 5 years	1,632,455	1,624,067
Over 5 years	991,000	990,507
	3,791,304	3,997,853

14 Share capital

	September 30, 2021		March 31, 2021	
	<i>Number of shares</i>	<i>US\$'000</i>	<i>Number of shares</i>	<i>US\$'000</i>
<i>Issued and fully paid:</i>				
Voting ordinary shares:				
At the beginning of the 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.

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

	6 months ended September 30, 2021 <i>US\$'000</i>	6 months ended September 30, 2020 <i>US\$'000</i>
Profit before taxation	1,392,370	802,463
Share of losses of associates and joint ventures	3,119	16,803
Finance income	(23,224)	(17,333)
Finance costs	187,070	198,449
Depreciation of property, plant and equipment	167,904	147,617
Depreciation of right-of-use assets	65,620	45,963
Amortization of intangible assets	386,872	311,849
Impairment of intangible assets	31,434	52,606
Impairment of property, plant and equipment	10,189	-
Share-based compensation	173,594	127,752
Gain on disposal of property, plant and equipment	(4,948)	(70,872)
Loss on disposal of intangible assets	4,590	450
Dilution gain on interest in an associate	-	(31,374)
Gain on disposal of subsidiaries	(32,303)	(1,064)
Fair value change on bonus warrants	-	1,288
Fair value change on financial instruments	17,579	4,641
Fair value change on financial assets at fair value through profit or loss	(110,684)	(132,920)
Fair value change on a financial liability at fair value through profit or loss	9,851	1,773
Dividend income	(1,350)	(384)
Increase in inventories	(2,352,394)	(343,089)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	(1,245,960)	(2,178,297)
Increase in trade payables, notes payable, provisions, other payables and accruals	3,779,967	2,752,982
Effect of foreign exchange rate changes	12,524	(127,391)
Net cash generated from operations	<u>2,471,820</u>	<u>1,561,912</u>

Reconciliation of financing liabilities

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

	September 30, 2021 <i>US\$'000</i>	March 31, 2021 <i>US\$'000</i>
Financing liabilities		
Short-term loans – current	55,016	58,190
Long-term loan – non-current	1,559	2,070
Notes – current	337,022	336,709
Notes – non-current	2,674,981	2,673,688
Convertible bonds – non-current	632,633	623,824
Convertible preferred shares – current	90,093	303,372
Lease liabilities – current	139,299	133,662
Lease liabilities – non-current	317,875	333,264
	<u>4,248,478</u>	<u>4,464,779</u>
Short-term loans – variable interest rates	53,998	39,672
Short-term loans – fixed interest rates	1,018	18,518
Long-term loan – fixed interest rates	1,559	2,070
Notes – fixed interest rates	3,012,003	3,010,397
Convertible bonds – fixed interest rates	632,633	623,824
Convertible preferred shares – fair value	90,093	303,372
Lease liabilities – fixed interest rates	457,174	466,926
	<u>4,248,478</u>	<u>4,464,779</u>

	Short-term loans current US\$'000	Long- term loan non- current US\$'000	Notes current US\$'000	Notes non- current US\$'000	Convertible bonds current US\$'000	Convertible bonds non- current US\$'000	Convertible preferred shares current US\$'000	Convertible preferred shares non- current US\$'000	Lease liabilities current US\$'000	Lease liabilities non- current US\$'000	Total US\$'000
Financing liabilities as at April 1, 2020	2,124,562	3,079	563,249	1,243,714	607,169	-	-	317,826	91,976	346,806	5,298,381
Proceeds from borrowings	4,925,628	-	-	-	-	-	-	-	-	-	4,925,628
Repayments of borrowings	(7,005,300)	-	-	-	-	-	-	-	-	-	(7,005,300)
Repayment of notes	-	-	(565,643)	(225,912)	-	-	-	-	-	-	(791,555)
Repurchase of convertible preferred shares	-	-	-	-	-	-	-	(16,575)	-	-	(16,575)
Redemption of convertible bonds	-	-	-	-	-	(500)	-	-	-	-	(500)
Transfer	1,009	(1,009)	336,709	(336,709)	(619,537)	619,537	303,372	(303,372)	107,474	(107,474)	-
Issue of notes	-	-	-	2,003,500	-	-	-	-	-	-	2,003,500
Issuing costs of notes	-	-	-	(14,383)	-	-	-	-	-	-	(14,383)
Principal elements of lease payments	-	-	-	-	-	-	-	-	(165,150)	-	(165,150)
Acquisition of a subsidiary	1,770	-	-	-	-	-	-	-	-	-	1,770
Dividends paid	-	-	-	-	-	-	-	(11,600)	-	-	(11,600)
Foreign exchange adjustments	292	-	2,058	-	-	-	-	-	13,907	5,474	21,731
Other non-cash movements	10,229	-	336	3,478	12,368	4,787	-	13,721	85,455	88,458	218,832
Financing liabilities as at March 31, 2021	<u>58,190</u>	<u>2,070</u>	<u>336,709</u>	<u>2,673,688</u>	<u>-</u>	<u>623,824</u>	<u>303,372</u>	<u>-</u>	<u>133,662</u>	<u>333,264</u>	<u>4,464,779</u>
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	5,887,118	-	-	-	-	-	-	-	-	-	5,887,118
Repayments of borrowings	(5,881,692)	-	-	-	-	-	-	-	-	-	(5,881,692)
Repurchase of convertible preferred shares	-	-	-	-	-	-	(208,378)	-	-	-	(208,378)
Transfer	511	(511)	-	-	-	-	-	-	50,595	(50,595)	-
Principal elements of lease payments	-	-	-	-	-	-	-	-	(55,378)	-	(55,378)
Disposal of a subsidiary	(9,319)	-	-	-	-	-	-	-	-	-	(9,319)
Dividends paid	-	-	-	-	-	-	(14,751)	-	-	-	(14,751)
Foreign exchange adjustments	208	-	-	-	-	-	-	-	(1,315)	(1,073)	(2,180)
Other non-cash movements	-	-	313	1,293	-	8,809	9,850	-	11,735	36,279	68,279
Financing liabilities as at September 30, 2021	<u>55,016</u>	<u>1,559</u>	<u>337,022</u>	<u>2,674,981</u>	<u>-</u>	<u>632,633</u>	<u>90,093</u>	<u>-</u>	<u>139,299</u>	<u>317,875</u>	<u>4,248,478</u>

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

During the six months ended September 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 272,836,178 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 interim results of the Group for the six months ended September 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 six months ended September 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*

November 4, 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.