Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 992)

FY2019/20 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, 2019 together with comparative figures for the corresponding period of last year, as follows:

FINANCIAL HIGHLIGHTS

- Pre-tax profit more than doubled year-on-year in Q1FY20 on Group's robust revenue growth
- PC and Smart Device (PCSD) Business achieved 12 percent year-on-year revenue increase and a record-high share of the global PC market with the highest growth premium to the market seen in more than five years
- Profitability improved consistently across PCSD Business, Mobile Business Group and Data Center Group; PTI margin of PCSD Business remained industry-leading and rose to a record level for the first fiscal quarter
- Strong double-digit year-on-year revenue growth in Software and Services; continued strength in service booking revenue and record Premium Service sales, substantiated by improved end-to-end solution capabilities

	3 months ended June 30, 2019 (unaudited) *US$ million*	**3 months ended June 30, 2018 (unaudited)** *US$ million*	**Year-on-year change**
Revenue	12,512	11,913	5%
Gross profit	2,048	1,632	26%
Gross profit margin	16.4%	13.7%	2.7 pts
Operating expenses	(1,705)	(1,452)	18%
Operating profit	343	180	90%
Other non-operating expenses - net	(103)	(67)	52%
Profit before taxation	240	113	113%
Profit for the period	192	85	125%
Profit attributable to equity holders of the Company	162	77	111%
Earnings per share attributable to equity holders of the Company			
Basic	US 1.37 cents	US 0.65 cents	US 0.72 cents
Diluted	US 1.32 cents	US 0.65 cents	US 0.67 cents

BUSINESS REVIEW AND OUTLOOK

Highlights

During the fiscal quarter ended June 30, 2019, Lenovo (the Group) delivered robust revenue growth, leveraging its continued market share gain in the PC and Smart Device (PCSD) Business, as well as momentum in the new Intelligent Transformation initiatives including the high-margin Services and Software business. The Group's pre-tax profit more than doubled on the back of a strong contribution by the PCSD business. Not only did the PCSD business expand its industry-leading profitability year-on-year, but the Mobile Business Group (MBG) and Data Center Group (DCG) also improved their bottom lines.

The quarterly performance echoed the company's concerted efforts in driving global expansion, resulting in a much balanced geographical mix of revenue sources with notable high-performing regions including North America and Asia Pacific. Lenovo will continue its product innovation to drive long-term profit and the Group is forging a customer-centric business model to further accelerate growth opportunities.

Thanks to the successful execution of its Intelligent Transformation strategy, the Group saw a jump in its ranking by 28 spots on 2019 'FORTUNE Global 500' list, which showcases the top 500 global companies by total revenue registered in their respective fiscal years. Lenovo has featured in the Global 500 list for nine consecutive years, steadily advancing its ranking year-over-year by more than 200 spots since returning to the list in 2011.

Financial Performance

For the first three months of this fiscal year, the Group's total revenue increased 5 percent year-on-year to US$12,512 million and its pre-tax profit grew even faster from US$113 million in the same quarter of the previous fiscal year to US$240 million. Profit attributable to equity holders more than doubled to reach US$162 million in this fiscal quarter. The significant profit improvement was partly driven by a 2.7 percentage points year-on-year gross margin expansion to 16.4 percent as all three growth pillars showed consistent profit improvement. The Group's gross profit surged by 26 percent year-on-year to US$2,048 million, supported by consistent expansion across all businesses. The operating expenses rose by 18 percent year-on-year while expense-to-revenue ratio increased by 1.4 percentage points to 13.6 percent due to higher promotion and selling expenses and bonus accrual during the quarter.

Among the three business groups, the PCSD business achieved a record PC market share to further strengthen its world's number one position in the fiscal quarter and bolster its industry-leading profitability. Despite subdued demand in their respective sectors, the MBG and DCG businesses managed to enhance their profitability year-on-year.

Performance by Product Business Group

Intelligent Devices Group (IDG)

For the first fiscal quarter, the revenue of IDG, consisting of the PCSD and MBG businesses, grew 8 percent year-on-year to US$11,156 million. The key growth catalyst for IDG's top-line is the robust performance of PCSD. Through a strong focus on the ongoing commercial refresh cycle and penetration of the high-growth and premium segments, the PC business not only recorded premium to market growth but the level of growth premium reached 13.2 percentage points, its highest level in more than five years.

The combined business operations have reaped much benefit from operational synergies including the shared use of a common global supply chain and services. As a result, the pre-tax profit of IDG improved much faster than the Group's top-line by more than 60 percent year-on-year to reach US$529 million.

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

Lenovo realized a record-breaking market share of 25.1% and, according to industry data, remained as the fastest-growing PC player among the top-five OEMs in the global market during the fiscal quarter. Aligned with solid sector growth, the business reported a 12 percent year-on-year growth of quarterly revenue to US$9,631 million, representing more than 75 percent of the Group's total. The stellar market share gain was a testament to the well-orchestrated strategy to drive double-digit growth in the commercial, the premium and high-growth segments, across Workstation, Visual, Thin & Light, Gaming PC, and Chromebook categories. The Group aimed to grow at a premium to market and in this fiscal quarter, the growth premium has reached its highest level in more than five years.

Leveraging a well-executed strategy in driving product mix and a higher attach rate for services, the Group further expanded its industry-leading profitability. The pre-tax profit margin of the PCSD business increased 0.5 percentage points year-on-year to 5.4 percent in the fiscal quarter, representing the highest pre-tax profit margin attained in a first fiscal quarter. PCSD's pre-tax profit also increased 23 percent year-on-year to US$524 million.

The geographical performances are also encouraging. The strong market share gain and revenue growth were widely observed across nearly all regions. The most notable growth regions are Asia Pacific (AP) and North America (NA), both delivering high double-digit revenue growth.

Intelligent Devices Group - Mobile Business Group (MBG)

The Group's mobile business continued to improve its year-on-year profitability and remained profitable in the fiscal quarter. A key positive driver for the profit expansion is the strategic focus in the core markets in Latin and North America. The business in Latin America has further enhanced its profitability. In North America, demand for MBG's smartphones has been solid across various sales channels and is growing at a stronger momentum than the underlying market. Its premium to market growth reached 37 percent in the fiscal quarter benefiting from the successful expansion of its distribution network and success in new products. Nevertheless, the Group's continued efforts to refine its strategy in Europe to target investments only in countries with potential for profitable growth inevitably resulted in smaller operating scale and thus a decline in revenue of the MBG business during the quarter. In the fiscal quarter, this resulted in MBG delivered US$1,503 million revenue, representing a year-on-year decline of 9 percent.

The business' continued execution on a localized strategy, a streamlined portfolio, and investing in innovations including 5G technology. The MBG business' result continue to improve and its pre-tax profit expanded by US$103 million year-on-year. It is worthwhile to note that the pre-tax profit of MBG business has been on a pace of year-on-year improvement over US$100 million for four consecutive quarters. Given that its most important core markets are profitable, an increase of contribution from these core markets is likely to further boost MBG's long-term profitability.

Data Center Group (DCG)

The broader data center sector is suffering from industry-wide sluggish demand. The primary challenge is the excessive inventory build-up by selective and sizable hyperscale users after last year's aggressive growth. Another key sector challenge is the severe commodity price decline. After outperforming the sector in growth for several quarters, the DCG business was finally affected by this sector-wide demand correction and its reported revenue of US$1,356 million, equivalent to 11 percent of the Group's total revenue, saw a 17 percent year-on-year decline in this fiscal quarter.

Within DCG, Lenovo is making investments to extend its leadership position as a full-stack data center provider and the most trusted data center partner. The strategic direction and continued investment to grow high-margin storage, services and software defined infrastructure (SDI) businesses remained intact. Lenovo is also enhancing its in-house design capability to grow its hyperscale business. Sales from SDI increased at a high double-digit year-on-year growth rate in the fiscal quarter, representing the 9th consecutive quarter of growth. The storage revenue grew more than 80 percent year-on-year as customers start to recognize the value of Lenovo's expanded storage portfolio, while deferred service revenue remained strong.

A focus on profitability management has paid off for the DCG business building a sustainable and profitable business model. Losses from DCG considerably narrowed year-on-year to US$52 million in the quarter, compared to US$63 million loss in the same quarter of the previous fiscal year.

Outlook

There is a complexity of macro risks arising from ongoing trade negotiations, import tariff changes implemented by countries and challenges alongside geopolitical uncertainties. The second calendar quarter data releases have pointed to slowdowns of specific economies. The management of Lenovo will leverage its extensive experience in managing a multitude of macro risks including policy changes and exercise sound judgement in evaluating options to further strengthen its worldwide manufacturing capabilities and supply chain flexibility. The Group also strives to be the industry leader in cost competitiveness leveraging its strength in in-house manufacturing and outsourcing.

The Group targets to secure its premium-to-market revenue growth with industry-leading profitability in its PCSD business while channeling investments to build capabilities in smart devices and drive software & service revenue. Lenovo will promptly act on industry consolidation opportunities, particularly in the premium and high-growth segments. For its Mobile business, the Group plans to launch up to six new models in the coming quarter and will continue to strengthen its competitiveness in its target markets to sustain profitable growth.

Despite a pullback in the industry, the secular trend of data growth has persisted and is expected to accelerate with the debut of more products and applications featuring new technologies including 5G. Lenovo will take this opportunity to drive premium-to-market growth and to build its DCG business as a full stack industry leader through the introduction of solution capabilities and a reliable end-to-end product portfolio. Moving forward, Lenovo will continue to drive growth in software defined infrastructure, storage and networking, services and software. For hyperscale business, to build a profitable business model with strong in-house design and manufacturing capability remains a strategic priority.

Strategic Highlights

The Group strives to be the leader and the enabler of the global trend towards Intelligent Transformation. Lenovo has the vision of bringing smarter technology to all – through Smart Infrastructure, Smart Verticals and Smart IoT. This 3S (Smart Infrastructure, Smart Verticals, and Smart IoT) strategy, in parallel with its customer-centric positioning, has led to a higher software & services attach rate, especially in the PC business. During the fiscal quarter, the software & services revenue grew double-digit year-on-year making up almost six percent of total Group revenue, at a superior margin profile.

Smart Infrastructure provides the computing, storage and networking power to support smart devices, which will more than double in number in 2020 from 2017 creating an enormous amount of data. Lenovo launched its next-generation data center solutions in SDI and expects the SDI business to remain a future growth catalyst. These new solutions include collaboration with Google to deliver a validated reference design based on ThinkAgile VX for Google's Anthos on-premise cloud platform.

Smart Verticals combine big data harnessed from smart devices and the computing power of smart infrastructure in order to provide more insights and improve processes for customers. The newly formed Data Intelligence Business Group was set up to drive growth in Smart Verticals, solutions that equip customers with unparalleled insights, ones that can dramatically improve business process efficiency, facilitate decision-making, enhance financial return, and ultimately solve tangible business problems. Lenovo's big data solutions are already helping its customers make a difference in business processes in manufacturing, healthcare, and retail industries. The Group's big data service saw triple-digit revenue growth.

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

FINANCIAL REVIEW

Results for the three months ended June 30, 2019

	3 months ended June 30, 2019 (unaudited) ***US$ million***	3 months ended June 30, 2018 (unaudited) *US$ million*	Year-on-year change
Revenue	**12,512**	11,913	5%
Gross profit	**2,048**	1,632	26%
Gross profit margin	**16.4%**	13.7%	2.7 pts
Operating expenses	**(1,705)**	(1,452)	18%
Operating profit	**343**	180	90%
Other non-operating expenses – net	**(103)**	(67)	52%
Profit before taxation	**240**	113	113%
Profit for the period	**192**	85	125%
Profit attributable to equity holders of the Company	**162**	77	111%
Earnings per share attributable to equity holders of the Company			
Basic	**US 1.37 cents**	US 0.65 cents	US 0.72 cents
Diluted	**US 1.32 cents**	US 0.65 cents	US 0.67 cents

For the three months ended June 30, 2019, the Group achieved total sales of approximately US$12,512 million. Compared to the corresponding period of last year, profit attributable to equity holders for the period surged by US$85 million to approximately US$162 million. In the same reporting timeframe, gross profit margin for the period advanced by 2.7 percentage points from 13.7 percent, while basic and diluted earnings per share were US1.37 cents and US1.32 cents respectively, representing an increase of US0.72 cents and US0.67 cents.

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

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

	3 months ended June 30, 2019 ***US$'000***	3 months ended June 30, 2018 *US$'000*
Selling and distribution expenses	**(763,329)**	(654,204)
Administrative expenses	**(610,716)**	(485,179)
Research and development expenses	**(329,315)**	(309,895)
Other operating expenses – net	**(2,380)**	(2,021)
	(1,705,740)	(1,451,299)

Operating expenses for the period were 18 percent over that of the corresponding period of last year. Employee benefit costs increased by US$98 million mainly due to higher bonus and sales commission accruals and long-term incentive awards. The Group also raised advertising and promotional expenses by US$80 million, and recorded a loss on fair valuation of certain financial assets of US$9 million (2018/19: gain of US$61 million). The overall increase was partly offset by the reduction in the net exchange loss to US$13 million (2018/19: US$23 million) and the gain on disposal of subsidiaries of US$13 million.

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

Key expenses by nature comprise:

	3 months ended June 30, 2019 ***US$'000***	3 months ended June 30, 2018 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(40,131)**	(36,978)
Depreciation of right-of-use assets	**(15,461)**	-
Amortization of intangible assets	**(123,990)**	(111,404)
Employee benefit costs, including	**(964,832)**	(867,258)
- long-term incentive awards	***(58,693)***	*(46,815)*
Rental expenses under operating leases	**(3,933)**	(31,586)
Net foreign exchange loss	**(12,515)**	(23,116)
Advertising and promotional expenses	**(248,239)**	(168,239)
Loss on disposal of property, plant and equipment	**(2,475)**	(933)
Fair value (loss)/gain on financial assets at fair value through profit or loss	**(8,956)**	61,193
Gain on disposal of subsidiaries	**12,844**	-
Others	**(298,052)**	(272,978)
	(1,705,740)	(1,451,299)

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

	3 months ended June 30, 2019 ***US$'000***	3 months ended June 30, 2018 *US$'000*
Finance income	**13,872**	5,298
Finance costs	**(115,022)**	(71,848)
Share of losses of associates and joint ventures	**(1,376)**	(1,027)
	(102,526)	(67,577)

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 60 percent as compared to the corresponding period of last year. The change is a combined effect of the increase in factoring costs of US$29 million, interest on convertible bonds of US$10 million, interest on contingent considerations and written put option liabilities of US$5 million and interest on lease liabilities of US$4 million, offset by the decrease in interest on notes of US$4 million.

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

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

	3 months ended June 30, 2019		3 months ended June 30, 2018	
	Revenue from external customers	**Pre-tax income/ (loss)**	Revenue from external customers	Pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
IDG	**11,156,233**	**528,764**	10,283,852	327,848
DCG	**1,355,920**	**(51,668)**	1,628,873	(62,998)
Segment total	**12,512,153**	**477,096**	11,912,725	264,850
Unallocated:				
Headquarters and corporate (expenses)/income - net		**(131,336)**		(155,660)
Depreciation and amortization		**(34,533)**		(25,544)
Finance income		**8,406**		840
Finance costs		**(66,519)**		(32,074)
Share of losses of associates and joint ventures		**(1,376)**		(1,027)
(Loss)/gain on disposal of property, plant and equipment		**(2,657)**		218
Fair value (loss)/gain on financial assets at fair value through profit or loss		**(8,956)**		61,193
Consolidated profit before taxation		**240,125**		112,796

Headquarters and corporate (expenses)/income for the period comprise various expenses, after appropriate allocation to business groups, attributable to headquarters and corporate of US$131 million (2018/19: US$156 million) such as employee benefit costs, legal and professional fees, and research and technology expenses. The decrease is mainly due to fair value gain on bonus warrants of US$9 million during the period (2018/19: Nil), and decrease in one-time charges associated with the execution of previously announced resource actions at the corporate level. These charges include the disposal of certain inventories of US$6 million (2018/19: US$7 million) caused by product portfolio simplification, and onerous lease contracts and claims of US$3 million (2018/19: US$13 million).

Capital Expenditure

The Group incurred capital expenditure of US$260 million (2018/19: US$134 million) during the three months ended June 30, 2019, mainly for the acquisition of property, plant and equipment, prepaid lease payments, additions in construction-in-progress and intangible assets.

Liquidity and Financial Resources

At June 30, 2019, total assets of the Group amounted to US$32,412 million (March 31, 2019: US$29,988 million), which were financed by equity attributable to owners of the Company of US$3,505 million (March 31, 2019: US$3,396 million), perpetual securities of US$1,007 million (March 31, 2019: US$994 million) and negative balance of other non-controlling interests (net of put option written on non-controlling interests) of US$255 million (March 31, 2019: US$293 million), and total liabilities of US$28,155 million (March 31, 2019: US$25,891 million). At June 30, 2019, the current ratio of the Group was 0.83 (March 31, 2019: 0.82).

At June 30, 2019, bank deposits and cash and cash equivalents totaled US$2,788 million (March 31, 2019: US$2,733 million) analyzed by major currency as follows:

	June 30, 2019	March 31, 2019
	%	%
US dollar	**39.1**	41.1
Renminbi	**29.3**	32.0
Japanese Yen	**9.2**	6.8
Euro	**7.6**	5.4
Other currencies	**14.8**	14.7
Total	**100.0**	100.0

The Group adopts a conservative policy to invest the surplus cash generated from operations. At June 30, 2019, 83.0 (March 31, 2019: 78.6) percent of cash are bank deposits, and 17.0 (March 31, 2019: 21.4) percent are investments in liquid money market funds of investment grade.

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

The Group has the following banking facilities:

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

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

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

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

	Available amount at		Drawn down amount at	
Credit facilities	**June 30, 2019**	March 31, 2019	**June 30, 2019**	March 31, 2019
	US$ million	US$ million	**US$ million**	US$ million
Trade lines	**2,614**	2,195	**1,928**	1,637
Short-term and revolving money market facilities	**701**	701	**401**	56
Forward foreign exchange contracts	**10,328**	9,525	**10,328**	9,525

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

	June 30, 2019	March 31, 2019
	US$ million	US$ million
Bank deposits and cash and cash equivalents	**2,788**	2,733
Borrowings		
- Short-term bank loans	**2,188**	1,167
- Notes	**1,823**	2,622
- Convertible bonds	**595**	591
- Convertible preferred shares	**300**	-
Net debt position	**(2,118)**	(1,647)
Total equity	**4,257**	4,097
Gearing ratio (Borrowings divided by total equity)	**1.15**	1.07

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At June 30, 2019, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$10,328 million (March 31, 2019: US$9,525 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

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, 2019 (unaudited)** *US$'000*	3 months ended June 30, 2018 (unaudited) *US$'000*
Revenue	*2*	**12,512,153**	11,912,725
Cost of sales		**(10,463,762)**	(10,281,053)
Gross profit		**2,048,391**	1,631,672
Selling and distribution expenses		**(763,329)**	(654,204)
Administrative expenses		**(610,716)**	(485,179)
Research and development expenses		**(329,315)**	(309,895)
Other operating expenses - net		**(2,380)**	(2,021)
Operating profit	*3*	**342,651**	180,373
Finance income	*4(a)*	**13,872**	5,298
Finance costs	*4(b)*	**(115,022)**	(71,848)
Share of losses of associates and joint ventures		**(1,376)**	(1,027)
Profit before taxation		**240,125**	112,796
Taxation	*5*	**(48,183)**	(27,476)
Profit for the period		**191,942**	85,320
Profit attributable to:			
Equity holders of the Company		**162,227**	77,044
Perpetual securities holders		**13,440**	13,440
Other non-controlling interests		**16,275**	(5,164)
		191,942	85,320
Earnings per share attributable to equity holders of the Company			
Basic	*6(a)*	**US 1.37 cents**	US 0.65 cents
Diluted	*6(b)*	**US 1.32 cents**	US 0.65 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended June 30, 2019 (unaudited) ***US$'000***	3 months ended June 30, 2018 (unaudited) *US$'000*
Profit for the period	**191,942**	85,320
Other comprehensive income/(loss) :		
Item that will not be reclassified to profit or loss		
Remeasurements of post-employment benefit obligations, net of taxes	**380**	-
Items that have been reclassified or may be subsequently reclassified to profit or loss		
Fair value change on financial assets at fair value through other comprehensive income, net of taxes	**(3,044)**	(5,288)
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes		
- Fair value (loss)/gain, net of taxes	**(23,875)**	191,247
- Reclassified to consolidated income statement	**(18,109)**	(93,370)
Currency translation differences	**(5,883)**	(372,092)
Other comprehensive loss for the period	**(50,531)**	(279,503)
Total comprehensive income/(loss) for the period	**141,411**	(194,183)
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	**107,509**	(202,459)
Perpetual securities holders	**13,440**	13,440
Other non-controlling interests	**20,462**	(5,164)
	141,411	(194,183)

CONSOLIDATED BALANCE SHEET

	Note	**June 30, 2019 (unaudited) *US$'000***	March 31, 2019 (audited) *US$'000*
Non-current assets			
Property, plant and equipment		**1,683,516**	1,430,817
Prepaid lease payments		**450,878**	463,996
Construction-in-progress		**252,847**	232,097
Intangible assets		**8,391,478**	8,324,575
Interests in associates and joint ventures		**77,685**	79,061
Deferred income tax assets		**1,896,184**	1,862,902
Financial assets at fair value through profit or loss		**409,532**	449,363
Financial assets at fair value through other comprehensive income		**67,496**	71,486
Other non-current assets		**173,794**	187,985
		13,403,410	13,102,282
Current assets			
Inventories		**3,573,037**	3,434,660
Trade receivables	*7(a)*	**8,409,544**	6,661,484
Notes receivable		**20,324**	46,454
Derivative financial assets		**21,517**	70,972
Deposits, prepayments and other receivables	*8*	**3,992,005**	3,753,926
Income tax recoverable		**203,730**	185,643
Bank deposits		**70,581**	70,210
Cash and cash equivalents		**2,717,405**	2,662,854
		19,008,143	16,886,203
Total assets		**32,411,553**	29,988,485

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**June 30, 2019 (unaudited)** *US$'000*	March 31, 2019 (audited) *US$'000*
Share capital	*12*	**3,185,923**	3,185,923
Reserves		**319,025**	210,530
Equity attributable to owners of the Company		**3,504,948**	3,396,453
Perpetual securities		**1,007,110**	993,670
Other non-controlling interests		**510,905**	473,178
Put option written on non-controlling interests	*10(b)*	**(766,238)**	(766,238)
Total equity		**4,256,725**	4,097,063
Non-current liabilities			
Borrowings	*11*	**2,136,661**	2,426,770
Warranty provision	*9(b)*	**250,128**	254,601
Deferred revenue		**734,625**	678,137
Retirement benefit obligations		**433,463**	434,246
Deferred income tax liabilities		**363,360**	359,679
Other non-current liabilities	*10*	**1,391,522**	1,247,646
		5,309,759	5,401,079
Current liabilities			
Trade payables	*7(b)*	**6,736,722**	6,429,835
Notes payable		**1,325,662**	1,272,840
Derivative financial liabilities		**70,264**	74,426
Other payables and accruals	*9(a)*	**10,221,254**	8,942,336
Provisions	*9(b)*	**735,094**	738,688
Deferred revenue		**775,510**	780,951
Income tax payable		**211,351**	298,224
Borrowings	*11*	**2,769,212**	1,953,043
		22,845,069	20,490,343
Total liabilities		**28,154,828**	25,891,422
Total equity and liabilities		**32,411,553**	29,988,485

CONSOLIDATED CASH FLOW STATEMENT

	Note	**3 months ended June 30, 2019 (unaudited) *US$'000***	3 months ended June 30, 2018 (unaudited) *US$'000*
Cash flows from operating activities			
Net cash generated from operations	*14*	**117,986**	490,632
Interest paid		**(115,471)**	(73,838)
Tax paid		**(144,065)**	(80,823)
Net cash (used in)/generated from operating activities		**(141,550)**	335,971
Cash flows from investing activities			
Purchase of property, plant and equipment		**(31,164)**	(37,228)
Sale of property, plant and equipment		**2,397**	106
Acquisition of subsidiaries, net of cash acquired		**-**	(105,743)
Disposal of subsidiaries, net of cash disposed		**(18,155)**	-
Payment for construction-in-progress		**(96,872)**	(57,041)
Payment for intangible assets		**(131,855)**	(39,807)
Purchase of financial assets at fair value through profit or loss		**(5,138)**	(4,517)
Purchase of financial assets at fair value through other comprehensive income		**-**	(274)
Loan to a joint venture		**(72,603)**	-
Net proceeds from sale of financial assets at fair value through profit or loss		**36,519**	33,230
(Increase)/decrease in bank deposits		**(371)**	8,450
Dividends received		**-**	118
Interest received		**13,872**	5,298
Net cash used in investing activities		**(303,370)**	(197,408)
Cash flows from financing activities			
Capital contribution from other non-controlling interests		**17,638**	1,948
Contribution to employee share trusts		**(13,555)**	(10,347)
Issue of convertible preferred shares		**300,000**	-
Repayments of notes		**(786,244)**	-
Principal elements of lease payments		**(25,571)**	-
Proceeds from borrowings		**1,620,000**	2,445,000
Repayments of borrowings		**(600,000)**	(1,745,000)
Net cash generated from financing activities		**512,268**	691,601
Increase in cash and cash equivalents		**67,348**	830,164
Effect of foreign exchange rate changes		**(12,797)**	(65,033)
Cash and cash equivalents at the beginning of the period		**2,662,854**	1,848,017
Cash and cash equivalents at the end of the period		**2,717,405**	2,613,148

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											
	Share capital (unaudited) *US$'000*	Investment revaluation reserve (unaudited) *US$'000*	Employee share trusts (unaudited) *US$'000*	Share-based compensation reserve (unaudited) *US$'000*	Hedging reserve (unaudited) *US$'000*	Exchange reserve (unaudited) *US$'000*	Other reserve (unaudited) *US$'000*	Retained earnings (unaudited) *US$'000*	Perpetual securities (unaudited) *US$'000*	Other non-controlling interests (unaudited) *US$'000*	Put option written on non-controlling interests (unaudited) *US$'000*	Total (unaudited) *US$'000*
At April 1, 2019	**3,185,923**	**(36,095)**	**(140,209)**	**311,540**	**23,240**	**(1,371,932)**	**163,241**	**1,260,745**	**993,670**	**473,178**	**(766,238)**	**4,097,063**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**162,227**	**13,440**	**16,275**	**–**	**191,942**
Other comprehensive (loss)/income	**–**	**(3,044)**	**–**	**–**	**(41,984)**	**(10,070)**	**–**	**380**	**–**	**4,187**	**–**	**(50,531)**
Total comprehensive (loss)/income for the period	**–**	**(3,044)**	**–**	**–**	**(41,984)**	**(10,070)**	**–**	**162,607**	**13,440**	**20,462**	**–**	**141,411**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**–**	**189**	**(189)**	**–**	**–**	**–**	**–**
Vesting of shares under long-term incentive program	**–**	**–**	**133,483**	**(176,185)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(42,702)**
Deferred tax charge in relation to long-term incentive program	**–**	**–**	**–**	**(1,556)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,556)**
Disposal of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**(267)**	**–**	**–**	**–**	**–**	**(267)**
Share-based compensation	**–**	**–**	**–**	**58,693**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**58,693**
Contribution to employee share trusts	**–**	**–**	**(13,555)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(13,555)**
Capital contribution from other non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**17,638**	**–**	**17,638**
Change of ownership of subsidiaries without loss of control	**–**	**–**	**–**	**–**	**–**	**–**	**373**	**–**	**–**	**(373)**	**–**	**–**
At June 30, 2019	**3,185,923**	**(39,139)**	**(20,281)**	**192,492**	**(18,744)**	**(1,382,002)**	**163,536**	**1,423,163**	**1,007,110**	**510,905**	**(766,238)**	**4,256,725**
At April 1, 2018	3,185,923	(2,741)	(101,702)	231,857	(16,906)	(937,907)	71,449	1,088,647	993,670	246,598	(212,900)	4,545,988
Change in accounting policy	–	(17,376)	–	–	–	–	–	5,746	–	–	–	(11,630)
Restated total equity	3,185,923	(20,117)	(101,702)	231,857	(16,906)	(937,907)	71,449	1,094,393	993,670	246,598	(212,900)	4,534,358
Profit/(loss) for the period	–	–	–	–	–	–	–	77,044	13,440	(5,164)	–	85,320
Other comprehensive (loss)/income	–	(5,288)	–	–	97,877	(372,092)	–	–	–	–	–	(279,503)
Total comprehensive (loss)/income for the period	–	(5,288)	–	–	97,877	(372,092)	–	77,044	13,440	(5,164)	–	(194,183)
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	118,571	–	118,571
Put option written on non-controlling interests	–	–	–	–	–	–	–	–	–	–	(151,103)	(151,103)
Vesting of shares under long-term incentive program	–	–	82,319	(90,260)	–	–	–	–	–	–	–	(7,941)
Share-based compensation	–	–	–	46,815	–	–	–	–	–	–	–	46,815
Contribution to employee share trusts	–	–	(10,347)	–	–	–	–	–	–	–	–	(10,347)
Capital contribution from other non-controlling interests	–	–	–	–	–	–	–	–	–	1,948	–	1,948
At June 30, 2018	3,185,923	(25,405)	(29,730)	188,412	80,971	(1,309,999)	71,449	1,171,437	1,007,110	361,953	(364,003)	4,338,118

Notes

1 General information and basis of preparation

The financial information relating to the year ended March 31, 2019 included in the FY2019/20 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, 2019 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 Group has adopted the following new standard, interpretation and amendments to existing standards that are mandatory for the year ending March 31, 2020 which the Group considers is appropriate and relevant to its operations:

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

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

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

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

Adjustments recognized on adoption of HKFRS 16

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

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

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

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated balance sheet as at March 31, 2019. As at June 30, 2019, the recognized right-of-use assets of the Group are solely related to properties and amounted to US$299,605,000 (April 1, 2019: US$320,174,000).

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

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

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

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

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

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

<u>The Group's leasing activities and how these are accounted for</u>

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

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

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

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

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

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

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

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

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

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

New amendments to existing standards not yet effective

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

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

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

2 Segment information

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

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

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

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

	3 months ended June 30, 2019		3 months ended June 30, 2018	
	Revenue from external customers	**Pre-tax income/ (loss)**	Revenue from external customers	Pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
IDG	**11,156,233**	**528,764**	10,283,852	327,848
DCG	**1,355,920**	**(51,668)**	1,628,873	(62,998)
Segment total	**12,512,153**	**477,096**	11,912,725	264,850
Unallocated:				
Headquarters and corporate (expenses)/income - net		**(131,336)**		(155,660)
Depreciation and amortization		**(34,533)**		(25,544)
Finance income		**8,406**		840
Finance costs		**(66,519)**		(32,074)
Share of losses of associates and joint ventures		**(1,376)**		(1,027)
(Loss)/gain on disposal of property, plant and equipment		**(2,657)**		218
Fair value (loss)/gain on financial assets at fair value through profit or loss		**(8,956)**		61,193
Consolidated profit before taxation		**240,125**		112,796

(b) Segment assets for reportable segments

	June 30, 2019	March 31, 2019
	US$'000	*US$'000*
IDG	**21,736,529**	19,797,625
DCG	**4,494,340**	4,094,194
Segment assets for reportable segments	**26,230,869**	23,891,819
Unallocated:		
Deferred income tax assets	**1,896,184**	1,862,902
Financial assets at fair value through profit or loss	**409,532**	449,363
Financial assets at fair value through other comprehensive income	**67,496**	71,486
Derivative financial assets	**21,517**	70,972
Interests in associates and joint ventures	**77,685**	79,061
Bank deposits and cash and cash equivalents	**2,787,986**	2,733,064
Unallocated deposits, prepayments and other receivables	**284,210**	166,874
Income tax recoverable	**203,730**	185,643
Other unallocated assets	**432,344**	477,301
Total assets per consolidated balance sheet	**32,411,553**	29,988,485

(c) Segment liabilities for reportable segments

	June 30, 2019	March 31, 2019
	US$'000	*US$'000*
IDG	**20,643,480**	19,045,230
DCG	**1,459,202**	1,456,268
Segment liabilities for reportable segments	**22,102,682**	20,501,498
Unallocated:		
Deferred income tax liabilities	**363,360**	359,679
Derivative financial liabilities	**70,264**	74,426
Borrowings	**4,905,873**	4,379,813
Unallocated other payables and accruals	**468,420**	246,467
Unallocated provisions	**1,336**	1,336
Unallocated other non-current liabilities	**31,542**	29,979
Income tax payable	**211,351**	298,224
Total liabilities per consolidated balance sheet	**28,154,828**	25,891,422

(d) Analysis of revenue by geography

	3 months ended June 30, 2019	3 months ended June 30, 2018
	US$'000	*US$'000*
China	**2,518,394**	2,957,702
AP	**2,795,827**	2,214,022
EMEA	**2,817,338**	2,764,511
AG	**4,380,594**	3,976,490
	12,512,153	11,912,725

(e) Analysis of revenue by timing of revenue recognition

	3 months ended June 30, 2019	3 months ended June 30, 2018
	US$'000	*US$'000*
Point in time	**12,233,119**	11,673,667
Over time	**279,034**	239,058
	12,512,153	11,912,725

(f) Other segment information

	IDG		**DCG**		**Total**	
	2019	2018	**2019**	2018	**2019**	2018
	US$'000	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*
For the three months ended June 30						
Depreciation and amortization	**127,189**	111,098	**57,570**	51,310	**184,759**	162,408
Finance income	**4,947**	4,403	**519**	55	**5,466**	4,458
Finance costs	**43,984**	36,220	**4,519**	3,554	**48,503**	39,774
Additions to non-current assets (Note)	**133,141**	368,057	**140,721**	22,919	**273,862**	390,976

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

(g) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$6,220 million (March 31, 2019: US$6,211 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At June 30, 2019

	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	**1,030**	**696**	**224**	**321**	**-**	**-**	**2,271**
- MBG	**-**	**-**	**-**	**-**	**683**	**911**	**1,594**
- DCG	**482**	**161**	**90**	**352**	**-**	**-**	**1,085**
Trademarks and trade names							
- PCSD	**209**	**59**	**105**	**67**	**-**	**-**	**440**
- MBG	**-**	**-**	**-**	**-**	**197**	**263**	**460**
- DCG	**162**	**54**	**31**	**123**	**-**	**-**	**370**

At March 31, 2019

	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	1,051	679	221	320	-	-	2,271
- MBG	-	-	-	-	679	905	1,584
- DCG	490	158	88	351	-	-	1,087
Trademarks and trade names							
- PCSD	209	59	104	67	-	-	439
- MBG	-	-	-	-	197	263	460
- DCG	162	54	31	123	-	-	370

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

3 Operating profit

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

	3 months ended June 30, 2019	3 months ended June 30, 2018
	US$'000	*US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**68,942**	65,760
Depreciation of right-of-use assets	**23,585**	-
Amortization of intangible assets	**126,765**	122,192
Employee benefit costs, including	**1,102,594**	1,000,640
- long-term incentive awards	***58,693***	*46,815*
Rental expenses under operating leases	**6,216**	35,976
Loss on disposal of property, plant and equipment	**2,475**	933
Loss on disposal of intangible assets	**1,789**	-
Fair value loss/(gain) on financial assets at fair value through profit or loss	**8,956**	(61,193)
Gain on disposal of subsidiaries	**(12,844)**	-

4 Finance income and costs

(a) Finance income

	3 months ended June 30, 2019	3 months ended June 30, 2018
	US$'000	*US$'000*
Interest on bank deposits	**10,337**	5,086
Interest on money market funds	**3,535**	212
	13,872	5,298

(b) Finance costs

	3 months ended June 30, 2019	3 months ended June 30, 2018
	US$'000	*US$'000*
Interest on bank loans and overdrafts	**23,802**	23,736
Interest on convertible bonds	**9,826**	-
Interest on notes	**25,681**	30,139
Interest on lease liabilities	**4,104**	-
Factoring costs	**44,345**	15,666
Interest on contingent considerations and written put option liabilities	**6,656**	1,668
Others	**608**	639
	115,022	71,848

5 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended June 30, 2019 ***US$'000***	3 months ended June 30, 2018 *US$'000*
Current tax		
Hong Kong profits tax	**7,686**	6,726
Taxation outside Hong Kong	**63,877**	76,190
Deferred tax		
Credit for the period	**(23,380)**	(55,440)
	48,183	27,476

Hong Kong profits tax has been provided for at the rate of 16.5% (2018/19: 16.5%) on the estimated assessable profit for the period. Taxation outside Hong Kong 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 the employee share trusts for the purposes of awarding shares to eligible employees under the long term incentive program.

	3 months ended June 30, 2019	3 months ended June 30, 2018
Weighted average number of ordinary shares in issue	**12,014,791,614**	12,014,791,614
Adjustment for shares held by employee share trusts	**(194,047,775)**	(160,130,614)
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**11,820,743,839**	11,854,661,000
	US$'000	*US$'000*
Profit attributable to equity holders of the Company	**162,227**	77,044

(b) Diluted

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

	3 months ended June 30, 2019	3 months ended June 30, 2018
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**11,820,743,839**	11,854,661,000
Adjustment for long-term incentive awards	**430,488,378**	40,827
Adjustment for bonus warrants	**17,548,011**	-
Adjustment for convertible bonds	**662,539,112**	-
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**12,931,319,340**	11,854,701,827
	US$'000	US$'000
Profit attributable to equity holders of the Company used to determine basic earnings per share	**162,227**	77,044
Adjustment for interest on convertible bonds, net of tax	**8,205**	-
Profit attributable to equity holders of the Company used to determine diluted earnings per share	**170,432**	77,044

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

7 Ageing analysis

(a) Customers are generally granted credit terms 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, 2019 ***US$'000***	March 31, 2019 *US$'000*
0 – 30 days	**5,728,203**	4,560,771
31 – 60 days	**1,651,414**	1,332,471
61 – 90 days	**546,109**	430,207
Over 90 days	**588,553**	438,377
	8,514,279	6,761,826
Less: loss allowance	**(104,735)**	(100,342)
Trade receivables – net	**8,409,544**	6,661,484

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

	June 30, 2019	March 31, 2019
	US$'000	*US$'000*
0 – 30 days	**4,436,608**	4,279,000
31 – 60 days	**1,326,226**	1,046,525
61 – 90 days	**640,478**	757,718
Over 90 days	**333,410**	346,592
	6,736,722	6,429,835

8 Deposits, prepayments and other receivables

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

	June 30, 2019	March 31, 2019
	US$'000	*US$'000*
Deposits	**14,919**	14,632
Other receivables	**2,841,204**	2,587,439
Prepayments	**1,135,882**	1,151,855
	3,992,005	3,753,926

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

9 Provisions, other payables and accruals

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

	June 30, 2019	March 31, 2019
	US$'000	*US$'000*
Accruals	**1,742,215**	1,969,914
Allowance for billing adjustments (i)	**1,707,205**	1,650,226
Contingent consideration (Note 10(a))	**117,009**	-
Other payables (ii)	**6,654,825**	5,322,196
	10,221,254	8,942,336

Notes:

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

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

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

(b) The components of provisions are as follows:

	Warranty *US$'000*	Environmental restoration *US$'000*	Restructuring *US$'000*	Total *US$'000*
Year ended March 31, 2019				
At the beginning of the year	1,081,218	8,919	54,053	1,144,190
Exchange adjustment	(37,163)	(274)	(1,991)	(39,428)
Provisions made	807,636	14,545	-	822,181
Amounts utilized	(875,413)	(14,403)	(36,576)	(926,392)
Acquisition of subsidiaries	-	24,510	-	24,510
	976,278	33,297	15,486	1,025,061
Long-term portion classified as non-current liabilities	(254,601)	(31,772)	-	(286,373)
At the end of the year	721,677	1,525	15,486	738,688
Three months ended June 30, 2019				
At the beginning of the period	**976,278**	**33,297**	**15,486**	**1,025,061**
Exchange adjustment	**(384)**	**912**	**23**	**551**
Provisions made	**187,137**	**5,363**	**-**	**192,500**
Amounts utilized	**(195,382)**	**(4,318)**	**(485)**	**(200,185)**
	967,649	**35,254**	**15,024**	**1,017,927**
Long-term portion classified as non-current liabilities	**(250,128)**	**(32,705)**	**-**	**(282,833)**
At the end of the period	**717,521**	**2,549**	**15,024**	**735,094**

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

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

Restructuring costs provision mainly comprises lease termination obligations and employee termination payments, arising from a series of restructuring actions to reduce costs and enhance operational efficiency. The Group records its restructuring costs provision when it has a present legal or constructive obligation as a result of restructuring actions.

10 Other non-current liabilities

Details of other non-current liabilities are as follows:

	June 30, 2019	March 31, 2019
	US$'000	*US$'000*
Contingent consideration (a)	**-**	113,283
Deferred consideration (a)	**25,072**	25,072
Written put option liabilities (b)	**797,386**	783,505
Lease liabilities	**326,182**	-
Environmental restoration (Note 9(b))	**32,705**	31,772
Government incentives and grants received in advance (c)	**47,759**	50,087
Deferred rent liabilities	**-**	83,977
Others	**162,418**	159,950
	1,391,522	1,247,646

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

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

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

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

(ii) During the year ended March 31, 2019, Hefei Zhi Ju Sheng Bao Equity Investment Co., Ltd ("ZJSB") acquired the 49% interest in a joint venture company ("JV Co") from Compal Electronics, Inc. The Company and ZJSB respectively own 51% and 49% of the interest in the JV Co. Pursuant to the option agreement entered into between a wholly owned subsidiary of the Group and Hefei Yuan Jia Start-up Investment LLP ("Yuan Jia"), which holds 99.31% interest in ZJSB, the Group and Yuan Jia are respectively granted call and put options which entitle the Group to purchase from Yuan Jia, or Yuan Jia to sell to the Group, the 99.31% interest in ZJSB. The call and put options will be exercisable at any time after August 31, 2022 and August 31, 2021 respectively. The exercise price for the call and put options will be determined in accordance with the joint venture agreement, and up to a maximum of RMB2,300 million (approximately US$335 million).

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

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

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

11 Borrowings

	June 30, 2019	March 31, 2019
	US$'000	*US$'000*
Current liabilities		
Short-term loans (i)	**2,187,823**	1,166,907
Note (ii)	**581,389**	786,136
	2,769,212	1,953,043
Non-current liabilities		
Notes (ii)	**1,242,055**	1,836,264
Convertible bonds (iii)	**594,606**	590,506
Convertible preferred shares (iv)	**300,000**	-
	2,136,661	2,426,770
	4,905,873	4,379,813

(i) The majority of the short-term bank loans are denominated in United States dollars. As at June 30, 2019, the Group has total revolving and short-term loan facilities of US$2,501 million (March 31, 2019: US$2,501 million) which has been utilized to the extent of US$2,201 million (March 31, 2019: US$1,181 million).

(ii)

Issue date	Principal amount	Term	Interest rate per annum	Due date	June 30, 2019 US$'000	March 31, 2019 US$'000
May 8, 2014	US$786 million	5 years	4.7%	May 2019	-	786,136
June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	**581,389**	594,747
March 16, 2017	US$500 million	5 years	3.875%	March 2022	**497,595**	497,391
March 29, 2018	US$750 million	5 years	4.75%	March 2023	**744,460**	744,126
					1,823,444	2,622,400

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

The outstanding principal amount of the Bonds is repayable by the Company upon the maturity of the Bonds on January 24, 2024, if not previously redeemed, converted or purchased and cancelled. The proceeds would be used to repay previous notes and for general corporate purposes. Assuming full conversion of the Bonds at the initial conversion price of HK$7.99 per share, the Bonds will be convertible into 662,539,112 shares. 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.

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

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

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

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

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

	June 30, 2019	March 31, 2019
	US$'000	*US$'000*
Within 1 year	**2,769,212**	1,953,043
Over 1 to 3 years	**497,595**	1,092,138
Over 3 to 5 years	**1,639,066**	1,334,632
	4,905,873	4,379,813

12 Share capital

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

13 Perpetual securities

In March 2017, the Group issued a total of US$850 million perpetual securities through its wholly owned subsidiary, Lenovo Perpetual Securities Limited ("the issuer"). The net proceeds amounted to approximately US$842 million. The securities are perpetual, non-callable in the first 5 years and entitle the holders to receive distributions at a distribution rate of 5.375% per annum in the first 5 years, floating thereafter and with a fixed step up margin, payable semi-annually in arrears, cumulative and compounding. As the perpetual securities do not contain any contractual obligation to pay cash or other financial assets pursuant to the terms and conditions of the issue; in accordance with HKAS 32, they are classified as equity and for accounting purpose regarded as part of non-controlling interests.

In April 2017, the Group issued an additional US$150 million perpetual securities under the same terms, which are fungible with and form a single series with the aforementioned US$850 million perpetual securities.

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

	3 months ended June 30, 2019 *US$'000*	3 months ended June 30, 2018 *US$'000*
Profit before taxation	**240,125**	112,796
Share of losses of associates and joint ventures	**1,376**	1,027
Finance income	**(13,872)**	(5,298)
Finance costs	**115,022**	71,848
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**68,942**	65,760
Depreciation of right-of-use assets	**23,585**	-
Amortization of intangible assets	**126,765**	122,192
Share-based compensation	**58,693**	46,815
Loss on disposal of property, plant and equipment	**2,475**	933
Loss on disposal of intangible assets	**1,789**	-
Gain on disposal of subsidiaries	**(12,844)**	-
Fair value change on bonus warrants	**(9,342)**	(122)
Fair value change on financial instruments	**12,651**	(52,434)
Fair value change on financial assets at fair value through profit or loss	**8,956**	(61,193)
Dividend income	**-**	(118)
Increase in inventories	**(152,254)**	(193,733)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(1,876,877)**	(1,137,491)
Increase in trade payables, notes payable, provisions, other payables and accruals	**1,479,052**	1,409,761
Effect of foreign exchange rate changes	**43,744**	109,889
Net cash generated from operations	**117,986**	490,632

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, 2019** *US$'000*	March 31, 2019 *US$'000*
Short-term loans – current	**2,187,823**	1,166,907
Note – current	**581,389**	786,136
Notes – non-current	**1,242,055**	1,836,264
Convertible bonds – non-current	**594,606**	590,506
Convertible preferred shares – non-current	**300,000**	-
Lease liabilities – current	**66,666**	-
Lease liabilities – non-current	**326,182**	-
Financing liabilities	**5,298,721**	4,379,813
Short-term loans – variable interest rates	**2,187,823**	1,166,907
Notes – fixed interest rates	**1,823,444**	2,622,400
Convertible bonds – fixed interest rates	**594,606**	590,506
Convertible preferred shares – fair value	**300,000**	-
Lease liabilities – fixed interest rates	**392,848**	-
Financing liabilities	**5,298,721**	4,379,813

	Short-term loans current US$'000	Note current US$'000	Notes non-current US$'000	Convertible bonds non-current US$'000	Convertible preferred shares non-current US$'000	Lease liabilities current US$'000	Lease liabilities non-current US$'000	Total US$'000
Financing liabilities as at April 1, 2018	1,166,692	-	2,648,725	-	-	-	-	3,815,417
Proceeds from borrowings	5,700,215	-	-	-	-	-	-	5,700,215
Repayments of borrowings	(5,700,000)	-	-	-	-	-	-	(5,700,000)
Transfer	-	774,341	(774,341)	-	-	-	-	-
Issue of convertible bonds	-	-	-	675,000	-	-	-	675,000
Issuing cost of convertible bonds	-	-	-	(10,107)	-	-	-	(10,107)
Foreign exchange adjustments	-	-	(41,014)	-	-	-	-	(41,014)
Other non-cash movements	-	11,795	2,894	(74,387)	-	-	-	(59,698)
Financing liabilities as at March 31, 2019	1,166,907	786,136	1,836,264	590,506	-	-	-	4,379,813
Financing liabilities as at April 1, 2019	**1,166,907**	**786,136**	**1,836,264**	**590,506**	**-**	**-**	**-**	**4,379,813**
Change in accounting policy	**-**	**-**	**-**	**-**	**-**	**77,903**	**331,441**	**409,344**
Proceeds from borrowings	**1,620,000**	**-**	**-**	**-**	**-**	**-**	**-**	**1,620,000**
Repayments of borrowings	**(600,000)**	**(786,244)**	**-**	**-**	**-**	**-**	**-**	**(1,386,244)**
Transfer	**-**	**581,389**	**(581,389)**	**-**	**-**	**-**	**-**	**-**
Issue of convertible preferred shares	**-**	**-**	**-**	**-**	**300,000**	**-**	**-**	**300,000**
Principal elements of lease payments	**-**	**-**	**-**	**-**	**-**	**(25,571)**	**-**	**(25,571)**
Foreign exchange adjustments	**-**	**-**	**(13,548)**	**-**	**-**	**-**	**-**	**(13,548)**
Other non-cash movements	**916**	**108**	**728**	**4,100**	**-**	**14,334**	**(5,259)**	**14,927**
Financing liabilities as at June 30, 2019	**2,187,823**	**581,389**	**1,242,055**	**594,606**	**300,000**	**66,666**	**326,182**	**5,298,721**

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

During the three months ended June 30, 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the respective trustee of the long-term incentive program and the employee share purchase plan of the Company purchased a total of 14,651,551 shares from the market for award to employees upon vesting. Details of these program and plan are set out in the 2018/19 annual report of the Company.

REVIEW BY AUDIT COMMITTEE

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

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the three months ended June 30, 2019, in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the 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 will chair the Nomination and Governance Committee meeting and/or the Board meeting when 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 will 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 14, 2019

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