OFFERING CIRCULAR

Lenovo

(incorporated in Hong Kong with limited liability)

(SEHK Stock Code: 0992)

U.S.$3,000,000,000
Medium Term Note Programme

Under the U.S.$3,000,000,000 Medium Term Note Programme described in this Offering Circular (the "**Programme**"), Lenovo Group Limited (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time issue medium term notes (the "**Notes**").

The Notes may be issued in bearer or registered form. The aggregate nominal amount of the Notes outstanding will not at any time exceed U.S.$3,000,000,000 (or its equivalent in other currencies, subject to any duly authorized increase). The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Summary of the Programme*" or any additional Dealer appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Offering Circular to the "**relevant Dealer**" shall, in the case of an issue of the Notes being (or intended to be) subscribed for by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Where applicable for a relevant Tranche (as defined under "*Terms and Conditions of the Notes*", collectively, the "**Terms and Conditions**", and each term therein, a "**Condition**") of Notes, registration will be completed by the Issuer pursuant to the Circular on Promoting the Reform of the Administrative System on the Filings and Registrations of Foreign Debt Issuance by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) (the "**NDRC Circular**") issued by the National Development and Reform Commission of the PRC (as defined below) (the "**NDRC**") on September 14, 2015 which came into effect on the same day, as set forth in the relevant Pricing Supplement. After the issuance of such relevant Tranche of Notes, the Issuer intends to provide the requisite information on the issuance of such Notes to the NDRC as soon as practicable but in any event within the time period prescribed by the NDRC Circular.

Application has been made by the Issuer to The Stock Exchange of Hong Kong Limited ("**SEHK**") for the listing of the Programme by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "**Professional Investors**") only during the 12-month period from the date of this document on the SEHK. This document is for distribution to Professional Investors only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on SEHK is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

Notice of the aggregate nominal amount of the Notes, interest (if any) payable in respect of the Notes, the issue price of the Notes and any other terms and conditions not contained herein which are applicable to each Series (as defined in the Conditions) of the Notes will be set out in a pricing supplement (the "**Pricing Supplement**") which, with respect to Notes to be listed on the SEHK, will be delivered to the SEHK, on or before the date of issue of the Notes of such Series. This Offering Circular may not be used to consummate sales of the Notes, unless accompanied by a Pricing Supplement. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed or not, and if listed, which stock exchange.

The Notes of each Series to be issued in bearer form ("**Bearer Notes**") will be represented on issue by a temporary global note (each a "**Temporary Global Note**") or a permanent global note (each a "**Permanent Global Note**"), and will be sold in an "offshore transaction" within the meaning of Regulation S ("**Regulation S**") under the United States Securities Act of 1933, as amended (the "**Securities Act**"). Interests in Temporary Global Notes generally will be exchangeable for interests in Permanent Global Notes and, together with the Temporary Global Notes, (the "**Global Notes**"), or if so stated in the relevant Pricing Supplement, definitive Notes ("**Definitive Notes**"), after the date falling 40 days after the later of the commencement of the offering and the relevant issue date of such Series, upon certification as to non-U.S. beneficial ownership. Interests in Permanent Global Notes will be exchangeable for Definitive Notes in whole but not in part in accordance with its terms.

The Notes in each Series to be issued in registered form ("**Registered Notes**") will be represented by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each Noteholder's entire holding of Notes in registered form of one Series. Certificates representing Registered Notes that are registered in the name of, or in the name of a nominee for, one or more clearing systems are referred to as global certificates ("**Global Note Certificates**").

Global Notes and Global Note Certificates may be deposited on the relevant Issue Date with a common depositary on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), or with a sub-custodian for the Central Moneymarkets Unit Service (the "**CMU Service**") operated by the Hong Kong Monetary Authority ("**HKMA**"), and in the case of a Series intended to be cleared through a clearing system other than, or in addition to, Euroclear and/or Clearstream, Luxembourg and/or the CMU Service, or delivered outside a clearing system, as agreed between the Issuer and the relevant Dealer. The provisions governing the exchange of interests in a Global Note for other Global Notes or Definitive Notes or a Global Note Certificate for Individual Note Certificates are described in "*Summary of Provisions Relating to the Notes while in Global Form*".

The Notes have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. federal income tax law requirements. The Notes may not be offered, sold, or, in the case of Bearer Notes, delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Any Series of Notes may be subject to additional selling restrictions. The relevant Pricing Supplement in respect of such Series of Notes will specify any such restrictions. See "*Subscription and Sale*" and the relevant Pricing Supplement. Registered Notes are subject to certain restrictions on transfer as described in "***Subscription and Sale.***"

MiFID II product governance/target market – The Pricing Supplement in respect of any Notes will include a legend entitled "MiFID II Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to Directive 2014/65/EU (as amended, "**MiFID II**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

A determination will be made in relation to each issue about whether, for the purpose of the MiFID Product Governance rules under EU Delegated Directive 2017/593 (the "**MiFID Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MiFID Product Governance Rules.

PRIIPs REGULATION – PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, "**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "PRIIPs Regulation") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.

SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE) NOTIFICATION – Unless otherwise stated in the Pricing Supplement in respect of any Notes, all Notes issued or to be issued under the Programme are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

Notes issued under the Programme may be rated or unrated. Where a Tranche of Notes is to be rated, such rating will not necessarily be the same as the ratings assigned to the Programme. Where an issue of Notes is rated, its rating will not necessarily be the same as the rating applicable to the Programme. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating agency.

Investing in Notes issued under the Programme involves certain risks and may not be suitable for all investors. Investors should have sufficient knowledge and experience in financial and business matters to evaluate the information contained in this Offering Circular and in the relevant Pricing Supplement and the merits and risks of investing in a particular issue of Notes in the context of their financial position and particular circumstances. Investors also should have the financial capacity to bear the risks associated with an investment in the Notes. Investors should not purchase any Notes unless they understand and are able to bear risks associated with such Notes. See "*Risk Factors*" beginning on page 11 for a discussion of factors that investors should consider carefully before investing in the Notes.

This Offering Circular includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this Offering Circular and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

Arranger

Citigroup

Dealers

BNP PARIBAS **Citigroup** **DBS Bank Ltd.**

The date of this Offering Circular is March 8, 2020

IMPORTANT NOTICE

The Company, having made all reasonable enquiries, confirms that this Offering Circular contains or incorporates all information material in the context of the issuance and offering of the Notes, that the information contained or incorporated in this Offering Circular is true and accurate in all material respects and is not misleading in any material respect, that the opinions and intentions expressed in this Offering Circular are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, and that there are no other facts, the omission of which would, in the context of the issue and offering of the Notes, make this Offering Circular as a whole or any information or the expression of any opinions or intentions expressed in this Offering Circular misleading in any material respect.

Each Series of Notes will be issued on the terms set out herein under "*Terms and Conditions of the Notes*" as amended and/or supplemented by the Pricing Supplement specific to such Series. This Offering Circular must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Series of the Notes, must be read and construed together with the relevant Pricing Supplement. This Offering Circular is to be read in conjunction with all documents, that are deemed to be incorporated herein by reference (see "*Information Incorporated by Reference*"). This Offering Circular shall be read and construed on the basis that such documents are incorporated and form part of this Offering Circular.

The distribution of this Offering Circular and any Pricing Supplement and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer and Citigroup Global Markets Limited (the "**Arranger**") and the Dealers to inform themselves about and to observe any such restrictions. None of the Issuer, the Arranger or the Dealers represents that this Offering Circular or any Pricing Supplement may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Arranger, the Dealers, the Trustee or the Agents which would permit a public offering of any Notes or distribution of this Offering Circular or any Pricing Supplement in any jurisdiction where action for such purposes is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and none of this Offering Circular, any Pricing Supplement or any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

There are restrictions on the offer and sale of the Notes and the circulation of documents relating thereto, in certain jurisdictions including, but not limited to the United States of America, the European Economic Area, the United Kingdom, the PRC, Hong Kong, Japan and Singapore, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Notes and the distribution of this Offering Circular, see "*Subscription and Sale*". This Offering Circular does not constitute an offer of, or an invitation to purchase, any of the Notes in any jurisdiction in which such offer or invitation would be unlawful. By purchasing any Notes, investors represent and agree to all of those provisions contained in that section of this Offering Circular.

The Notes may only be offered, sold or delivered outside the United States in offshore transactions in accordance with Regulation S under the Securities Act. Any Series of the Notes may be subject to additional selling restrictions. Any additional restrictions on the sale or transfer of any Series of the Notes will be specified in the relevant Pricing Supplement for such Notes.

No person has been or is authorized in connection with the issue, offer, sale or distribution of the Notes to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other document entered into in relation to the Programme and the sale of the Notes and, if given or made, such information or representation should not be relied upon as having been authorized by the Issuer, the Arranger, any Dealer, the Trustee or any Agent or any of their respective affiliates, directors, officers, employees, agents or advisers.

Neither the delivery of this Offering Circular or any Pricing Supplement nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or the date upon which this Offering Circular has been most recently amended or supplemented or that there has been no change, or any event reasonably likely to involve any change, in the prospects or financial or trading position of the Issuer or the Group since the date thereof or, if later, the date upon which this Offering Circular has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

Neither this Offering Circular nor any Pricing Supplement constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by the Issuer, the Arranger, the Dealers, the Trustee, the Agents or any affiliate, director, officer, employee, agent or adviser of any such person or any of them that any recipient of this Offering Circular or any Pricing Supplement should subscribe for or purchase any Notes. Each recipient of this Offering Circular or any Pricing Supplement shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Issuer.

The maximum aggregate principal amount of the Notes outstanding at any one time under the Programme will not exceed U.S.$3,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into United States dollars at the date of the agreement to issue such Notes calculated in accordance with the provisions of the Dealer Agreement), **provided that**, the maximum aggregate principal amount of the Notes, which may be outstanding at any one time under the Programme, may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "*Subscription and Sale*".

No representation or warranty, express or implied, is made or given by the Arranger, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents or advisers as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, any Pricing Supplement or any other information supplied in connection with the Notes and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Arranger, the Dealers, the Trustee or the Agents or any of their respective affiliates, directors, officers, employees, agents or advisers. The Arranger, the Dealers, the Trustee and the Agents and their respective affiliates, directors, officers, employees, agents or advisers have not independently verified any of the information contained in this Offering Circular and can give no assurance that this information is accurate, truthful or complete. To the fullest extent permitted by law, none of the Arranger, the Dealers, the Trustee or any Agent or any director, officer, employee, agent, affiliate or adviser of any such person makes any representation, warranty or undertaking, express or implied, or accepts any responsibility, with respect to the accuracy or completeness of any of the information in this Offering Circular or the contents of this Offering Circular or for any other statement made or purported to be made by the Arranger, the Dealers, the Trustee, any Agent, or any director, officer, employee, agent, adviser or affiliate of any such person or on its behalf in connection with the Issuer, the Group, the Notes or the issue and offering of the Notes. The Arranger, the Dealers, the Trustee, each Agent and each of their respective affiliates, directors, officers, employees, agents or advisers accordingly disclaim all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilizing manager(s) (the "Stabilizing Manager(s)") may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no obligation on such Stabilising Managers to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

In making an investment decision, investors must rely on their own examination of the Issuer, the Group and the terms of the Notes and the offering under the Programme, including the merits and risks involved. See "*Risk Factors*" for a discussion of certain factors to be considered in connection with an investment in the Notes. Any of the Arranger, the Dealers and their respective affiliates may purchase the Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the Notes and/or other securities of the Issuer or its subsidiaries or associates at the same time as the offer and sale of the Notes or in secondary market transactions. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Notes to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Notes). Furthermore, investors in the Notes may include entities affiliated with the Group. Investors are advised to read and understand the contents of this Offering Circular and the relevant Pricing Supplement before investing. If in doubt, investors should consult his or her adviser.

The Issuer, the Arranger, the Dealers, the Trustee and the Agents and their respective affiliates are not making any representation to any offeree or purchaser of the Notes regarding the legality of any investment in the Notes by such offeree or purchaser under any legal investment or similar laws or regulations. The contents of this Offering Circular should not be construed as providing legal, business, accounting or investment advice. Each person receiving this Offering Circular or any Pricing Supplement acknowledges that such person has not relied on the Arranger, the Dealers, the Trustee, the Agents or any of their respective affiliates in connection with its investigation of the accuracy of such information or its investment decision.

This Offering Circular does not describe all of the risks and investment considerations (including those relating to each investor's particular circumstances) of an investment in Notes of a particular issue. Each potential purchaser of the Notes should refer to and consider carefully the relevant Pricing Supplement for each particular issue of the Notes, which may describe additional risks and investment considerations associated with such Notes. The risks and investment considerations identified in this Offering Circular and the applicable Pricing Supplement are provided as general information only. Investors should consult their own financial and legal advisers as to the risks and investment considerations arising from an investment in an issue of the Notes and should possess the appropriate resources to analyze such investment and the suitability of such investment in their particular circumstances.

Neither this Offering Circular nor any other information provided or incorporated by reference in connection with the Programme are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Arranger, the Dealers, the Trustee or the Agents or any director, officer, employee, agent, adviser or affiliate of any such person that any recipient, of this Offering Circular or of any such information, should purchase the Notes. Each potential purchaser of the Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness of the Issuer and the Group. Each potential purchaser of the Notes should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Notes should be based upon such investigation, as it deems necessary. None of the Arranger, the Dealers, the Trustee, the Agents or any of their respective affiliates, directors, officers, employees, agents or advisers undertakes to review the financial condition or affairs of the Issuer or the Group for so long as the Notes remain outstanding nor to advise any investor or potential investor of the Notes of any information coming to the attention of any of the Arranger, the Dealers, the Trustee, the Agents or their respective affiliates, directors, officers, employees, agents or advisers.

This Offering Circular summarizes certain documents and other information, and investors should refer to them for a more complete understanding of what is discussed in those documents.

The contents of this Offering Circular have not been reviewed by any regulatory authority in any jurisdiction. Investors are advised to exercise caution in relation to the offer. If investors are in any doubt about any of the contents of this Offering Circular, investors should obtain independent professional advice.

PRESENTATION OF FINANCIAL INFORMATION

The Issuer's consolidated financial information as at and for each of the financial years ended March 31, 2019, 2018 and 2017 have been extracted from the published audited consolidated financial statements of the Issuer as at and for each of the years ended March 31, 2019 and 2018 audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong ("**PwC**"). The Issuer's unaudited consolidated interim financial information as at December 31, 2019 and for each of the nine months ended December 31, 2019 and 2018 and for each of the six months ended September 30, 2019 and 2018 have been extracted from the published consolidated interim financial statements of the Issuer as of the relevant date and for the relevant period. The Issuer's consolidated interim financial statements as at and for the nine months ended December 31, 2019 and as at and for the six months ended September 30, 2018 have been reviewed by PwC in accordance with Hong Kong Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Authority of the Entity* issued by the Hong Kong Institute of Certified Public Accountants. The Issuer's unaudited consolidated interim financial information as at and for the six months ended September 30, 2019 and as at and for the three months ended December 31, 2019 and 2018 have each been extracted from the published unaudited interim consolidated financial statements of the Issuer as of the relevant date and for the relevant period, which have not been reviewed nor audited by PwC. This Offering Circular contains the consolidated financial statements described above. The Issuer prepares its consolidated financial statements in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants.

There can be no assurance that if the Issuer's unaudited consolidated interim financial information as at and for each of the six months ended September 30, 2019 and 2018, the Issuer's unaudited consolidated interim financial information as at and for each of the nine months ended December 31, 2019 and 2018 and the Issuer's unaudited consolidated interim financial information as at and for each of the three months ended December 31, 2019 and 2018 had been audited that there would be no change in the financial information and that such changes would not be material. Consequently, such financial information should not be relied upon by potential purchasers to provide the same quality of information associated with information that has been subject to an audit. Potential investors must exercise caution when using such data to evaluate the Issuer's financial condition and results of operations. See "*Risk Factors – Our September 2019 and 2018 interim financial information, December 2019 and 2018 interim financial information and December 2019 and 2018 quarterly financial information have not been audited.*

The Issuer's financial information included in this Offering Circular relating to each of the years ended March 31, 2019 and 2018 does not constitute the Issuer'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 Issuer has delivered the financial statements for each of the years ended March 31, 2019 and 2018 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 Issuer's auditor has reported on those consolidated financial statements. 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.

Solely for the convenience of investors, this Offering Circular contains translations of certain foreign currencies into U.S. dollars or other currencies using the exchange rates prevailing at the dates of the transactions or the exchange rates in effect as at the balance sheet date, as applicable. The Issuer makes no representation that any foreign currencies could have been, or could be, converted into U.S. dollars or other currencies, as the case may be, at any particular rate, or at all.

Certain amounts and percentages included in this offering circular have been rounded. Accordingly, in certain instances, the sum of the numbers in a column may not exactly equal the total figure for that column.

CERTAIN DEFINITIONS, CONVENTIONS AND CURRENCY PRESENTATION

We have prepared this Offering Circular using a number of conventions, which you should consider when reading the information contained herein. When we use the terms "we", "us", "our", "Lenovo", the "Company", the "Issuer", the "Group" and words of similar import, we are referring to Lenovo Group Limited, a company incorporated in Hong Kong with limited liability, and its consolidated subsidiaries, as the context requires.

Unless the context otherwise requires, references to the "**PRC**" or "**China**" are to the People's Republic of China, excluding, for the purpose of this Offering Circular only, the Hong Kong Special Administrative Region ("**Hong Kong**"), the Macau Special Administrative Region and Taiwan. "**PRC government**" means the central government of the PRC and all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof, or, where the context requires, any of them.

All references to "**U.S.$**" and "**U.S. dollars**" are to the lawful currency of the United States of America. All references to "**RMB**", "**Renminbi**" or "**CNY**" are to the lawful currency of the PRC. All references to "**HK$**" are to the lawful currency of Hong Kong.

References to a "**share**" are to, unless the context indicates otherwise, an ordinary share in the Issuer's share capital.

References to market data or market share, unless otherwise indicated, are based on number of units shipped.

In this Offering Circular:

- "**AG**" refers to North America and Latin America;
- "**AI**" refers to artificial intelligence;
- "**AP**" refers to Asia-Pacific excluding the PRC;
- "**Cloud**" or "**cloud computing**" refers to the use of computing resources that are available in a remote location and accessible over a network;
- "**EMEA**" refers to Europe, the Middle East and Africa;
- "**Internet of Things**" or "**IoT**" refers to the emerging network of objects that use electronics, sensors, software and Internet connectivity to derive greater utility;
- "**IT**" refers to information technology;
- "**Motorola Mobility**" refers to Motorola Mobility Holdings LLC;
- "**Motorola Mobility acquisition**" or "**Motorola acquisition**" refers to our acquisition of Motorola Mobility from Google Inc.;
- "**NYSE**" refers to The New York Stock Exchange;

- “**PC**” refers to personal computer;

- “**System X**” refers to the x86 Server hardware and related maintenance services business of IBM; and

- “**U.S. Securities Act**” refers to the United States Securities Act of 1933, as amended.

INFORMATION INCORPORATED BY REFERENCE

This Offering Circular should be read and construed in conjunction with each relevant Pricing Supplement and all amendments and supplements from time to time to this Offering Circular, which shall be deemed to be incorporated in, and to form part of, this Offering Circular and which shall be deemed to modify or supersede the contents of this Offering Circular to the extent that a statement contained in any such document is inconsistent with such contents.

Copies of all such documents which are so deemed to be incorporated in, and to form part of, this Offering Circular will be available free of charge during normal business hours at the specified office of the Issuer set out at the end of this Offering Circular.

INDUSTRY DATA

Market data and certain industry forecasts and statistics in this Offering Circular, including our market share information, have been derived from various official or third-party sources, including market research, publicly available information and industry publications. Although this information is believed to be reliable, it has not been independently verified by us, the Arranger, the Dealers, the Trustee, the Agents or our respective directors and advisers. Therefore, we cannot assure you as to the accuracy and reliability of such data, forecasts and statistics, which may not be consistent with other information compiled inside or outside the PRC, and may not be complete or up-to-date. In making an investment decision, each investor must rely on its own examination of the Issuer and the Group and the terms of the offering and any Notes, including the merits and risks involved.

FORWARD-LOOKING STATEMENTS

The Issuer has made forward-looking statements in this Offering Circular regarding, among other things, the Group's financial conditions, future expansion plans and business strategy. These forward-looking statements are based on the Group's current expectations about future events. Although the Issuer believes that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions, including, among other things:

- the ability of the Group to successfully implement its business plans and strategies;
- future developments, trends and conditions in the industry and markets in which the Group operates;
- the Group's business prospects and capital expenditure plans;
- the actions and developments of the Group's competitors;
- the Group's financial condition and performance;
- any changes in the laws, rules and regulations of the central and local governments in the PRC, the United States of America and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of the Group's business;
- general political and economic conditions, including those related to the PRC or the United States of America;
- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which the Group operates;
- various business opportunities that the Group may pursue;
- macroeconomic measures taken by the government of the PRC or the United States of America to manage economic growth; and
- those other risks identified in the "Risk Factors" section of this Offering Circular.

The words "anticipate", "believe", "estimate", "expect", "intend", "plan" and similar expressions are intended to identify a number of these forward-looking statements. The Issuer does not undertake any obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Offering Circular might not occur and the Issuer's and the Group's actual results could differ materially from those anticipated in these forward-looking statements. Accordingly, investors are cautioned not to place undue reliance on these forward-looking statements.

These forward-looking statements speak only as of the date of this Offering Circular. The Issuer expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Group's expectations with regard thereto or any change of events, conditions or circumstances, on which any such statement was based.

CONTENTS

	Page
SUMMARY OF THE PROGRAMME	1
SUMMARY FINANCIAL INFORMATION OF THE ISSUER	7
RISK FACTORS	11
FORMS OF THE NOTES	42
USE OF PROCEEDS	47
TERMS AND CONDITIONS OF THE NOTES	48
FORM OF PRICING SUPPLEMENT	90
SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM	100
CAPITALIZATION AND INDEBTEDNESS	103
DESCRIPTION OF THE COMPANY	104
BUSINESS OVERVIEW	111
MANAGEMENT	130
PRINCIPAL SHAREHOLDERS	139
CONTINUING CONNECTED TRANSACTIONS	140
DESCRIPTION OF OTHER INDEBTEDNESS AND CERTAIN CREDIT FACILITIES	142
REMITTANCE OF RENMINBI INTO AND OUTSIDE THE PRC	150
TAXATION	152
CLEARANCE AND SETTLEMENT	155
SUBSCRIPTION AND SALE	157
GENERAL INFORMATION	164
INDEX TO FINANCIAL STATEMENTS	F-1

SUMMARY OF THE PROGRAMME

This summary must be read as an introduction to this Offering Circular and any decision to invest in the Notes should be based on a consideration of the Offering Circular as a whole, including any information incorporated by reference. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Offering Circular have the same meanings in this summary.

Issuer	Lenovo Group Limited.
Programme Size	Up to U.S.$3,000,000,000 (or the equivalent in other currencies calculated as described in the Dealer Agreement (as defined in "*Subscription and Sale*")) outstanding at any time. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Agreement.
Risk Factors	Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect the abilities of the Issuer to fulfil its obligations in respect of the Notes and the Trust Deed are discussed under the section "*Risk Factors*" below.
Arranger	Citigroup Global Markets Limited.
Dealers	BNP Paribas. Citigroup Global Markets Limited. DBS Bank Ltd.
Principal Paying Agent	Citibank, N.A., London Branch.
Paying Agent in respect of Notes Cleared through Euroclear/Clearstream, Luxembourg	Citibank, N.A., London Branch.
Principal Registrar	Citigroup Global Markets Europe AG (formerly known as Citigroup Global Markets Deutschland AG)
CMU Registrar	Citicorp International Limited.
Transfer Agent	Citibank, N.A., London Branch.
CMU Lodging and Paying Agent	Citicorp International Limited.
Trustee	Citicorp International Limited.

Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest and their issue price), and intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment date of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the Pricing Supplement.
Clearing Systems	With respect to Notes (other than any series of Notes cleared through the CMU Service (the "**CMU Notes**")), Euroclear, Clearstream, Luxembourg and such other clearing system as shall be agreed between the Issuer, the Trustee, the Agents and the relevant Dealer. With respect to CMU Notes, the CMU Service. Each of Euroclear, Clearstream, Luxembourg and the CMU Service is a "**Clearing System**". See "*Clearance and Settlement*".
Form of the Notes	Notes may be issued in bearer form or in registered form. Registered Notes will not be exchangeable for Bearer Notes and *vice versa*. No single Series or Tranche may comprise both Bearer Notes and Registered Notes. Each Tranche of Bearer Notes will initially be represented by a Temporary Global Note or a Permanent Global Note, as specified in the applicable Pricing Supplement, which, in each case, may be deposited on the issue date with a common depositary for Euroclear, Clearstream, Luxembourg or any other agreed clearance system compatible with Euroclear and Clearstream, Luxembourg or, in respect of CMU Notes, a sub-custodian for the CMU Service. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Pricing Supplement, for Definitive Notes. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons. Any interest in a Temporary Global Note or a Permanent Global Note will be transferable only in accordance with the rules and procedures or the time being of Euroclear, Clearstream, Luxembourg, the CMU Service and/or any other agreed clearance system, as appropriate.

Bearer Notes will be issued in compliance with applicable U.S. tax rules. Bearer Notes will be issued in compliance with rules in substantially the same form as U.S. Treasury Regulations §1.163-5(c)(2)(i)(D) for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**D Rules**") unless (i) the applicable Pricing Supplement states that the Bearer Notes are issued in compliance with rules in substantially the same form as U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) for purposes of Section 4701 of the U.S. Internal Revenue Code (the "**C Rules**") or (ii) the Bearer Notes are issued other than in compliance with the D Rules or the C Rules but in circumstance in which the Notes will not constitute "registration required obligations" for U.S. federal income tax purposes, which circumstance will be referred to in the applicable Pricing Supplement. If the D Rules are specified in the relevant Pricing Supplement as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note.

Each Tranche of Registered Notes will, unless otherwise specified in the applicable Pricing Supplement, be represented by a Global Note Certificate (as defined in the "*Forms of the Notes*"), which will be deposited on or about its issue date with a common depositary for, and registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg or, in respect of CMU Notes, a sub-custodian for the CMU Service operated by the HKMA. With respect to all offers or sales by a Dealer of an unsold allotment or subscription, beneficial interests in a Global Note Certificate of such Tranche may be held only through Euroclear, Clearstream, Luxembourg or the CMU Service.

Application will be made to have Global Notes or Global Note Certificates of any Tranche accepted for clearance and settlement through the facilities of Euroclear, Clearstream, Luxembourg and/or the CMU Service, as appropriate.

Currencies . . . . Notes may be denominated in any currency or currencies, agreed between the Issuer and the relevant Dealer(s) subject to compliance with all applicable legal and/or regulatory and/or central bank requirements. Payments in respect of the Notes may, subject to such compliance, be made in and/or linked to, any currency or currencies other than the currency in which such Notes are denominated.

Denominations	Notes will be issued in such denominations as may be specified in the relevant Pricing Supplement, subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.
Status of the Notes	The Notes constitute direct, general, unconditional, unsecured and unsubordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation, at all time rank at least equally will all of its other present and future unsecured and unsubordinated obligations. See "*Terms and Conditions of the Notes – Status*".
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.
Maturities	Any maturity, subject, in relation to specific currencies, to compliance with all applicable legal and/or regulatory and/or central bank requirements. Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Finance Services and Markets Act 2000 ("**FSMA**") by the Issuer.
Redemption	Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the maturity date of the relevant Tranche as described in Condition 10(a) (*Scheduled redemption*).
Tax Redemption	The Notes may be redeemed at the option of the Issuer in whole, but not in part for tax reasons as described in Condition 10(b) (*Redemption for tax reasons*).

Optional Redemption	If so specified in the relevant Pricing Supplement, Notes may be redeemed before their stated maturity at the option of the Issuer (either in whole or in part) as described in Condition 10(c) (*Redemption at the option of the Issuer*) and/or at the option of Noteholders as described in Condition 10(e) (*Redemption at the option of Noteholders*).
Interest	Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate and the method of calculating interest may vary between the issue date and the maturity date of the relevant Tranche. All such information will be set out in the relevant Pricing Supplement.
Covenants	The Issuer is subject to certain covenants as further described in Condition 5 (*Covenants*).
Events of Default	The Notes will contain Events of Default provisions as further described in Condition 14 (*Events of Default*).
Withholding Tax	All payments in respect of the Notes and the Coupons will be made free and clear of withholding taxes of a Relevant Jurisdiction, unless the withholding is required by law. In that event, the Issuer will (subject to certain exceptions as described in Condition 13 (*Taxation*)) pay such additional amounts as will result in the Noteholders and the Coupon holders receiving such amounts as they would have received in respect of such Notes, had no such withholding been required.
Listing and Trading	Application has been made by the Issuer to the SEHK for the listing of the Programme during the 12-month period from the date of this Offering Circular on the SEHK by way of debt issues to Professional Investors only. Notes listed on the SEHK will be traded on the SEHK in a board lot size of at least HK$500,000 (or its equivalent in other currencies). However, unlisted Notes and Notes to be listed, traded or quoted on or by any other competent authority, stock exchange or quotation system may be issued pursuant to the Programme. The relevant Pricing Supplement in respect of the issue of any Notes will specify whether or not such Notes will be listed on the SEHK or listed, traded or quoted on or by any other competent authority, exchange or quotation system.

Governing Law	The Notes, the Trust Deed and the Agency Agreement and any non-contractual obligations arising out of or in connection with the Notes will be governed by English law.
Rating	Notes issued under the Programme may be rated or unrated, as specified in the relevant Pricing Supplement. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction, revision or withdrawal at any time by the assigning rating agency.
Selling Restrictions	For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of offering materials in the United States of America, the European Economic Area, the United Kingdom, the PRC, Hong Kong, Japan and Singapore, see "*Subscription and Sale*" below. In connection with the offering and sale of a particular Series of the Notes, additional restrictions may be imposed which will be set out in the relevant Pricing Supplement.
Initial Delivery of the Notes . . .	On or before the issue date for each Series, the Global Note representing Bearer Notes or the Global Note Certificate representing Registered Notes may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or deposited with a sub-custodian for the CMU Service or deposited with any other clearing system or may be delivered outside any clearing system ***provided that*** the method of such delivery has been agreed in advance by the Issuer, the Trustee, the Principal Paying Agent, the CMU Lodging and Paying Agent, the relevant Registrar and the relevant Dealer(s). Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of, or in the name of a nominee or a sub-custodian for, such clearing systems.

SUMMARY FINANCIAL INFORMATION OF THE ISSUER

The following tables set forth the summary consolidated financial information of the Issuer as at the dates and for the years/periods indicated.

The summary consolidated financial information as at and for each of the financial years ended March 31, 2019, 2018 and 2017 has been derived from the Issuer's audited consolidated financial statements as at and for each of the financial years ended March 31, 2019 and 2018, which are included elsewhere in this Offering Circular. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the Issuer's audited consolidated financial statements as at and for each of the financial years ended March 31, 2019 and 2018, including the notes thereto.

Each of the summary unaudited consolidated interim financial information as at and for the six months ended September 30, 2019 and 2018 and as at and for each of the nine months ended December 31, 2019 and 2018, has been derived from the Issuer's unaudited consolidated interim financial statements as at the relevant date and/or for the relevant period, which are included elsewhere in this Offering Circular. The information set out below should be read in conjunction with, and is qualified in its entirety by reference to, the Issuer's unaudited consolidated interim financial statements as at and for the six months ended September 30, 2019 and as at and for the nine months ended December 31, 2019, including the notes thereto.

In preparing the unaudited consolidated interim financial statements as at and for the six months ended September 30, 2019 and the nine months ended December 31, 2019, the Issuer adopted HKFRS 16 with effect from April 1, 2019 and has not restated prior years' consolidated financial statements. Therefore, the unaudited consolidated interim financial statements of the Issuer as at and for the six months ended September 30, 2019 and the nine months ended December 31, 2019 is not comparable with the audited consolidated financial statements of the Issuer as at and for each of the financial years ended March 31, 2019, 2018 and 2017 or the unaudited consolidated interim financial statements as at and for the six months ended September 30, 2018 and the nine months ended December 31, 2018. For a discussion on the impact on the adoption of HKFRS 16, please refer to note 1 of the unaudited consolidated interim financial statements of the Issuer as at and for the six months ended September 30, 2019 beginning on page F-33 and note 1 of the unaudited consolidated interim financial information of the Issuer as at and for the nine months ended December 31, 2019 beginning on page F-9.

In preparing the unaudited consolidated interim financial statements as at and for each of the six months ended September 30, 2019 and 2018 and the nine months ended December 31, 2019 and 2018, the Issuer adopted HKFRS 9 and HKFRS 15 with effect from April 1, 2018 and has not restated prior years' consolidated financial statements. Therefore, the consolidated financial statements of the Issuer as at and for the financial years ended March 31, 2019 and the unaudited consolidated interim financial information of the Issuer as at and for each of the six months ended September 30, 2019 and 2018 and the nine months ended December 31, 2019 and 2018 are not comparable with the audited consolidated financial statements of the Issuer as at and for each of the financial year ended March 31, 2018 and 2017. For a discussion on the impact on the adoption of HKFRS 9 and HKFRS 15, please refer to note 1 of the unaudited consolidated interim financial statements of the Issuer as at and for the six months ended September 30, 2018 beginning on page F-33 and note 1 of the unaudited consolidated interim financial information as at and for the nine months ended December 31, 2018 beginning on page F-9.

CONSOLIDATED INCOME STATEMENTS

	(Audited) Year ended March 31,			(Unaudited) Six Months ended September 30,		(Unaudited) Nine Months ended December 31,	
	2019	2018	2017	2019	2018	2019	2018
	(in US$ thousands, except per share amounts)						
Revenue	51,037,943	45,349,943	43,034,731	26,034,142	25,292,534	40,136,978	39,327,664
Cost of sales	(43,667,299)	(39,077,812)	(36,929,215)	(21,803,203)	(21,866,758)	(33,641,413)	(33,852,223)
Gross profit	7,370,644	6,272,131	6,105,516	4,230,939	3,425,776	6,495,565	5,475,441
Other income – net	–	301	10,891	–	–	–	–
Selling and distribution expenses	(2,657,965)	(2,833,253)	(2,680,631)	(1,541,133)	(1,308,943)	(2,357,394)	(2,011,118)
Administrative expenses	(2,209,340)	(1,757,319)	(1,851,990)	(1,195,250)	(1,000,134)	(1,804,407)	(1,615,724)
Research and development expenses	(1,266,341)	(1,273,729)	(1,361,691)	(647,343)	(622,236)	(988,575)	(895,056)
Other operating (expenses)/ income – net	(59,181)	(21,408)	450,253	(62,818)	(24,543)	(72,681)	(49,229)
Operating profit	1,177,817	386,723	672,348	784,395	469,920	1,272,508	904,314
Finance income	27,399	32,145	27,795	24,474	11,474	37,843	17,475
Finance costs	(337,027)	(263,160)	(231,627)	(251,240)	(153,580)	(358,835)	(239,485)
Share of (losses)/profits of associates and joint ventures	(11,525)	(2,506)	21,411	(7,448)	(1,721)	(11,107)	(5,886)
Profit before taxation	856,664	153,202	489,927	550,181	326,093	940,409	676,418
Taxation	(199,460)	(279,977)	40,514	(114,600)	(67,291)	(199,329)	(152,779)
Profit/(loss) for the year/period	657,204	(126,775)	530,441	435,581	258,802	741,080	523,639
Profit/(loss) attributable to							
Equity holders of the Company	596,343	(189,323)	535,084	364,421	245,447	622,538	478,218
Perpetual securities holders	53,760	53,680	1,872	26,880	26,880	40,320	40,320
Other non-controlling interests	7,101	8,868	(6,515)	44,280	(13,525)	78,222	5,101
	657,204	(126,775)	530,441	435,581	258,802	741,080	523,639
Earnings/(loss) per share attributable to equity holders of the Company							
Basic	US5.01 cents	US(1.67) cents	US4.86 cents	US 3.06 cents	US2.06 cents	US5.22 cents	US4.02 cents
Diluted	US4.96 cents	US(1.67) cents	US4.86 cents	US 2.94 cents	US2.06 cents	US5.01 cents	US4.01 cents
Dividends	425,764	399,284	378,375	96,640	92,071	96,640	92,071

CONSOLIDATED BALANCE SHEETS

	(Audited) As at March 31,			(Unaudited) As at September 30,	(Unaudited) As at December 31,
	2019	2018	2017	2019	2019
			(in US$ thousands)		
Non-current Assets					
Property, plant and equipment. . .	1,430,817	1,304,751	1,236,250	1,683,495	1,731,501
Prepaid lease payments	463,996	507,628	473,090	431,503	439,437
Construction-in-progress	232,097	382,845	413,160	254,424	284,594
Intangible assets	8,324,575	8,514,504	8,349,145	8,196,730	8,230,856
Interests in associates and joint ventures.	79,061	35,666	32,567	73,229	63,746
Deferred income tax assets	1,862,902	1,530,623	1,435,256	1,961,594	2,040,620
Available-for-sale financial assets	–	373,077	255,898	–	–
Financial assets at fair value through profit or loss	449,363	–	–	416,563	487,674
Financial assets at fair value through other comprehensive income	71,486	–	–	66,551	66,813
Other non-current assets	187,985	181,759	122,221	188,606	235,076
	13,102,282	12,830,853	12,317,587	13,272,695	13,580,317
Current Assets					
Inventories	3,434,660	3,791,691	2,794,035	3,816,910	3,998,396
Trade receivables	6,661,484	4,972,722	4,468,392	8,253,337	9,159,206
Notes receivable	46,454	11,154	68,333	55,834	83,232
Derivative financial assets	70,972	24,890	53,808	90,017	25,248
Deposits, prepayments and other receivables	3,753,926	4,703,335	4,333,351	4,316,133	4,406,367
Income tax recoverable	185,643	227,203	199,149	208,355	187,580
Bank deposits	70,210	84,306	196,720	65,227	65,079
Cash and cash equivalents	2,662,854	1,848,017	2,754,599	3,310,940	3,520,919
	16,886,203	15,663,318	14,868,387	20,116,753	21,446,027
Total Assets	29,988,485	28,494,171	27,185,974	33,389,448	35,026,344
Share capital	3,185,923	3,185,923	2,689,882	3,185,923	3,185,923
Reserves	210,530	332,697	533,719	62,721	244,568
Equity attributable to owners of the Company	3,396,453	3,518,620	3,223,601	3,248,644	3,430,491
Perpetual securities	993,670	993,670	843,677	993,670	1,007,110
Other non-controlling interests . .	473,178	246,598	240,844	538,435	623,934
Put option written on non-controlling interests.	(766,238)	(212,900)	(212,900)	(766,238)	(766,238)
Total Equity	4,097,063	4,545,988	4,095,222	4,014,511	4,295,297
Non-current liabilities					
Borrowings	2,426,770	2,648,725	2,966,692	2,141,383	2,153,138
Warranty provision	254,601	278,908	280,421	254,769	268,036
Deferred revenue	678,137	583,405	537,428	784,061	865,823
Retirement benefit obligations	434,246	413,482	370,207	424,934	435,561
Deferred income tax liabilities	359,679	230,609	221,601	355,037	355,037
Other non-current liabilities	1,247,646	333,332	380,557	1,375,067	1,419,999
	5,401,079	4,488,461	4,756,906	5,335,251	5,497,594
Current Liabilities					
Trade payables	6,429,835	6,450,792	5,649,925	7,857,686	8,665,819
Notes payable	1,272,840	801,974	835,613	1,253,503	1,301,932
Derivative financial liabilities . . .	74,426	62,694	67,285	37,345	85,609
Other payables and accruals	8,942,336	9,217,764	10,004,614	10,428,998	10,567,858
Provisions	738,688	858,475	873,405	715,332	758,720
Deferred revenue	780,951	732,552	586,536	770,229	832,194
Income tax payable	298,224	168,779	246,465	328,442	357,237
Borrowings	1,953,043	1,166,692	70,003	2,648,151	2,664,084
	20,490,343	19,459,722	18,333,846	24,039,686	25,233,453
Total Liabilities	25,891,422	23,948,183	23,090,752	29,374,937	30,731,047
Total Equity and Liabilities	29,988,485	28,494,171	27,185,974	33,389,448	35,026,344

OTHER FINANCIAL DATA

	(Audited) Year ended March 31,			(Unaudited) Six Months ended September 30,		(Unaudited) Nine Months ended December 31,	
	2019	2018	2017	2019	2018	2019	2018
	(in US$ thousands)						
EBITDA[(1)]	2,191,259	1,324,723	1,581,086	1,360,111	964,269	2,168,451	1,654,499

(1) We define EBITDA for any year/period as profit/(loss) for the year/period less other income – net plus taxation, amortization and depreciation expenses, long-term incentive awards granted and non-operating expenses. EBITDA is not a standard measure of our financial condition or liquidity under HKFRS. EBITDA should not be considered in isolation or construed as an alternative to profit or any other performance measures derived in accordance with HKFRS or as an alternative to cash flows from operating activities or as an indicator of our operating performance, liquidity, profitability or cash flows generated from operating, investing or financing activities. In evaluating EBITDA, we believe that investors should consider, among other things, the components of EBITDA such as sales and operating expenses and the amount by which EBITDA exceeds capital expenditures and other charges. We have included EBITDA because we believe it is a useful supplement to our profit and cash flow in evaluating our operating performance. Other companies in our industry may calculate EBITDA differently or may use it for different purposes than we do, limiting its usefulness as a comparative measure. The following provides a reconciliation of profit/(loss) for the year/period to EBITDA:

	(Audited) Year ended March 31,			(Unaudited) Six Months ended September 30,		(Unaudited) Nine Months ended December 31,	
	2019	2018	2017	2019	2018	2019	2018
	(in US$ thousands)						
Profit/(loss) for the year/period	657,204	(126,775)	530,441	435,581	258,802	741,080	523,639
Add: taxation	199,460	279,977	(40,514)	114,600	67,291	199,329	152,779
Add: amortization and depreciation expenses	798,620	738,522	742,106	452,019	394,723	703,268	594,542
Add: long-term incentive awards granted	214,822	199,779	177,523	123,697	99,626	192,675	155,643
Add: non-operating expenses	321,153	233,521	182,421	234,214	143,827	332,099	227,896
Less: other income – net	–	(301)	(10,891)	–	–	–	–
EBITDA	2,191,259	1,324,723	1,581,086	1,360,111	964,269	2,168,451	1,654,499

RISK FACTORS

An investment in the Notes is subject to significant risks. You should carefully consider all of the information in this offering circular and, in particular, the risks described below before deciding whether to invest in the Notes. The following describes some of the significant risks that could affect us and the value of the Notes. Risks that are currently unknown to us or that we currently believe to be immaterial, could become material. All of these risks could materially and adversely affect our business, financial condition, results of operations and prospects. The market price of the Notes could decline due to any of these risks and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS

Economic and political policies favoring national interest including policies related to global trade and tariffs, in other jurisdictions, including the U.S. and China, could adversely affect our business, financial condition and results of operations.

The current international political environment, including existing and potential changes to United States and China trade and tariffs policies, have resulted in uncertainty surrounding the future of the global economy. In 2018, the U.S. imposed a series of tariffs ranging from 10% to 25% on a variety of imports from China. China has responded to these tariffs with retaliatory tariffs ranging from 5% to 25% on a wide range of products from the U.S. Although the U.S. and China signed a preliminary trade deal in January 2020, we cannot assure you that a more comprehensive trade deal will be agreed or that tariffs will not be imposed even if such an agreement is reached. We manufacture a significant portion of the products we sell in China, and we export our products to a large number of countries, including the United States. While currently the products we manufacture in China for export to the United States, particularly laptops, are not currently covered by these tariffs, any further expansion in the types or levels of tariffs implemented could negatively impact our business, financial condition and results of operations. Furthermore, we rely on certain overseas suppliers to obtain components and raw materials for the assembling of our hardware devices. If China imposes import tariffs, trade restrictions or other trade barriers affecting the importation of such components or raw materials, we may not be able to obtain a steady supply of necessary components or raw materials at competitive prices, and our business and operations may be materially and adversely affected.

Additionally, there is a risk that the U.S. tariffs on imports will be met with tariffs on U.S.-produced exports and that a broader trade conflict could ensue. This could significantly impact global trade and economic conditions. Potential costs and any attendant impact on pricing arising from these tariffs, any further expansion in the types or levels of tariffs implemented or on global economic conditions generally could require us to modify our current business practices and could adversely affect our business, financial condition and results of operations.

Furthermore, we have significant operations, including a large number of employees, manufacturing facilities, and operations centers in various jurisdictions. Nationalist economic policies and political trends in these jurisdictions, such as opposition to globalization and free trade, sanctions or trade restrictions, withdrawal from or re-negotiation of global trade agreements, tax policies that favor domestic industries and interests, the exit of the United Kingdom from the European Union (known as Brexit), the distancing or potential exit of other countries from the European Union, and other similar actions may result in increased transaction costs, reduced ability to hire employees, reduced access to supplies and materials, reduced demand or access to customers in international markets, and inability to conduct our operations as they have been conducted historically. Each of these factors may adversely affect our business.

Our September 2019 and 2018 interim financial information, December 2019 and 2018 interim financial information and December 2019 and 2018 quarterly financial information have not been audited.

In accordance with our past practice, we filed our financial information as at and for each of the six months ended September 30, 2019 and 2018 (the "**September 2019 and 2018 Interim Financial Information**") and our financial information as at and for each of the nine months ended December 31, 2019 and 2018 (the "**December 2019 and 2018 Interim Financial Information**"), which includes our financial information as at and for each of the three months ended December 31, 2019 (the "**December 2019 and 2018 Quarterly Financial Information**") with the SEHK on November 7, 2019 and on February 20, 2020, respectively. The September 2019 and 2018 Interim Financial Information, the December 2019 and 2018 Interim Financial Information and the December 2019 and 2018 Quarterly Financial Information included in this Offering Circular have not been audited by the auditor of our Company. There can be no assurance that if such financial information had been audited that there would be no change in the financial information and that such changes would not be material. The September 2019 and 2018 Interim Financial Information, the December 2019 and 2018 Interim Financial Information, and the December 2019 and 2018 Quarterly Financial Information have been included in this Offering Circular for reference only and should not be relied upon by investors for making their investment decision. As of the date of this Offering Circular our most recent audited financial information was prepared as of and for the year ended March 31, 2019, and investors should be aware that there are no audited financial statements relating to our Company or our Group since this date.

We face intense competition, which may adversely affect our revenue, market share or profitability.

We operate in an industry in which there are rapid technological advances in hardware, software, and service offerings, and we face aggressive product and price competition from both branded and generic competitors. We compete based on our ability to offer our customers the most current and desired product features at competitive prices. We expect that competition in our industry will continue to be intense. In seeking to grow and maintain our revenue, market share and profitability in different geographical and product sectors, we face challenges that our competitors' products may be less costly, provide better performance or include other features that are more attractive to customers when compared to our products. Moreover, our efforts to balance our mix of products to optimize profitability, liquidity, and growth may put pressure on our industry position. In addition, we face competitive challenges due to changing industry and market dynamics, such as the growth of mobility and touchscreen devices and equipment, the transition towards cloud computing and the maturity of the traditional PC market. We need to develop products and services that appeal to customers, in a very competitive marketplace, against the backdrop of decelerating growth in global demand for PCs. As we continue to expand globally, we may see new and increased competition in different geographic regions and face challenges from new industry competitors. As our industry evolves and our Company grows, companies with which we have strategic alliances may become competitors in other product areas or our current competitors may enter into new strategic relationships with new or existing competitors, all of which may further increase the competitive pressures that we face.

Adverse global and regional economic conditions and instability in financial markets may harm our business and result in reduced net revenue and profitability.

As a global company with customers in virtually every business and industry, our performance depends significantly on global and regional economic conditions. For example, in recent periods we have experienced macroeconomic challenges across many geographic regions, decelerating growth and weakness in consumer demand, new or increased tariffs, changes to fiscal and monetary policies, currency fluctuations, sovereign debt crisis and austerity measures being implemented or contemplated by various countries. In addition, while China's economy has experienced significant growth over the past few decades, it has experienced a slowdown in growth in the past few years, and there is no assurance that future growth will be sustained at similar rates or at all. These types of economic conditions could result in postponed or decreased spending amid customer concerns over unemployment, reduced asset values, volatile energy costs, geographical issues, the availability and cost of credit, and the stability and solvency of financial institutions, financial markets, businesses, local and state governments, and sovereign nations. Weak global and regional economic conditions also could harm our business by contributing to potential product shortages or delays, insolvency of key suppliers, increased credit and collectability risk on our trade receivables, potential customer and counterparty insolvencies, and increased challenges in conducting our treasury operations. All of these possible effects of weak and regional global economic conditions could negatively impact our net revenue and profitability.

We face risks and challenges associated with our acquisitions and investments.

From time to time, we acquire companies or businesses, enter into strategic alliances and joint ventures and make investments, and will continue to seek opportunities to do so in the future as part of our expansion plan. In order to pursue this strategy successfully, we must effectively identify suitable targets for, and negotiate and consummate, acquisition or investment transactions, some of which may be large or complex, and manage post-closing issues such as the integration of acquired businesses, products, services or employees. For example, we completed the acquisition of certain assets and assumption of certain liabilities in connection with IBM's x86 server hardware and maintenance business ("**System X**") on October 1, 2014. We also completed the acquisition of 100% of the issued and outstanding equity interests in Motorola Mobility Holdings LLC ("**Motorola Mobility**") from Google, Inc., including the MOTOROLA brand and Motorola Mobility's portfolio of smartphones, including Moto X, Moto G and the DROID™ Ultra Series on October 30, 2014. For more details on these acquisitions, see "Business Overview – Business Combination."

Risks associated with business combination and investment transactions include the following, any of which could adversely affect our revenue, gross margin and profitability:

- Managing business combination and investment transactions often require significant management resources, which may divert our attention from other business operations.

- There is no assurance that we will be able to effectively manage loss-making businesses that we acquire or transform them into profit-making businesses.

- We may not fully realize all of the anticipated benefits of any business combination and investment transaction, and the timeframe for realizing benefits of a business combination and investment transaction may depend partially upon the actions of employees, advisors, suppliers or other third parties.

- Business combination and investment transactions may result in significant costs and expenses and charges to earnings, including those related to severance pay, early retirement costs, employee benefit costs, goodwill and asset impairment charges, charges from the elimination of duplicative facilities and contracts, in-process research and development charges, inventory adjustments, assumed litigation and other liabilities, legal, accounting and financial advisory fees, and required payments to executive officers and key employees under retention plans.

- Our due diligence process may fail to identify significant issues with the acquired company's product quality, financial disclosures, accounting practices or internal control deficiencies.

- We may borrow to finance business combination and investment transactions, and the amount and terms of any potential future acquisition-related or other borrowings, as well as other factors, could affect our liquidity and financial condition.

- If disputes arise in connection with business combination and investment transactions, such disputes may lead to litigation, which may be costly and divert our resources.

Integration issues are often complex, time-consuming and expensive and, without proper planning and implementation, could significantly disrupt our business, including the business acquired as a result of any business combination and investment transaction. The challenges involved in integration include:

- combining product and service offerings and entering or expanding into markets in which we are not experienced or are developing expertise;

- combining different business models and managing different competitive landscapes;

- convincing customers and distributors that the transaction will not diminish client service standards or business focus, persuading customers and distributors not to defer purchasing decisions or switch to other suppliers (which could result in our incurring additional obligations in order to address customer uncertainty), minimizing sales force attrition and expanding and coordinating sales, marketing and distribution efforts;

- consolidating and rationalizing corporate IT infrastructure, which may include multiple legacy systems from various acquisitions and integrating software code and business processes;

- minimizing the diversion of management attention from ongoing business concerns;

- persuading employees that business cultures are compatible, maintaining employee morale and retaining key employees, integrating employees into Lenovo, correctly estimating employee benefit costs and implementing restructuring programs;

- coordinating and combining administrative, manufacturing, research and development and other operations, subsidiaries, facilities and relationships with third parties in accordance with local laws and other obligations while maintaining adequate standards, controls and procedures;

- achieving savings from supply chain integration; and

- managing integration issues after or pending the completion of other independent transactions.

We frequently review opportunities for further acquisition opportunities and partnerships in the ordinary course of our business and expect to continue to do so in line with our strategies for continued growth. There is no assurance that acquisitions will occur in the future or the form that any such acquisition will take. Our future growth may be adversely affected if we are unable to make investments or to pursue acquisitions, or if investments and acquisitions prove unsuccessful.

We face increased risks associated with implementing our strategic initiatives as the scale and breadth of our business and operations expand.

Our intelligent transformation strategy seeks to maintain and develop our strengths in our core, established markets and to explore and develop growth opportunities in line with our vision of "Smarter Technology for All." Our ability to accomplish the goals of this strategy depends, among other things, on our success in leveraging our success in China and in the large enterprise and public sectors worldwide, allocating our development, capital and marketing resources in accordance with our strategy, and managing the effects of these strategic initiatives. We face increased risks associated with implementing our strategies given our large portfolio of businesses, the broad range of geographic regions in which we and our customers and partners operate, and the number of acquisitions that we have completed in recent years. We also face risks associated with changing industry. regulatory and market dynamics. As the scale and breadth of our business and operations grow, we face greater challenges to manage our business, operations and growth in an effective manner, including challenges associated with demand forecasting, manufacturing resource planning, inventory management, regulatory compliance including privacy and data protection regulations and our international operations. If we successfully gain market share in the premium consumer market, we may experience longer collection cycles, which are characteristic of the consumer market compared to the enterprise market. If we are unable to meet these challenges, our business, results of operations and prospects could be unfavorably affected.

Our performance could be adversely affected by our failure to hedge effectively our exposure to fluctuations in foreign currency exchange rates and interest rates, and we are subject to counterparty default risks.

The majority of our product components are priced in U.S. dollars. However, in the financial years ended March 31, 2018 and 2019 and the nine months ended December 31, 2019, only approximately 24% to 25% of our revenue was denominated in U.S. dollars. Accordingly, our margins are vulnerable to changes in the values of currencies relative to each other.

We use forward contracts and other derivative instruments to protect against foreign currency exchange rate risks. As a result, we are subject to the risk that the counterparty to one or more of these arrangements will default, either voluntarily or involuntarily, on its performance under the terms of the arrangement. In times of market distress, a counterparty may default rapidly and without notice to us, and we may be unable to take action to cover our exposure, either because we lack the contractual ability or because market conditions make it difficult to take effective action. If one of our counterparties becomes insolvent or files for bankruptcy, our ability eventually to recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable legal regime governing the bankruptcy proceeding. In the event of such default, we could incur significant losses, which could harm our business and negatively impact our results of operations and financial condition. In addition, the effectiveness of our hedges depends on our ability to accurately forecast future cash flows, which is particularly difficult during periods of uncertain demand for our products and highly volatile exchange rates. As a result, we could incur significant losses from our hedging activities if our forecasts are incorrect. In addition, our hedging activities may be ineffective or may not offset any or more than a portion of the adverse financial impact resulting from currency variations. Gains or losses associated with hedging activities also may impact our revenue and to a lesser extent our cost of sales and financial condition.

Our results of operations may be adversely affected by our product, customer and geographic sales mix and by seasonal sales trends.

Our results of operations for any particular period may be adversely affected by changes in the mix of products, customers and geographic markets reflected in our sales for that period, as well as by seasonal trends. Our profit margins vary among products, services, customers and geographic markets. In addition, our business is generally stronger in the third quarter of our financial year (the fourth quarter of the calendar year), due to the combined effect of government and enterprise customers spending unutilized budgets and the festive season in many countries, while our fourth quarter (the first quarter of the calendar year) is usually the weakest, due to the combined effect of Chinese New Year and the uncertainty caused by the new budgets in our public sector and enterprise accounts.

Our future success depends on our ability to respond effectively to rapid changes in technology and customer preferences in the information technology industry.

Many of the markets in which we compete are characterized by rapid changes in market trends and consumer preferences, as well as constantly evolving technological advances in hardware performance and software features and functionality, which in turn lead to the frequent introduction of new products, short product life cycles, and continual improvement in product price characteristics relative to product performance. To maintain our competitive position in these markets, we must successfully develop and introduce new products and enhance our existing offerings. This process is complex, costly and uncertain, and any failure by us to anticipate customers' changing needs and emerging technological trends accurately could significantly harm our market share and results of operations. In recent years, there has been a rapid growth in the use of mobile devices, such as tablets and smartphones, which has slowed the replacement cycle for traditional PC products. As the world is heading towards an age of "Internet of Things," we expect an increasing number of devices will have computing, storage and networking modules built inside. We have adopted an intelligent transformation strategy to capitalize on these developments, but we may experience delays in the timing of activities related to these initiatives and unanticipated costs in implementing them due to the risks discussed elsewhere in this section. Similarly, as we transition to an environment characterized by cloud computing and software being delivered as a service, we must continue to successfully develop and deploy cloud-based solutions for our customers. We must make long-term investments, develop or obtain, and protect appropriate intellectual property and commit significant resources before we know whether our predictions will accurately reflect customer demand for our products. In addition, after we develop a product, we must be able to manufacture appropriate volumes quickly and at low costs. To accomplish this, we must accurately forecast volumes, mixes of products and configurations that meet customer requirements, and there is no assurance that we can do so successfully within a given product's life-cycle or at all. Any delay in the development, production or marketing of a new product, service or solution could result in us not being among the first to market, which could harm our competitive position.

Failure to maintain an effective quality control system at our manufacturing facilities, or product quality issues of our suppliers or manufacturing service providers, could have a material adverse effect on our business and operations.

The quality of our products is critical to the success of our business. Our quality control system depends on a number of factors, including the design of our quality control procedures, our quality training programs and our ability to ensure that our employees adhere to our quality control policies and guidelines. The products that we offer are complex, and our regular testing and quality control efforts may not be effective in controlling or detecting all quality issues, particularly with respect to faulty components manufactured by third parties. If we fail to meet the product specifications, our sales orders may be cancelled and products may be returned, which could have a material adverse effect on our business, reputation, results of operations and financial condition.

Our quality control procedures are also designed to allow us to meet certain mandatory production standards set by the local government authorities where our products are sold. For example, any failure to comply with these standards in the PRC may subject us to the confiscation of related earnings and relevant products, penalties, an order to cease sales of relevant products, or an order to cease operations pending the required rectification. If the violation is determined to be serious in nature, our business license to manufacture or sell relevant products could potentially be suspended or revoked, and in the worst case scenario, we could be subject to criminal liability.

Moreover, our products could be affected by the quality controls of our components suppliers and manufacturing service providers. For example, many of our products use lithium-based batteries and any defects in such products can pose safety risks, including the risk of fire. We may face product liability claims from our customers or distributors if that the use of our products results in bodily injury, property damage or other loss, regardless of whether we are at fault. We may have to spend significant resources and time to defend ourselves if legal proceedings for product liability are instituted against us. The successful assertion of product liability claims against us could require us to pay significant monetary damages. We may be subject to product recalls as a result of any defects in our products. Moreover, any accident, from the use of our products, may cause significant production interruption and may also result in negative publicity and therefore affect customers' confidence in our products.

Estimates of our warranty expenses are subject to assumptions and inherent uncertainties, and our results of operations would be adversely affected if actual warranty claims exceed our estimates.

We record warranty liabilities at the time of sale for the estimated costs that will be incurred under our basic limited warranty. Specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally include technical support, repair parts and labor associated with warranty repair and service actions. Our warranty period generally ranges between one to three years. However, certain of our warranties, such as those associated with some of our government contracts, have periods that extend beyond three years. We re-evaluate our estimates on a quarterly basis to assess the adequacy of our recorded warranty liabilities and adjust the amounts as necessary. Estimates of our warranty expenses are subject to assumptions and inherent uncertainties, and our results of operations would be adversely affected if actual warranty claims exceed our estimates.

If we fail to properly manage the distribution of our products, our revenue, gross margin and profitability could suffer.

We sell our products primarily through third-party distributors, resellers, retailers and network carriers for our mobile devices, particularly in China, North America and Western Europe. While we negotiate directly with large enterprise customers, we typically fulfill these contracts through our distribution channels. Our financial results could be materially adversely affected due to channel conflicts or if the financial conditions of our channel partners were to weaken. Moreover, some of our distributors may have insufficient financial resources and may not be able to withstand changes in business conditions, including economic weakness and industry consolidation. If our distributors' financial conditions or operations weaken, our revenue could suffer and we could experience disruptions in distribution. In addition, network carriers providing cellular network service for our smartphone products typically subsidize purchases by users of our devices. There is no assurance that such subsidies will be continued, if at all or in the same amounts, upon renewal of our agreements with these network carriers or will be provided, if at all or in the same amounts as provided in agreements with existing network carriers, in agreements we enter into with new carriers.

In addition, we must manage inventory effectively, particularly with respect to sales to distributors, which involves forecasting demand and pricing issues. Distributors may increase orders during periods of product shortages, cancel orders if their inventory is too high or delay orders in anticipation of new products. Distributors also may adjust their orders in response to the supply of our products and the products of our competitors and seasonal fluctuations in end-user demand. Our reliance upon indirect distribution methods may reduce visibility to demand and pricing issues, and therefore make forecasting more difficult. If we have excess or obsolete inventory, we may have to reduce our prices and write down inventory. Moreover, our use of indirect distribution channels may limit our willingness or ability to adjust prices quickly and otherwise to respond to pricing changes by competitors.

Our reliance on vendors for products and components, many of whom are single-source or limited-source suppliers, could harm our business by adversely affecting product availability, delivery, reliability and cost.

We maintain several single-source or limited-source supplier relationships, either because multiple sources are not readily available or because the relationships are advantageous to us due to performance, quality, support, delivery, capacity, or price considerations. For example, we depend on a particular third-party software provider for the operating systems used in our PCs and a particular third-party semiconductor manufacturer for the semiconductor chips used in our PCs. In addition, from time to time, we deliberately cultivate a preferred supplier relationship for certain components or products to ensure our supply. If we are unable to cultivate such preferred supplier relationships, our ability to ensure supply of such components during periods of shortage could be materially and adversely impacted. If the supply of a critical single-or limited-source product or component is unexpectedly delayed or curtailed, we may not be able to ship the related product in desired quantities or configurations, or in a timely manner. In addition, we may not be able to replace the functionality provided by the third-party software currently offered with our products if that software becomes obsolete, defective or incompatible with future versions of our products or is not adequately maintained or updated. Even where multiple sources of supply are available, qualification of the alternative suppliers and establishment of reliable supplies could result in delays and a possible loss of sales, which could harm our operating results.

Our top five suppliers for each of the financial years ended March 31, 2017, 2018 and 2019 and the nine months ended December 31, 2019 collectively accounted for 41%, 40%, 35% and 34%, respectively, of our purchases for the relevant financial period.

While we believe our arrangements with third-party suppliers generate cost efficiencies, our reliance on these vendors subjects us to a greater risk of shortages and reduced control over delivery schedules of components and products, as well as a greater risk of increases in product and component costs. Moreover, if any of our third-party suppliers suffer any damage to facilities, lose benefits under material agreements, experience power outages, lack sufficient capacity to manufacture our components or products, encounter financial difficulties, are unable to secure necessary raw materials from their suppliers or suffer any other disruption or reduction in efficiency, we may encounter supply delays or disruptions. Because we maintain minimal levels of component inventories, a disruption in component or product availability could harm our financial performance and our ability to satisfy customer needs. In addition, defective parts and components from these vendors or those used by our manufacturing service providers could reduce product reliability and harm our reputation.

If we fail to achieve favorable pricing from our vendors, our profitability could be adversely affected.

Our profitability is affected by our ability to achieve favorable pricing from our vendors, including through negotiations for competitive purchase prices, vendor rebates, marketing funds, and other vendor funding received in the normal course of business. Because these supplier negotiations are continuous and reflect the ongoing competitive environment, the variability in timing and amount of incremental vendor discounts and rebates can affect our profitability. These vendor programs may change periodically, potentially resulting in adverse profitability trends if we cannot adjust pricing or variable costs. Our inability to establish a cost and product advantage, or determine alternative means to deliver value to our customers, may adversely affect our revenue and profitability.

Business disruptions could seriously harm our future revenue and financial condition and increase our costs and expenses.

Our worldwide operations could be disrupted by earthquakes, telecommunications failures, power or water shortages, tsunamis, floods, tropical storms, fires, extreme weather conditions, epidemics or pandemics and other natural or manmade disasters or catastrophic events. The occurrence of any of these business disruptions could result in significant losses, seriously harm our revenue, profitability and financial condition, adversely affect our competitive position, increase our costs and expenses, and require substantial expenditures and recovery time in order to fully resume operations. We rely on major logistics hubs, primarily in Greater China, to manufacture and distribute our products. In addition, a significant portion of our corporate, development and manufacturing activities and the manufacturing facilities of some of our component suppliers and manufacturing service providers are located in China. These China-based facilities make our operations more vulnerable to natural disasters or other business disruptions occurring in China, including the ongoing COVID-19 outbreak. While we believe disrupted production due to the COVID-19 outbreak in China can be shifted to manufacturing facilities outside China, the situation is evolving and will depend on future developments, which are highly uncertain. Notwithstanding any measures we have taken or may take to help mitigate business disruptions, our operations could be adversely affected if manufacturing, logistics or other operations in these locations are disrupted for any reason, including natural disasters, epidemics, labor, information technology system failures, military actions or economic, business, environmental, public health, regulatory or political issues. See also "*We could be adversely affected by outbreaks of infectious diseases*."

We could be adversely affected by the outbreaks of infectious diseases.

China, Hong Kong and other countries and regions have experienced and may experience future outbreaks of viruses, such as COVID-19, SARS, MERS, various forms of influenza or other infectious diseases. The current COVID-19 outbreak or a future outbreak of infectious disease in any country where we have facilities or where our customers or suppliers are based, as well as quarantines or other regulatory measures or restrictions taken in response to an outbreak, could significantly affect consumer demand for our products and services, adversely affect our ability to adequately staff our operations and severely disrupt the supply chains and distribution networks for our products and services. In addition, our suppliers may pass their higher costs for sourcing or production due to an outbreak to us through price increases, thereby impacting our margins. These types of higher supplier costs could negatively affect our profitability. More generally, ongoing or future outbreaks of infectious disease could affect the general level of economic activity in China or any country where we have facilities or where our customers or suppliers are based. The ongoing COVID-19 outbreak is widely expected to negatively affect the global economy and that disease or another significant outbreak of infectious disease could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in a global or regional economic downturn. Any of these events could have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be subject to liability in connection with industrial accidents at our processing and production sites.

As our production processes are complex and involve the operation of tools, equipment and machinery which are potentially dangerous, industrial accidents resulting in personal injuries or even deaths may occur. Industrial accidents may occur at our processing and production sites, whether due to malfunctions of tools, equipment or machinery or other reasons. If this type of event were to occur, we may be held liable for the personal injuries or deaths and subject to monetary losses, fines or penalties or other forms of legal liability as well as business interruptions caused by equipment shutdowns for government investigation or implementation or imposition of safety measures. For example, work safety laws imposed by the local government authorities where we operate could impose compliance costs or reduce the efficiency of our operations, thereby materially and adversely affecting our business, financial condition and results of operations.

Our insurance coverage may not be sufficient.

Our business operations are subject to inherent risks, such as industrial accidents, product liabilities, labor disputes, environmental risks, and natural disasters such as inclement weather conditions, floods, earthquakes and fires. These events may cause a disruption or cessation in our operations, and may adversely affect our business, financial condition, results of operations and prospects. Although we believe our insurance coverage is in line with industry peers, our insurance may not be adequate to cover all potential liabilities or risks to which we may be subject. Further, there is no assurance that insurance will be generally available in the future or, if available, that the premiums will not increase or remain commercially justifiable. The occurrence of any of these events may result in the interruption of our operations, damage to our reputation and subject us to significant losses or liabilities. If we incur substantial liability and the insurance does not, or is insufficient to, cover our liability, our business, financial condition, results of operations and prospects may be adversely affected.

We could suffer a loss of revenue and increased costs, exposure to significant liability and other negative consequences if we sustain cyber-attacks or other data security breaches that disrupt our operations or if our products contain defects or items in their design or manufacture that affect our products or services.

We manage and store various proprietary information and sensitive or confidential data relating to our operations. In addition, our cloud computing businesses routinely process, store, and transmit large amounts of data for our customers, including sensitive and personally identifiable information. We may be subject to breaches of the information technology systems we use for these purposes. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our networks, products or otherwise exploit any security vulnerabilities in our system or our products. In addition, sophisticated hardware and operating systems and other software and applications that we produce or procure from third parties may contain defects or items in their design or manufacture, including "bugs" and other problems or tools that could unexpectedly interfere with the operation of the system or present previously unidentified or other security risks.

The costs to us to eliminate or address the foregoing security problems and security vulnerabilities are likely to grow as we expand our operations and these costs could be significant. Our remediation efforts may not be successful and could result in interruptions, delays, or cessation of service, and loss of existing or potential customers that may impede our sales, manufacturing, distribution, or other critical functions. In addition, breaches of our security measures and the unapproved dissemination of proprietary information or sensitive or confidential data about us or our customers or other third parties, could expose us, our customers, or other third parties affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation, or otherwise harm our business.

We are subject to laws, rules, and regulations in countries where we operate relating to the collection, use, and security of user data. Our ability to execute transactions and to possess and use personal information and data in conducting our business subjects us to legislative and regulatory burdens that may require us to notify customers or employees of a data security breach. We have incurred, and will continue to incur, significant expenses to comply with mandatory privacy and security standards and protocols imposed by law, regulation, industry standards, or contractual obligations.

Our business could suffer if we do not develop and protect our own intellectual property or do not obtain or protect licenses to intellectual property developed by others on commercially reasonable and competitive terms.

We own numerous patents, copyrights and trademarks for our products, including our renowned ThinkPad notebook and the "Think," "Idea," "Motorola" and "Yoga" brands. If we or our suppliers are unable to develop or protect desirable technology or technology licenses, we may be prevented from marketing products, could be forced to market products without desirable features, or could incur substantial costs to redesign products, defend or enforce legal actions, or pay damages if we are found to have violated others' intellectual property. Although our suppliers might be contractually obligated to obtain or protect such licenses and indemnify us against related expenses, those suppliers could be unable to meet their obligations. Similarly, we invest in research and development and obtain additional intellectual property through acquisitions, but these activities do not guarantee that we will develop or obtain intellectual property necessary for profitable operations. Costs involved in developing and protecting rights in intellectual property may have a negative impact on our business.

If we or our subsidiaries are unable to comply with the restrictions and covenants in our respective debt agreements, there could be a default under the terms of these agreements, which could cause repayment of the relevant debt to be accelerated.

If we or our subsidiaries are unable to comply with the restrictions and covenants in our respective current or future debt agreements, there could be a default under the terms of these agreements. Some of our debt agreements, contain (or may in the future contain) cross-acceleration or cross-default provisions. See "Description of Other Indebtedness and Certain Credit Facilities" of this Offering Circular. As a result, the default by us or such subsidiary under one debt agreement may cause the acceleration of repayment of other debt, or result in a default under its other debt agreements. If any of these events occur, there can be no assurance that the assets and cash flows of us and our subsidiaries would be sufficient to repay in full all of their indebtedness, or that they would be able to find alternative financing. Even if alternative financing could be obtained, there can be no assurance that it would be on terms that are favorable or acceptable to us.

Due to the international nature of our business, political or economic changes or other factors have in the past affected and could in the future harm our revenue, costs and expenses and financial condition.

We derive the majority of our revenue from our international operations outside China, and we plan to aggressively grow our business in new international markets, particularly emerging markets. Revenue from China, AP, EMEA and AG accounted for 24%, 19%, 25% and 32% of our revenue for the financial year ended March 31, 2019, respectively, and for the nine months ended December 31, 2019, revenue from these respective regions accounted for 22%, 22%, 24% and 32% of our revenue. Our revenue, gross margin, expenses and financial condition have in the past affected and could in the future suffer due to a variety of risks associated with our international operations, including:

- ongoing instability or changes in a country's or region's economic or political conditions, including inflation, recession, interest rate or foreign exchange rate fluctuations and actual or anticipated military or political conflicts;

- longer collection cycles and financial instability among customers;

- various governmental requirements, and any changes to such requirements, for us to obtain and maintain permits, approvals and registrations or pass reviews necessary to conduct business in the markets we operate;

- trade regulations and procedures and actions affecting production, pricing and marketing of products, including tariffs and anti-dumping penalties;

- local labor conditions and regulations, including local labor issues faced by specific suppliers;

- managing a geographically dispersed workforce;

- changes in the regulatory or legal environment;

- differing technology standards or customer requirements;

- import, export or other business licensing requirements or requirements relating to making foreign direct investments, which could increase our cost of doing business in certain jurisdictions, prevent us from shipping products to particular countries or markets, affect our ability to obtain favorable terms for components, increase our operating costs or lead to penalties or restrictions;

- difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner and changes in tax laws. For example, our loss attributable to equity holders for the financial year ended March 31, 2018 of US$189 million was mainly attributable to the write-off of deferred income tax assets of US$400 million, pursuant to the Tax Cuts and Jobs Act enacted by the United States on December 22, 2017; and

- fluctuations in freight costs, limitations on shipping and receiving capacity, and other disruptions in the transportation and shipping infrastructure at important geographic points of exit and entry for our products and shipments.

A number of our target markets are relatively new markets for us and we face greater challenges in these markets due to our limited prior presence and because the competitive conditions in these markets may be different from those in our existing markets.

China's economic, political and social conditions, as well as its regulatory policies, could significantly affect China's financial markets, as well as our liquidity, access to capital and ability to operate our business.

A significant portion of our assets are located in China, and we derived 28%, 25% and 24% of our revenue for the financial years ended March 31, 2017, 2018 and 2019, respectively, and 22% of our revenue for the nine months ended December 31, 2019, from our operations in China. Accordingly, our results of operations, financial condition and prospects are subject to economic, political, social and legal developments in China. China's economy differs from the economies of developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange, setting of monetary policy, state ownership of productive assets, allocation of resources and preferential treatment to particular industries or companies.

While China's economy has experienced significant growth in the past 30 years, growth has been uneven across different regions and economic sectors and its continued growth has faced downward pressure since 2008 with annual GDP growth rate declining from 9.5% in 2011 to 6.1% in 2019 according to the National Bureau of Statistics of China. We expect the COVID-19 outbreak will have an adverse impact on China's economy. There is no assurance that China's growth can be sustained at historic rates or at all in the future. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall economy of China, but may negatively affect us. In addition, any form of government control or new laws and regulations, including changes to existing laws and regulations or the interpretation or enforcement thereof, depending on the nature and extent of such changes and our ability to make corresponding adjustments, may result in a material adverse effect on our business and operating results. If the business environment in China deteriorates, our business in China may also be materially adversely affected.

Our ability to access financing could be adversely affected by PRC regulations.

Laws, regulations and policies issued in the PRC may apply to us. For example, the NDRC issued the NDRC Circular, which came into effect on September 14, 2015. The NDRC Circular requires domestic enterprises and/or their overseas controlled enterprises or branches to procure the registration of any issue of debt securities outside the PRC with the NDRC prior to such issue, and to notify the NDRC of the particulars of such issue within a prescribed timeframe after such issue. The NDRC's acceptance of any application for registration is subject to the availability of a sufficient amount within the NDRC's stipulated foreign debt aggregate quota (the "**Aggregate Quota**"). Registrations for issue of foreign debt may not be accepted by the NDRC for either administrative reasons or due to the Aggregate Quota having been fully utilized at the time of filing. There is also no assurance that any registration with the NDRC will not be revoked or amended in the future.

The application of relevant laws, regulations and policies issued in the PRC, such as the NDRC Circular, could therefore restrict our ability to raise debt financing and could also impose registration and reporting requirements that could affect our ability to raise debt financing in a timely manner.

We face a number of risks and uncertainties arising from manufacturing a significant portion of our products in-house.

We manufacture a significant portion of our products in-house through our manufacturing facilities in Japan, the United States, Mexico, India, Brazil, Germany and multiple locations in China. We may further expand our manufacturing capacity and we face certain significant risks and uncertainties, including:

- our failure to make accurate projections, estimates and assumptions regarding future customer order levels, future pricing trends, the nature of future customers' demand, future industry cycles, trends and developments in PCs, tablets, mobile, servers and the consumer electronics industries as well as other matters which are inherently uncertain, subject to significant change and difficult to predict;

- our inability to fund our capital expenditures from operating cash flow or additional financing as and when required;

- potential delays and cost overruns as a result of a number of factors, many of which may be beyond our control, such as construction delays, supply chain disruptions, and increases in raw material prices; and

- potential delays or denial of required approvals by relevant government authorities.

If we over-expand our manufacturing capacity or if our planned manufacturing output exceeds actual demand, we may experience capacity under-utilization and excess inventory, and incur higher impairment charges or depreciation or amortization costs, which could harm our results of operations. If we do not expand our manufacturing capacity quickly enough or to a sufficient extent, or if actual demand exceeds our planned manufacturing output, we may be unable to meet our customers' orders on a timely basis or in sufficient quantities, which could in turn harm our business, reputation and customer relationships. Moreover, if we do not add to our manufacturing capacity as and when appropriate, we may be unable to expand our business, maintain our competitive position, achieve desired economies of scale or improve our profitability. If any of these risks materialize, it could have a material and adverse effect on our business, results of operations and prospects.

The PRC government's control of foreign currency conversion may limit our foreign exchange transactions.

The PRC government limits the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. See "Remittance of Renminbi Into and Outside the PRC" for more details. We receive a substantial portion of our revenues in RMB and may need to convert RMB to foreign currency in order to meet our foreign currency obligations. The PRC's foreign exchange regulations allow payments of current account items, including profit distributions, interest payments and expenditures from trade, to be made in foreign currencies without prior approval, subject to certain procedural requirements. However, capital account transactions remain subject to foreign exchange controls, including repayment of indebtedness denominated in foreign currencies. Foreign exchange controls with respect to capital accounts could also affect our ability to obtain foreign exchange through debt or equity financing. In the future, we cannot be certain that the PRC government will not also restrict access to foreign currencies for current account transactions. Shortages in the availability of foreign currency may limit our ability to satisfy our foreign currency-denominated obligations. In the past, there have been shortages of U.S. dollars or other foreign currency available for conversion of RMB in the PRC, and it is possible that such shortages may occur again, or that restrictions on conversion could be implemented. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to make payments in foreign currencies.

Unfavorable outcomes in tax audits and other tax compliance matters, or adverse legislative or regulatory tax changes could result in an increase in our future current tax expense or our effective income tax rate.

The application of tax laws to our operations and past transactions involves some inherent uncertainty. We are continually under audit in various tax jurisdictions. Although we believe our tax positions are appropriate, we may not be successful in resolving potential tax claims that arise from these audits. An unfavorable outcome in certain of these matters could result in a substantial increase to our tax expense. In addition, our provision for income taxes could be impacted by changes in the valuation of deferred tax assets.

In addition, changes in tax laws in the jurisdictions where we operate could adversely affect our operations and profitability. In recent years, numerous legislative, judicial, and administrative changes have been made in the provisions of tax laws applicable to us and companies similar to us. Additional changes to the tax laws are likely to continue to occur, and such changes may adversely affect our tax liability.

We may experience fluctuations in our tax obligations and effective tax rate.

We are subject to income taxes in federal and applicable state and local tax jurisdictions in the U.S., China and other foreign jurisdictions. We record tax expense based on our estimates of current and future payments, which include reserves for estimates of uncertain tax positions. As a result, there could be ongoing variability in our quarterly tax rates as taxable events occur and exposures are reevaluated.

Further, our effective tax rate in any financial statement period may be materially affected by changes in the mix and level of earnings.

In addition, we cannot predict whether quotas, duties, taxes, or other similar restrictions will be imposed by the U.S. or foreign countries upon the import or export of our products and services, or what effect any of these actions would have, if any, on our business, financial condition, or results of operations. The adverse impact of certain proposals on our tax expense and profitability could be material, and we may not be able to fully offset any such incremental tax increase through product price increases or otherwise. Accordingly, changes in regulatory, geopolitical, social or economic policies, and other factors may have a material adverse effect on our business in the future or may require us to exit a particular market or significantly modify our current business practices.

Our success depends on our ability to attract, retain and motivate our key employees.

In order to be successful, we must attract, retain, train and motivate qualified executives and other key employees, including those in managerial, technical, development, sales and marketing positions. Identifying, developing internally or hiring externally, training and retaining qualified executives, engineers and marketing and sales professionals are critical to our future, and competition for experienced employees in the industry can be intense. In order to attract and retain executives and other key employees in a competitive marketplace, we must provide a competitive compensation package, including fixed compensation, performance bonus, retirement benefits and equity-based compensation under our long-term incentive program. Our equity-based incentive awards include share appreciation rights, restricted share units and performance-based share units. If our equity-based compensation ceases to be viewed as a valuable benefit, or if our total compensation package is not viewed as being competitive, our ability to attract, retain, and motivate executives and key employees could be weakened. The failure to successfully hire executives and key employees or the loss of any executives and key employees could have a significant impact on our operations. Further, changes in our management team may be disruptive to our business, and any failure to successfully transition and assimilate key new hires or promoted employees could adversely affect our business and results of operations.

Compliance requirements of current or future environmental and safety laws, or other regulatory laws, may increase our costs, expose us to potential liability, and otherwise harm our business.

Our operations are subject to new and future environmental and safety regulation in all of the countries and regions in which we conduct business. Such regulations include requirements relating to climate change laws and regulations, materials composition, sourcing, energy efficiency, and collection, recycling, treatment, transportation, and disposal of our electronics products, including restrictions on mercury, lead, cadmium, lithium metal, lithium ion, and other substances. If we fail to comply with applicable rules and regulations regarding the transportation, source, use, and sale of such regulated substances, we could be subject to liability. The costs under environmental and safety laws are difficult to predict, but could have an unfavorable impact on our business.

Unfavorable results of legal proceedings could harm our business and result in substantial costs.

We are involved in various claims, suits, investigations, and legal proceedings that arise from time to time in the ordinary course of our business. Additional legal claims or regulatory matters may arise in the future and could involve stockholder, labor, consumer, government regulatory and compliance, intellectual property, antitrust, tax, and other issues on a global basis. Litigation is inherently unpredictable. Regardless of the merits of the claims, litigation may be both time-consuming and disruptive to our business. We could incur judgments or enter into settlements of claims that could adversely affect our operating results or cash flows in a particular period. In addition, our business, operating results, and financial condition could be adversely affected if any infringement or other intellectual property claim made against us by any third party is successful, or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions.

RISKS RELATING TO CERTAIN DATA, FORECASTS AND STATISTICS IN THIS OFFERING CIRCULAR

Certain data, forecasts and statistics in this Offering Circular are derived from various official or third-party sources and may not be accurate, reliable, complete or up-to-date.

Market data and certain industry forecasts and statistics in this Offering Circular, including our market share information, have been derived from various official or third-party sources, including market research, publicly available information and industry publications. Although this information is believed to be reliable, it has not been independently verified by us, the Arranger, the Dealers, the Trustee, the Agents or our respective directors and advisers. Therefore, we cannot assure you as to the accuracy and reliability of such data, forecasts and statistics, which may not be consistent with other information compiled inside or outside the PRC, and may not be complete or up-to-date. Such facts, forecasts and statistics include those set out in the sections headed "Description of the Company" and "Business Overview". Because of possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies, and you should not place undue reliance on them. Furthermore, we cannot assure you that they are stated or compiled on the same basis, or with the same degree of accuracy, as similar statistics presented elsewhere. In all cases, you should consider carefully how much weight or importance you should attach to or place on such data, forecasts or statistics.

RISKS RELATING TO NOTES ISSUED UNDER THE PROGRAMME

The Notes are unsecured obligations.

As the Notes are unsecured obligations, their repayment may be compromised if:

- we become subject to bankruptcy, liquidation, reorganisation or other winding-up proceedings;
- there is a default in payment under our secured indebtedness or other unsecured indebtedness; or
- there is an acceleration of any of our indebtedness.

If any of these events were to occur, our assets and any amounts received from the sale of such assets may not be sufficient to pay amounts due on the Notes.

Notes may not be a suitable investment for all investors.

The Notes are complex financial instruments and may be purchased as a way to reduce risk or enhance yield with an understood, measured and appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(i) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;

(ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

(iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant financial markets; and

(v) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Notes issued under the Programme have no current active trading market and may trade at a discount to their initial offering price and/or with limited liquidity.

Notes issued under the Programme will be new securities that may not be widely distributed and for which there is currently no active trading market (unless, in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of the Notes which is already issued). If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and our financial condition. If the Notes are trading at a discount, investors may not be able to receive a favourable price for their Notes, and in some circumstances investors may not be able to sell their Notes at all or at their fair market value. Although an application may be made for some Notes issued under the Programme to be listed on, and permitted to deal in, the SEHK, there is no assurance that such application will be accepted, that any particular Tranche of the Notes will be so listed or that an active trading market will develop. In addition, the market for investment grade and crossover grade debt has been subject to disruptions that have caused volatility in prices of securities similar to the Notes issued under the Programme. Accordingly, there is no assurance as to the development or liquidity of any trading market, or that disruptions will not occur, for any particular Tranche of the Notes.

We are subject to the applicable corporate governance and disclosure standards of the SEHK, which standards may be different from those applicable to companies in certain other countries.

We are subject to the corporate governance and disclosure standards of the SEHK. The corporate governance and disclosure standards imposed by the SEHK may be different from those imposed by securities exchanges in other countries or regions. As a result, the level of information that is available may not correspond to the level to which Noteholders are accustomed.

We may not be able to redeem the Notes upon the due date for redemption thereof.

We may, and at maturity will, be required to redeem all of the Notes. If such an event were to occur, we may not have sufficient cash in hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. Our failure to repay, repurchase or redeem tendered Notes could constitute an event of default under the Notes, which may also constitute a default under the terms of our other indebtedness.

Changes in interest rates may have an adverse effect on the price of the Notes.

The Noteholders may suffer unforeseen losses due to fluctuations in interest rates. Generally, a rise in interest rates may cause a fall in the prices of the Notes, resulting in a capital loss for the Noteholders. However, the Noteholders may reinvest the interest payments at higher prevailing interest rates. Conversely, when interest rates fall, the prices of the Notes may rise. The Noteholders may enjoy a capital gain but interest payments received may be reinvested at lower prevailing interest rates.

The liquidity and price of the Notes following each offering may be volatile.

The price and trading volume of the Notes may be highly volatile. Factors such as variations in our revenues, earnings and cash flows and proposals for new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. There is no assurance that these developments will not occur in the future.

Negative publicity and techniques employed by short sellers may drive down the trading price of our securities, including the Notes.

Short selling is the practice of selling securities that the seller does not own but rather has borrowed from a third party with the intention of buying identical securities back at a later date to return to the lender. The short seller hopes to profit from a decline in the value of the securities between the sale of the borrowed securities and the purchase of the replacement shares, as the short seller expects to pay less in that purchase than it received in the sale. Because it is in the short seller's interest for the price of the security to decline, many short sellers publish, or arrange for the publication of, negative opinions regarding the relevant issuer and its business prospects in order to create negative market momentum and generate profits for themselves after selling a security short. While traditionally these short sellers were limited in their ability to access mainstream business media or to otherwise create negative market rumors, the rise of the Internet and technological advancements regarding document creation, videotaping and publication have allowed many short sellers to publicly attack a company's credibility, strategy and veracity by means of so-called research reports and information. These short attacks have, in the past, led to selling of securities in the market.

Public companies that have substantially all of their operations in China have been the subject of short selling. Much of the scrutiny and negative publicity has centered on allegations of a lack of effective internal control over financial reporting resulting in financial and accounting irregularities and mistakes, inadequate corporate governance policies or a lack of adherence thereto and, in many cases, allegations of fraud. As a result, many of these companies are now conducting internal and external investigations into the allegations.

We have from time to time received negative publicity, including negative Internet and blog postings about us, our services, operations and our management, and in some instances we have responded to refute such allegations. It is not clear what effect such negative publicity could have on us or how our refutation of such allegations will be received. If we were to become the subject of any unfavorable allegations, whether such allegations are proven to be true or untrue, we could have to expend a significant amount of resources to investigate such allegations or defend ourselves. Such a situation could be costly and time-consuming, and could distract our management from growing our business. Even if such allegations are ultimately proven to be groundless, allegations against us could negatively impact the market price of our securities, including the Notes.

If we or any of our subsidiaries are unable to comply with the restrictions and covenants in the applicable debt agreements, or the Notes, there could be a default under the terms of these agreements, or the Notes, which could cause repayment of the relevant debt to be accelerated.

If we are unable to comply with the restrictions and covenants in the Notes, or if we or any of our subsidiaries are unable to comply with current or future debt obligations and other agreements, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could accelerate repayment of the debt or declare all amounts borrowed due and payable. Furthermore, some of our debt agreements, and the Notes, contain (or may in the future contain) cross-acceleration or cross-default provisions. See "Description of Other Indebtedness and Certain Credit Facilities." As a result, the default by us or our subsidiary under one debt agreement may cause the acceleration of repayment of other debt, including the Notes, or result in a default under other debt agreements, including the Notes. If any of these events occur, there can be no assurance that our assets and cash flows and those of our subsidiaries would be sufficient to repay in full all of our indebtedness, or that we would be able to find alternative financing. Even if alternative financing could be obtained, there can be no assurance that it would be on terms that are favorable or acceptable to us.

It may be difficult to effect service of process or enforce any judgments obtained from non-PRC courts against us.

Although we are not incorporated in the PRC, a significant portion of our assets are located in the PRC. Therefore, investors may encounter difficulties in effecting service of process from outside the PRC upon us. Moreover, it is understood that the enforcement of foreign judgments in the PRC is still subject to uncertainties. The PRC is not a party to any treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, most other western countries or Japan, and therefore enforcement in the PRC of judgments of a court in any of these jurisdictions may be difficult.

The Trustee may request the Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction.

In certain circumstances, the Trustee may (at its sole discretion) request Noteholders to provide an indemnity and/or security and/or prefunding to its satisfaction before it takes actions on behalf of Noteholders. The Trustee will not be obliged to take any such actions if not indemnified and/or secured and/or prefunded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or prefunding can be a lengthy process and may have an impact on when such actions can be taken. The Trustee may not be able to take actions, notwithstanding the provision of an indemnity or security or prefunding to it, in breach of the terms of the Trust Deed and in circumstances where there is uncertainty or dispute as to the applicable laws or regulations and, to the extent permitted by the agreements and the applicable law, it will be for the Noteholders to take such actions directly.

Exchange rate risks and exchange controls may result in investors receiving less interest or principal than expected.

We will pay principal and interest on the Notes in the currency specified in the relevant Pricing Supplement (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Notes subject to our optional redemption may have a lower market value than Notes that cannot be redeemed.

Optional redemption features as contained in the Terms and Conditions are likely to limit the market value of the Notes. During any period when we may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This may also be true prior to any redemption period.

We may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Notes are redeemable in the event of certain withholding taxes being applicable.

We make no assurances as to whether or not payments on the Notes may be made without withholding taxes or deductions applying from the date on which agreement is reached to issue the first Tranche of Notes for or on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Hong Kong or the PRC or any jurisdiction of which the Issuer is otherwise considered by a taxing authority to be resident for tax purposes, or any jurisdiction from or through which the Issuer or any person on behalf of the Issuer makes a payment on the Notes and the Coupons, or any political organization or governmental authority thereof or therein having power to tax (the "**Relevant Jurisdiction**"). Although, pursuant to the Terms and Conditions, we are required to gross up payments on account of any such withholding taxes or deductions, we also have the right to redeem the Notes in the event that we have or will become obliged to pay additional amounts on account of any existing or future withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed as a result of any change in, or amendment to, the laws of a Relevant Jurisdiction or any change in the official application or interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of Notes.

The Notes will be structurally subordinated to the existing and future indebtedness and other liabilities of the Issuer's existing and future subsidiaries and effectively subordinated to the Issuer's and its subsidiaries secured debt to the extent of the value of the collateral securing such indebtedness.

The Notes will be structurally subordinated to any debt and other liabilities and commitments, including trade payables and lease obligations, of the Issuer's existing and future subsidiaries, whether or not secured. The Notes will not be guaranteed by any of the Issuer's subsidiaries and the Issuer may not have direct access to the assets of such subsidiaries unless these assets are transferred by dividend or otherwise to the Issuer. Each of the Issuer's subsidiaries are separate legal entities that have no obligation to pay any amounts due under the Notes or make any funds available therefor, whether by dividends, loans or other payments. The Issuer's right to receive assets of any of its subsidiaries upon such subsidiary's liquidation or reorganization will be effectively subordinated to the claim of that subsidiary's creditors (except to the extent that the Issuer is a creditor of that subsidiary). Consequently, the Notes will be effectively subordinated to all liabilities, including trade payables and lease obligations, of any of the Issuer's subsidiaries and any subsidiaries that the Issuer may in the future acquire or establish.

The Notes are the Issuer's unsecured obligations and will (i) rank equally in right of payment with all the Issuer's other present and future senior unsecured indebtedness; (ii) be effectively subordinated to all of the Issuer's present and future secured indebtedness to the extent of the value of the collateral securing such obligations; and (iii) be senior to all of the Issuer's present and future subordinated obligations. As a result, claims of secured lenders, whether senior or junior, with respect to assets securing their loans will have priority with respect to those assets. In the event of the Issuer's bankruptcy, insolvency, liquidation, reorganization, dissolution or other winding up, or upon any acceleration of the Notes, if applicable, these assets will be available to pay obligations on the Notes only after all other debt secured by these assets has been repaid in full. Any remaining assets will be available to Noteholders ratably with all of the Issuer's other unsecured and unsubordinated creditors, including trade creditors. If there are no sufficient assets remaining to pay all these creditors, then all or a portion of the Notes then outstanding would remain unpaid.

As at December 31, 2019, the Group had US$4,817 million of total indebtedness, including short term borrowings and US$ and CNY notes issued by the Issuer. The Issuer's subsidiaries had US$56 million of indebtedness as at December 31, 2019 to which the Notes would be structurally subordinated.

The insolvency laws of Hong Kong may differ from those of another jurisdiction with which the Noteholders are familiar.

As we are incorporated under the laws of Hong Kong, any insolvency proceeding relating to us, even if brought in other jurisdictions, would likely involve Hong Kong insolvency laws, the procedural and substantive provisions of which may differ from comparable provisions of the local insolvency laws of jurisdictions with which the Noteholders are familiar.

The Terms and Conditions provide only limited protection against significant corporate events that could adversely impact the investors' investment in the Notes.

While the Terms and Conditions contain terms intended to provide protection to Noteholders upon the occurrence of certain events involving significant corporate transactions and our creditworthiness, these terms are limited and may not be sufficient to protect the investors' investment in the Notes. See "*Terms and Conditions of the Notes – Redemption and Purchase*".

The Trust Deed for the Notes also does not:

- require us to maintain any financial ratios or specific levels of net worth, revenue, income, cash flows or liquidity;

- restrict our or our subsidiaries' or consolidated affiliated entities' ability to issue unsecured securities;

- restrict unsecured indebtedness of our subsidiaries or consolidated affiliated entities that would be senior to our equity interests in our subsidiaries or consolidated affiliated entities and therefore rank effectively senior to the Notes;

- limit the ability of our subsidiaries or consolidated affiliated entities to service indebtedness;

- restrict our ability to redeem or prepay any other of our securities or other indebtedness; or

- restrict our ability to make investments or to repurchase or pay dividends or make other payments in respect of our shares or other securities ranking junior to the Notes.

As a result of the foregoing, when evaluating the terms of the Notes, the investors should be aware that the terms of the Notes do not restrict our ability to engage in, or to otherwise be a party to, a variety of corporate transactions, circumstances and events that could have an adverse impact on the investors' investment in the Notes.

Bearer Notes where denominations involve integral multiples: definitive Bearer Notes.

In relation to any issue of Bearer Notes which have denominations consisting of a minimum Specified Denomination (as defined in the Terms and Conditions) plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his or her account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Bearer Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Bearer Note in respect of such holding (should such Notes be printed) and would need to purchase a principal amount of the Notes at or in excess of the minimum Specified Denomination such that its holding amounts to a Specified Denomination.

If definitive Bearer Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Decisions that may be made on behalf of all Noteholders may be adverse to the interests of individual Noteholders. Modifications and waivers may be made in respect of the Terms and Conditions, the Notes, the Agency Agreement or the Trust Deed by the Trustee or less than all of the holders of the Notes.

The Terms and Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including holders who did not attend and vote at the relevant meeting and holders who voted in a manner contrary to the majority. Furthermore, there is a risk that the decision of the majority of Noteholders may be adverse to the interests of individual Noteholders.

The Terms and Conditions provide that the Trustee may, without the consent of Noteholders, agree to any modification of the Terms and Conditions, the Notes, the Agency Agreement or the Trust Deed (except as mentioned in the Trust Deed) which, in the opinion of the Trustee, (i) will not be materially prejudicial to the interests of Noteholders or (ii) is of a formal, minor or technical nature or is to correct a manifest error, and, (except as mentioned in the Trust Deed) agree to any authorization or waiver of any proposed breach or breach of the Terms and Conditions, the Notes, the Trust Deed or the Agency Agreement or determine that any Event of Default shall not be treated as such for the purposes of the Trust Deed, if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

The Notes of each Series will initially be represented by a Global Note or as the case may be, a Global Note Certificate and holders of a beneficial interest in such Global Note or as the case may be, such Global Note Certificate must rely on the procedures of the relevant Clearing System.

The Notes of each Series to be issued in bearer form will be represented on issue by a Global Note. The Notes of each Series to be issued in registered form will be represented by a Global Note Certificate except in certain limited circumstances described in the Global Note Certificate. The Global Note Certificate will be registered in the name of Citivic Nominees Limited as nominee for, and deposited with, the common depositary for Euroclear and Clearstream, Luxembourg or with a sub-custodian for the CMU Service.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg, or as the case may be, the sub-custodian for the CMU Service, for distribution to their account holders. A holder of a beneficial interest in the relevant Global Note or Global Note Certificate must rely on the procedures of Euroclear, Clearstream, Luxembourg or as the case may be, the CMU Service to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note or Global Note Certificate.

Holders of beneficial interests in the Global Note or Global Note Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear, Clearstream, Luxembourg or as the case may be, the CMU Service to appoint appropriate proxies.

Certain benchmark rates, including LIBOR and EURIBOR, may be discontinued or reformed in the future – including the potential phasing-out of LIBOR after 2021.

The London Interbank Offered Rate ("**LIBOR**"), the Euro Interbank Offered Rate ("**EURIBOR**") and other interest rate or other types of rates and indices which are deemed to be benchmarks are the subject of ongoing national and international regulatory discussions and proposals for reform. Some of these reforms are already effective while others are still to be implemented.

Regulation (EU) No. 2016/1011 (the "**Benchmarks Regulation**") on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds became applicable from January 1, 2018. The Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU. The Benchmark Regulation could have a material impact on any Notes linked to LIBOR, EURIBOR or another benchmark rate or index, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the terms of the Benchmark Regulation, and such changes could (among other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level, of the benchmark. More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks,"trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the discontinuance or unavailability of quotes of certain "benchmarks."

As an example of such benchmark reforms, on July 27, 2017, the UK Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR benchmark after 2021 and, on July 12, 2018, announced that the LIBOR benchmark may cease to be a regulated benchmark under the Benchmark Regulation. Such announcements indicate that the continuation of LIBOR on the current basis (or at all) cannot and will not be guaranteed after 2021.

At this time, it is not possible to predict the effect of any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the UK or elsewhere. Uncertainty as to the nature of such alternative reference rates or other reforms may adversely affect the trading market for LIBOR-linked notes. The potential elimination of benchmarks, such as LIBOR, the establishment of alternative reference rates or changes in the manner of administration of a benchmark could also require adjustments to the terms of benchmark-linked notes and may result in other consequences, such as interest payments that are lower than, or that do not otherwise correlate over time with, the payments that would have been made on those notes if the relevant benchmark was available in its current form.

The elimination of the LIBOR benchmark or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions of the Conditions (as further described in Condition 7(j) (*Benchmark Discontinuation*)), or result in adverse consequences to holders of any Notes linked to such benchmark (including Floating Rate Notes whose interest rates are linked to LIBOR, EURIBOR or any other such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities (including the Notes) based on the same benchmark.

The "Terms and Conditions of the Notes" provide for certain fallback arrangements in the event that a published benchmark, such as LIBOR, (including any page on which such benchmark may be published (or any successor service)) becomes unavailable, including the possibility that the rate of interest could be set by reference to a successor rate or an alternative rate and that such successor rate or alternative reference rate may be adjusted (if required) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark, although the application of such adjustments to the Notes may not achieve this objective. Any such changes may result in the Notes performing differently (which may include payment of a lower interest rate) than if the original benchmark continued to apply. In certain circumstances the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the last preceding Interest Period being used.

This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser (as defined in the Conditions), the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by the Benchmark Regulation reforms in making any investment decision with respect to any Notes linked to or referencing a benchmark.

Considerations related to a particular issue of the Notes.

A wide range of the Notes may be issued under the Programme. A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Dual Currency Notes

We may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;

- they may receive no interest;

- the payment of principal or interest may occur at a different time or in a different currency than expected; and
- the amount of principal payable at redemption may be less than the nominal amount of such Notes or even zero.

Variable rate Notes with a multiplier or other leverage factor

Notes with variable interest rates can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse floating rate Notes

Inverse floating rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as EURIBOR. The market values of such Notes are typically more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse floating rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/floating rate Notes

Fixed/floating rate Notes may bear interest at a rate that we may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Our ability to convert the interest rate will affect the secondary market and the market value of such Notes since we may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If we convert from a fixed rate to a floating rate, the spread on the fixed/floating rate Notes may be less favourable than then prevailing spreads on comparable floating rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If we convert from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on our Notes.

The market prices of Notes issuable at a substantial discount or premium tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities.

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

RISKS RELATING TO RENMINBI DENOMINATED NOTES

A description of risks which may be relevant to an investor in Notes denominated in Renminbi ("**Renminbi Notes**") is set out below.

Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and out of the PRC which may adversely affect the liquidity of Renminbi Notes.

Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar.

However, there has been significant reduction in control by the PRC government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi into and out of the PRC for the settlement of capital account items, such as capital contributions, debt financing and securities investment, is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into and out of the PRC for settlement of capital account items are being adjusted from time to time to match the policies of the PRC Government.

Although the People's Bank of China ("**PBoC**") has implemented policies improving accessibility to Renminbi to settle cross-border transactions in the past, there is no assurance that the PRC government will liberalize control over cross-border remittance of Renminbi in the future, that the schemes for Renminbi cross-border utilization will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. Despite the Renminbi internationalization pilot programme and efforts in recent years to internationalize the currency, there can be no assurance that the PRC government will not impose interim or long-term restrictions on the cross-border remittance of Renminbi. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Issuer to source Renminbi to finance its obligations under Notes denominated in Renminbi.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Renminbi Notes and our ability to source Renminbi outside the PRC to service Renminbi Notes.

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the PBOC has entered into agreements (the "**Settlement Arrangements**") on the clearing of Renminbi business with financial institutions (the "**Renminbi Clearing Banks**") in a number of financial centers and cities, including but not limited to Hong Kong, has established the Cross-Border Inter-Bank Payments System, CIPS, to facilitate cross-border Renminbi settlement and is further in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions, the current size of Renminbi denominated financial assets outside the PRC is limited.

There are restrictions imposed by the PBOC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC, although the PBOC has gradually allowed participating banks to access the PRC's onshore inter-bank market for the purchase and sale of Renminbi. The Renminbi Clearing Banks only have limited access to onshore liquidity support from the PBOC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In cases where the participating banks cannot source sufficient Renminbi through the above channels, they will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the Renminbi Notes. To the extent we are required to source Renminbi in the offshore market to service our Renminbi Notes, there is no assurance that we will be able to source such Renminbi on satisfactory terms, if at all.

Investment in the Renminbi Notes is subject to exchange rate risks.

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. The PBOC has in recent years implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. All payments of interest and principal will be made in Renminbi with respect to Renminbi Notes unless otherwise specified.

Investment in the Renminbi Notes is subject to currency risk.

If we are unable, or it is impracticable for us, to satisfy our obligation to pay interest and principal on the Renminbi Notes as a result of Inconvertibility, Non-transferability or Illiquidity (each, as defined in the Conditions), we shall be entitled, on giving not less than five or more than 30 calendar days' irrevocable notice to the investors prior to the due date for payment, to settle any such payment in U.S. dollars on the due date at the U.S. Dollar Equivalent (as defined in the Conditions) of any such interest or principal, as the case may be. As a result the value of these Renminbi payments in U.S. dollar may vary with the prevailing exchange rates in the market place. If the value of Renminbi depreciates against the U.S. dollar, the value of the investment in U.S. dollars will decline.

Payments with respect to the Renminbi Notes may be made only in the manner designated in the Renminbi Notes.

All payments to investors in respect of the Renminbi Notes will be made solely (i) for so long as the Renminbi Notes are represented by global certificates held with the common depositary for Clearstream Banking S.A. and Euroclear Bank SA/NV or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or a financial center in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement, (ii) for so long as the Renminbi Notes are represented by global certificates lodged with a sub-custodian for or registered with the CMU, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures or, (iii) for so long as the Renminbi Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong or a financial center in which a Renminbi Clearing Bank clears and settles Renminbi, if so specified in the Pricing Supplement in accordance with prevailing rules and regulations. We cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

Gains on the transfer of the Renminbi Notes may become subject to income taxes under PRC tax laws.

Under the *PRC Enterprise Income Tax Law*, the *PRC Individual Income Tax Law* and the relevant implementing rules, as amended from time to time, any gain realised on the transfer of Renminbi Notes by non-PRC resident enterprise or individual holders may be subject to PRC enterprise income tax ("**EIT**") or PRC individual income tax ("**IIT**") if such gain is regarded as income derived from sources within the PRC. The *PRC Enterprise Income Tax Law* levies EIT at the rate of 20% of the PRC-sourced gains derived by such non-PRC resident enterprise from the transfer of Renminbi Notes but its implementation rules have reduced the EIT rate to 10%. The *PRC Individual Income Tax Law* levies IIT at a rate of 20% of the PRC-sourced gains derived by such non-PRC resident individual holder from the transfer of Renminbi Notes.

However, uncertainty remains as to whether the gain realised from the transfer of Renminbi Notes by non-PRC resident enterprise or individual holders would be treated as income derived from sources within the PRC and thus become subject to EIT or IIT. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules. According to the arrangement between the PRC and Hong Kong, for avoidance of double taxation, holders who are residents of Hong Kong, including enterprise holders and individual holders, will not be subject to EIT or IIT on capital gains derived from a sale or exchange of the Notes.

Therefore, if enterprise or individual holders which are non-PRC residents are required to pay PRC income tax on gains derived from the transfer of Renminbi Notes, unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-PRC enterprise or individual holders of Renminbi Notes reside that reduces or exempts the relevant EIT or IIT, the value of their investment in Renminbi Notes may be materially and adversely affected.

Remittance of proceeds in Renminbi into or out of the PRC.

In the event that the Issuer decides to remit some or all of the proceeds into the PRC in Renminbi, its ability to do so will be subject to obtaining all necessary approvals from, and/or registration or filing with, the relevant PRC government authorities. However, there is no assurance that the necessary approvals from, and/or registration or filing with, the relevant PRC government authorities will be obtained at all or, if obtained, they will not be revoked or amended in the future.

There is no assurance that the PRC government will continue to gradually liberalize the control over cross-border Renminbi remittances in the future, that the PRC government will not impose any interim or long-term restrictions on capital inflow or outflow which may restrict cross-border Renminbi remittances, that the pilot schemes introduced will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that the Issuer does remit some or all of the proceeds into the PRC in Renminbi and the Issuer subsequently is not able to repatriate funds out of the PRC in Renminbi, it will need to source Renminbi outside the PRC to finance its obligations under the Renminbi Notes, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

FORMS OF THE NOTES

BEARER NOTES

Each Tranche of the Notes to be issued in bearer form ("**Bearer Notes**") will initially be in the form of a temporary global note in bearer form (the "**Temporary Global Note**"), without interest coupons. Each Temporary Global Note or permanent global note in bearer form (the "**Permanent Global Note**") (each a "**Global Note**") will be deposited on or around the issue date of the relevant Tranche of the Notes with a depositary or a common depositary for Euroclear as operator of the Euroclear System and/or Clearstream, Luxembourg and/or any other relevant clearing system and/or a sub-custodian for the CMU Service.

In the case of each Tranche of Bearer Notes, the relevant Pricing Supplement will also specify whether the "**C Rules**" or the "**D Rules**" are applicable in relation to the Notes or, if the Notes do not have a maturity of more than 365 days, then neither the C Rules nor the D Rules are applicable.

Temporary Global Note exchangeable for Permanent Global Note

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be issued in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, from the date (the "**Exchange Date**") which is 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note after the Exchange Date unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of Temporary Global Notes cannot be collected without such certification of non-U.S. beneficial ownership, as described above.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Issuer shall procure (in the case of first exchange) the delivery of a Permanent Global Note, duly authenticated, to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) presentation and surrender of the Temporary Global Note to or to the order of the Principal Paying Agent or the CMU Lodging and Paying Agent, as the case may be; and

(ii) receipt by the Principal Paying Agent or the CMU Lodging and Paying Agent, as the case may be, of a certificate or certificates of non-U.S. beneficial ownership,

within 7 days of the bearer requesting such exchange. In the case of the CMU Service, no such exchange will be effected until all relevant accountholders (as set out in a CMU Instrument Position Report (as defined in the rules of the CMU Service) or any other relevant notification supplied to the CMU Lodging and Paying Agent by the CMU Service) have provided certification of non-U.S. beneficial ownership.

Temporary Global Note exchangeable for Definitive Notes

If the relevant Pricing Supplement specifies the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the C Rules are applicable or that neither the C Rules nor the D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Pricing Supplement specifies the form of the Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specifies that the D Rules are applicable, then the Notes will initially be issued in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes on or after the Exchange Date for the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership as described above. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note and in the case where the D Rules are applicable, certification as to non-U.S. beneficial ownership, as described above, to or to the order of the Principal Paying Agent or the CMU Lodging and Paying Agent, as the case may be, within 30 days of the bearer requesting such exchange but not later than 40 days after the Issue Date of the relevant Series of the Notes.

PERMANENT GLOBAL NOTE EXCHANGEABLE FOR DEFINITIVE NOTES

If the relevant Pricing Supplement specifies the form of Notes as being "Permanent Global Note exchangeable for Definitive Notes", then the Notes will initially be issued in the form of a Permanent Global Note which will be exchangeable in whole, but not in part, for Definitive Notes:

(i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(ii) at any time, if so specified in the relevant Pricing Supplement; or

(iii) if the relevant Pricing Supplement specifies "in the limited circumstances described in the Permanent Global Note", then if either of the following event occurs:

  (a) Euroclear or Clearstream, Luxembourg, the CMU Service or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or

  (b) any of the circumstances described in Condition 14 (*Events of Default*) occurs in respect of any Note of the relevant Tranche.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Pricing Supplement), in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent or the CMU Lodging and Paying Agent within 30 days of the bearer requesting such exchange but not later than 40 days after the Issue Date of the relevant Series of the Notes.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

Legend concerning United States persons

In the case of any Tranche of Bearer Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to in the legend provide that, with certain exceptions, United States persons who hold such obligations will not be permitted to deduct any loss, and will not be eligible for capital gain treatment with respect to any gain, realized on a sale, exchange or redemption of a Bearer Note, Coupon or Talon.

For purposes of this section, "United States person" means:

(i) a citizen or resident of the United States;

(ii) a corporation, partnership or other entity created or organized in or under the laws of the United States or any political subdivision thereof; or

(iii) an estate or trust the income of which is subject to United States federal income taxation regardless of its source.

For purposes of this section, “United States” has the same meaning given to it in Condition 11(a) below.

REGISTERED NOTES

Each Tranche of Notes in registered form (“**Registered Notes**”) will be represented by either:

(i) individual Note Certificates in registered form (“**Individual Note Certificates**”); or

(ii) one or more unrestricted global note certificates (“**Global Note Certificate(s)**”), in each case as specified in the relevant Pricing Supplement.

Each Note represented by a Global Note Certificate will be registered in the name of a common depositary (or its nominee) for Euroclear and/or Clearstream, Luxembourg a sub-custodian for the CMU Service and/or any other relevant clearing system, and the relevant Global Note Certificate will be deposited on or about the issue date with the common depositary or a sub-custodian for the CMU Service.

If the relevant Pricing Supplement specifies the form of Notes as being “Individual Note Certificates”, then the Notes will at all times be represented by Individual Note Certificates issued to each Noteholder in respect of their respective holdings.

Global Note Certificate exchangeable for Individual Note Certificates

If the relevant Pricing Supplement specifies the form of Notes as being “Global Note Certificate exchangeable for Individual Note Certificates”, then the Notes will initially be represented by one or more Global Note Certificates, each of which will be exchangeable in whole, but not in part, for Individual Note Certificates:

(i) on the expiry of such period of notice as may be specified in the relevant Pricing Supplement; or

(ii) if the relevant Pricing Supplement specifies “in the limited circumstances described in the Global Note Certificate”, then:

  (a) in the case of any Global Note Certificate held by or on behalf of Euroclear and/or Clearstream, Luxembourg, the CMU Service and/or any other clearing system, if Euroclear, Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business; and

  (b) in any case, if any of the circumstances described in Condition 14 (*Events of Default*) occurs in respect of any Note of the relevant Tranche.

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, each person having an interest in a Global Note Certificate must provide the relevant Registrar (through the relevant clearing system) with such information as the Issuer and the relevant Registrar may require to complete and deliver Individual Note Certificates (including the name and address of each person in which the Notes represented by the Individual Note Certificates are to be registered and the principal amount of each such person’s holding).

Whenever a Global Note Certificate is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Note Certificate within five business days of the delivery, by or on behalf of the registered holder of the Global Note Certificate to the relevant Registrar of such information as is required to complete and deliver such Individual Note Certificates against the surrender of the Global Note Certificate at the specified office of the relevant Registrar.

Such exchange will be effected in accordance with the provisions of the Trust Deed and the Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled to the Agency Agreement and, in particular, shall be effected without charge to any holder, but against such indemnity as the relevant Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

Terms and Conditions applicable to the Notes

The terms and conditions applicable to any Individual Note Certificate will be endorsed on that Individual Note Certificate and will consist of the terms and conditions set out under "*Terms and Conditions of the Notes*" below and the provisions of the relevant Pricing Supplement which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Global Note Certificate will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "*Summary of Provisions Relating to the Notes while in Global Form*" below.

USE OF PROCEEDS

The net proceeds from the issue of each Tranche of Notes will be used for our working capital and general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Pricing Supplement.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as supplemented, amended, replaced and completed by the relevant Pricing Supplement, will be incorporated by reference into each Note in global form and each Note in definitive form issued under the Programme, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and the relevant Dealer at the time of issue but, if not so permitted and agreed, such Note in definitive form will have endorsed thereon or attached thereto such Terms and Conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Forms of the Notes" below.

1. Introduction

(a) *Programme*: Lenovo Group Limited (the "**Issuer**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$3,000,000,000 in aggregate principal amount of notes (the "**Notes**").

(b) *Pricing Supplement*: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of a pricing supplement (the "**Pricing Supplement**") which supplements these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Pricing Supplement. In the event of any inconsistency between these Conditions and the relevant Pricing Supplement, the relevant Pricing Supplement shall prevail.

(c) *Trust Deed*:The Notes are constituted by, are subject to, and have the benefit of, an amended and restated trust deed dated 8 March 2020 (as the same may be amended, restated, modified, supplemented, replaced or novated from time to time, the "**Trust Deed**") between the Issuer and Citicorp International Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed).

(d) *Agency Agreement*: The Notes are the subject of an issue and paying agency agreement dated 30 November 2016 (as the same may be amended, restated, modified, supplemented, replaced or novated from time to time, the "**Agency Agreement**") between the Issuer, Citibank, N.A., London Branch as principal paying agent (the "**Principal Paying Agent**" and "**Transfer Agent**", which expressions include any successor principal paying agent or any successor or additional transfer agent, as the case may be, appointed from time to time in connection with the Notes), Citicorp International Limited as CMU lodging and paying agent (the "**CMU Lodging and Paying Agent**" and "**CMU Registrar**", which expression includes any successor CMU lodging and paying agent or CMU registrar, as the case may be, appointed from time to time in connection with the Notes), Citigroup Global Markets Europe AG (formerly known as Citigroup Global Markets Deutschland AG) as registrar (the "**Principal Registrar**", which expression includes any successor principal registrar appointed from time to time in connection with the Notes), the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes) and the Trustee. In these Conditions references to the "**Agents**" are to the Paying Agents and the Transfer Agents and any reference to an "**Agent**" is to any one of them. For the purposes of these Conditions, all references (other than in relation to the determination of interest and other amounts payable in respect of the Notes) to the Principal Paying Agent shall, with respect to a Series of Notes to be held in the CMU Service (as defined below), be deemed to be a reference to the CMU Lodging and Paying Agent, and all such references shall be construed accordingly.

(e) *The Notes*: The Notes may be issued in bearer form ("**Bearer Notes**"), or in registered form ("**Registered Notes**"). All subsequent references in these Conditions to "Notes" are to the Notes which are the subject of the relevant Pricing Supplement. Copies of the relevant Pricing Supplement are available for viewing during normal business hours at the registered office for the time being of the Trustee, being at the date hereof 39th Floor, Champion Tower, 3 Garden Road, Central, Hong Kong and copies may be obtained by Noteholders during normal business hours from the Specified Office of each of the Paying Agents and Transfer Agents except that, if a Note is an unlisted Note of any Series, the relevant Pricing Supplement will only be available for inspection by a Noteholder holding one or more unlisted Notes of such Series and such Noteholder must produce evidence satisfactory to the relevant Paying Agent and Transfer Agent as to its holding of such Notes and its identity.

(f) *Summaries*: Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and are subject to their detailed provisions. Noteholders (as defined below) and the holders of the related interest coupons, if any, (the "**Couponholders**" and the "**Coupons**", respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available (upon reasonable advance notice being given to the Trustee or the Agents) for inspection by Noteholders during normal business hours at the Specified Office for the time being of the Trustee and each of the Agents, the initial Specified Offices of which are set out below.

2. Interpretation

(a) *Definitions*: In these Conditions the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Pricing Supplement;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Pricing Supplement;

"**Business Day**" means:

(a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets are open for business and settle payments generally in each (if any) Additional Business Centre;

(b) in relation to any sum payable in a currency other than euro and Renminbi, a day on which commercial banks and foreign exchange markets are open for business and settle payments generally, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre; or

(c) for the purposes of Notes denominated in Renminbi only, any day (other than a Sunday or a Saturday) on which commercial banks and foreign exchange markets are open for business and settle Renminbi payments generally in Hong Kong and are not authorised or obligated by law or executive order to be closed;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Pricing Supplement and, if so specified in the relevant Pricing Supplement, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(a) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(b) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case the relevant date will be the first preceding day that is a Business Day;

(c) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(d) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date numerically corresponding to the preceding such date in the calendar month which is the number of months specified in the relevant Pricing Supplement as the Specified Period after the calendar month in which the preceding such date occurred, **provided, however, that**:

  (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

  (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

  (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(e) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the calculation agent appointed by the Issuer in respect of a Series of Notes pursuant to the terms of the Agency Agreement or such other Person specified in the relevant Pricing Supplement as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Pricing Supplement;

"**Calculation Amount**" has the meaning given in the relevant Pricing Supplement;

"**Capital Stock**" of any Person means any and all shares, interests, rights to purchase, warrants, options, participation or other equivalents of or interests in (however described) equity of such Person, including any Preferred Stock, but excluding any debt securities convertible into such equity;

"**CMU Service**" means the Central Moneymarkets Unit Service, operated by the Hong Kong Monetary Authority;

"**Consolidated Tangible Assets**" means, as at any date, Total Assets less Intangible Assets;

"**Coupon Sheet**" means, in respect of a Bearer Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Pricing Supplement and:

(a) if "**Actual/Actual (ICMA)** " is so specified, means:

   (i) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

   (ii) where the Calculation Period is longer than one Regular Period, the sum of:

      (A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year; and

      (B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of (1) the actual number of days in such Regular Period and (2) the number of Regular Periods in any year;

(b) if "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(c) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(d) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(e) if "**30/360**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(f) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y_2 - Y_1)] + [30 \text{ x } (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30; and

(g) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"$\mathbf{Y_1}$" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{Y_2}$" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{M_1}$" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"$\mathbf{M_2}$" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"$\mathbf{D_1}$" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D_1 will be 30; and

"$\mathbf{D_2}$" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D_2 will be 30,

provided, however, that in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period;

"**Default**" means any event which is, or after the giving of notice, the making of a determination or the passage of time or any combination of the foregoing would be, an Event of Default;

"**Determination Business Day**" means a day (other than a Saturday or Sunday) on which banks are open for general business (including dealings in foreign exchange) in Hong Kong and in New York City;

"**Determination Date**" means the day which is two Determination Business Days before the due date of the relevant amount under these Conditions;

"**Early Redemption Amount (Tax)**" means, in respect of any Note, its outstanding principal amount or such other amount as may be specified in the relevant Pricing Supplement;

"**Early Termination Amount**" means, in respect of any Note, its outstanding principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions or the relevant Pricing Supplement;

"**Event of Default**" has the meaning assigned thereto in Condition 14 (*Events of Default*);

"**Extraordinary Resolution**" has the meaning given in the Trust Deed;

"**Final Redemption Amount**" means, in respect of any Note, its outstanding principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**First Interest Payment Date**" means the date specified in the relevant Pricing Supplement;

"**Fixed Coupon Amount**" has the meaning given in the relevant Pricing Supplement;

"**Governmental Authority**" means any *de facto* or *de jure* government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the Hong Kong Monetary Authority or any successor agency performing central bank functions) of Hong Kong;

"**Governmental Entity**" means any court, governmental agency, authority, instrumentality or regulatory or legislative body of any jurisdiction;

"**Holder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer – Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer – Title to Registered Notes*);

"**Hong Kong**" means the Hong Kong Special Administrative Region of the People's Republic of China;

"**Illiquidity**" means the general Renminbi exchange market in Hong Kong becomes illiquid as a result of which it is impossible (as determined by the Issuer acting in good faith and in a commercially reasonable manner, following consultation with two independent foreign exchange dealers of international repute active in the Renminbi exchange market in Hong Kong reasonably selected by the Issuer), or commercially impracticable, for the Issuer to obtain sufficient Renminbi in order to satisfy its obligation to pay, in whole or in part, interest or principal in respect of the Notes;

"**Inconvertibility**" means the occurrence of any event that makes it impossible (where it had previously been possible) or commercially impracticable for the Issuer to convert any amount due in respect of the Notes from or into U.S. dollars in the general Renminbi exchange market in Hong Kong, other than where such impossibility or impracticability is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after and it is impossible or commercially impracticable for the Issuer, due to an event beyond its control, to comply with such law, rule or regulation);

"**Indebtedness**" means any indebtedness for or in respect of money borrowed that has a final maturity of one year or more from its date of incurrence or issuance;

"**Intangible Assets**" means, as at any date, the consolidated intangible assets of the Issuer and its Subsidiaries determined in accordance with Hong Kong Financial Reporting Standards, as determined by reference to the consolidated financial statements of the Issuer and its Subsidiaries most recently available before the time when the determination is being made;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Pricing Supplement;

"**Interest Determination Date**" has the meaning given in the relevant Pricing Supplement;

"**Interest Payment Date**" means the First Interest Payment Date and any other date or dates specified as such (or, Specified Interest Payment Date) in, or determined in accordance with the provisions of, the relevant Pricing Supplement and, if a Business Day Convention is specified in the relevant Pricing Supplement:

(a) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Pricing Supplement as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**ISDA Definitions**" means the 2006 ISDA Definitions (as amended and updated as at the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Pricing Supplement) as published by the International Swaps and Derivatives Association, Inc.);

"**Issue Date**" has the meaning given in the relevant Pricing Supplement;

"**Margin**" has the meaning given in the relevant Pricing Supplement;

"**Material Subsidiary**" means any Subsidiary of the Issuer whose turnover (other than turnover attributable to transactions with the Issuer or another Subsidiary) or (in the case of a Subsidiary which has Subsidiaries) consolidated turnover (other than turnover attributable to transactions with the Issuer or another Subsidiary) is at least five per cent. of the consolidated turnover of the Issuer, all as calculated without duplication in accordance with Hong Kong Financial Reporting Standards by reference to the consolidated financial statements of the Issuer and its Subsidiaries most recently available before the time when the determination is being made;

"**Maturity Date**" has the meaning given in the relevant Pricing Supplement;

"**Maximum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

"**Minimum Redemption Amount**" has the meaning given in the relevant Pricing Supplement;

"**NDRC**" means the National Development and Reform Commission of the People's Republic of China or its relevant competent local counterpart;

"**NDRC Circular**" means the Circular on Promoting the Reform of the Administrative System on the Filings and Registrations of Foreign Debt Issuance by Enterprises (國家發展改革委關於推進企業發行外債備案登記制管理改革的通知(發改外資[2015]2044號)) issued by the NDRC and which came into effect on 14 September 2015, and any implementation rules or applicable policies in relation thereto as issued by the NDRC from time to time;

"**Non-transferability**" means the occurrence of any event that makes it impossible or commercially impracticable for the Issuer to transfer Renminbi between accounts inside Hong Kong or from an account inside Hong Kong to an account outside Hong Kong or vice versa, other than where such impossibility or impracticability is due solely to the failure of the Issuer to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the date on which agreement is reached to issue the first Tranche of a Series of Notes and it is impossible or commercially impracticable for the Issuer, due to an event beyond its control, to comply with such law, rule or regulation);

"**Noteholder**", in the case of Bearer Notes, has the meaning given in Condition 3(b) (*Form, Denomination, Title and Transfer – Title to Bearer Notes*) and, in the case of Registered Notes, has the meaning given in Condition 3(d) (*Form, Denomination, Title and Transfer – Title to Registered Notes*);

"**Officer**" means a director or any executive officer of the Issuer;

"**Officers' Certificate**" means a certificate signed by two Officers of the Issuer;

"**Opinion of Counsel**" means a written opinion from legal counsel which in form and substance is acceptable to the Trustee. The legal counsel may be an employee of, or legal counsel to, the Issuer;

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its outstanding principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its outstanding principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Pricing Supplement;

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Pricing Supplement;

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Pricing Supplement;

"**Payment Business Day**" means (subject to Condition 22 (*Currency Fallback*)):

(a) if the currency of payment is euro, any day which is:

(i) in the case of Notes in definitive form only, a day on which banks in the relevant place of presentation are open for presentation and payment of debt securities in definitive form and for dealings in foreign currencies; and

(ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(b) if the currency of payment is not euro, any day which is:

(i) in the case of Notes in definitive form only, a day on which banks in the relevant place of presentation are open for presentation and payment of debt securities in definitive form and for dealings in foreign currencies; and

(ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies (including, in the case of Notes denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Person**" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation, limited liability company, government or any agency or political subdivision thereof or any other entity, whether or not having separate legal personality;

"**Preferred Stock**" as applied to the Capital Stock of any corporation, means Capital Stock of any class or classes (however described) which is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such corporation, over shares of Capital Stock of any other class of such corporation;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency **provided, however, that**:

(a) in relation to euro, it means the principal financial centre of such Member State of the European Union as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

(b) in relation to Australian dollars, it means either Sydney or Melbourne and in relation to New Zealand dollars, it means either Wellington or Auckland, in each case as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(c) in relation to Renminbi, it means Hong Kong or the principal financial centre as is specified in the relevant Pricing Supplement;

"**Put Option Notice**" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder in accordance with Condition 10(e) (*Redemption at the option of Noteholders*);

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Pricing Supplement or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Pricing Supplement;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Pricing Supplement;

"**Reference Banks**" has the meaning given in the relevant Pricing Supplement or, if none, four major banks selected by the Issuer in the market that is most closely connected with the Reference Rate and notified in writing to the Calculation Agent;

"**Reference Price**" has the meaning given in the relevant Pricing Supplement;

"**Reference Rate**" means LIBOR, EURIBOR or HIBOR as specified in the relevant Pricing Supplement in respect of the currency and period specified in the relevant Pricing Supplement;

"**Register**" has the meaning set out in Clause 4 (*Transfer of Registered Notes*) of the Agency Agreement;

"**Regular Period**" means:

(a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year (or, in the case of the first Interest Period, the Interest Commencement Date) to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

"**Relevant Date**" means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received by the Principal Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders and/or Couponholders (as applicable);

"**Relevant Financial Centre**" has the meaning given in the relevant Pricing Supplement;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, Reuters) specified as the Relevant Screen Page in the relevant Pricing Supplement, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Pricing Supplement;

"**Renminbi**", "**RMB**" or "**CNY**" means the lawful currency for the time being of the People's Republic of China;

"**Reserved Matter**" means, *inter alia,* any proposal:

(a) to change any date fixed for payment of principal or interest in respect of any Note;

(b) to reduce the amount of principal or interest payable on any date in respect of any Notes;

(c) to alter the method of calculating the amount of any payment in respect of any Note or the date for any such payment;

(d) to change the currency of payments under any Note; or

(e) to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**Specified Currency**" has the meaning given in the relevant Pricing Supplement;

"**Specified Denomination(s)**" has the meaning given in the relevant Pricing Supplement;

"**Specified Office**" has the meaning given in the Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Pricing Supplement;

"**Spot Rate**" means the RMB/U.S. dollar official fixing rate, expressed as the amount of RMB per one U.S. dollar, for settlement in two Determination Business Days reported by the Treasury Markets Association which appears on Reuters page <CNHFIX> at approximately 11:15 a.m. (Hong Kong time) on the Determination Date. If such rate is not available, the Principal Paying Agent will determine the Spot Rate at or around 11.00 a.m. (Hong Kong time) on the Determination Date as the most recently available RMB/U.S. dollar official fixing rate for settlement in two Determination Business Days reported by The State Administration of Foreign Exchange of the People's Republic of China, which is reported on the Reuters Screen Page CNY=SAEC. Reference to a page on the Reuters Screen means the display page so designated on the Reuter Monitor Money Rates Service (or any successor service) or such other page as may replace that page for the purpose of displaying a comparable currency exchange rate;

"**Subsidiary**" means in relation to any Person (the "**first person**") at any particular time, any other Person (the "**second person**"):

(a) which is controlled, directly or indirectly by the first person;

(b) more than half the issued share capital of which is beneficially owned directly or indirectly by the first person;

(c) which is a Subsidiary of another Subsidiary of the first person; or

(d) whose financial statements are in accordance with applicable law and generally accepted accounting principles applicable to the Issuer fully consolidated with those of the first person.

For the purposes of this definition, a Person shall be treated as being controlled by another Person if the latter (whether by way of ownership of shares, proxy, contract, agency or otherwise) has the power to: (A) appoint or remove all, or the majority, of its directors or other equivalent officers; or (B) direct its operating and financial policies;

"**Talon**" means a talon for further Coupons;

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**Total Assets**" means, as at any date, the consolidated total assets of the Issuer and its Subsidiaries determined in accordance with Hong Kong Financial Reporting Standards, as determined by reference to the consolidated financial statements of the Issuer and its Subsidiaries most recently available before the time when the determination is being made;

"**Treaty**" means the Treaty on the Functioning of the European Union, as amended;

"**US Dollar Equivalent**" means a Renminbi amount converted into US dollars using the Spot Rate for the relevant Determination Date; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Pricing Supplement.

(b) *Interpretation*: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) if Talons are specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iii) if Talons are not specified in the relevant Pricing Supplement as being attached to the Notes at the time of issue, references to Talons are not applicable;

(iv) any reference to principal shall be deemed to include the Redemption Amount, any Additional Amounts in respect of principal which may be payable under Condition 13 (*Taxation*) or any undertaking given in addition to or in substitution for it under the Trust Deed, any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(v) any reference to interest shall be deemed to include any Additional Amounts in respect of interest which may be payable under Condition 13 (*Taxation*) or any undertaking given in addition to or in substitution for it under the Trust Deed and any other amount in the nature of interest payable pursuant to these Conditions;

(vi) references to Notes being "outstanding" shall be construed in accordance with the Trust Deed;

(vii) if an expression is stated in Condition 2(a) (*Interpretation – Definitions*) to have the meaning given in the relevant Pricing Supplement, but the relevant Pricing Supplement gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes; and

(viii) any reference to the Trust Deed or the Agency Agreement shall be construed as a reference to the Trust Deed or the Agency Agreement, as the case may be, as amended, restated, modified, supplemented, replaced or novated from time to time, up to and including the Issue Date of the Notes.

3. Form, Denomination, Title and Transfer

(a) *Bearer Notes*: Bearer Notes are in the Specified Denomination(s) with Coupons and, if specified in the relevant Pricing Supplement, Talons attached at the time of issue. In the case of a Series of Bearer Notes with more than one Specified Denomination, Bearer Notes of one Specified Denomination will not be exchangeable for Bearer Notes of another Specified Denomination. In any event, Bearer Notes will not be exchangeable for Registered Notes.

(b) *Title to Bearer Notes*: Title to Bearer Notes and the Coupons will pass by delivery. In the case of Bearer Notes, "**Holder**" means the holder of such Bearer Note or Coupon and "**Noteholder**" and "**Couponholder**" shall be construed accordingly.

(c) *Registered Notes*: Registered Notes are in the Specified Denomination(s), which may include a minimum denomination specified in the relevant Pricing Supplement and higher integral multiples of a Specified Denomination specified in the relevant Pricing Supplement. In any event, Registered Notes will not be exchangeable for Bearer Notes.

(d) *Title to Registered Notes*: The Registrar will maintain the Register in accordance with the provisions of the Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly.

(e) *Ownership*: The Holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no Person shall be liable for so treating such Holder. No person shall have any right to enforce or vary any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999.

(f) *Transfers of Registered Notes*: Subject to paragraphs (i) (*Closed periods*) and (j) (*Regulations concerning transfers and registration*) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; **provided, however, that** a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.

(g) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (f) (*Transfers of Registered Notes*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(h) *No charge*: The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(i) *Closed periods*: No Noteholders may require the transfer of a Note to be registered (i) during the period of 15 days ending on the due date for any payment of principal or premium (if any) or interest on that Note, (ii) after any such Note has been called for redemption or partial redemption or (iii) during the period of seven days ending on and including any Record Date as defined in Condition 12 (*Payments – Registered Notes*).

(j) *Regulations concerning transfers and registration*: All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (at the cost and expense of such Noteholder) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

4. Status

The Notes constitute (subject to Condition 5(a) (*Covenants – Negative Pledge*)) direct, general, unconditional, unsecured and unsubordinated obligations of the Issuer and shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Issuer under the Notes shall, save for such exceptions as may be provided by applicable legislation, at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.

5. Covenants

(a) *Negative Pledge*: So long as any Note of a Series remains outstanding (as defined in the Trust Deed), the Issuer will not, and will procure that none of its Subsidiaries will, create or permit to subsist any mortgage, pledge, lien, charge, assignment by way of security or any other security interest ("**Lien**") upon the whole or any part of its property or assets, present or future, to secure any Indebtedness (or any guarantee or indemnity in respect thereof) unless, in such case, the Notes of such Series are secured either: (x) equally and rateably with or prior to such Indebtedness (or such guarantee or indemnity in respect thereof); or (y) by such other security as is approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders of such Series, unless, after giving effect thereto, the aggregate outstanding principal amount of all such secured Indebtedness (other than the Indebtedness secured by Liens described in clauses (a) to (e) below) would not exceed 10 per cent. of the Issuer's Consolidated Tangible Assets.

The foregoing restrictions will not apply to:

(i) any Lien existing on or prior to the date of issue of the relevant Series of Notes;

(ii) any Lien existing on any property or asset prior to the acquisition thereof by the Issuer or any Subsidiary of the Issuer or arising after such acquisition pursuant to contractual commitments entered into prior to, and not in contemplation of, such acquisition;

(iii) any Lien on any property or asset securing Indebtedness incurred or assumed for the purpose of financing the purchase price thereof or the cost of construction, improvement or repair of all or any part thereof; **provided that** such Lien is created or attaches to such property concurrently with or within 12 months after the acquisition thereof or completion of construction, improvement or repair thereof, as the case may be;

(iv) any Lien securing Indebtedness owing to or held by the Issuer; or

(v) any Lien arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by any Lien permitted by any of the foregoing clauses; **provided that** such Indebtedness (including premiums, accrued interest, fees and expenses) is not increased and is not secured by any additional property or assets.

(b) *Consolidation, Merger and Sale of Assets*: The Issuer will not consolidate with or merge with or into, or convey, transfer or lease all or substantially all its property or assets to, any Person, *unless*:

(i) the resulting, surviving or transferee Person (the "**Successor Company**"), if not the Issuer, will expressly assume, by supplemental trust deed, executed and delivered to the Trustee, all of the obligations of the Issuer under the relevant Series of Notes and the Trust Deed; **provided that** if the Successor Company is organised under the laws of a jurisdiction other than a Relevant Tax Jurisdiction (as defined in Condition 13 (*Taxation*)), reference to such successor jurisdiction shall be added to the definition of "Relevant Tax Jurisdiction" under Condition 13 (*Taxation*);

(ii) immediately after giving effect to such transaction, no Default or Event of Default has occurred and is continuing; and

(iii) the Issuer has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and such supplemental trust deed (if any) comply with the Trust Deed and these Conditions.

For purposes of this Condition 5(b), the conveyance, transfer or lease of all or substantially all of the property or assets of one or more Subsidiaries of the Issuer, which property or assets, if held by the Issuer instead of such Subsidiaries, would constitute all or substantially all of the property or assets of the Issuer on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the property or assets of the Issuer.

The Successor Company will succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Trust Deed and these Conditions, and the predecessor company, except in the case of a lease of all or substantially all its assets, shall be released from the obligation to pay the principal of, premium, if any, and interest on the relevant Series of Notes.

(c) *Reporting*: So long as any Note remains outstanding, the Issuer will deliver to the Trustee, as soon as practicable but in any event not more than 10 calendar days after they are filed with The Stock Exchange of Hong Kong Limited or any other recognised exchange on which the Issuer's Capital Stock is at any time listed for trading, true and correct copies of any financial or other report in the English language filed with such exchange, unless such report has been made generally available on the website of the Issuer or such recognised stock exchange and not otherwise requested by the Trustee or the Noteholders; **provided that** if at any time the Capital Stock of the Issuer ceases to be listed for trading on a recognised exchange, the Issuer will deliver to the Trustee:

(i) as soon as practicable, but in any event within 120 calendar days after the end of the fiscal year of the Issuer, copies of its financial statements (on a consolidated basis and in the English language) in respect of such financial year (including a statement of income, balance sheet and cash flow statement) audited by a member firm of an internationally recognised firm of independent accountants;

(ii) as soon as practicable, but in any event within 90 calendar days after the end of the first semi-annual fiscal period of the Issuer, copies of its unaudited financial statements (on a consolidated basis and in the English language) in respect of such semi-annual period (including a statement of income, balance sheet and cash flow statement) prepared on a basis consistent with the audited financial statements of the Issuer and reviewed by a member firm of an internationally recognised firm of independent accountants; and

(iii) as soon as practicable and in any event within 14 days after the Issuer becomes aware of the occurrence thereof, written notice of the occurrence of any Event of Default setting forth the details thereof and the action the Issuer is taking or proposes to take with respect thereto;

unless, in the case of Condition 5(c)(i) or (ii), such report has been made generally available on the Issuer's website and not otherwise requested by the Trustee or the Noteholders.

(d) *Notification to NDRC*: Where the NDRC Circular applies to the Issuer and the Tranche of Notes to be issued in accordance with these Conditions and the Trust Deed, the Issuer undertakes to provide or cause to be provided a notification to the NDRC of the requisite information and documents (the "**NDRC Post-issue Filing**") in connection with such Tranche of Notes within the prescribed timeframe after the relevant Issue Date in accordance with the NDRC Circular. The Trustee shall have no duty to monitor or ensure the completion of the NDRC Post-issue Filing on or before the deadline referred to above or to verify the accuracy, validity and/or genuineness of any documents in relation to or in connection with the NDRC Post-issue Filing, and shall not be liable to any Noteholders or any other person for not doing so.

6. Fixed Rate Note Provisions

(a) *Application*: This Condition 6 (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest*: The Notes bear interest on their outstanding principal amount from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Fixed Coupon Amount*: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) *Calculation of interest amount*: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of such Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

7. Floating Rate Note Provisions

(a) *Application*: This Condition 7 (*Floating Rate Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Accrual of interest*: The Notes bear interest on their outstanding principal amount from the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 7 (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) *Screen Rate Determination*: If Screen Rate Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where:

(A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period;

provided, however, that if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate;

(iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iv) if, in the case of (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading international banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided, however, that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate or (as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(d) *ISDA Determination*: If ISDA Determination is specified in the relevant Pricing Supplement as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "ISDA Rate" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Pricing Supplement;

(ii) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Pricing Supplement;

(iii) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on (x) the London inter-bank offered rate ("**LIBOR**"), (y) the Eurozone inter-bank offered rate ("**EURIBOR**") or (z) the Hong Kong inter-bank offered rate ("**HIBOR**") for a currency, the first day of that Interest Period or (B) in any other case, as specified in the relevant Pricing Supplement; and

(iv) if Linear Interpolation is specified as applicable in respect of an Interest Period in the applicable Pricing Supplement, the Rate of Interest for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:

(A) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period

provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

(e) *Maximum or Minimum Rate of Interest*: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Pricing Supplement, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(f) *Calculation of Interest Amount*: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(g) *Calculation of other amounts*: If the relevant Pricing Supplement specifies that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Pricing Supplement.

(h) *Publication*: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given by the Issuer to the Noteholders. The Issuer and the Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(i) *Notifications etc*: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Noteholders and the Couponholders and (subject as aforesaid) no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(j) *Benchmark Discontinuation*:

(i) Independent Adviser:

If a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate, the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, or failing which, an Alternative Rate (in accordance with Condition 7(j)(ii)) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 7(j)(iv)).

In making such determination, the Independent Adviser appointed pursuant to this Condition 7(j) shall act in good faith as an expert and in consultation with the Issuer. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Trustee, the Paying Agents, the Noteholders or the Couponholders for any determination made by it, pursuant to this Condition 7(j).

If:

(A) the Issuer is unable to appoint an Independent Adviser; or

(B) the Independent Adviser fails to determine a Successor Rate or, failing which, an Alternative Rate, in accordance with this Condition 7(j)(i) prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period. If there has not been a First Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 7(j)(i).

(ii) Successor Rate or Alternative Rate:

If the Independent Adviser determines that:

(A) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 7(j)); or

(B) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 7(j)).

(iii) Adjustment Spread:

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be).

(iv) Benchmark Amendments:

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 7(j) and the Independent Adviser (in consultation with the Issuer) determines:

(A) that amendments to these Conditions and/or the Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**"); and

(B) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 7(j)(v), without any requirement for the consent or approval of Noteholders or Couponholders, the Trustee or the Agents, vary these Conditions and/or the Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Trustee of a certificate signed by two authorised signatories of the Issuer pursuant to Condition 7(j)(v), the Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders, be obliged to concur with the Issuer in effecting any Benchmark Amendments (including, inter alia, by the execution of a deed supplemental to or amending the Trust Deed), provided that the Trustee shall not be obliged so to concur if in the opinion of the Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the protective provisions afforded to the Trustee in these Conditions or the Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) in any way.

For the avoidance of doubt, the Trustee and the Paying Agents shall, at the direction and expense of the Issuer, effect such consequential amendments to the Trust Deed, the Agency Agreement and these Conditions as may be required in order to give effect to this Condition 7(j)(iv). The consent of Noteholders or Couponholders shall not be required in connection with effecting the Successor Rate or the Alternative Rate (as applicable) or such other changes, including the execution of any documents or any steps by the Trustee or the Paying Agents (if required).

In connection with any such variation in accordance with this Condition 7(j)(iv), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(v) Notices

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments, determined under this Condition 7(j) will be notified promptly by the Issuer to the Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 21, the Noteholders or the Couponholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Trustee of the same, the Issuer shall deliver to the Trustee a certificate signed by two authorised signatories of the Issuer:

(A) confirming

(1) that a Benchmark Event has occurred;

(2) the Successor Rate or, as the case may be, the Alternative Rate;

(3) the applicable, Adjustment Spread; and

(4) the specific terms of the Benchmark Amendments (if any),

in each case as determined in accordance with the provisions of this Condition 7(j); and

(B) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

The Trustee shall be entitled to rely on such certificate (without liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error or bad faith in the determination of the Successor Rate, Alternative Rate, the Adjustment Spread or the Benchmark Amendments (if any) and without prejudice to the Trustee's ability to rely on such certificate as aforesaid) be binding on the Issuer, the Trustee, the Calculation Agent, the Paying Agents, the Noteholders and Couponholders.

(vi) Survival of Original Reference Rate

The Original Reference Rate and the provisions provided for in this Condition 7 will continue to apply unless and until a Benchmark Event has occurred.

(vii) Definitions:

As used in this Condition 7(j):

“**Adjustment Spread**” means either:

(A) a spread (which may be positive, negative or zero); or

(B) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(1) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);

(2) the Independent Adviser determines as being customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if the Independent Adviser determines that no such spread is customarily applied);

(3) the Independent Adviser (in consultation with the Issuer) determines, and which is recognised or acknowledged as being the industry standard for over-the counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be).

“**Alternative Rate**” means an alternative benchmark or screen rate which the Independent Adviser, determines in accordance with Condition 7(j)(ii) as being customarily applied in market usage in the international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes.

“**Benchmark Amendments**” has the meaning given to it in Condition 7(j)(iv).

“**Benchmark Event**” means:

(A) the Original Reference Rate ceasing to be published for a period of at least five Business Days or ceasing to exist; or

(B) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate) and such cessation is reasonably expected by the Issuer to occur prior to the Maturity Date; or

(C) a public statement by the regulator or supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued and such discontinuation is reasonably expected by the Issuer to occur prior to the Maturity Date; or

(D) a public statement by the regulator or supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes and such prohibition is reasonably expected by the Issuer to occur prior to the Maturity Date; or

(E) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or other party to calculate any payments due to be made to any Noteholder or Couponholder using the Original Reference Rate.

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by the Issuer under Condition 7(j)(i).

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Rate of Interest (or any component part thereof) on the Notes.

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(A) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(B) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of:

    (1) the central bank for the currency to which the benchmark or screen rate (as applicable) relates;

    (2) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable);

    (3) a group of the aforementioned central banks or other supervisory authorities; or

    (4) the Financial Stability Board or any part thereof.

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

8. Zero Coupon Note Provisions

(a) *Application*: This Condition 8 (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Late payment on Zero Coupon Notes*: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price on the basis of the relevant Day Count Fraction from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven days after the Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. Dual Currency Note Provisions

(a) *Application*: This Condition 9 (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Pricing Supplement as being applicable.

(b) *Rate of Interest*: If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner specified in the relevant Pricing Supplement.

10. Redemption and Purchase

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 11 (*Payments – Bearer Notes*) and Condition 12 (*Payments – Registered Notes*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part:

(i) at any time (unless the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Pricing Supplement as being applicable), on giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant Pricing Supplement, (which notice shall be irrevocable), at their Early Redemption Amount (Tax), together with interest accrued (if any) to (but excluding) the date fixed for redemption, if:

(A) the Issuer has or will become obliged to pay Additional Amounts as provided or referred to in Condition 13 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of any Relevant Jurisdiction (as defined in Condition 13 (*Taxation*)) or any change in the official application or interpretation of such laws or regulations, which change or amendment, in the case of the Issuer, becomes effective on or after the date on which agreement is reached to issue the first Tranche of a Series of the Notes or, in the case of any Successor Company (as defined in Condition 5(b)), becomes effective on or after the date on which such Successor Company assumes responsibility under the Notes; and

(B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided, however, that no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days (or such other period as may be specified in the relevant Pricing Supplement) prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts were a payment in respect of the Notes then due; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days (or such other period as may be specified in the relevant Pricing Supplement) prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such Additional Amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 10(b), the Issuer shall deliver to the Trustee (A) an Officers' Certificate stating that the obligation in (b)(ii)(A) above cannot be avoided by the Issuer taking reasonable measures available to it and the Issuer is entitled to effect such redemption, setting forth a statement of facts showing the conditions precedent to the right of the Issuer so to redeem have occurred and (B) an Opinion of Counsel of recognised standing to the effect that the Issuer has or will become obliged to pay such Additional Amounts as a result of such change or amendment.

The Trustee shall be entitled to accept and rely upon such Officers' Certificate and Opinion of Counsel as sufficient evidence of the satisfaction of the circumstances set out above, in which event they shall be conclusive and binding on the Noteholders.

Upon the expiry of any such notice as is referred to in this Condition 10(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(b).

(c) *Redemption at the option of the Issuer ("**Call Option**")*: If the Call Option is specified in the relevant Pricing Supplement as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Pricing Supplement, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) together with interest (if any) accrued to (but excluding) the relevant Optional Redemption Date (Call), on the Issuer's giving not less than 30 nor more than 60 days' notice to the Noteholders, or such other period(s) as may be specified in the relevant Pricing Supplement (which notice shall be irrevocable).

(d) *Partial redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 10(c) (*Redemption at the option of the Issuer*), in the case of Bearer Notes, the Notes to be redeemed shall be selected by the drawing of lots in such place as the Principal Paying Agent approves and in such manner as the Principal Paying Agent considers appropriate and, in the case of Registered Notes, each Note shall be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Optional Redemption Date (Call) bears to the aggregate principal amount of outstanding Notes on such date. These redemptions are subject to compliance with applicable law, the rules of each competent authority, stock exchange and/or quotation system (if any) by which the Notes have then been admitted to listing, trading and/or quotation and the notice to Noteholders referred to in Condition 10(c) (*Redemption at the option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Pricing Supplement, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) *Redemption at the option of Noteholders ("**Put Option**")*: If the Put Option is specified in the relevant Pricing Supplement as being applicable, the Issuer shall, at the option of the Holder of any Note redeem in whole but not in part such Note on the Optional Redemption Date (Put) at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to (but excluding) the relevant Optional Redemption Date (Put). It may be that before a Put Option can be exercised, certain condition and/or circumstances will need to be satisfied. Where relevant, the provisions relating to such conditions and circumstances will be set out in the relevant Pricing Supplement. In order to exercise the option contained in this Condition 10(e), the Holder of a Note must, not less than 30 nor more than 60 days before the relevant Optional Redemption Date (Put) (or such other period(s) as may be specified in the relevant Pricing Supplement), deposit with any Paying Agent such Bearer Note together with all unmatured Coupons relating thereto or the Note Certificate evidencing such Registered Note to be redeemed and a duly completed Put Option Notice in the form obtainable from any Paying Agent. The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Noteholder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 10(e), may be withdrawn; **provided, however, that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Paying Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 10(e), the depositor of such Note and not such Paying Agent shall be deemed to be the Holder of such Note for all purposes.

(f) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (e) above.

(g) *Early redemption of Zero Coupon Notes*: Unless otherwise specified in the relevant Pricing Supplement, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Pricing Supplement for the purposes of this Condition 10(g) or, if none is so specified, a Day Count Fraction of 30E/360.

(h) *Purchase*: The Issuer or any of its Subsidiaries may at any time purchase Notes in the open market or otherwise in any amount and at any price, **provided that** all unmatured Coupons are purchased therewith.

(i) *Cancellation*: All Notes so redeemed or purchased by the Issuer or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold.

(j) *Calculations*: Neither the Trustee nor any of the Agents (other than the Calculation Agent, solely in respect of its functions as a Calculation Agent of the Issuer) shall be responsible for calculating or verifying the calculations of any amount under any notice of redemption and shall not be liable to the Noteholders or any other person for not doing so.

11. Payments – Bearer Notes

This Condition 11 is only applicable to Bearer Notes.

(a) *Principal*: Payments of principal shall be made only against presentation and (in the case of final redemption, **provided that** payment is made in full) surrender of Bearer Notes at the Specified Office of any Paying Agent outside the United States (which expression as used in this Condition 11, means the United States of America, its territories and possessions, any State of the United States, and the District of Columbia) (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency, and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency.

(b) *Interest*: Payments of interest shall, subject to paragraph (g) below, be made only against presentation and (in the case of final redemption, **provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (a) above.

Payments of principal and interest in respect of Bearer Notes held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Bearer Note are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest or proven error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) *Payments in New York City*: Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment when due of the full amount of the interest on the Notes in the currency in which the payment is due, and payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (ii) payment is permitted by applicable United States law.

(d) *Payments subject to fiscal laws*: All payments in respect of the Bearer Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 13 (*Taxation*) and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 13 (*Taxation*)) any law implementing an intergovernmental approach thereto (collectively, "**FATCA**"). No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) *Deductions for unmatured Coupons*: If the relevant Pricing Supplement specifies that the Fixed Rate Note Provisions are applicable and a Bearer Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided, however, that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided, however, that** where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided, however, that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) equal to the proportion which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

(f) *Unmatured Coupons void*: If the relevant Pricing Supplement specifies that this Condition 11(f) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption in whole of such Note pursuant to Condition 10(b) (*Redemption for tax reasons*), Condition 10(e) (*Redemption at the option of Noteholders*), Condition 10(c) (*Redemption at the option of the Issuer*) or Condition 14 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) *Payments on business days*: If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any interest or other payment in respect of any such delay.

(h) *Payments other than in respect of matured Coupons*: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (c) (*Payments in New York City*) above).

(i) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Bearer Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) *Exchange of Talons*: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Bearer Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 15 (*Prescription*). Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

12. Payments – Registered Notes

This Condition 12 is only applicable to Registered Notes.

(a) *Principal*: Payments of principal shall be made (i) in the case of a currency other than Renminbi, by cheque drawn in the currency in which the payment is due on, or, upon application by a Holder of a Registered Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency, and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall (i) in the case of a currency other than Renminbi, be made by cheque drawn in the currency in which the payment is due on, or, upon application by a Holder of a Registered Note to the Specified Office of the Principal Paying Agent not later than the fifteenth day before the due date for any such payment, by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London) and (ii) in the case of Renminbi, by transfer to an account denominated in that currency and maintained by the payee with a bank in the Principal Financial Centre of that currency, and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.

Payments of principal and interest in respect of Registered Notes held in the CMU Service will be made to the person(s) for whose account(s) interests in the relevant Registered Note are credited as being held with the CMU Service in accordance with the CMU Rules (as defined in the Agency Agreement) at the relevant time as notified to the CMU Lodging and Paying Agent by the CMU Service in a relevant CMU Instrument Position Report (as defined in the Agency Agreement) or any other relevant notification by the CMU Service, which notification shall be conclusive evidence of the records of the CMU Service (save in the case of manifest or proven error) and payment made in accordance thereof shall discharge the obligations of the Issuer in respect of that payment.

(c) *Payments subject to fiscal laws*: All payments in respect of the Registered Notes are subject in all cases to (i) any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 13 (*Taxation*) and (ii) any withholding or deduction required pursuant to FATCA. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(d) *Payments on business days*: Where payment is to be made by transfer to an account, payment instructions (for value on the due date, or, if the due date is not a Payment Business Day, for value on the next succeeding Payment Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment (or, if that is not a Payment Business Date, on the next succeeding Payment Business Day) and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of principal or interest payable other than on redemption) on the due date for payment (or, if that is not a Payment Business Date, on the next succeeding Payment Business Day). A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a cheque mailed in accordance with this Condition 12 arriving after the due date for payment or being lost in the mail.

(e) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(f) *Record date*: Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the close of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by cheque, the cheque will be mailed to the address shown as the address of the Holder in the Register at the close of business on the relevant Record Date.

So long as the Global Note Certificate is held on behalf of Euroclear, Clearstream, Luxembourg or any other clearing system, each payment in respect of the Global Note Certificate will be made to the person shown as the holder in the Register at the close of business of the relevant clearing system on the Clearing System Business Day before the due date for such payments, where "Clearing System Business Day" means a weekday (Monday to Friday, inclusive) except 25 December and 1 January.

13. Taxation

(a) *Gross up*: All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within (i) Hong Kong, the People's Republic of China or any jurisdiction of which the Issuer is otherwise considered by a taxing authority to be a resident for tax purposes or any political organisation or governmental authority thereof or therein having the power to tax (a "**Relevant Tax Jurisdiction**"), or (ii) any jurisdiction from or through which the Issuer or any person on behalf of the Issuer makes a payment on the Notes and the Coupons, or any political organisation or governmental authority thereof or therein having the power to tax (each jurisdiction described in (i) or (ii) above a "**Relevant Jurisdiction**"), unless such withholding or deduction is required by law. In that event the Issuer shall pay such additional amounts ("**Additional Amounts**") as will result in receipt by the

Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such Additional Amounts shall be payable in respect of any Note or Coupon:

(i) to a Holder (or to a third party on behalf of a Holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Relevant Jurisdiction other than the mere holding of the Note or Coupon;

(ii) to a Holder (or to a third party on behalf of a Holder) who would have been able to avoid such withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authorities if such Holder is eligible to make such declaration or other claim and fails to do so;

(iii) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment (where required to be presented or surrendered) more than 30 days after the Relevant Date except to the extent that the Holder of such Note or Coupon or Note Certificate would have been entitled to such Additional Amounts on presenting or surrendering such Note or Coupon or Note Certificate for payment on the last day of such period of 30 days; or

(iv) in respect of any withholding or deduction imposed pursuant to FATCA.

14. Events of Default

If any of the following events (each an "**Event of Default**") occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by Holders of at least 25 per cent. of the principal amount of a Series of Notes then outstanding or if so directed by an Extraordinary Resolution, shall (subject in each case to the Trustee being indemnified and/or secured and/or pre-funded to its satisfaction) give notice to the Issuer that the Notes of such Series are, and they shall immediately become, due and payable at their Early Termination Amount together with accrued interest (if any):

(a) *Non-payment*: the Issuer fails to pay any amount of principal, premium (if any) or interest in respect of the Notes on the date when due and, with respect to interest, such failure continues for a period of seven calendar days;

(b) Breach of Consolidation, Merger and Sale of Assets: the Issuer fails to comply with its obligations under Condition 5(b) (*Consolidation, Merger and Sale of Assets*);

(c) *Breach of other obligations*: the Issuer does not perform or comply with one or more of its obligations under these Conditions or the Trust Deed (other than its obligations referred to in paragraphs (a) and (b) above) which default is incapable of remedy, or if such default is capable of remedy, is not remedied within 30 calendar days after notice of such default shall have been given to the Issuer by the Trustee;

(d) Cross-default of Issuer or Subsidiary:

(i) the acceleration of any other present or future Indebtedness of the Issuer or any Subsidiary prior to its stated maturity, which acceleration is not rescinded or waived; or

(ii) the Issuer or any Subsidiary fails to pay any of its present or future Indebtedness at maturity, which payment is not made within the grace period originally applicable thereto;

provided that the aggregate amount of Indebtedness in respect of which one or more of the events referred to in this Condition 14(d) has occurred exceeds U.S.$50,000,000 or its equivalent(on the basis of the middle spot rate for the relevant currency against the U.S. dollar as quoted by any leading bank selected by the Issuer on the day on which this paragraph operates);

(e) *Insolvency and Bankruptcy*: the Issuer or any Material Subsidiary:

(i) is dissolved (except in connection with a merger or restructuring in such a way that all of the assets and liabilities of the Issuer or of the respective Material Subsidiary pass to another legal person in universal succession by operation of law or pursuant to a contractual agreement having the same effect);

(ii) suspends payments on its debts or fails or is unable to pay its debts generally as they become due;

(iii) commences, to the extent permitted by applicable law, a voluntary case in bankruptcy or any other action or proceeding for any other relief under any law affecting creditors' rights that is similar to a bankruptcy law;

(iv) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy or any other such action or proceeding, or a proceeding is commenced in an involuntary case in bankruptcy in respect of the Issuer or any of its Material Subsidiaries and such proceeding is not dismissed or stayed on or before the 30th calendar day after the commencement thereof or if any such dismissal or stay ceases to be in effect; or

(v) is or becomes subject to a moratorium, administration, receivership, liquidation or any similar provision under applicable law or any application is made for any such proceeding;

(f) *Authorisations and Consents*: any governmental authorisation necessary for the performance of any obligation of the Issuer as set forth in these Conditions is not granted for whatever reason, fails to enter into or become in full force and effect or remain valid and subsisting;

(g) *Illegality*: it is or will become unlawful for the Issuer to perform or comply with any one or more of its respective obligations under any of the Notes or the obligations under the Notes shall for any reason cease to be binding upon and enforceable against the Issuer in accordance with their terms, or the binding effect or enforceability thereof shall be contested by the Issuer or the Issuer shall deny that it has any further liability or obligation under the Notes;

(h) *Seizure of Property*: all or substantially all of the Property of the Issuer or any Material Subsidiary shall be condemned, seized or otherwise appropriated, or custody of such Property shall be assumed by any Governmental Entity or other Person purporting to act under the authority of the government of any jurisdiction, or the Issuer shall be prevented from exercising normal control over all or substantially all of its Property and such default is not remedied within 30 calendar days after it occurs;

(i) *Conduct of Business*: the Issuer and its Material Subsidiaries, considered as a whole, shall cease to carry on the whole or any substantial part of the business conducted by it and its Material Subsidiaries, considered as a whole, at the date of the issue of the Notes or there shall occur any substantial adverse change in the nature of the business carried on by the Issuer and its Material Subsidiaries, considered as a whole; or

(j) *Analogous Events*: any event which under the governing laws of the applicable jurisdictions of the Issuer or any Material Subsidiary has an analogous effect to any of the events referred to in Condition 14(e) (*Insolvency and Bankruptcy*) occurs.

15. Prescription

Claims for principal (including any premium in respect thereof) in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims for interest in respect of Bearer Notes shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date. Claims for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years in the case of principal (including any premium in respect thereof) and five years in the case of interest from the appropriate Relevant Date.

16. Replacement of Notes and Coupons

If any Note, Note Certificate or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, in the case of Bearer Notes, or the Registrar, in the case of Registered Notes (and, if the Notes are then admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent or Transfer Agent in any particular place, the Paying Agent or Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system), subject to all applicable laws and competent authority, stock exchange and/or quotation system requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Note Certificates or Coupons must be surrendered before replacements will be issued.

17. Trustee and Agents

Under the Trust Deed, the Trustee is entitled to be indemnified, provided with security and/or pre-funded and relieved from responsibility in certain circumstances and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual Holders of Notes or Coupons as a result of such Holders being connected in any way with a particular territory or taxing jurisdiction.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Issuer and (to the extent provided therein) the Trustee and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are listed below. The initial Calculation Agent (if any) is specified in the relevant Pricing Supplement. The Issuer reserves the right (with the prior approval of the Trustee except in the limited circumstances set out in the Agency Agreement) at any time to vary or terminate the appointment of any Agent and to appoint a successor principal paying agent, CMU lodging and paying agent or registrar or calculation agent and additional or successor paying agents or transfer agents; **provided, however, that**:

(i) the Issuer shall at all times maintain a principal paying agent and a registrar;

(ii) the Issuer shall at all times maintain a CMU Lodging and Paying Agent in relation to Notes accepted for clearance through the CMU Service;

(iii) if a Calculation Agent is specified in the relevant Pricing Supplement, the Issuer shall at all times maintain a Calculation Agent for the relevant Notes; and

(iv) if and for so long as the Notes are admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system which requires the appointment of a Paying Agent and/or a Transfer Agent in any particular place, the Issuer shall maintain a Paying Agent and/or a Transfer Agent having its Specified Office in the place required by such competent authority, stock exchange and/or quotation system.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders by the Issuer.

18. Meetings of Noteholders; Modification and Waiver; Substitution

(a) *Meetings of Noteholders*: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions and the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee subject to its being first indemnified, provided with security and/or pre-funded to its satisfaction, upon the request in writing of Noteholders holding not less than 10 per cent. of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing more than half of the aggregate principal amount of a Series of Notes then outstanding or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided, however, that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more Persons holding or representing not less than two thirds or, at any adjourned meeting, not less than 25 per cent. of the aggregate principal amount of a Series of Notes then outstanding form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

The Trust Deed provides that (i) a written resolution signed by or on behalf of the Holders of not less than 75 per cent. of the aggregate principal amount of a Series of Notes then outstanding who for the time being are entitled to receive notice of a meeting (such a resolution in writing (a "**Written Resolution**") may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders); or (ii) where the Notes are held by or on behalf of a clearing system or clearing systems, approval of a resolution proposed by the Issuer given by way of electronic consents communicated through the electronic communications systems of the relevant clearing system(s) in accordance with their operating rules and procedures by or on behalf of the Holders of not less than 75 per cent. of the aggregate principal amount of a Series of Notes then outstanding (an "**Electronic Consent**") shall, in each case for all purposes, be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held.

A Written Resolution and/or Electronic Consent will be binding on all Noteholders whether or not they participated in such Written Resolution and/or Electronic Consent, as the case may be.

(b) *Modification and waiver*: The Trustee may agree, without the consent of Noteholders, to: (i) any modification of any of the provisions of these Conditions or the Trust Deed which is of a formal, minor or technical nature or is made to correct a manifest or proven error; and (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of these Conditions or the Trust Deed which is in the opinion of the Trustee not materially prejudicial to the interests of Noteholders. Any such modification, waiver or authorisation shall be binding on Noteholders and, if the Trustee so requires, such modification, waiver or authorisation shall be notified by the Issuer to the Noteholders as soon as practicable.

(c) *Substitution*: The Trust Deed contains provisions permitting the Trustee to agree, subject to amendment of the Trust Deed, but without the consent of Noteholders, to the substitution of the Issuer's successor in business or any Subsidiary of the Issuer or its successor in business in place of the Issuer or any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, without the consent of Noteholders, subject to the provisions of the Trust Deed, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of Noteholders.

19. Enforcement

The Trustee may at any time, at its discretion and without notice, institute such actions, steps and proceedings against the Issuer as it thinks fit to enforce the terms of the Trust Deed and the Notes, but it shall not be bound to do so unless:

(i) it has been so requested in writing by the Holders of at least 25 per cent. of the aggregate principal amount of such Series of Notes then outstanding or has been so directed by an Extraordinary Resolution; and

(ii) it has been indemnified and/or secured and/or pre-funded to its satisfaction.

No Noteholder may institute proceedings directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

20. Further Issues

The Issuer may from time to time, without the consent of Noteholders and in accordance with the Trust Deed, create and issue further tranches of notes having the same terms and conditions as the Notes of an existing Series of Notes in all respects (or in all respects except for any one or more of the first payment of interest, the issue date, the first interest payment date and, to the extent necessary, certain temporary securities law transfer restrictions and, if applicable, the timing for notification to the NDRC) so as to form a single series with the existing Series of Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other Series of Notes having the benefit of the Trust Deed. References in these Conditions to the Notes include (unless the context requires otherwise) any other notes issued pursuant to this Condition 20 and forming a single series with the Notes.

21. Notices

(a) *Bearer Notes*: Notices to the Holders of Bearer Notes shall be valid if published in a leading English language daily newspaper published in Hong Kong or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia. Any such notice shall be deemed to have been given on the date of first publication (or if published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Holders of Bearer Notes.

(b) *Registered Notes*: Notices to the Holders of Registered Notes shall be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Asia. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

So long as the Notes are represented by a Global Note or a Global Note Certificate and such Global Note or Global Note Certificate is held on behalf of (i) Euroclear or Clearstream, Luxembourg, or any other clearing system (except as provided in (ii) below), notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or (ii) the CMU Service, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to the Persons shown in a CMU Instrument Position Report issued by the Hong Kong Monetary Authority on the business day preceding the date of despatch of such notice. Any such notice shall be deemed to have been given to the holders of the Notes on the second day after the day on which the said notice was given to Euroclear, Clearstream, Luxembourg, the CMU Service and/or the alternative clearing system, as the case may be.

22. Currency Fallback

(a) *Application*: This Condition 22 shall be applicable in relation to Notes where the specified currency is Renminbi.

(b) *Currency Fallback*: Notwithstanding all other provisions in these Conditions, if by reason of Inconvertibility, Non-transferability or Illiquidity, the Issuer is not able to satisfy payments of principal or interest in respect of Notes when due, in whole or in part, in Renminbi in Hong Kong, the Issuer may, on giving not less than five nor more than 30 days' irrevocable notice to the Noteholders prior to the due date for payment, settle any such payment, in whole or in part, in U.S. dollars on the due date at the US Dollar Equivalent of any such Renminbi denominated amount. Notwithstanding the foregoing, if the relevant Inconvertibility, Non-transferability or Illiquidity event occurs within five days before the relevant due date for payment then such notice shall be given as soon as practicable on or prior to the due date for payment. The due date for payment shall be the originally scheduled due date or such postponed due date as shall be specified in the notice referred to above, which postponed due date may not fall more than 20 days after the originally scheduled due date. Interest on the Notes will continue to accrue up to but excluding any such date for payment of principal. Any such payment made under these circumstances in U.S. dollars will constitute valid payment in full and will not constitute an Event of Default.

(c) *Currency Fallback Payments*: In such event, payments of the US Dollar Equivalent of the relevant principal or interest in respect of the Notes shall be made by a U.S. dollar-denominated cheque drawn on a bank in New York City and mailed to the holder (or, in the case of a joint holding, to the first named joint holder) of the Notes at its address appearing in the Register, or, upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, by transfer to a U.S. dollar-denominated account with a bank in New York City.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 22 by the Principal Paying Agent, will (in the absence of wilful default, gross negligence or manifest error) be binding on the Issuer, the Agents and all Noteholders.

In the event of a payment pursuant to this Condition 22, the definition of "**Payment Business Day**" in Condition 2(a) (*Definitions*) shall be modified to mean a day (other than a Saturday or Sunday) on which banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located and on which foreign exchange transactions may be carried out in U.S. dollars in New York City.

23. Rounding

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Pricing Supplement), (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.), (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up), (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount, and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

24. Governing Law and Jurisdiction

(a) *Governing law*: The Notes and the Trust Deed and all non-contractual obligations arising out of or in connection with the Notes and the Trust Deed shall be governed by and construed in accordance with English law.

(b) *Jurisdiction*: The courts of England shall have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Trust Deed or the Notes (including without limitation a Dispute regarding any non-contractual obligations arising out of or in connection with the Trust Deed or the Notes) and accordingly any legal action or proceedings arising out of or in connection with the Trust Deed or the Notes ("**Proceedings**") may be brought in such courts. The Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of the English courts in connection with any such Proceedings and waived any objections to Proceedings in such courts on the grounds of venue or that they have been brought in an inconvenient forum. The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking Proceedings in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

(c) *Agent for Service of Process*: The Issuer has in the Trust Deed appointed an agent to receive service of process in any Proceedings in England. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

(d) *Waiver of Immunity*: The Issuer irrevocably agrees that, should any Proceedings be taken anywhere (whether for an injunction, specific performance, damages or otherwise), no immunity (to the extent that it may at any time exist, whether on the grounds of sovereignty or otherwise) from those Proceedings, from attachment (whether in aid of execution, before judgment or otherwise) of its assets or from execution of judgment shall be claimed by it or on its behalf or with respect to its assets, any such immunity being irrevocably waived. The Issuer irrevocably agrees that it and its assets are, and shall be, subject to such Proceedings, attachment or execution in respect of its obligations under the Trust Deed or the Notes.

(e) *Consent to Enforcement etc.*: The Issuer irrevocably and generally consents to the fullest extent permitted by the laws of its jurisdiction of incorporation in respect of any Proceedings anywhere to the giving of any relief or the issue of any process in connection with those Proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those Proceedings.

FORM OF PRICING SUPPLEMENT

The Pricing Supplement in respect of each Tranche of the Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue.

This document is for distribution to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "SEHK") and in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) (together, "Professional Investors") only. **Investors should not purchase the Notes in the primary or secondary markets unless they are Professional Investors and understand the risks involved. The Notes are only suitable for Professional Investors.**

The SEHK has not reviewed the contents of this document, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this document to Professional Investors only have been reproduced in this document. Listing of the Programme and the Notes on the SEHK is not to be taken as an indication of the commercial merits or credit quality of the Programme, the Notes or the Issuer or quality of disclosure in this document. Hong Kong Exchanges and Clearing Limited and the SEHK take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Issuer. The Issuer accepts full responsibility for the accuracy of the information contained in this document and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

[**MiFID II product governance/Professional investors and ECPs only target market** – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in Directive 2014/65/EU (as amended, "**MiFID II**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[PRIIPs REGULATION – PROHIBITION OF SALES TO EEA AND UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") or in the United Kingdom (the "**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of MiFID II; or (ii) a customer within the meaning of Directive 2002/92/EC (as amended or superseded, "**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of

Article 4(1) of MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA or in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA or in the UK may be unlawful under the PRIIPs Regulation.]

[**SECTION 309B(1)(C) OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE) NOTIFICATION –** The Notes are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).]

Pricing Supplement dated [●]

Lenovo Group Limited

**Issue of [Aggregate Principal Amount of Series] [Title of Notes]
under the U.S.$3,000,000,000 Medium Term Note Programme**

The document constitutes the Pricing Supplement relating to the issue of the Notes described herein.

Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions of the Notes (the "**Conditions**") set forth in the Offering Circular dated March [●], 2020. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with such Offering Circular [and the supplemental Offering Circular dated [*date*]].

[*The following alternative language applies if the first tranche of an issue which is being increased was issued under an Offering Circular with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Circular dated [original date]. This Pricing Supplement contains the final terms of the Notes and must be read in conjunction with the Offering Circular dated [current date] [and the supplemental Offering Circular dated [●]], save in respect of the Conditions which are extracted from the Offering Circular dated [original date] and are attached hereto.]

[*Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote guidance for completing the Pricing Supplement.*]

1.	Issuer:		Lenovo Group Limited
2.	[(i)	Series Number:]	[●]
	[(ii)	Tranche Number:]	[●]
	[(iii)	Date on which the Notes become fungible:]	[Not Applicable/The Notes shall be consolidated, form a single series and be interchangeable for trading purposes with the [●] on [[●]/the Issue Date/exchange of the Temporary Global Note for interests in the Permanent Global Note, as referred to in paragraph 25 below [which is expected to occur on or about [●]].]

3.	Specified Currency or Currencies:	[●]
4.	Aggregate Principal Amount:	[●]
	[(i)] [Series]:	[●]
	[(ii) Tranche:]	[●]
5.	(i) Issue Price:	[●] per cent. of the Aggregate Principal Amount [plus accrued interest from [*insert date*] (*in the case of fungible issues only, if applicable*)]
	(ii) Net Proceeds:	[●] [(Required only for listed issues)]
6.	(i) Specified Denominations:[1, 2, 3]	[●]
	(ii) Calculation Amount:	[●]
7.	(i) Issue Date:	[●]
	(ii) Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable]
8.	Maturity Date:	[*Specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year*][4] [*If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom, or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available.*]

1 Notes (including Notes denominated in sterling) in respect of which the issue proceeds are to be accepted by the Issuer in the United Kingdom or whose issue otherwise constitutes a contravention of section 19 of the FSMA and which have a maturity of less than one year and must have a minimum redemption value of £100,000 (or its equivalent in other currencies).

2 If the specified denomination is expressed to be EUR100,000 or its equivalent and multiples of a lower principal amount (for example EUR1,000), insert the additional wording as follows: EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]. No Notes in definitive form will be issued with a denomination above [EUR199,000]. In relation to any issue of the Notes which are a Global Note/Global Note Certificate exchangeable for Definitive Notes/Individual Note Certificates in circumstances other than "in the limited circumstances specified in the Permanent Global Notes/Global Note Certificate", such Notes may only be issued in denominations equal to, or greater than, EUR100,000 (or equivalent) and multiples thereof.

3 Notes to be listed on SEHK are required to be traded with board lot size of at least HK$500,000 (or equivalent in other currencies).

4 Note that for Renminbi or Hong Kong dollar denominated Fixed Rate Notes where Interest Payment Dates are subject to modification it will be necessary to use the second option here.

9.	Interest Basis:	[[●] per cent. Fixed Rate] [[*Specify reference rate*] +/-[●] per cent. Floating Rate] [Zero Coupon] [Other (*Specify*)] (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [Dual Currency] [Other (*Specify*)]
11.	Change of Interest or Redemption/Payment Basis:	[*Specify details of any provision for convertibility of the Notes into another interest or redemption/payment basis*][Not Applicable]
12.	Put/Call Options:	[Put Option] [Call Option] [(further particulars specified below)]
13.	(i) Date [Board] approval for issuance of Notes obtained	[●] *(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes)*
14.	Listing:	[Hong Kong/Other (*specify*)/None] (For Notes to be listed on the SEHK, insert the expected effective listing date of the Notes)
15.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

16.	**Fixed Rate Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/ other (specify)] in arrear]
	(ii) Interest Payment Date(s):	[●] in each year [adjusted in accordance with [*specify Business Day Convention and any applicable Additional Business Centre(s) for the definition of "Business Day"*]/not adjusted]

	(iii) Fixed Coupon Amount[(s)]:	[●] per Calculation Amount[5]
	(iv) Broken Amount(s):	[[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [S]/Not Applicable]
	(v) Day Count Fraction:	[Actual/Actual (ICMA) or Actual/Actual (ISDA) or Actual/365 (Fixed) or Actual/360 or 30/360 or 30E/360 or Eurobond Basis or 30E/360 (ISDA) or [*specify other*]]
	(vi) Other terms relating to the method of calculating interest for Fixed Rate Notes:	[Not Applicable/*give details*]
17.	**Floating Rate Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Interest Period(s):	[●]
	(ii) Specified Period:	[●]
	(iii) Specified Interest Payment Dates: [S]	[●] (*Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable"*)
	(iv) First Interest Payment Date:	[●]
	(v) Business Day Convention:	[FRN Convention/Floating Rate Convention/Eurodollar Convention/Following Business Day Convention/Modified Following Business Day Convention/Modified Business Day Convention/Preceding Business Day Convention/other (*give details*)]
	(vi) Additional Business Centre(s):	[Not Applicable/*give details*]
	(vii) Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination/other (*give details*)]
	(viii) Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the Principal Paying Agent):	[[*Name*] shall be the Calculation Agent (*no need to specify if the Principal Paying Agent is to perform this function*)]
	(ix) Screen Rate Determination:	
	• Reference Rate:	[*For example, LIBOR, EURIBOR or CNH HIBOR*]
	• Interest Determination Date(s):	[●]

[5] For Renminbi or Hong Kong dollar denominated Fixed Rate Notes where the Interest Payment Dates are subject to modification the following alternative wording is appropriate: "Each Fixed Coupon Amount shall be calculated by multiplying the product of the Rate of Interest and the Calculation Amount by the Day Count Fraction and rounding the resultant figure to the nearest RMB0.01 (RMB0.005 being rounded upwards) in the case of Renminbi-denominated Fixed Rate Notes and to the nearest HK$0.01 (HK$0.005 being rounded upwards) in the case of Hong Kong dollar denominated Fixed Rate Notes."

	• Relevant Screen Page:	[*For example, Reuters LIBOR 01/EURIB0R 01*]
	• Relevant Time:	[*For example, 11.00 a.m. London time/Brussels time*]
	• Relevant Financial Centre:	[*For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro*]
(x)	ISDA Determination:	
	• Floating Rate Option:	[●]
	• Designated Maturity:	[●]
	• Reset Date:	[●]
	• [ISDA Definitions	[2006]]
(xi)	Linear interpolation	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
(xii)	Margin(s):	[+/-][●] per cent. per annum
(xiii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiv)	Maximum Rate of Interest:	[●] per cent. per annum
(xv)	Day Count Fraction:	[●]
(xvi)	Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:	[●]

18.	**Zero Coupon Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i)	Accrual Yield:	[●] per cent. per annum
(ii)	Reference Price:	[●]
(iii)	Day Count Fraction:	[Actual/Actual (ICMA) or Actual/Actual (ISDA) or Actual/365 (Fixed) or Actual/360 or 30/360 or 30E/360 or Eurobond Basis or 30E/360 (ISDA) or [*specify other*]]
(iv)	Any other formula/basis of determining amount payable:	[*Consider whether it is necessary to specify a Day Count Fraction for the purposes of Condition 8*]

19.	**Dual Currency Note Provisions**	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
(i)	Rate of Exchange/method of calculating Rate of Exchange:	[*give details*]
(ii)	Calculation Agent, if any, responsible for calculating the principal and/or interest due:	[●]

	(iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[●]
	(iv) Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

20.	**Call Option**	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Optional Redemption Date(s) (Call):	[●]
	(ii) Optional Redemption Amount (Call) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount	[●] per Calculation Amount
	(iv) Notice period:	[●]
21.	**Put Option**	[Applicable/Not Applicable] (*If not applicable, delete the remaining subparagraphs of this paragraph*)
	(i) Optional Redemption Date(s) (Put):	[●]
	(ii) Optional Redemption Amount (Put) of each Note and method, if any, of calculation of such amount(s):	[●] per Calculation Amount
	(iii) Notice period:	[●]
22.	**Final Redemption Amount of each Note**	[●] per Calculation Amount
23.	**Early Redemption Amount (Tax)/Early Termination Amount** Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default or other early redemption and/or the method of calculating the same (if required or if different from that set out in the Conditions):	[Not Applicable (*if each of the Early Redemption Amount (Tax) and the Early Termination Amount is the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes*)]
24.	**Redemption for tax reasons:** Notice period pursuant to Condition 10(b)(ii)(B) (if different):	[[●]/Not Applicable]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

25.	**Form of the Notes:**	Bearer Notes:[6] [Temporary Global Note exchangeable for a Permanent Global Note on [●] days' notice/in the limited circumstances specified in the Permanent Global Note][7] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice][8] [Permanent Global Note exchangeable for Definitive Notes on [●] days' notice /in the limited circumstances specified in the Permanent Global Note][9] **Registered Notes:** [Global Note Certificate exchangeable for Individual Note Certificates on [●] days' notice/in the limited circumstances described in the Global Note Certificate][10]
26.	Additional Financial Centre(s) or other special provisions relating to payment dates:	[Not Applicable/give details.] [*Note that this paragraph relates to the date and place of payment, and not interest period end dates, to which sub paragraph 17(vi) relates*]
27.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[No/Yes. *If yes, give details*.]

6 Bearer Notes issued in compliance with the D Rules must initially be represented by a Temporary Global Note.

7 if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Permanent Global Note shall not be exchangeable on [●] days notice.

8 if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Temporary Global Note shall not be exchangeable on [●] days notice.

9 if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Permanent Global Note shall not be exchangeable on [●] days notice.

10 if the Specified Denominations of the Notes in paragraph 6 includes language substantially to the following effect: "EUR100,000 and integral multiples of [EUR1,000] in excess thereof up to and including [EUR199,000]", the Global Note Certificate shall not be exchangeable on [●] days notice.

28.	Consolidation provisions:	[The provisions in Condition 20 (*Further Issues*) [annexed to this Pricing Supplement] apply]]
29.	Other terms or special conditions:	[Not Applicable/*give details*]

DISTRIBUTION

30.	(i) If syndicated, names of (ii) Stabilising Manager(s) (if any):	[Not Applicable/*give names*] Managers: [Not Applicable/*give name*]
31.	If non-syndicated, name and address	[Not Applicable/*give name and address*] of Dealer:
32.	Total commission and concession:	[●] per cent. of the Aggregate Principal Amount
33.	Prohibition of sales to EEA and UK Retail Investors:	[Applicable/Not Applicable] *(If the offer of the Notes do not constitute "packaged" products, "Not Applicable" should be specified. If the offer of the Notes may constitute "packaged" products and no KID will be prepared, "Applicable" should be specified.)*
34.	U.S. Selling Restrictions:	Reg. S Category [1/2] (*In the case of Bearer Notes*) – [C RULES/D RULES/TEFRA not applicable][11]
35.	Additional selling restrictions:	[Not Applicable/*give details*]

OPERATIONAL INFORMATION

36.	ISIN Code:	[●]
37.	Common Code:	[●]
38.	CMU Instrument Number:	[●]
39.	Any clearing system(s) other than Euroclear/Luxembourg and the relevant identification number(s):	[CMU Service/Not Applicable/*give name(s) and number(s)*]

11 TEFRA not applicable may only be used for Registered Notes, or Bearer Notes with a maturity of 365 days or less (taking into account any unilateral rights to extend or rollover). Bearer Notes with a maturity of more than 365 days (taking into account unilateral rights to extend or rollover) that are held through the CMU Service must be issued in compliance with the C Rules, unless at the time of issuance the CMU Service and the CMU Lodging and Paying Agent have procedures in place so as to enable compliance with the certification requirements under the D Rules.

40.	Delivery:	Delivery [against/free of] payment
41.	Additional Paying Agent(s) (if any):	[●]

GENERAL

42.	[Ratings:	The Notes to be issued have been rated: [[●]: [●]]; [[●]: [●]]; [and] [[●]: [●]] (each a "Rating Agency").]

[**USE OF PROCEEDS**

Give details if different from the "Use of Proceeds" section in the Offering Circular.]

[**STABILISING**

In connection with this issue, [*insert name of Stabilising Manager*] (the "**Stabilising Manager**") (or persons acting on behalf of any Stabilising Manager) may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, stabilisation may not occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilising or over-allotment shall be conducted in accordance with all applicable laws and rules. Any loss or profit sustained as a consequence of any such over-allotment or stabilising shall, as against the Issuer, be for the account of the Stabilising Manager.]

PURPOSE OF PRICING SUPPLEMENT

This Pricing Supplement comprises the final terms required for issue and admission to trading on the SEHK of the Notes described herein pursuant to the U.S.$3,000,000,000 Medium Term Note Programme of the Issuer.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in this Pricing Supplement.

Signed on behalf of Lenovo Group Limited:

By: ______________________________
Duly authorised

Name: ______________________________

Title: ______________________________

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Clearing System Accountholders

In relation to any Tranche of Notes represented by a Global Note, references in the Terms and Conditions to "**Noteholder**" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and/or a sub-custodian for the CMU Service, will be that depositary, common depositary or, as the case may be, sub-custodian.

In relation to any Tranche of Notes represented by one or more Global Note Certificates, references in the Conditions of the Notes to "**Noteholder**" are references to the person in whose name the relevant Global Note Certificate is for the time being registered in the Register which in the case of any Global Note Certificate which is held by or on behalf of a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg a sub-custodian for the CMU Service and/or any other relevant clearing system, will be that depositary or common depositary or, a nominee for that depositary or common depositary or such sub-custodian.

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note or a Global Note Certificate (each an "**Accountholder**") must look solely to Euroclear, Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer to the holder of such Global Note or Global Note Certificate and in relation to all other rights arising under such Global Note or Global Note Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under a Global Note or Global Note Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by a Global Note or Global Note Certificate, Accountholders shall have no claim directly against the Issuer in respect of payments due under the Notes and such obligations of the Issuer will be discharged by payment to the holder of such Global Note or Global Note Certificate.

If a Global Note or a Global Registered Note is lodged with a sub-custodian for or registered with the CMU Service, the person(s) for whose account(s) interests in such Global Note or Global Registered Note are credited as being held in the CMU Service in accordance with the CMU Rules as notified by the CMU Service to the CMU Lodging and Paying Agent in a relevant CMU Instrument Position Report or any other relevant notification by the CMU Service (which notification, in either case, shall be conclusive evidence of the records of the CMU Service save in the case of manifest error) shall be the only person(s) entitled or in the case of Registered Notes, directed or deemed by the CMU Service as entitled to receive payments in respect of the Notes represented by such Global Note or Global Registered Note and the Issuer will be discharged by payment to, or to the order of, such person(s) for whose account(s) interests in such Global Note or Global Note Certificate are credited as being held in the CMU Service in respect of each amount so paid. Each of the persons shown in the records of the CMU Service, as the beneficial holder of a particular nominal amount of the Notes represented by such Global Note or Global Registered Note must look solely to the CMU Lodging and Paying Agent for his share of each payment so made by the Issuer in respect of such Global Note or Global Registered Note.

Transfers of Interests in Global Notes and Global Note Certificates

Transfers of interests in Global Notes and Global Note Certificates within Euroclear and Clearstream, Luxembourg or any other relevant clearing system will be in accordance with their respective rules and operating procedures. None of the Issuer, the Trustee, the relevant Registrars, the Dealers or the Agents will have any responsibility or liability for any aspect of the records of any Euroclear and Clearstream, Luxembourg or any other relevant clearing system or any of their respective participants relating to payments made on account of beneficial ownership interests in a Global Note or Global Note Certificate or for maintaining, supervising or reviewing any of the records of Euroclear and Clearstream, Luxembourg or any other relevant clearing system or the records of their respective participants relating to such beneficial ownership interests.

The laws of some states of the United States require that certain persons receive individual certificates in respect of their holdings of Notes. Consequently, the ability to transfer interests in a Global Note Certificate to such persons will be limited. Because clearing systems only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Note Certificate to pledge such interest to persons or entities which do not participate in the relevant clearing systems, or otherwise take actions in respect of such interest, may be affected by the lack of an Individual Note Certificate representing such interest.

On or after the issue date for any Series, transfers of Notes of such Series between accountholders in Euroclear and/or Clearstream, Luxembourg will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Although Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Note Certificates among participants and accountholders of Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Issuer, the relevant Registrars, the Dealers, the Trustee or the Agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective direct or indirect participants or account holders of their respective obligations under the rules and procedures governing their respective operations.

While a Global Note Certificate is lodged with Euroclear, Clearstream, Luxembourg or any relevant clearing system, Individual Note Certificates for the relevant Series of the Notes will not be eligible for clearing and settlement through such clearing systems.

Conditions applicable to Global Notes

Each Global Note and Global Note Certificate will contain provisions which modify the Terms and Conditions as they apply to the Global Note or Global Note Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note or Global Note Certificate which, according to the Terms and Conditions, require presentation and/or surrender of a Note, Note Certificate or Coupon will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note or Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the payment is noted in a schedule thereto.

Payment Business Day: in the case of a Global Note or a Global Note Certificate, shall be: if the currency of payment is euro, any day which is a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or, if the currency of payment is not euro, any day which is a day on which dealings in foreign currencies (including, in the case of Notes denominated in Renminbi, settlement of Renminbi payments) may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre.

Payment Record Date: Each payment in respect of a Global Note Certificate will be made to the person shown as the Holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the "**Record Date**") where "Clearing System Business Day" means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 10(c) (Redemption at the option of the Issuer) in relation to some only of the Notes, the Permanent Global Note or Global Note Certificate may be redeemed in part in the principal amount specified by the Issuer in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions but in accordance with the rules and procedures of Euroclear and/or Clearstream, Luxembourg or the CMU Service (to be reflected in the records of Euroclear and/or Clearstream, Luxembourg or the CMU Service as either a pool factor or a reduction in principal amount, at their discretion).

Notices: Notwithstanding Condition 21 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) or a Global Note Certificate and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are), or the Global Note Certificate is, (i) deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with Condition 21 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system or (ii) deposited with the CMU Service, notices to the holders of Notes of the relevant Series may be given by delivery of the relevant notice to the persons shown in a CMU Instrument Position Report issued by the CMU Service on the second business day preceding the date of despatch of such notice as holding interests in the relevant Global Note or Global Note Certificate.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our consolidated capitalization and indebtedness as at December 31, 2019. The following table should be read in conjunction with our unaudited consolidated interim financial information as at and for the nine months ended December 31, 2019 and related notes included elsewhere in this Offering Circular.

	(Unaudited) As at December 31, 2019
	(in US$ thousands)
Long-term indebtedness (net of current portion)	
Notes	1,243,155
Convertible bonds	602,983
Convertible preferred shares[1]	307,000
Total long-term indebtedness	2,153,138
Owners' equity	
Share capital[2]	3,185,923
Reserves	244,568
Equity attributable to owners of the Company	3,430,491
Perpetual securities	1,007,110
Other non-controlling interests	623,934
Put option written on non-controlling interests[3]	(766,238)
Total equity	4,295,297
Total capitalization[4]	6,448,435

(1) Represents 2,054,791 convertible preferred shares issued by our wholly-owned subsidiary, Lenovo Enterprise Technology Company Limited ("LETCL"). 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. For more details, please refer to note 11 (iv) to the Company's unaudited consolidated interim financial information as at and for the nine months ended December 31, 2019.

(2) Represents 12,014,791,614 ordinary shares issued and fully paid.

(3) Represents the put options granted under our joint venture agreement with Fujitsu Limited and our option agreement with Hefei Yuan Jia Start up Investment LLP, for more details, please refer to note 10(b) of the Company's unaudited consolidated interim financial information as at and for the nine months ended December 31, 2019.

(4) Total capitalization equals total long-term indebtedness (net of current portion) plus total equity.

Other than as disclosed above, there have been no material changes in the Company's consolidated capitalization or indebtedness since December 31, 2019.

DESCRIPTION OF THE COMPANY

We develop, manufacture and market high-quality and easy-to-use technology products and services for consumers and enterprises worldwide. We produce some of the world's most innovative PCs (including the renowned Think and multimode YOGA brands), workstations, servers, storage, smart TVs and a family of mobile products including smartphones (including "Moto" brand smartphones), tablets and apps.

We were founded in the 1980s in China and have been listed on the SEHK since 1994. We expanded our business and operations to a global scale through our acquisition of the personal computer division of IBM in 2005.

In 2010, we adopted our PC+ strategy and established a business group focusing on our mobile, internet and digital home business. We have since achieved strong growth in our smartphones and tablets sales and further diversified our business. In October 2014, we acquired Motorola Mobility from Google Inc., a move that enabled us to immediately become a truly global smartphone player with strong positions in key emerging markets. Also in October 2014, we acquired System X, a move that enabled us to gain scale and credibility in the server market and immediately become a top global x86 server provider and capture what we believe are the significant growth opportunities in the enterprise hardware system.

We are a multi-business company focused on investments in five key areas: smart internet of things ("IoT"), edge computing, cloud, big data and artificial intelligence ("AI") in vertical industries. These investments aim to strengthen our capability as a competitive end-to-end solution provider in the era of intelligent transformation.

COMPETITIVE STRENGTHS

We believe the following strengths have contributed to our success and differentiate us from our competitors:

- Clear strategy and solid execution capability;

- Leading position in the global PC market with strong brand recognition;

- Technology leadership with innovative, world-class research and development capabilities through devotion to innovation;

- Operational flexibility and cost efficiency through a hybrid manufacturing model combining outsourcing and in-house manufacturing capabilities;

- Disciplined acquisition strategy and proven integration capability; and

- Truly international operation with a strong, diverse, global experienced management team.

STRATEGIES

We are pursuing an intelligent transformation to bring smarter technology through our 3S (Smart IoT, Smart Infrastructure and Smart Verticals) strategy, which is further described below.

Smart IOT

Smart Internet of Things ("IoT") refers to a network of internet-connected objects that collect and exchange data. As part of our Smart IoT strategy, we plan to build artificial intelligence ("AI") in our PC and smart device product offerings, especially for commercial use products. To achieve this, we are making substantial investments to make our existing devices – including PC and tablets – smarter and more adaptive to customers' needs, with seamless connectivity to the cloud and other devices. We have also adopted new technologies to create award-winning smart solutions, including Lenovo's Smart Clock, Smart Camera and Smart Lock, which together garnered 75 awards at the January 2019 Consumer Electronics Show.

We plan to continue to invest in Smart IoT. Specifically, we expect to accelerate our investments in the areas of edge computing, cloud, big data and AI in vertical industries to implement our strategic intelligent transformation and further strengthen our core competence. Through these investments, we aim to strengthen our capability as a competitive end-to-end solution provider in the era of intelligent transformation.

Smart Infrastructure

Smart Infrastructure provides the computing, storage and networking power to support smart devices. We believe Smart Infrastructure is gradually becoming the backbone of organizations and the development of it drives public cloud companies, high-performance computing for scientific computations and AI companies. To this end, we have been investing to become a world-class, next-generation data center solutions provider, specifically in the areas of software-defined infrastructure, hyperscale, storage and high-performance computing. We have also launched our next-generation data center solutions in software-defined infrastructure and expect this to remain a future growth catalyst.

Smart Verticals

Smart Verticals combines big data harnessed from smart devices and the computing power of smart infrastructure to provide more insights and improve processes for customers. We are creating vertical solutions that equip customers with unparalleled insights, those that can dramatically improve business processes, facilitate decision-making, enhance financial returns, and ultimately solve tangible business problems.

Our Lenovo Capital and Incubator Group ("**LCIG**") has been actively building capabilities in five key areas of the Smart Internet value chain: IoT, edge computing, cloud, big data and AI. We plan to continue to leverage LCIG to enhance our corporate investments to drive innovation and integrate these investments to develop vertical solutions and our smart verticals ecosystem.

PRINCIPAL LINES OF BUSINESS, PRODUCTS AND SERVICES

We are primarily engaged in the development, manufacturing and marketing of technology products and services, namely: (i) PC and Smart Devices, including notebook computers, desktop computers, tablets, and smart devices such as augmented reality ("**AR**") devices; (ii) smartphone devices, which includes Moto and Lenovo-branded smartphones; (iii) data center devices, which includes servers, storage, converged systems, networking, hyperscale, software and services; and (iv) computer accessories and services-related hardware.

For the financial years ended March 31, 2017 and 2018, our organizational structure was divided into four groups: PC and Smart Device Business Group, Data Center Group, Mobile Business Group, and Others (including Lenovo Capital and Incubator Group.)

Effective April 1, 2018, we realigned our organizational structure into two groups: (i) the Intelligent Devices Group ("**IDG**"), which combines our PC and Smart Device Business Group and Mobile Business Group, as well as the Others Group, and (ii) our Data Center Group ("**DCG**"). This realignment of our organizational structure aims to align our structure more closely with our strategic direction and market dynamics to better serve customers. As a result, we reclassified the financial information for the financial year ended March 31, 2018 to conform to the presentation of the current business group segmentation.

Set forth below is a breakdown by business group of our revenue and pre-tax income/(loss) for the periods indicated.

	Nine Months ended December 31,							
	2019				2018			
	Revenue	%	Pre-tax Income/(Loss)	%	Revenue	%	Pre-tax Income/(Loss)	%
	(in US$ thousands, except for percentages)							
– IDG	35,849,817	89	1,835,835	109	34,554,496	88	1,380,305	115
– DCG	4,287,161	11	(149,716)	(9)	4,773,168	12	(178,051)	(15)
Total Revenue	40,136,978	100	**1,686,119**	100	**39,327,664**	100	1,202,254	100

Our Products and Services

PC & Smart Devices

PCs

Our PC products are notebooks and desktop computers primarily marketed under three product lines: Think, Idea and Yoga products. Our Think products primarily target commercial customers and are focused primarily on premium products, while our other product lines include a variety of premium, mainstream, and entry-level consumer products.

Think products include a wide range of commercial desktop computers and notebooks featuring cutting-edge technology, customer-centric innovation and powerful productivity features. Among them, ThinkPad is a line of high-end business-oriented notebooks with well-recognized designs, and ThinkCentre is a line of mid-range to high-end business-oriented desktop computers. Some of the products for this line include:

- *ThinkPad® X & T Series* – premium laptops with superior design, spill-resistant keyboards, strong security features and performance, including the recently launched ThinkPad X1 Fold – a fully functional PC with a folding OLED display.

- *ThinkPad® Yoga Series* – multimode Ultrabooks™ with displays that can rotate 360 degrees to offer four different usage modes: laptop, tablet, tent and stand.

- *ThinkCentre M Series All-in-Ones* – all-in-one desktop computers that offer clean, clutter-free and compact solutions for enterprises with minimal space requirement, professional appearance and enterprise-level productivity.

Idea Products are mainstream and entry-level consumer products. Among them, IdeaPad is a line of consumer-oriented notebooks and IdeaCentre is a line of all-in-one desktop computers that combine processor and monitor into a single unit. Some of the products for this line include:

- *Y Series* – high-performing laptops with fast processors, advanced 3D graphics technology, high resolution displays and studio-class audio for multimedia and gaming purposes.

- *A Series All-in-Ones* – stylish and ultra-slim desktop computers with multi-touch display.

Our Yoga products are premium to mainstream consumer products that offer a wide range of two-in-one consumer notebooks. Some of the products for this line include:

- *Yoga Series* – a wide range of two-in-one products with ultra-light and flexible features suited for different purposes.

Tablets

Our rapid growth in tablets is driven by the same innovation that makes us the PC leader. Some of our tablet products include:

- *ThinkPad X1 & Ideapad Miix* – innovative product supporting laptop, tablet, stand and tablet+ modes, developed with top-of-line hardware and software.

- *Yoga Tablet* – the world's first multimode tablet with a long battery life of up to 18 hours.

Workstations

- *ThinkStation P* – highly usable design combined with powerful performance, flexible options, and diagnostics, with plenty of memory and storage.

Gaming

- *Legion* Y Series – immersive laptop and desktop machine with leading thermal engineering provide users excellent audio, video and control experience in the gaming world.

Smart Device

- *Star Wars: Jedi Challenges* – a smartphone-powered AR product that allow users to experience Disney Star Wars experience and gameplay.

Smartphone

Our smartphones maintain strong security and performance features associated with the "Lenovo" and "Moto" brands at reasonable prices.

We continue to streamline our smartphone portfolio while launching more mid-to-higher price smartphone products, including *Moto E, G, razr,* and *Z* under the Moto brand, and *A, K, Phab,* and *Vibe* series under the Lenovo brand. Some of our other smartphone products include:

- *Moto razr* – foldable smartphones with zero-gap hinges and cohesive design that protects the main display.

- *Moto Z Series* – ultra-thin Android smartphones offering expandable modules such as projectors, Hi Fi speakers and advanced cameras, which recently included 5G upgradeable phone features.

- *Moto G* – slim Android smartphones offering a complete video, music and gaming experience featuring long-lasting batteries and high-resolution displays.

- *Moto E and Lenovo brand* – affordable Android smartphones with powerful processors and displays.

Data Center Products and Services

Our data center products and services primarily includes servers, storage, converged systems, networking, hyperscale, software and services. We provide data center technology infrastructure solutions for a variety of operating environments.

Our server business includes *ThinkSystem* and *ThinkAgile* products, which run primarily on Windows, Linux and virtualization platforms from software providers such as VMware, Inc. We offer a range of server product lines, including tower, rack and blade servers. Our storage offerings include storage platforms for enterprise and small-to medium-business environments. These offerings enable customers to optimize their existing storage systems, build new virtualization solutions and plan their transition to cloud computing.

Research and Development

We are committed to being a truly innovative company and will continue to create new categories of products and technologies that will both enhance our client experience and differentiate us from our competitors. We invest for the future, targeting new products and technology, and we typically focus on ideas that can be brought to market within a timeframe of approximately 24 months. We operate major research centers in China, Japan, and the United States. We currently hold rights to patents relating to certain aspects of our hardware devices, accessories, software and services. Over time, we have accumulated numerous patents around the world.

In addition to driving innovation in our own product development, we also work with partner startups to develop innovative solutions. Our new business development platform represents our efforts to leverage our established advantages to bring new technologies to market.

Brand Building

In 2018, we successfully launched our "Love on" campaign. As part of this campaign, we launched our Lenovo Foundation using an acronym of "Lenovo", "Love on", which gave us opportunities to highlight our community engagement initiatives and encourage our employees around the world to become active volunteers. The "Love on" campaign represents the closely overlapping roles of corporate citizenship and brand reputation. In addition, we continue to demonstrate our technological capabilities to customers and partners through world class events such as Tech World, where we unveil our latest technology and key partnerships. To promote focused brand awareness and continued focus on our intelligent transformation strategy, we expect to expand our digital capabilities to enhance engagement with customers and partners. We retained our ranking as a top brand on highly regarded surveys and lists, including BrandZ China Top 50 in 2019 and Fortune's Most Admired Companies in 2020.

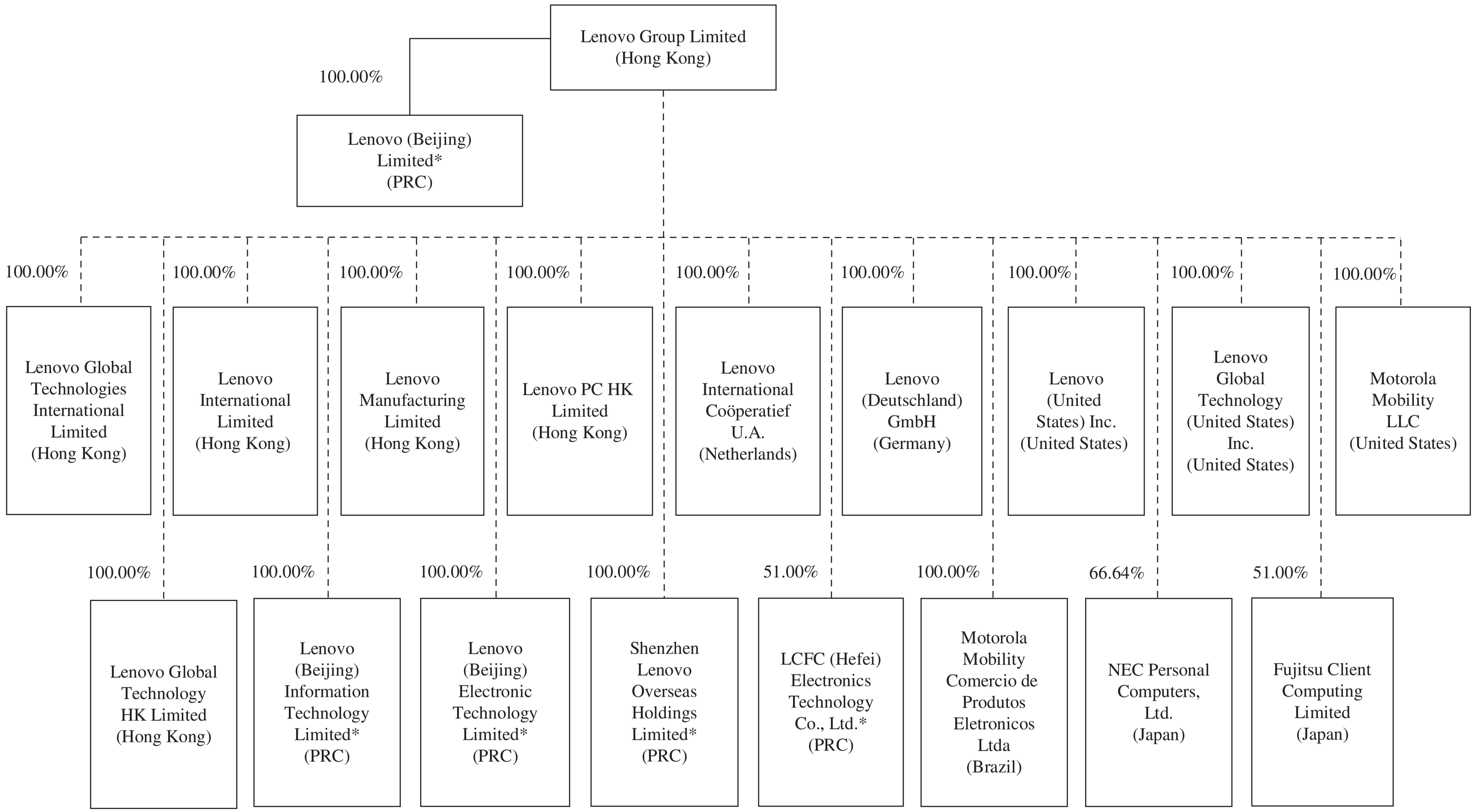
CORPORATE STRUCTURE AND OPERATIONS

We are a global corporation with operations on six continents. As at December 31, 2019, our products were sold in over 160 countries. We have a distributed management structure with operational hubs around the world, including Beijing, China and North Carolina, United States. We also have major research centers in: Yokohama, Japan; Beijing, Shanghai, Shenzhen, Xiamen and Chengdu, China; and Morrisville, United States. Our manufacturing centers are located in Japan, the United States, Mexico, India, Brazil and multiple locations in China, including in Hefei, Wuhan and Shenzhen.

We focus on vertical integration of manufacturing and adopt a unique hybrid manufacturing strategy, utilizing both in-house manufacturing capabilities and external manufacturers to achieve not only cost-efficiency but also improved visibility of and control over our product development process. We believe our in-house manufacturing capability enables us to build closer partnerships with strategic suppliers and partners, effectively control inventory levels, and achieve our time-to-market and time-to-volume expectations. We leverage our unique dual-business model that serves both (i) global, large enterprise customers through our relationship model, where we have dedicated teams providing tailored service and products, and (ii) small-and medium-business customers through our transaction model, where we provide a choice of mid-range and entry-level products according to customers' needs from time to time.

Our business depends heavily on our business partners and resellers. Depending on the geography, these include resellers, distributors, large-format retailers and telecom providers. This extensive distribution network enables us to penetrate smaller cities and rural areas while maintaining a leadership position in larger cities. We also provide direct sales capabilities via the Internet in many locations. We negotiate purchase contracts with our large corporate customers under our relationship model; however, order fulfillment is usually through one of our business partners.

The following chart summarizes our major subsidiaries and holding entities (all shareholding percentages are as at December 31, 2019):



—— held directly by Lenovo Group Limited in this chart

- - - - - held indirectly by Lenovo Group Limited through subsidiary(ies) in this chart and/or other subsidiary(ies) in the Group

* English translation of the company name in Chinese characters

BUSINESS OVERVIEW

We are one of the market leaders in the PC and Smart Device ("PCSD") industry. In 2019, we were the world's number one PC company by number of units shipped, with a 23.4% market share according to industry estimates. In line with our intelligent transformation strategy, we continue to focus on customer-led innovations. We have created dual-screens devices that can be written on (Yoga Book C930), a hinge that incorporates the world's first rotating sound bar (Yoga C930), the world's first fully functional PC with a folding OLED display (ThinkPad X1 Fold) and the world's first 5G upgradeable phone (Moto Z3). To address the smart solution needs of businesses, we introduced ThinkIoT solutions and AR/VR devices together with our ThinkReality platforms. Through joint ventures, global strategic partnerships and technology breakthroughs, we have transformed our Data Center business from a one dimensional traditional server business into a data center business delivering an end-to-end portfolio of compute, storage and networking capabilities. To support environmental sustainability, we have released products made from post-consumer recycled content materials and introduced new packaging designs made with renewable materials like bamboo and sugar cane fibers. We believe product innovation remains critical to our long-term growth, and we are developing a customer-centric business model to achieve growth. Our vision is to bring smarter technology to all through Smart IoT, Smart Infrastructure and Smart Verticals as further described in "Description of the Company".

Financial Year ended March 31, 2019

During the financial year ended March 31, 2019, we accelerated our strategic transformation and focused on investments in five key areas: smart internet of things ("IoT"), edge computing, cloud, big data and artificial intelligence ("AI") in vertical industries. These investments aim to strengthen our capability as a competitive end-to-end solution provider in the era of intelligent transformation. This strategic direction, coupled with our customer-centric strategy, contributed to higher sales volume of secondary software products and services. Our revenues from software and services grew double-digit year-on-year to comprise almost 5% of our total revenue during the financial year ended March 31, 2019.

As a result of a strong execution of our intelligent transformation strategy, our revenues of US$51,038 million and pre-tax profits of US$856 million during the financial year ended March 31, 2019, compared to US$45,350 million and US$153 million, respectively, were higher as compared with the previous financial year. This growth signifies our successful transformation from a single-business to a multi-business company. In the three months ended December 31, 2018, our global Mobile business recorded a profit for the first time since our 2014 Motorola Acquisition as a result of our execution of our strategy to reduce expenses, create a more competitive product portfolio and focus on core markets in Latin America and North America. Our data center business has transformed from a one dimensional traditional server business into a data center business delivering an end-to-end portfolio of compute, storage and networking capabilities. Our data center business had recorded revenues of US$6,025 million during the financial year ended March 31, 2019.

In 2019, we were included in *Fortune* magazine's "World's Most Admired Companies" list. In recognition of our efforts in clean energy and promoting social equality among our employees, we were also included in As You Sow and Carbon Knights' "2019 Q1 Carbon Clean 200" list and *Working Mother* magazine's 2018 "100 Best Companies" list.

Six Months ended September 30, 2019

During the six months ended September 30, 2019, our revenue grew period-on-period and our pre-tax profit was US$550 million, an increase of 69% compared to the corresponding period of the previous year. Despite component supply constraints and on-going geopolitical uncertainties, our PCSD, Mobile and Data Center businesses each recorded improved profit or lower losses. In our PCSD business, our market share gains in high-growth and premium segments were an important driver for revenue growth and better profitability. Our PCSD business had double-digit revenue and shipment growth across the Workstation, Thin and Light, Visual, and Gaming PC segments. In our Data Center business, despite the challenges in the hyperscale segment, the rest of the business achieved strong double-digit revenue growth in key segments such as storage and software-defined infrastructure ("SDI").

We continued to develop future growth businesses such as the software and services business as part of our 3S strategy to accelerate our intelligent transformation and achieve sustainable long-term growth. As a result of this strategy, our invoiced software and services revenue grew at a double-digit rate compared to the corresponding period last year and contributed more than 6% of our total revenue during the six months ended September 30, 2019. This was mainly due to growth in the premium services segment. During the six months ended September 30, 2019, we had net cash generated from operating activities of US$1.2 billion. The strong cashflow generation reflects our efforts in improving operating profit and working capital management.

Three Months ended December 31, 2019

During the three months ended December 31, 2019, our pre-tax profit grew 11% year-on-year to US$390 million, primarily due to growth in our PCSD business and improvements in our Data Center business. Our PCSD business pre-tax margins increased year-on-year, while our Mobile business remained profitable.

In addition to maintaining growth, we continued to develop future growth businesses such as the software and services business as part of our 3S strategy to accelerate our intelligent transformation and achieve sustainable long-term growth. As a result of this strategy, our invoiced software and services revenue grew at a double-digit rate year-on-year and contributed over 7% of our total revenue during the three months ended December 31, 2019, with the highest gross margin among all our products.

FINANCIAL REVIEW

Income Statement for the Financial Year ended March 31, 2019

For the financial year ended March 31, 2019, our total revenue grew by 12.5% as compared with the previous year to US$51,038 million, as both our PCSD business and Data Center Group had higher revenues. Our gross profit increased by 18% as compared with the previous year to US$7,371 million. Our gross margin increased by 0.6 percentage points as compared with the previous year to 14.4%, primarily attributable to margin growth in our PCSD and Mobile businesses. Our expense-to-revenue ratio decreased 0.9 percentage points to 12.1% due to disciplined cost control across all our business groups. Our pre-tax profit was US$856 million for the financial year ended March 31, 2019, a significant improvement from the US$153 million pre-tax profit in the previous year. Profit attributable to equity holders was US$597 million, reversing a loss of US$189 million in the previous year, which loss was mainly due to a non-cash write-off of US$400 million on deferred income tax assets.

Our operating expenses for the financial years ended March 31, 2019 and 2018 were as follows:

	Year ended March 31,	
	2019	2018
	(in US$ thousands)	
Other income – net	–	301
Selling and distribution expenses	(2,657,965)	(2,833,253)
Administrative expenses	(2,209,340)	(1,757,319)
Research and development expenses	(1,266,341)	(1,273,729)
Other operating expenses – net	(59,181)	(21,408)
	(6,192,827)	(5,885,408)

Our operating expenses for the financial year ended March 31, 2019 increased by 5% as compared with the previous year, of which US$151 million was related to the completion on May 2, 2018 of our acquisition of 51% of the total issued share capital of Fujitsu Client Computing Limited ("FCCL"). During the financial year ended March 31, 2019, employee benefit costs increased by US$239 million mainly due to the higher bonus accrual as a result of our better performance in the financial year ended March 31, 2019, as compared to the less satisfactory results under the challenging market conditions in the previous year. We have reduced advertising and promotional expenses by US$135 million by simplifying our portfolios and focusing on core markets of our Mobile business, and recorded gains on fair valuation of certain financial assets of US$126 million. During the financial year ended March 31, 2018, we announced resource actions and incurred US$101 million severance costs to further enhance efficiency and competitiveness in view of industrial challenges and recorded a gain of US$61 million on disposal of our research and development property in Wuhan, China. The impact of currency fluctuations during the financial year ended March 31, 2019 presented a challenge, and we recorded a net foreign exchange loss of US$112 million, as compared to a net foreign exchange loss of US$56 million in the previous year.

Our key operating expenses for the financial years ended March 31, 2019 and 2018 comprise:

	Year ended March 31,	
	2019	2018
	(in US$ thousands)	
Depreciation of property, plant and equipment and amortization of prepaid lease payments	(171,961)	(148,177)
Amortization of intangible assets	(479,118)	(443,809)
Employee benefit costs, including	(3,460,520)	(3,222,012)
– long-term incentive awards	*(214,822)*	*(199,779)*
– severance and related costs	–	*(100,775)*
Rental expenses under operating leases	(114,538)	(131,858)
Net foreign exchange loss	(111,529)	(55,735)
Advertising and promotional expenses	(707,706)	(842,365)
Impairment of property, plant and equipment	–	(4,608)
(Loss)/gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	(4,970)	50,937
Fair value gain on financial assets at fair value through profit or loss	125,550	–
Dilution gain on interests in associates and a joint venture	24,189	2,499
Gain on deemed disposal of a subsidiary	22,811	–
Others	(1,315,035)	(1,090,280)
	(6,192,827)	(5,885,408)

Our other non-operating expenses (net) for the financial years ended March 31, 2019 and 2018 comprise:

	Year ended March 31,	
	2019	2018
	(in US$ thousands)	
Finance income	27,399	32,145
Finance costs.	(337,027)	(263,160)
Share of losses of associates and joint ventures	(11,525)	(2,506)
	(321,153)	(233,521)

Our finance income mainly represents interest on bank deposits.

Our finance costs for the financial year ended March 31, 2019 increased by 28% as compared with the previous year, which was mainly due to the increase in interest expense on bank loans of US$48 million, factoring costs of US$25 million and interest on contingent considerations and written put option liabilities of US$14 million, which was partly offset by the decrease in interest on the promissory note issued to Google Inc. of US$12 million that was fully repaid in the previous year.

Our share of losses of associates and joint ventures represents operating losses arising from principal business activities of our respective associates and joint ventures.

Our profit attributable to equity holders for the financial year ended March 31, 2019 was US$597 million, as compared with loss attributable to equity holders of US$189 million in the previous year. Our loss attributable to equity holders for the financial year ended March 31, 2018 was mainly attributable to the write off of deferred income tax assets of US$400 million, pursuant to the U.S. Tax Cuts and Jobs Act, which reduced the US corporate tax rate for tax years beginning after December 31, 2017. Our gross profit margin for the financial year ended March 31, 2019 was 14.4%, 0.6 points higher compared to 13.8% in the previous year. Our basic and diluted earnings per share for the financial year ended March 31, 2019 were US5.01 cents and US4.96 cents, respectively, as compared with basic and diluted loss per share of US1.67 cents in the previous year.

Performance by Business Group for the Financial Year ended March 31, 2019

Set forth below is a breakdown of our revenue by business group for the years indicated:

	Year ended March 31,							
	2019				2018			
	Revenue	%	Pre-tax income/ (loss)	%	Revenue	%	Pre-tax income/ (loss)	%
	(in US$ thousands, except percentages)							
– IDG.	45,013,362	88	1,842,840	114	40,955,583	90	880,406	193
– DCG	6,024,581	12	(230,600)	(14)	4,394,360	10	(424,866)	(93)
Total Revenue . . .	51,037,943	100	1,612,240	100	45,349,943	100	455,540	100

Intelligent Devices Group ("IDG")

Our IDG, consisting of PCSD and Mobile businesses, has benefitted from operational synergies, including the shared use of common global supply chain and services. Our IDG's revenue grew 10% as compared with the previous year to US$45,013 million and pre-tax profit more than doubled from the previous year to US$1,843 million. This was mainly due to the strong performance of our PCSD business, mainly attributable to our growth strategy of focusing on commercial, high-growth and premium segments. IDG's higher pre-tax profit was due to the improved profitability of our PCSD business and our Mobile business becoming profitable in the second half of the financial year ended March 31, 2019.

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

We regained our spot as the world's number one PC company by number of units shipped during the financial year ended March 31, 2019. Despite an industry-wide processor supply shortage in the second half of the financial year ended March 31, 2019, revenue from our PCSD business was US$38,475 million for the financial year ended March 31, 2019 (representing 75% of our total revenue) an increase of 14% as compared with the previous year. Pre-tax profit of our PCSD business was US$1,982 million, an increase of 34% as compared with the previous year, mainly due to product mix improvements. Pre-tax profit margin increased 0.8 percentage points year-on-year to 5.2% in the financial year ended March 31, 2019.

With a market share of 23.4% in 2019 according to industry estimates, we were the fastest growing PC player among the global top-5 OEMs in 2019. This market share gain was mainly due to the execution of our strategy to drive growth in the premium and high-growth segments. The shift in our product segment mix enabled us to increase our average selling prices and achieve higher growth rates in unit shipments and revenue as compared to the overall industry growth rates.

During the financial year ended March 31, 2019, we had the highest number of unit shipments in the US$800-and-above price segments in commercial notebooks according to industry estimates. We also had higher than overall industry revenue growth in each of the following market segments: Workstation, Thin & Light, Visuals, and Gaming PC. We gained market shares across all major geographical markets, evidencing our strong global sales channels, supply chain management and product innovation.

In terms of performance by geography, our market share gains and revenue growth were mainly driven by Asia Pacific and North America. China and Europe-Middle East-Africa both had higher than overall industry revenue growth, but we were more focused in margin protection instead of market share gains in these regions.

Intelligent Devices Group – Mobile Business Group

At the start of the financial year ended March 31, 2019, our Mobile business initiated strategic initiatives to reduce expenses, simplify its product portfolio, and focus on core markets in Latin and North America. Expenses for our Mobile business decreased to US$1 billion in the financial year ended March 31, 2019 compared to expenses of US$1.5 billion in the previous year, showing a path to sustainable growth. In the second half of the financial year ended March 31, 2019, our Mobile business recorded a pre-tax profit for the first time since our acquisition of Motorola Mobility.

The strategic focus on core markets required a shift in resource allocations of our Mobile business' global operation to selected regions and countries where it had substantial competitive advantages to capture market share. The change in strategy resulted in an 11% decrease in revenue from our Mobile business as compared with the previous year to US$6,460 million in the financial year ended March 31, 2019. Revenue from our Mobile business represented 13% of our total revenue for the financial year ended March 31, 2019. Nevertheless, in the fourth quarter of the financial year ended March 31, 2019, revenue from our Mobile business grew 15% as compared with the previous year. This shows that the market share gain in our core markets, the successful launch of 7th Gen Moto G and strong momentum in our Motorola One Franchise are outweighing the negative impact from our shift in strategy. We also took actions to simplify our product portfolio and improve scale on a per-model basis by more than 60%.

All of these initiatives led to an improved expense-to-revenue ratio while maintaining efficiency and competitiveness in marketing, research and development spending. Our Mobile business had a US$139 million loss before taxation in the financial year ended March 31, 2019, a significant improvement from a loss of US$603 million in the previous year. We believe that the lower expense structure and reviving revenue growth will make it possible for our Mobile business to achieve profitable long-term growth.

In our Mobile business core markets, Latin America has been profitable with continued market share gains in the financial year ended March 31, 2019. Shipments in North America also had a strong 48% year-on-year growth in the financial year ended March 31, 2019, mainly due to successful channel expansion and launch of new products. The Mobile business in North America became profitable on a pre-tax profit basis in the second half of the financial year ended March 31, 2019. In China, we further capitalized on our established brand equity and new model launches, resulting in revenue and bottom line improvements.

Data Center Group ("DCG")

Our DCG further strengthened its business model, product leadership, and sales and marketing; and recorded revenue of US$6,025 million in the financial year ended March 31, 2019, representing 12% of our total revenue. The annual revenue growth of 37.1% was the highest in last three years, driven by strong momentum in hyperscale, software-defined infrastructure and high performance computing. Loss from DCG also narrowed considerably to US$231 million in the financial year ended March 31, 2019, as compared to US$425 million loss in the previous year, as we aim to build a more sustainable and profitable business model.

Market share gain in the high-growth segments is a key driver to DCG's fast growth. Our hyperscale business had triple-digit growth in revenue and margin improvement. DCG's investments continued to bear fruit with improvements seen in in-house design, manufacturing capabilities and customer mix. Software-defined infrastructure business almost doubled its revenue and margin improved in the financial year ended March 31, 2019 compared to the previous year. These high-growth segments now contribute nearly half of DCG's total revenues. We also occupied a global leading position on the High Performance Computing Top 500 List.

During the financial year ended March 31, 2019, our DCG enhanced its efforts to expand in other growing segments. In storage, our global strategic partnership with NetApp, including a new joint venture in China that commenced operations in the fourth quarter of the financial year ended March 31, 2019, has enabled us to address demand of nearly the entire storage and data management market.

In terms of performance by geography, we had strong revenue growth across all geographies, particularly in North America and Europe-Middle East-Africa in the high-growth segments, including hyperscale, software-defined infrastructure and high performance computing.

Capital Expenditure

We incurred capital expenditure of US$701 million during the financial year ended March 31, 2019 as compared to US$671 million for the previous year, mainly for the acquisition of property, plant and equipment, prepaid lease payments, additions in construction-in-progress and intangible assets.

Commitments

As at March 31, 2019, we had the following capital commitments:

	As at March 31, 2019
	(in US$ thousands)
Contracted but not provided for:	
– Property, plant and equipment	92,948
– Investment in financial assets	10,924
	103,872

Income Statement for the Six Months ended September 30, 2019

For the six months ended September 30, 2019, our total revenue was US$26,034 million. Our profit attributable to equity holders for the six months ended September 30, 2019 increased by US$119 million compared to the corresponding period last year to US$364 million. Our gross profit margin for the six months ended September 30, 2019, increased by 2.8 percentage points to 16.3% from the 13.5% recorded in the corresponding period last year, while basic and diluted earnings per share were US3.06 cents and US2.94 cents, respectively, representing an increase of US1.00 cents and US0.88 cents, respectively as compared to the corresponding period last year. See note 1 to our unaudited consolidated interim financial statements as at and for the six months ended September 30, 2019 for more information. We have not restated our financial information for the prior comparative periods to reflect the adoption of HKFRS 16.

Performance by Business Group for the Six Months ended September 30, 2019

Set forth below is a breakdown by business group of our revenue and pre-tax income/(loss) for the periods indicated.

	Six Months ended September 30,							
	2019				2018			
	Revenue	%	Pre-tax Income/ (Loss)	%	Revenue	%	Pre-tax Income/ (Loss)	%
	(in US$ thousands, except percentages)							
– IDG.	23,347,543	90	1,148,786	110	22,119,735	87	793,992	118
– DCG	2,686,599	10	(103,171)	(10)	3,172,799	13	(123,457)	(18)
Total Revenue . . .	26,034,142	100	1,045,615	100	25,292,534	100	670,535	100

Intelligent Devices Group ("IDG")

During the six months ended September 30, 2019, the revenue of our IDG, consisting of the PCSD and Mobile businesses, grew 6% as compared with corresponding period last year to US$23,347 million while its pre-tax profit improved 45% as compared with corresponding period last year to US$1,149 million. Market share gain, especially in the high-growth and premium PC segments, were the key growth drivers for IDG's revenue performance. This favorable shift towards high-growth and premium segments, coupled with the ongoing commercial refresh cycle, enabled our PC business to grow its market share by 0.8 percentage point year-on-year to 24.4% of the global market in the quarter ended September 30, 2019, according to industry estimates. This sales mix change underscored the record pre-tax profit margin of 4.9% achieved by IDG during the six months ended September 30, 2019. Our Mobile business also made a turnaround on pre-tax margin from previous losses and contributed to the improved profitability of IDG.

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

During the six months ended September 30, 2019, our PCSD business was the largest PC brand in the world by market share in unit shipments according to industry estimates. The PC business had strong shipments and its year-on-year shipment growth outperformed industry market growth by 8 percentage points. The PC business also becomes more balanced, with a strong position in the commercial segment and further penetration in the consumer segment with its segment share increasing to 20.4% in the quarter ended September 30, 2019 according to industry estimates.

This strong performance was partly due to our strategy of investing in high-growth and premium segments, which represented more than 50% of the revenue of our PCSD business for the six months ended September 30, 2019. Our PCSD business had double-digit revenue growth and double-digit shipment growth across Workstation, Thin & Light, Visual, and Gaming PC. Revenue from our PCSD business was US$20,287 million, representing 78% of our total revenue for the six months ended September 30, 2019, and an 8% year-on-year growth.

Leveraging a well-executed strategy in driving more profitable product mix and a higher sales volume for secondary software products and services, our PCSD business further improved profitability, with pre-tax profit increasing by 21% as compared with corresponding period last year to US$1,135 million and its pre-tax profit margin increasing by 0.6 percentage points from the corresponding period last year to 5.6% in the six months ended September 30, 2019.

Intelligent Devices Group – Mobile Business

Our Mobile business maintained profitability for each of four quarters in the twelve months ended September 30, 2019 and higher profitability on a year-on-year basis. This was primarily due to our focused strategy to invest and develop our markets in regions and/or countries where we have notable competitive advantages. As a result, our Mobile business' profitability continued to improve year-on-year in core markets including Latin America and North America for the six months ended September 30, 2019. With better portfolio efficiency and margins in our core regions, the pre-tax profit from our Mobile business increased by US$160 million in the six months ended September 30, 2019 as compared to the corresponding period last year.

This strategy to focus investments in countries with a potential for profitable growth resulted in a smaller operating scale, and revenue was from our Mobile business declined to US$3,012 million for the six months ended September 30, 2019, which is a 7% decrease compared to the corresponding period last year.

We expect our Mobile business to further refine and apply our focused strategy to additional markets in Europe, where our competitiveness is enhanced by various factors including new carrier relationships and expanded product pipelines. We will leverage our well-established PC brand and our historically strong performance in the region to the cross-selling of our mobile products.

Data Center Group ("DCG")

During the six months ended September 30, 2019, the primary challenge to DCG was in the hyperscale segment, where the commodity price correction negatively impacted average selling prices. There was also lower demand from our hyperscale customers. Our DCG revenue of for the six months ended September 30, 2019 was US$2,687 million, representing a 15% year-on-year decline and contributing 10% to our total revenue.

Despite challenges in the hyperscale segment, our DCG business performed well in multiple product segments including storage, SDI and high performance computing ("HPC") businesses. Storage revenue grew at a strong, double digit rate during the six months ended September 30, 2019, as the value of DCG's expanded portfolio earned market recognition. SDI revenue also increased at a strong double-digit rate year-on-year as product performance helped gain market share. HPC revenue also grew at a strong double-digit rate during the quarter ended September 30, 2019, mainly due to new projects. Our data center infrastructure ("DCI") business also started to resume growth year-on-year in the quarter ended September 30, 2019, as the DCG operation in China seized opportunities to broaden its sales coverage and expanded product portfolio.

The strategy to focus on profitability protection continued to pay off for the DCG business, enabling it to balance between return on investment and the need to build a sustainable and profitable business model through additional investments. Losses from DCG decreased by US$20 million to US$103 million for the six months ended September 30, 2019, compared to US$123 million for the corresponding period last year.

Income Statement for the Nine Months ended December 31, 2019

For the nine months ended December 31, 2019, we had total revenue of US$40,137 million. Our profit attributable to equity holders for the nine months ended December 31, 2019 increased by US$145 million compared to the corresponding period of the previous year to approximately US$623 million. Our gross profit margin for the nine months ended December 31, 2019 increased by 2.3 percentage points to 16.2% from the 13.9% reported in the corresponding period of the previous year, while basic and diluted earnings per share were US5.22 cents and US5.01 cents, respectively, representing an increase of US1.20 cents and US1.00 cents, respectively, from the corresponding period of the previous year.

Set forth below is a breakdown by business group of our revenue and pre-tax income/(loss) for the periods indicated.

	Nine Months ended December 31,							
	2019				2018			
	Revenue	%	Pre-tax Income/ (Loss)	%	Revenue	%	Pre-tax Income/ (Loss)	%
	(in US$ thousands, except for percentages)							
– IDG	35,849,817	89	1,835,835	109	34,554,496	88	1,380,305	115
– DCG	4,287,161	11	(149,716)	(9)	4,773,168	12	(178,051)	(15)
Total Revenue	40,136,978	100	**1,686,119**	100	**39,327,664**	100	1,202,254	100

Our operating expenses for the nine months ended December 31, 2019 and 2018 were as follows:

	Nine months ended December 31,	
	2019	2018
	(in US$ thousands)	
Selling and distribution expenses	(2,357,394)	(2,011,118)
Administrative expenses	(1,804,407)	(1,615,724)
Research and development expenses	(988,575)	(895,056)
Other operating expenses – net	(72,681)	(49,229)
	(5,223,057)	(4,571,127)

Our operating expenses for the nine months ended December 31, 2019, increased by 14% as compared with the corresponding period last year. Our employee benefit costs increased by US$267 million, mainly due to higher bonus and sales commission accruals, wages and salaries and long-term incentive awards. Our advertising and promotional expenses increased by US$171 million. Amortization of intangible assets increased by US$60 million, with more investments in trademarks and trade names and internal-use software. The net gain on fair valuation of certain financial assets and a financial liability for the nine months ended December 31, 2019 decreased to US$36 million as compared to US$99 million for the corresponding period last year. The overall increase was partially offset by lower net foreign exchange loss of US$70 million for the nine months ended December 31, 2019, as compared to US$92 million for the corresponding period last year.

During the nine months ended December 31, 2019, we adopted the new accounting standard, HKFRS 16, Leases, effective April 1, 2019. 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 it falls under the exemptions. See note 1 to our unaudited consolidated interim financial statements as at and for the nine months ended December 31, 2019 for more information. We have not restated our financial information for the prior comparative periods to reflect the adoption of HKFRS 16.

Our key operating expenses for the nine months ended December 31, 2019 and 2018 comprise:

	Nine Months ended December 31,	
	2019	**2018**
	(in US$ thousands)	
Depreciation of property, plant and equipment and amortization of prepaid lease payments	(118,292)	(130,900)
Depreciation of right-of-use assets	(64,565)	–
Amortization of intangible assets	(409,862)	(349,923)
Employee benefit costs, including	(2,823,892)	(2,557,229)
– long-term incentive awards	*(192,675)*	*(155,643)*
Rental expenses under operating leases	(8,504)	(88,939)
Net foreign exchange loss	(70,310)	(91,864)
Advertising and promotional expenses	(719,777)	(548,873)
Loss on disposal of property, plant and equipment	(1,348)	(3,124)
Fair value gain on financial assets at fair value through profit or loss	49,435	99,137
Fair value loss on a financial liability at fair value through profit or loss	(13,000)	–
Gain on disposal of subsidiaries	12,844	–
Gain on deemed disposal of a subsidiary	–	22,811
Dilution gain on interest in an associate	–	18,121
Gain on disposal of interest in an associate	3,922	–
Others	(1,059,708)	(940,344)
	(5,223,057)	(4,571,127)

Our other non-operating expenses (net) for the nine months ended December 31, 2019 and 2018 comprise:

	Nine Months ended December 31,	
	2019	2018
	(in US$ thousands)	
Finance income	37,843	17,475
Finance costs	(358,835)	(239,485)
Share of losses of associates and joint ventures	(11,107)	(5,886)
	(332,099)	(227,896)

Our finance income mainly represents interest on bank deposits.

Our finance costs for the nine months ended December 31, 2019, increased by 50% compared with the corresponding period of the previous year. This increase was mainly due to the increase in factoring costs of US$91 million, interest on convertible bonds of US$30 million, interest on contingent consideration and written put option liabilities of US$13 million and interest on lease liabilities of US$12 million, which were partially offset by the decrease in interest on notes of US$23 million.

Our share of losses of associates and joint ventures represents operating losses arising from principal business activities of our respective associates and joint ventures.

Financial review for the Three Months ended December 31, 2019

For the three months ended December 31, 2019, we recorded strong revenue and our pre-tax profit grew by 11% compared to the corresponding period of the previous year to US$390 million. Our gross margin for the three months ended December 31, 2019, increased by 1.5 percentage points compared to the corresponding period last year to 16.1%. This increase was primarily due to the continued shift in the sales mix of our PCSD business into high growth and premium segments. Our pre-tax margin for the three months ended December 31, 2019 increased by 0.3 percentage points compared to the corresponding period to 2.8%, representing our highest profitability since the acquisition of Motorola Mobility and IBM x86 server businesses in 2014.

Performance by Business Group for the Three Months ended December 31, 2019

During the three months ended December 31, 2019, our PCSD business remained a global market share leader with strong profitability and DCG had strong double-digit volume growth, although its quarterly revenue growth was constrained by average selling price compression and lowered component cost. Our Mobile business remained profitable despite challenges on the supply side impacting sales of our new models.

Intelligent Devices Group

For the three months ended December 31, 2019, the revenue from IDG, consisting of the PCSD and Mobile businesses, grew 0.5% compared to the corresponding period of the previous year to US$12,502 million. Our IDG pre-tax profit increased by 17% compared to the corresponding period last year to US$687 million. IDG's strong profit performance was primarily due to the market share gain across the high-growth and premium PC segments. This sales mix change contributed to a pre-tax profit margin of 5.5% in our IDG during the three months ended December 31, 2019.

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

For the three months ended December 31, 2019, our PCSD business was the largest PC brand in the world with a 24.8% market share in unit shipments according to industry estimates. The PC business continued its growth trajectory with strong revenue and higher shipments on a quarterly basis, despite severe industry-wide processor supply shortages of a key component. This strong performance was mainly due to our strategic shift towards high-growth and premium segments. Our PCSD business had double-digit revenue and shipment growth across the Workstation, Thin and Light, Visual, and Gaming PC segments. Revenue from our PCSD business was US$11,074 million, representing 79% of our total revenue for the three months ended December 31, 2019, which was a 3% increase compared to the corresponding period of the previous year.

The high-growth and premium segments contributed over half of our PCSD business' revenues. Together with a higher sales volume for our highly profitable software and services offerings, our PCSD business further improved profitability with a pre-tax margin of 6.2% for the three months ended December 31, 2019, representing growth of 0.7 percentage points compared to the corresponding period of the previous year. Our pre-tax profit for the three months ended December 31, 2019, increased by 17% compared to the corresponding period to US$684 million.

Intelligent Devices Group – Mobile Business

Our Mobile business continued its focused strategy to invest and develop markets in regions and/or countries where our Mobile business has notable competitive advantages. Leveraging this focused strategy, our Mobile business recorded its fifth consecutive profitable quarter with a profit before taxation of US$3 million during the three months ended December 31, 2019.

Operations in our Mobile business' biggest core market, Latin America, remained robust, and our pre-tax margin from this region further increased. In Latin America, growth in our Mobile business was 18.9 percentage points higher than market growth for the three months ended December 31, 2019 according to industry estimates. However, our Mobile business' performance in other geographical markets faced challenges arising from shortage of components. During the three months ended December 31, 2019, our Mobile business revenue was US$1,381 million, which represents a 17% decline compared to the corresponding period of the previous year.

Our Mobile business continued to deliver innovative products, including the recently announced foldable smartphone – the razr foldable. This product has received positive customer reviews and we expect it will start contributing to our revenue as well as providing an opportunity to upsell and reenter the premium segment.

Data Center Group

For the three months ended December 31, 2019, our DCG performance notably improved from a multiple-quarter setback with an 18% shipment growth compared to the corresponding period of the previous year on products including servers, our DCG's traditional core business, and storage. However, DCG revenue growth remained constrained mainly due to the impact of lower commodity prices. The revenue of our DCG for the three month ended December 31, 2019 grew 20% quarter by quarter to US$1,601 million, contributing 11% of our total revenue. While the year-on-year revenue growth was subdued for the three months ended December 31, 2019, this growth represented significant improvement from the 14% and 17% declines, respectively, in the first two quarters of the financial year ended March 31, 2020.

We had double-digit year-on-year growth for our non-hyperscale segment. The most notable growths results were in data center infrastructure ("DCI"), software defined infrastructure ("SDI"), storage, and software and services. The DCI business continued to grow year-on-year in the three months ended December 31, 2019, as Data Center business in China seized opportunities to broaden its sales coverage and product portfolio. Our DCG's storage revenue grew at a strong, double-digit rate during the three months ended December 31, 2019, primarily due to our joint venture with NetApp and new product growth in entry-and mid-range flash arrays. SDI revenue also increased at a strong double-digit rate year-on-year as our product performance contributed to market share gains. The robust growth of our software and services business was driven by an increasingly diversified portfolio and strength in selective regional markets such as China. For our hyperscale business, annual revenue comparison remained difficult for the quarter ended December 31, 2019, due to sharply lowered component prices severely eroding average selling prices.

The losses from our DCG for the three months ended December 31, 2019, decreased by US$8 million as compared to the corresponding period last year to US$47 million, despite of our investments into expanding product portfolio and pursuing growth opportunities in telecom, edge computing and AI.

Capital Expenditure

We incurred capital expenditure of US$701 million during the nine months ended December 31, 2019, as compared to US$468 million for the corresponding period last year, mainly for the acquisition of property, plant and equipment and additions in construction-in-progress and intangible assets.

Liquidity and Financial Resources

As at December 31, 2019, our total assets amounted to US$35,026 million (March 31, 2019: US$29,988 million), which were financed by equity attributable to owners of the Company of US$3,430 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$142 million (March 31, 2019: US$293 million), and total liabilities of US$30,731 million (March 31, 2019: US$25,891 million). As at December 31, 2019, our current ratio was 0.85 (March 31, 2019: 0.82).

As at December 31, 2019, our bank deposits and cash and cash equivalents totaled US$3,586 million (March 31, 2019: US$2,733 million) and analyzed by major currency were as follows:

	2019	
	As at December 31	As at March 31
	(in %)	
US dollar	41.1	41.1
Renminbi	32.5	32.0
Japanese Yen	7.9	6.8
Euro	3.8	5.4
Other currencies	14.7	14.7
Total	100.0	100.0

We adopt a conservative policy to invest the surplus cash generated from our operations. As at December 31, 2019, 87.5% (March 31, 2019: 78.6%) of cash was held as bank deposits, and 12.5% (March 31, 2019: 21.4%) of cash was held as investments in liquid investment-grade money market funds.

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

As at December 31, 2019, we had the following banking facilities:

				Utilization amount as at	
Type	Date of agreement	Term	Principal amount	December 31, 2019	March 31, 2019
			(in US$ millions)		
Loan facility	May 26, 2015	5 years	300	300	300
Revolving loan facility	March 28, 2018	5 years	1,500	1,500	825

As at December 31, 2019, our outstanding notes, perpetual securities, convertible bonds and convertible preferred shares were as follows:

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

As at December 31, 2019 and March 31, 2019, we had the following other available credit facilities:

	2019			
	As at December 31	As at March 31	As at December 31	As at March 31
	Total facilities amount		Drawn down amount	
	(in US$ millions)			
Credit facilities				
Trade lines	2,420	2,195	1,952	1,637
Short-term and revolving money market facilities	935	701	301	56
Forward foreign exchange contracts.	9,429	9,525	9,429	9,525

As at December 31, 2019 and March 31, 2019, our outstanding borrowings, net debt position and gearing ratios were as follows:

	2019	
	As at December 31	As at March 31
	(in US$ millions)	
Bank deposits and cash and cash equivalents	3,586	2,733
Borrowings		
– Short-term bank loans	2,090	1,167
– Notes	1,817	2,622
– Convertible bonds	603	591
– Convertible preferred shares	307	–
Net debt position	(1,231)	(1,647)
Total equity	4,295	4,097
Gearing ratio (Borrowings divided by total equity)	1.12	1.07

We believe that our loan and other short-term credit facilities can meet the funding requirements of our operations and business development for the next twelve months.

We adopt a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. As at December 31, 2019, we had commitments in respect of outstanding forward foreign exchange contracts amounting to US$9,429 million (March 31, 2019: US$9,525 million). Our forward foreign exchange contracts are either used to hedge a percentage of future transactions that are highly probable, or used as fair value hedges for identified assets and liabilities.

Contingent Liabilities

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

Environment

We have a corporate environmental policy that applies to all of our operations and provides the foundation upon which our Environmental Management System ("EMS") operates. The EMS, which is ISO 14001 certified, establishes the framework for regulatory compliance, efficient resource use, and environmental performance improvements. It covers our global development and manufacturing operations for our computer products and devices.

Our compliance organization is supported by a global network of internal environmental teams and external partners. We have adopted reliable, established processes with defined roles with the objective of ensuring regulatory compliance.

The environmental and health and safety management systems at both our manufacturing and development sites are subjected to internal audits at least annually. These sites also undergo third-party environmental and health and safety audits at least once every three years.

We have identified climate change as a significant risk and opportunity for us. As such, climate change risks are evaluated at least annually as part of EMS, our enterprise risk management system process and our sustainability reporting materiality assessment process. In connection with this, we have set ourselves several high-level climate change related goals that are part of our EMS, including shipping products in an environmentally responsible manner, encouraging employees to utilize technology to reduce travel and requiring new products to show improved energy efficiency compared to the previous generation of the product.

Human Resources

As at December 31, 2019, we had more than 66,000 employees worldwide.

We employ a pay for performance approach at all levels of our professional workforce. This approach includes annual goal setting and review, group calibration of individual ratings to ensure fair assessment, and pay decisions based on both team performance and individual contribution. Our remuneration policy, bonus, employee share purchase plan (launched in October 2016) and long-term incentive schemes are implemented with reference to our performance as a group, as well as individual employee performance. We also provide benefits such as insurance, medical and retirement funds to employees to sustain our competitiveness. We have a 70-20-10 approach to employee development that recognizes that employees learn through three distinct types of experiences: on the job assignments (70%), developmental coaching and mentoring relationships (20%), and formal coursework and training (10%). Furthermore, in addition to online learning resources provided on demand through our newly implemented global learning management system, live professional development courses and forums are made available to employees throughout the year.

We also hold an organizational and human resource planning ("**OHRP**") process annually, during which executives at all levels evaluate and make key decisions about organizational structure, strategic roles, and individual talent relative to our current and future business imperatives. We believe our OHRP process is critical for ensuring that the right structure and talent is in place to deliver on the company's present and future strategy.

Business Combinations

We expanded our business and operations to a global scale through the acquisition of the personal computer division of IBM in 2005.

In 2011, we launched a joint venture with NEC PC in Japan. We completed the business combination of the NEC joint venture in July 2011.

We completed our acquisition of Medion AG in Germany in July 2011.

In November 2009, we reacquired Lenovo Mobile Communication Technology Ltd. ("Lenovo Mobile"). We completed our reacquisition of Lenovo Mobile at the end of January 2010 after shareholders approved the transaction on January 22, 2010.

In December 2012, we established a strategic partnership with EMC Corporation ("EMC"). The strategic partnership consists of three business components, namely server alliance, storage OEM/reseller relationship and the formation of a joint venture company ("EMC JV") to develop network-attached storage products. Lenovo and EMC respectively own 51% and 49% of the issued share capital of EMC JV.

In December 2012, we acquired 100% of the issued share capital of Stoneware Inc., a company incorporated in the United States involved in the development and sale of cloud computing-related software.

On October 1, 2014, we acquired certain assets and assumed certain liabilities in connection with the x86 Server hardware and related maintenance services business of IBM. The acquisition included a portfolio of server products that includes towers, racks, blades and converged systems, as well as associated maintenance services.

On October 30, 2014, we acquired 100% of the issued and outstanding equity interests in Motorola Mobility from Google, Inc. Motorola Mobility is principally engaged in the business of developing, manufacturing, distributing and selling mobile devices, particularly smartphones based on the Android operating system, and their related products.

The total consideration for the two business combination activities in October 2014 mentioned above is approximately US$5,232 million, including cash, our shares as consideration shares, deferred consideration and share-based compensation obligation assumed by us.

On November 2, 2017, we entered into: (i) a share purchase agreement to acquire 51% equity interests of Fujitsu Client Computing Limited ("FCCL") and its subsidiary, Shimane Fujitsu Limited from Fujitsu Limited ("Fujitsu," together with its affiliates, the "Fujitsu Group"); and (ii) a joint venture agreement with Fujitsu to regulate the management of FCCL. Fujitsu will continue to own 49% of the issued share capital of FCCL.

On May 2, 2018, the transaction under the FCCL share purchase agreement was completed. Immediately following the completion, we, through our subsidiary Lenovo International Coöperatief U.A., own 51% of the total issued share capital of FCCL and Fujitsu retains 44% of the total issued share capital of FCCL. Pursuant to an agreement between Fujitsu and Development Bank of Japan Inc. ("DBJ"), DBJ is entitled to hold 5% of the total issued share capital of FCCL. Therefore, immediately following the completion of aforesaid share purchase agreement on May 2, 2018, we, Fujitsu and DBJ respectively own 51%, 44%, and 5% of the interest in FCCL.

MANAGEMENT

OVERVIEW

The board of directors of the Company (the "**Board**") currently consists of 10 directors, of whom one is an executive director, two are non-executive directors and seven are independent non-executive directors. All non-executive directors (including independent non-executive directors) have entered into letters of appointment with the Company for a term of three years, subject to retirement from office by rotation and re-election at the annual general meetings.

DIRECTORS

The following table sets forth information regarding our directors as February 29, 2020:

Name	Age	Position
Mr. Yang Yuanqing	55	Chairman, Chief Executive Officer and executive director
Mr. Zhu Linan	57	Non-executive director
Mr. Zhao John Huan	57	Non-executive director
Mr. Nicholas C. Allen	64	Independent non-executive director
Mr. Nobuyuki Idei	82	Independent non-executive director
Mr. William O. Grabe	81	Lead independent director and independent non-executive director
Mr. William Tudor Brown	61	Independent non-executive director
Mr. Yang Chih Yuan Jerry	51	Independent non-executive director
Mr. Gordon Robert Halyburton Orr	57	Independent non-executive director
Mr. Woo Chin Wan Raymond	65	Independent non-executive director

HONORARY CHAIRMAN

Mr. Liu Chuanzhi, 75, has been the Honorary Chairman and Senior Advisor of the Company since November 3, 2011. Mr. Liu is the founder of the Group and held the positions of executive director, non-executive director and chairman of the Board at different times from 1993 until his resignation from the Board on November 3, 2011. As our Honorary Chairman, Mr. Liu is not a director or an officer of the Company or of any subsidiary of the Company, and does not have any management role in the Company or any of its subsidiaries. He graduated from the Radar Navigation Department of the People's Liberation Army Institute of Telecommunication Engineering (now known as Xidian University) in China in 1966 and has substantial experiences in corporate management. Mr. Liu is the honorary chairman, senior advisor and member of the strategic committee of the board of Legend Holdings Corporation (SEHK-listed), a company holding substantial interests in the issued shares of the Company.

CHAIRMAN AND EXECUTIVE DIRECTOR

Mr. Yang Yuanqing, 55, is the Chairman of the Board, Chief Executive Officer and an executive director of the Company. He is also a director and a shareholder of Sureinvest Holdings Limited which holds interests in the issued shares of the Company. Mr. Yang assumed the duties of chief executive officer of the Company on February 5, 2009. Prior to that, he was the chairman of the Board from April 30, 2005. Before taking up the office as chairman, Mr. Yang was the chief executive officer and has been an executive director of the Company since December 16, 1997.

Mr. Yang has more than 30 years of experience in the IT industry. Under his leadership, Lenovo has been China's best-selling PC brand since 1997 and is the leading PC vendor, one of the major players in global smartphone and x86 server markets. Mr. Yang holds a master's degree from the Department of Computer Science at the University of Science and Technology of China. Mr. Yang is currently a director of Baidu, Inc. (NASDAQ-listed) and an independent director of Taikang Insurance Group Inc.. Mr. Yang is currently a guest professor at the University of Science and Technology of China and a member of the International Advisory Council of Brookings Institute.

NON-EXECUTIVE DIRECTORS

Mr. Zhu Linan, 57, has been a non-executive director of the Company since April 30, 2005. Mr. Zhu graduated with a master's degree in electronic engineering from Shanghai Jiao Tong University and has more than 20 years of management experience. He was previously a senior vice president of the Group. Mr. Zhu is currently an executive director, president and member of the executive committee of Legend Holdings Corporation (SEHK-listed), a company holding substantial interests in the issued shares of the Company and he also serves as director of its various members. He is a non-executive director of CAR Inc. (SEHK-listed). He was previously a non-executive director of Peak Sport Products Co., Limited.

Mr. Zhao John Huan, 57, has been a non-executive director of the Company since November 3, 2011. Mr. Zhao holds a master's degree in business administration from the Kellogg School of Management at Northwestern University, dual master's degrees in electric engineering and physics from Northern Illinois University and a bachelor's degree in physics from Nanjing University. He is currently an executive director, executive vice president and member of the executive committee of Legend Holdings Corporation (SEHK-listed), a company having substantial interests in the issued shares of the Company and the chairman and president of Hony Capital Limited.

In addition, he currently holds the following positions: non-executive director of China Glass Holdings Limited (SEHK-listed), chairman of the board and executive director of Best Food Holding Company Limited (SEHK-listed), chairman of the board and non-executive director of Hospital Corporation of China Limited (SEHK-listed), chairman of the board and executive director of Goldstream Investment Limited (formerly known as International Elite Ltd.) (SEHK-listed), director of Shanghai Jin Jiang International Hotels Development Co., Ltd. (Shanghai Stock Exchange-listed), executive director and vice president of ENN Ecological Holdings Co., Ltd (Shanghai Stock Exchange-listed) and non-executive director of Zoomlion Heavy Industry Science and Technology Co., Ltd. (SEHK-listed and Shenzhen Stock Exchange-listed).

Mr. Zhao was previously a director of Wumart Stores, Inc., New China Life Insurance Company Ltd., CSPC Pharmaceutical Group Limited and Chinasoft International Limited, Fiat Industrial S.p.A. (subsequently merged into CNH Industrial N.V.) and deputy chairman of both Shanghai Chengtou Holding Co., Ltd. and Shanghai Environment Group Co., Ltd.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Nicholas C. Allen, 64, has been an independent non-executive director of the Company since November 6, 2009. Mr. Allen received a bachelor of arts degree in economics/social studies from Manchester University. He is a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Allen has extensive experience in accounting and auditing and was a partner of PricewaterhouseCoopers until his retirement in June 2007. Mr. Allen is an independent non-executive director and the chairman of the board of directors of Link Real Estate Investment Trust (SEHK-listed) and an independent non-executive director of CLP Holdings Limited (SEHK-listed). He was previously an independent non-executive director of Hysan Development Company Limited and VinaLand Limited.

Mr. Nobuyuki Idei, 82, has been an independent non-executive director of the Company since September 28, 2011. Mr. Idei is the founder and chief executive officer of Quantum Leaps Corporation, an executive advisory company. Until retiring in June 2005, for more than a decade, Mr. Idei held a wide variety of leadership positions at Sony Corporation, including chairman and group chief executive officer. He was also the chairman of Sony's advisory board from June 2005 to June 2012.

Mr. Idei currently serves on the boards of directors of FreeBit Co., Ltd. and Monex Group, Inc. (both Tokyo Stock Exchange-listed) and Stripe International Inc.. Mr. Idei is also the chairman of the National Conference on Fostering Beautiful Forests in Japan. Mr. Idei holds a bachelor's degree in political science and economics from Waseda University in Tokyo.

He has served on the boards of directors of Nestlé S.A., Electrolux, General Motors Company, Accenture plc and Baidu, Inc. and also served in a number of other advisory positions including as counselor to the Bank of Japan, vice chairman of Nippon Keidanren (Japan Business Federation) and chairman of the IT Strategy Council, an advisory committee to Japan's Prime Minister.

Mr. William O. Grabe, 81, has been an independent non-executive director of the Company since February 8, 2012 and was appointed as the lead independent director of the Company on May 23, 2013. Before that, he was a non-executive director of the Company since May 17, 2005. Mr. Grabe is currently a director of the following listed companies: Gartner Inc. and QTS Realty Trust, Inc. (both NYSE-listed). He was previously an independent director of Compuware Corporation and a director of Covisint Corporation. Mr. Grabe is an advisory director of General Atlantic LLC. He formerly served as a managing director of General Atlantic LLC and has been associated with General Atlantic Group since 1992. Prior to that, he served as a corporate vice president and officer of IBM.

Mr. William Tudor Brown, 61, has been an independent non-executive director of the Company since January 30, 2013. Mr. Brown is a Chartered Engineer and holds an MA (Cantab) degree in electrical sciences from Cambridge University. He is a fellow of the Institution of Engineering and Technology and a fellow of the Royal Academy of Engineering. He was awarded the Member of the Order of the British Empire (MBE) on June 15, 2013.

Mr. Brown was one of the founders of ARM Holdings plc ("**ARM**") (London Stock Exchange and NASDAQ listed). During the years with ARM, he held a broad range of leadership positions including engineering director, chief technical officer, executive vice president for global development, chief operating officer and president. He had responsibility for developing high-level relationships with industry partners and governmental agencies and for regional development. He also served as a director of ARM from October 2001 to May 3, 2012. Before joining ARM, he was the principal engineer at Acorn Computers Ltd., working exclusively on the ARM research & development programme since 1984.

Mr. Brown is currently an independent non-executive director of Semiconductor Manufacturing International Corporation (SEHK-listed) and a director of Marvell Technology Group Ltd. (NASDAQ-listed). He was previously an independent non-executive director of P2i Limited and Xperi Corporation. He also served on the UK Government Asia Task Force until May 2012.

Mr. Yang Chih-Yuan Jerry, 51, has been an independent non-executive director of the Company since November 6, 2014. Prior to that, he was the board observer of the Company since February 20, 2013. He holds a master's degree and a bachelor's degree of science in electrical engineering from Stanford University, where he served on the board of trustees from June 2005 until September 2016 and from October 2017 to the present.

Mr. Yang co-founded Yahoo! Inc. (NASDAQ-listed) and served as its chief executive officer from June 2007 to January 2009. He also served as a member of the board of directors of Yahoo! Inc. until January 17, 2012. During such appointment, Mr. Yang focused on corporate strategy and technology vision. Mr. Yang was also instrumental in building strategic business partnerships, international joint ventures and recruiting key talent.

Mr. Yang also served as a director of Yahoo! Japan Corporation from January 1996 to January 2012, an independent director of Cisco Systems, Inc. from July 2000 to November 2012. Mr. Yang is currently an independent director of Workday Inc. (Nasdaq-listed) and Alibaba Group Holding Limited (NYSE-listed).

Mr. Gordon Robert Halyburton Orr, 57, was re-designated as an independent non-executive director of the Company on 1 September 1, 2016. Prior to that, he was a non-executive director of the Company since 2015. He holds a master of arts degree in engineering science from Oxford University and a master of business administration degree from Harvard University.

Mr. Orr joined McKinsey & Company ("**McKinsey**") in 1986 and held a broad range of senior positions in McKinsey until his retirement in August 2015. During the years with McKinsey, he was Greater China managing partner and subsequently senior partner (1999-2015), managing partner of McKinsey Asia (2008-2014) and member of McKinsey's global operating committee (2008-2015). He also served on McKinsey's global shareholder's board (2003-2015) and chaired the governance and risk committee.

In the past 20 years, Mr. Orr has served a broad range of clients in Asia, with primary focus on China and technology related sectors across Asia. Mr. Orr is currently an independent non-executive director of Swire Pacific Limited (SEHK-listed), chairman of the audit committee of Meituan Dianping (SEHK-listed) and a director of EQT AB (Nasdaq Stockholm-listed). He is also a vice chairman of the China-Britain Business Council.

Mr. Woo Chin Wan Raymond, 65, has been appointed as an independent non-executive director since February 22, 2019. Mr. Woo is a retired partner of Ernst & Young ("**Ernst & Young**"). Before his retirement in June 2015, he had held various senior positions with Ernst & Young in the Greater China area. He was a director and the general manager of Ernst & Young Hua Ming CPA, a member of Ernst & Young's Greater China Leadership Team, and the managing partner of Ernst & Young's Greater China Operations. He has more than 30 years of professional experience, specializing in audit, corporate restructuring, IPO, risk management, and mergers and acquisitions. Mr. Woo is a Canadian Chartered Accountant and a Hong Kong Certified Public Accountant. He obtained his master's degree in Business Administration from York University (Canada) in 1982.

Mr. Woo is currently an independent non-executive director of Dah Chong Hong Holdings Limited (SEHK-listed) and Bank of Communications Co., Ltd. (SEHK-listed). He was previously an independent non-executive director of Great Wall Pan Asia Holdings Limited.

---

* The English translation of the PRC entities included in this document is for identification purposes only.

SENIOR MANAGEMENT

The following table sets forth information regarding the senior management of the Company as at February 29, 2020:

Name	Age	Position
Mr. Yang Yuanqing	55	Chairman, Chief Executive Officer and executive director
Mr. Gianfranco Lanci	65	Corporate President and Chief Operating Officer of the Company
Ms. Gao Lan	54	Senior Vice President of Human Resources
Mr. He Zhiqiang	57	Senior Vice President of the Company, President of Lenovo Capital and Incubator Group of the Company
Ms. Qiao Jian	51	Senior Vice President and Chief Strategy and Marketing Officer of the Company
Ms. Laura G. Quatela	62	Senior Vice President and Chief Legal Officer
Mr. Yong Rui, PhD	50	Senior Vice President and Chief Technology Officer of the Company
Mr. Kirk Skaugen	49	Executive Vice President of the Company and President of the Data Center Group
Mr. Wong Wai Ming	62	Executive Vice President and Chief Financial Officer of the Company

Mr. Yang Yuanqing, 55, is Chairman, Chief Executive Officer and executive director of the Company. For the details of his biography, please refer to "– Chairman and Executive Director."

Mr. Gianfranco Lanci, 65, joined the Group in April, 2012 and is currently the Corporate President and Chief Operating Officer of the Company responsible for the principal operations of all the Groups five geographies, and the Intelligent Devices Group, which includes the Company's PC, Smart Devices and Mobile Device businesses. Before taking up the office as Corporate President, Mr. Lanci was Chief Operating Officer and Executive Vice President of the Company and President of the PC Group, EMEA and AP. Mr. Lanci has substantial experience across the PC business, including leadership roles at Texas Instruments and Acer. He was appointed as president of Acer Inc. in 2005 and in 2008 became chief executive officer and president. Under his leadership, he led Acer to the number two position globally and number one in EMEA while recording record profitability for three consecutive years. He holds a degree in engineering from the Politecnico of Turin.

Ms. Gao Lan, 54, joined the Group in 2009 and is currently the Senior Vice President of Human Resources of the Company, responsible for human resources, organizational development, global talent, compensation and benefits, as well as nurturing the company's culture. Prior to this, Ms. Gao held several Vice President roles leading the HR functions of many teams, including Emerging Markets Group, APLA & China Geography, People & Organization Capability and HR Strategy & Operations. Before joining the Group, Ms. Gao held senior positions in HR in various multinational companies. Ms. Gao holds a bachelor of science degree from Nankai University, a master degree of philosophy from Cambridge University in the UK, studied human resource management at the Western Management Institute of Beijing and completed the Leadership Excellence for Business HR Program at Stanford University in the US.

Mr. He Zhiqiang, 57, joined the Group in 1986 and is currently the Senior Vice President of the Company and President of Lenovo Capital and Incubator Group of the Company. The Lenovo Capital and Incubator Group is responsible for driving innovation through investment in startups, spinning off new businesses and exploring new technologies. Prior to that, Mr. He held various leadership positions in the Group including the President of the Ecosystem and Cloud Services Business Group and was the Chief Technology Officer overseeing Lenovo's Research & Technology initiatives and systems. Mr. He holds a bachelor's degree in computer communication from Beijing University of Posts and Telecommunications and a master's degree in computer engineering from the Institute of Computing Technology of the Chinese Academy of Sciences.

Ms. Qiao Jian, 51, joined the Group in 1990 and is currently the Senior Vice President, Chief Strategy Officer and Chief Marketing Officer of the Company, overseeing Lenovo's strategy and planning, global brand, marketing, communications and customer engagement efforts. Before that, Ms. Qiao was Co-President of the Mobile Business Group focusing on Lenovo's Mobile business in China. Prior to that, Ms. Qiao was the Senior Vice President of Human Resources. Ms. Qiao held various senior positions in the Group including Senior Vice President of Strategy and Planning and Vice President of Human Resources in China – both before and after the acquisition of IBM's PC Division. Ms. Qiao has extensive experience in strategy, marketing and branding and human resources. She holds a bachelor's degree in management science from Fudan University and holds an EMBA from the China Europe International Business School.

Ms. Laura G. Quatela, 62, joined the Group in October 2016 as a Senior Vice President and the Chief Legal Officer responsible for the Group's legal, IP, litigation, corporate governance, government relations and corporate social responsibility matters globally. Before joining the Group, Ms. Quatela had a 15-year career with Eastman Kodak Company ("**Kodak**") holding a broad range of leadership positions including Chief Intellectual Property Officer, General Counsel, Senior Vice President, Co-Chief Operating Officer and President of the company. She had responsibility for licensing Kodak's technology, patents and trademarks and leading Kodak's consumer film, photographic paper, retail photo kiosk and event imaging and OLED businesses. Prior to joining Kodak, Ms. Quatela worked for Clover Capital Management, Inc., SASIB Railway GRS, and Bausch & Lomb. In private law practice, she was a defense litigator specializing in mass tort cases. Ms. Quatela is a graduate of Denison University, B.A., International Politics and Case Western Reserve University School of Law, J.D., where she sponsors the Women in Law and Leadership Conference and was inducted into the Society of Benchers. Ms. Quatela is conversant in Mandarin.

Dr. Yong Rui, 50, joined the Group in November 2016 as Senior Vice President and Chief Technology Officer of the Company, overseeing Lenovo's corporate technical strategy, research and development directions, and leading the Lenovo Research organization. Before joining the Group, Dr. Rui had an 18-year career with Microsoft, where he held various leadership roles in R&D strategy, basic research, technology incubation and product development, most recently as deputy managing director of Microsoft Research Asia. Dr. Rui is a world-renowned technologist in computer science, and a fellow of the Association for Computing Machinery, Institute of Electrical and Electronics Engineers, International Association for Pattern Recognition, and International Society for Optics and Photonics. He received his BS from Southeast University, his MS from Tsinghua University, and his PhD from University of Illinois at Urbana-Champaign.

Mr. Kirk Skaugen, 49, joined the Group in November 2016 as an Executive Vice President of the Company and the President of the Data Center Group. In this capacity he leads the end-to-end data center business including hyperscale & cloud, high performance computing & artificial intelligence, software defined infrastructure, edge/IOT servers, telecommunications, traditional servers, storage and networking and the related software and solutions. This includes strategic planning, architecture, hardware and software engineering, supply chain and procurement, quality, customer service, and sales and marketing across Lenovo DCG's five geographies. Prior to joining Lenovo, Mr. Skaugen worked with Intel for 24 years where in his most recent positions he led the Data Center Group and Client Computing Group as senior vice president. Within the Data Center Group at both Intel and now Lenovo, his responsibilities included server, storage, cloud and hyperscale computing, high performance computing, networking, communications infrastructure and Internet of Things businesses. As head of Client Computing, Mr. Skaugen was responsible for Intel's largest revenue and profit contributor including Intel's PC, tablet, and phone businesses. He has also served as general manager of Intel's Asia Pacific solutions group responsible for software development, system integrator and CIO relationships across the Asia region. Mr. Skaugen holds a bachelor of science in electrical engineering from Purdue University.

Mr. Wong Wai Ming, 62, is currently the Executive Vice President and the Chief Financial Officer of the Company. He was previously an investment banker for more than 15 years and also held senior management positions in listed companies in Hong Kong. He was an independent non-executive director of the Company from March 30, 1999 until his appointment to the position of Chief Financial Officer in 2007. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales and holds a bachelor's degree in management sciences from Victoria University of Manchester in the United Kingdom.

BOARD TENURE

In accordance with the articles of association of the Company (the "**Articles of Association**"), all of our directors are subject to retirement by rotation. At each annual general meeting, one-third of the directors for the time being shall retire from office. The retiring directors shall be eligible for re-election. New appointments either to fill a casual vacancy or as an addition to the Board are subject to re-election by shareholders of the Company at the next annual general meeting of the Company. All of our non-executive directors (including independent non-executive directors) have entered into letters of appointment with the Company for a term of three years. Their terms of appointment shall be subject to retirement from office by rotation and re-election at the annual general meeting in accordance with the Articles of Association.

We consider the independence of directors important to us. In line with the best practices on corporate governance, the Board adopted the principle that each term of our independent non-executive directors shall not be more than three years and shall, subject to re-election by shareholders at any subsequent annual general meeting, be renewable for additional three-year terms up to a total of nine years. At the recommendation of the Nomination and Governance Committee, the Board may invite an independent non-executive director to serve for an additional three-year term extending up to a total of twelve years subject to re-election at any subsequent annual general meeting.

COMMITTEES OF THE BOARD

We maintain three Board committees: the audit committee, the compensation committee and the nomination and governance committee.

Audit Committee

Our audit committee consists of Mr. Nicholas C. Allen, Mr. William Tudor Brown, Mr. Gordon Robert Halyburton Orr and Mr. Woo Chin Wan Raymond. Mr. Nicholas C. Allen is currently the chairperson of our audit committee. The audit committee provides an independent review of our financial reporting, and assesses the effectiveness of risk management and internal control systems. It also reviews the adequacy of the Company's internal audit function and manages our relationship with external auditors.

Compensation Committee

Our compensation committee consists of Mr. William Tudor Brown, Mr. William O. Grabe, Mr. Zhao John Huan and Mr. Gordon Robert Halyburton Orr. Mr. William Tudor Brown is currently the chairperson of our compensation committee. The compensation committee is responsible for the assessment and recommendation of compensation policy and the determination of compensation level and package for the members of the Board and senior management.

Nomination and Governance Committee

Our nomination and governance committee consists of Mr. Yang Yuanqing, Mr. Nobuyuki Idei and Mr. William O. Grabe. Mr. Yang Yuanqing is currently the chairperson of our nomination and governance committee. The nomination and governance committee assists the Board in overseeing Board organization, reviewing succession planning, and developing the corporate governance principles and policy. It is also responsible for the assessment of the performance of the Chairman of the Board and Chief Executive Officer and the independence of independent non-executive directors.

LENOVO EXECUTIVE COMMITTEE

The Lenovo Executive Committee is a management committee comprising our chief executive officer and certain members of senior management. It is responsible for increasing management efficiency and communication among senior management, and for planning, strategy and implementation of major corporate decisions.

CORPORATE GOVERNANCE CODE COMPLIANCE

We strive to attain and uphold a high standard of corporate governance and to maintain sound and well-established corporate governance practices for the benefit of shareholders and other stakeholders including customers, suppliers, employees and the general public. We abide strictly by the governing laws and regulations of the jurisdictions where we operate and observe the applicable guidelines and rules issued by regulatory authorities. We regularly review our corporate governance system to ensure it is in line with international and local best practices.

During the nine months ended December 31, 2019, based on our directors' knowledge, we have complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") set out in Appendix 14 to the Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**"), and where appropriate, met the recommended best practices in the CG Code, save for the exception which is explained below.

Since November 3, 2011, Mr. Yang Yuanqing ("**Mr. Yang**") has been performing both the roles as the chairman of the Board (the "**Chairman**") and chief executive officer of the Company (the "**CEO**"). The Board is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Yang to continue to hold both the positions as it would help to maintain the continuity of our 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 ("**Mr. 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 will also call and chair 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.

Apart from the foregoing, the Company met the recommended best practices in the CG Code. Particularly, the Company published quarterly financial results and business reviews in addition to interim and annual results. Quarterly financial results enhanced the shareholders' ability to assess the performance, financial position and prospects of the Company. The quarterly financial results were also prepared using the accounting standards consistent with the policies applied to the interim and annual financial results.

PRINCIPAL SHAREHOLDERS

So far as our directors are aware, as at February 29, 2020, the following persons beneficially own 5% or more of our outstanding shares and underlying shares, as recorded in the register maintained by us pursuant to section 336 of the Securities and Futures Ordinance of Laws of Hong Kong (the "**SFO**"):

	Capacity and number of shares/underlying shares held				
Name	**Long position/ Short position**	**Beneficial owner**	**Corporate interests**	**Aggregate long and short positions** *(Note 1)*	**Approximate percentage of interests**
Legend Holdings Corporation	Long position	2,867,636,724	628,919,317 *(Note 2)*	3,496,556,041	29.10%
Right Lane Limited	Long position	388,819,317	240,100,000 *(Note 3)*	628,919,317	5.23%
Yang Yuanqing	Long position	437,355,101	622,804,000 *(Note 7)*	1,060,159,101	8.82%
Red Eagle Group (PTC) Limited	Long position	–	996,750,579	996,750,579 *(Notes 4 & 6)*	8.30%
Harvest Star Limited	Long position	–	996,750,579	996,750,579 *(Notes 5 & 6)*	8.30%
Union Star Limited	Long position	996,750,579	–	996,750,579	8.30%
Sureinvest Holdings Limited	Long position	622,804,000	–	622,804,000 *(Note 7)*	5.18%

Notes:

1. The interests or short position includes underlying shares as follows:–

	Long Position	
Name	**Convertible instruments unlisted equity derivatives**	**Cash settled unlisted equity derivatives**
Red Eagle Group (PTC) Limited	90,613,689	–
Harvest Star Limited	90,613,689	–
Union Star Limited	90,613,689	–

2. Out of 628,919,317 shares, 388,819,317 shares are directly held by Right Lane Limited ("**Right Lane**"), a direct wholly-owned subsidiary of Legend Holdings Corporation, and 240,100,000 shares are indirectly held by Right Lane through its wholly-owned subsidiary, Legion Elite Limited ("**Legion Elite**").

3. These shares are held by Legion Elite.

4. These shares/underlying shares of the Company are indirectly held by Harvest Star Limited through Union Star Limited ("**Union Star**").

5. These shares/underlying shares of the Company are directly held through Union Star.

6. The interests represent 906,136,890 shares and 90,613,689 units of bonus warrants issued to Union Star under the subscription agreement dated September 29, 2017 entered into between the Company and Union Star and as disclosed in the Company's announcements dated September 29, 2017 and November 17, 2017 and circular dated October 16, 2017.

7. Mr. Yang Yuanqing holds more than one-third of the voting power at general meetings of Sureinvest Holdings Limited ("**Sureinvest**"). Accordingly, Mr. Yang is deemed to have interests in those 622,804,000 shares of the Company held by Sureinvest under the SFO.

CONTINUING CONNECTED TRANSACTIONS

The following discussion describes certain material continuing connected transactions. Each of our continuing connected transactions disclosed below was entered into in the ordinary and usual course of business, either on normal commercial terms or on terms no less favorable to us than terms available to or from (as appropriate) independent third parties, on fair and reasonable commercial terms, and in the interests of our shareholders as a whole.

As a company listed on the SEHK, we are subject to the requirements of Chapter 14A of the Listing Rules, which require certain "connected transactions" with "connected persons" to be approved by a company's independent shareholders. Each of the transactions that constitutes a connected transaction within the meaning of the Listing Rules requiring shareholder approval has been so approved, or has complied with the relevant requirements under or is otherwise exempted from compliance under Chapter 14A of the Listing Rules.

In the financial year ended March 31, 2019 and the nine months ended December 31, 2019, we were involved in certain continuing connected transactions with certain connected persons which are required to be disclosed pursuant to rules 14A.49 and 14A.71 of the Listing Rules. During the financial year ended March 31, 2019, we also entered into certain related party transactions in our normal course of business. Details of such transactions are set out in note 31 to our audited consolidated financial statements for the financial year ended March 31, 2019 on page F-157.

Continuing Connected Transactions with NEC Corporation and Its Associates

Lenovo NEC Holdings B.V. ("**JVCo**", together with its subsidiaries, the "**JVCo Group**"), is a joint venture company held as to 66.6% by us through Lenovo International Coöperatief U.A. (formerly known as Lenovo (International) B.V.), an indirect wholly-owned subsidiary of ours and 33.4% by NEC Corporation ("**NEC**", together with its subsidiaries, the "**NEC Group**") to own and operate their respective personal computer businesses in Japan pursuant to the Business Combination Agreement entered into between us and amongst others, NEC dated January 27, 2011 that became effective on July 1, 2011 and was amended on October 7, 2014. Based on the annual results announcement for the financial year ended March 31, 2017 which was published by us on May 25, 2017, the profits of the JVCo was more than 5% of our profits for the same period, and thus we were no longer able to rely on the insignificant subsidiary exception set out in Rule 14A.09(1) of the Listing Rules for the continuing connected transactions contemplated under various agreements entered into between us, NEC or other members of the NEC Group, the JVCo or other members of the JVCo Group (the "**CCT Agreements**") in respect of the provision of certain services and products to or by the JVCo Group to facilitate the operation of its personal computer business in Japan (the "**CCTs**").

On May 25, 2017, the annual caps for the CCTs were set for the period from May 25, 2017 to March 31, 2018 and for the two financial years ending March 31, 2019 and 2020 given the established business relationship between the Company and NEC and the mutual business development needs and goals. It was contemplated that the term of the CCT Agreements be automatically renewed for an additional year until a prescribed date or unless either party gives notice to the other of its intention to terminate such agreements. On February 20, 2020, the proposed annual caps for the CCTs during the three financial years ending March 31, 2021, 2022 and 2023 were approved by our directors.

Continuing Connected Transactions between FCCL and Members of Fujitsu Group

Starting from May 2, 2018, we own 51% of the total issued share capital of FCCL and Fujitsu retains 44% of the total issued share capital of FCCL. As such, Fujitsu and its associates became our connected persons under Chapter 14A of the Listing Rules.

On May 2, 2018, FCCL and certain members of Fujitsu Group entered into a (i) Transitional Services Agreement; (ii) Secondment Agreement; (iii) Services Agreement; (iv) Manufacturing Agreement (FPE); (v) Manufacturing Agreement (FIT); (vi) Sales and Distribution Agreement; (vii) Fujitsu Trademark and Brand License Agreement; (viii) Manufacturing and Services Agreement; and (ix) R&D Services Agreement (together, the "**Fujitsu CCT Agreements**"). As Fujitsu is a connected person of ours at the subsidiary level, the transactions between FCCL and members of the Fujitsu Group contemplated under the Fujitsu CCT Agreements are connected transactions between our Group and connected persons at the subsidiary level. The Fujitsu CCT Agreements were continuing in the six months ended September 30, 2018.

On February 20, 2020, the revised annual caps of the Secondment Agreement, Manufacturing Agreement (FIT) and the Fujitsu Trademark and Brand License Agreement for the four financial years ending March 31, 2020, 2021, 2022 and 2023 were approved by our directors.

DESCRIPTION OF OTHER INDEBTEDNESS AND CERTAIN CREDIT FACILITIES

To fund our existing business operations and to finance our working capital requirements, we have borrowed loans from various banks.

As at March 31, 2019, our total borrowings amounted to US$4,380 million, including notes of US$2,622 million, short-term loans of US$1,167 million and convertible bonds of US$591 million.

Our total bank facilities as at March 31, 2019 were as follows:

	Total Facilities	**Utilized Amounts**
	(in US$ millions)	
Revolving loans	1,800	1,125
Short-term loan	701	56
Foreign exchange contracts	9,525	9,525
Other trade finance facilities	2,195	1,637
Total	14,221	12,343

As at March 31, 2019, all our borrowings were unsecured and the effective annual interest rates were as follows:

	US Dollars
Notes	3.875%-4.95%
Short-term loans	3.93%-6.44%
Convertible bonds	6.15%

We set forth below a summary of the material terms and conditions of certain of our credit facilities and other indebtedness.

US$300,000,000 Credit Facility

We entered into a facility agreement on May 26, 2015, as amended on November 6, 2015 and May 11, 2018, with respect to a revolving credit facility of US$300 million with Bank of China Limited, Grand Cayman Branch as lender and Bank of China, Macau Branch as agent. The term of the credit facility is five years.

Interest

The credit facility bears interest at the rate of LIBOR plus 1.65% per annum. We may select an interest period of three or six months or any other period agreed between the agent and us for a loan drawn under this facility agreement.

Covenants

Under the facility agreement, we have agreed, among other things:

- subject to certain exceptions, not to create or permit to subsist any security over our assets, not to sell, transfer or otherwise dispose of any of our assets on terms whereby they are or may be leased to or re-acquired by us, not to sell, transfer or otherwise dispose of any of our receivables on recourse terms, not to enter into any title retention arrangement, not to enter into any arrangement under which money may be set-off or made subject to a combination of accounts, and not to enter into or permit to subsist any other similar preferential arrangement;

- not to sell, lease, transfer or otherwise dispose of all or any material part of our assets, business or operations except on arm's length normal commercial terms and provided that any such disposal shall not constitute a material adverse change in our financial condition or business, and not to sell, lease, transfer or otherwise dispose of our notebook and desktop computer businesses or assets without the prior written consent of the majority lenders unless such disposal is made in the ordinary course of business and on arm's length normal commercial terms;

- to ensure that no member of the Group other than the Company will incur or have outstanding any financial indebtedness, subject to certain exceptions; and

- not to enter into a merger or corporate reconstruction.

Events of Default

The facilities agreement provides for certain customary events of default, including nonpayment, misrepresentation, non-compliance with any financial covenants, material adverse change, certain cross-defaults under any financial indebtedness of any member of the Group, insolvency and the commencement of any insolvency proceedings. The agent is entitled to cancel the commitments under these credit facilities and/or demand immediate repayment of all or parts of the outstanding loans under the credit facilities any time upon or after the occurrence of an event of default which is continuing.

CNY4,000,000,000 Five-year Notes

On June 10, 2015, the Company entered into a Trust Deed (the "**2015 Trust Deed**") pursuant to which it issued CNY4,000,000,000 principal amount of senior unsecured notes due 2020 (the "**2015 Notes**").

Interest

The 2015 Notes bear interest from and including the issue date of the 2015 Notes at the rate of 4.95% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the Company agreed to, among other things:

- comply with certain covenants limiting its ability and the ability of certain of its subsidiaries to create any security interests over assets; and

- effect a consolidation, merger or sale of assets.

Events of Default

Events of default with respect to the 2015 Notes include certain customary defaults, including, among others, failure to pay the principal, premium (if any) or interest, breach of consolidation, merger or sale of asset covenant, breach of any other covenant that is incapable of remedy or not remedied within 30 calendars days after notice, certain cross-defaults under any financial indebtedness of any member of the Group, insolvency or commencement of insolvency proceedings. The Trustee may at its discretion, or if requested by holders of at least 25% of the principal amount of the 2015 Notes then outstanding or directed by an Extraordinary Resolution, as defined in the 2015 Trust Deed shall, give notice to the Company that the 2015 Notes are immediately due and payable at the principal amount together with any accrued interest.

Maturity and redemption

The maturity date of the 2015 Notes is June 10, 2020.

The Company may also redeem all, but not less than all, of the 2015 Notes at a redemption price at the principal amount of the 2015 Notes, together with interest accrued to the redemption date, upon occurrence of certain changes in applicable tax law.

US$500,000,000 Five-year Notes

On March 16, 2017, the Company issued US$500,000,000 principal amount of senior unsecured notes due 2022 (the "**2022 Notes**") under its US$3,000,000,000 medium term note programme pursuant to a trust deed dated November 30, 2016 (the "**MTN Trust Deed**").

Interest

The 2022 Notes bear interest from and including the issue date of the 2022 Notes at the rate of 3.875% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the Company agreed to, among other things:

- comply with certain covenants limiting its ability and the ability of certain of its subsidiaries to create any security interests over assets; and

- effect a consolidation, merger or sale of assets.

Events of Default

Events of default with respect to the 2022 Notes include certain customary defaults, including, among others, failure to pay the principal, premium (if any) or interest, breach of consolidation, merger or sale of asset covenant, breach of any other covenant that is incapable of remedy or not remedied within 30 calendars days after notice, certain cross-defaults under any financial indebtedness of any member of the Group, insolvency or commencement of insolvency proceedings. The Trustee may at its discretion, or if requested by holders of at least 25% of the principal amount of the 2022 Notes then outstanding or directed by an Extraordinary Resolution, as defined in the MTN Trust Deed shall, give notice to the Company that the 2022 Notes are immediately due and payable at the principal amount together with any accrued interest.

Maturity and redemption

The maturity date of the 2022 Notes is March 16, 2022.

The Company may redeem all, but not less than all, of the 2022 Notes at a redemption price at the principal amount of the 2022 Notes, together with interest accrued to the redemption date, upon occurrence of certain changes in applicable tax law.

US$1,000,000,000 Sixty-year Intra-Group Notes

On March 16, 2017, the Company issued to Lenovo Perpetual Securities Limited US$850,000,000 principal amount of intra-group subordinated capital notes due 2077 (the "**Original Intra-Group Note**"). On April 6, 2017, the Company further issued to Lenovo Perpetual Securities Limited US$150,000,000 principal amount of intra-group subordinated capital notes due 2077 (the "**Additional Intra-Group Note**"), which were consolidated and forms a single series with the Original Intra-Group Note. The Original Intra-Group Note and the Additional Intra-Group Note are collectively referred to as the "Intra-Group Note".

Distribution

The Intra-Group Note confers a right to receive distribution from the Company from and including the issue date of the Original Intra-Group Note at the rate of distribution, payable semi-annually in arrears. Subject to the terms and conditions of the Intra-Group Note, the initial rate of distribution is 5.375% per annum. In respect of the period from and including March 16, 2022 and each date that falls five, or a multiple of five, years following such date, the rate of distribution resets to a rate determined pursuant to the terms of the Intra-Group Note. Such reset distribution rate includes a step-up margin.

The Company may defer distribution, subject to compliance with certain conditions, including the 12-month distribution pusher lookback period and absence of a compulsory distribution payment event. Deferred distributions confer a right to receive distribution as if it constituted the principal of the Intra-Group Note. Subject to certain exceptions, the Company agrees not to (i) declare, pay or make any dividends, distributions or any other payment on or (ii) redeem, reduce, cancel, buy-back or acquire for any consideration, any junior securities or parity securities if a scheduled distribution is not made.

Non-payment and Default

Lenovo Perpetual Securities Limited, as the holder of Intra-Group Note, has the right to institute winding-up proceedings in respect of the Company in circumstances where payment has become due and the Company is deemed in default. The Company is deemed in default if (i) there is a final and effective order or resolution for the bankruptcy, winding up, liquidation, receivership or similar proceedings of the Company, or (ii) the Company shall not make payment in respect of the Intra-Group Note for a period of ten days or more after the date on which such payment is due.

Maturity and Redemption

The maturity of the Intra-Group Note is March 16, 2077, subject to an obligation by the Company to rollover and reissue in accordance with the performance guarantees issued by the Company.

The Intra-Group Note may be redeemed at the option of the Company in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to Lenovo Perpetual Securities Limited (which notice shall be irrevocable) at their principal amount, together with distribution accrued to the date fixed for redemption, if irrevocable notice has been given that the perpetual capital securities issued by the Company on the same dates as the issuance of the Intra-Group Note are to be redeemed in full in accordance with the articles of Lenovo Perpetual Securities Limited.

US$1,500,000,000 Credit Facility

We entered into a facility agreement on March 28, 2018, with respect to a revolving credit facility of US$1.5 billion with Citigroup Global Markets Asia Limited, Australia and New Zealand Banking Group Limited, Banco Santander, S.A., Hong Kong Branch, The Bank of Tokyo-Mitsubishi UFJ, Ltd., BNP Paribas, Cathay United Bank Company, Limited, Hong Kong Branch, China Construction Bank (Asia) Corporation Limited, Crédit Agricole Corporate and Investment Bank, CTBC Bank Co., Ltd and DBS Bank Ltd. as mandated lead arrangers and bookrunners and Citicorp International Limited as agent. The term of the credit facility is five years.

Interest

The credit facility bears interest at the rate of LIBOR plus 1.35% to 1.95% per annum, depending on the Group's ratio of Total Net Borrowings to EBITDA, both as defined in the facility agreement. We may select an interest period of one, two, three or six months or any other period agreed between the agent and us for a loan drawn under this facility agreement.

Covenants

Under the facility agreement, we have agreed, among other things:

- subject to certain exceptions, not to create or permit to subsist any security over our assets, not to sell, transfer or otherwise dispose of any of our assets on terms whereby they are or may be leased to or re-acquired by us, not to sell, transfer or otherwise dispose of any of our receivables on recourse terms, not to enter into any title retention arrangement, not to enter into any arrangement under which money may be set-off or made subject to a combination of accounts, and not to enter into or permit to subsist any other similar preferential arrangement;

- not to sell, lease, transfer or otherwise dispose of all or any material part of our assets, business or operations except on arm's length normal commercial terms and provided that any such disposal shall not constitute a material adverse change in our financial condition or business, and not to sell, lease, transfer or otherwise dispose of our notebook and desktop computer businesses or assets without the prior written consent of the majority lenders unless such disposal is made in the ordinary course of business and on arm's length normal commercial terms;

- to ensure that no member of the Group other than the Company will incur or have outstanding any financial indebtedness, subject to certain exceptions; and

- not to enter into a merger or corporate reconstruction.

Events of Default

The facility agreement provides for certain customary events of default, including nonpayment, misrepresentation, non-compliance with any financial covenants, material adverse change, certain cross-defaults under any financial indebtedness of any member of the Group, insolvency and the commencement of any insolvency proceedings. The agent is entitled to cancel the commitments under these credit facility and/or demand immediate repayment of all or parts of the outstanding loans under the credit facility any time upon or after the occurrence of an event of default which is continuing.

US$750,000,000 Five-year Notes

On March 29, 2018, the Company issued US$750,000,000 principal amount of senior unsecured Bonds due 2023 (the "**2023 Notes**") under its US$3,000,000,000 medium term note programme pursuant to a trust deed dated February 15, 2018 (the "**MTN Trust Deed**").

Interest

The 2023 Notes bear interest from and including the issue date of the 2023 Notes at the rate of 4.75% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the Company agreed to, among other things:

- comply with certain covenants limiting its ability and the ability of certain of its subsidiaries to create any security interests over assets; and

- effect a consolidation, merger or sale of assets.

Events of Default

Events of default with respect to the 2023 Notes include certain customary defaults, including, among others, failure to pay the principal, premium (if any) or interest, breach of consolidation, merger or sale of asset covenant, breach of any other covenant that is incapable of remedy or not remedied within 30 calendars days after notice, certain cross-defaults under any financial indebtedness of any member of the Group, insolvency or commencement of insolvency proceedings. The Trustee may at its discretion, or if requested by holders of at least 25% of the principal amount of the 2023 Notes then outstanding or directed by an Extraordinary Resolution, as defined in the MTN Trust Deed shall, give notice to the Company that the 2023 Notes are immediately due and payable at the principal amount together with any accrued interest.

Maturity, tax redemption and call option

The maturity date of the 2023 Notes is March 29, 2023.

The Company may redeem all, but not less than all, of the 2023 Notes at a redemption price at the principal amount of the 2023 Notes, together with interest accrued to the redemption date, upon occurrence of certain changes in applicable tax law.

The Company may also redeem the 2023 Notes, in whole or in part, at any time in accordance with the terms of the 2023 Notes at the principal amount of the 2023 Notes plus the applicable premium together with accrued interest to the optional redemption date.

US$675,000,000 Five-year Convertible Bonds

On January 24, 2019, the Company issued US$675,000,000 principal amount of bonds due January 24, 2024 convertible into ordinary shares ("**Shares**") of the Company (the "**Convertible Bonds**") pursuant to a trust deed dated January 24, 2019 (the "**Convertible Bonds Trust Deed**"). The Convertible Bonds may be converted during the conversion period into Shares at an initial conversion price of HK$7.99 per share, subject to adjustments upon the occurrence of specified dilutive events. The conversion price was adjusted from HK$7.99 per Share to HK$7.71 per Share effective July 16, 2019, and further adjusted to HK$7.62 per Share effective November 30, 2019.

Interest

The Convertible Bonds bear interest from and including the issue date of the Convertible Bonds at the rate of 3.375% per annum, payable semi-annually in arrears.

Covenants

Subject to certain conditions and exceptions, the Company agreed to, among other things, comply with certain covenants limiting its ability and the ability of certain of its subsidiaries to create any security interests over assets.

Events of Default

Events of default with respect to the Convertible Bonds include certain customary defaults, including, among others, failure to pay the principal, premium (if any) or interest, breach of any obligations under the Convertible Bonds Trust Deed or conditions that is incapable of remedy or not remedied within 30 calendars days after notice, failure to deliver Shares as required, certain cross-defaults under any financial indebtedness of any member of the Group, insolvency or commencement of insolvency proceedings. The Trustee may at its discretion, or if requested by bondholders of at least 25% of the principal amount of the Convertible Bonds then outstanding or directed by an Extraordinary Resolution, as defined in the Convertible Bonds Trust Deed, shall, give notice to the Company that the Convertible Bonds are immediately due and payable at the principal amount together with any accrued interest.

Maturity

Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each Convertible Bond at its principal amount on the maturity date of January 24, 2024.

Redemption

Redemption by the Company for Taxation Reasons.

The Company may redeem the Convertible Bonds, in whole but not in part, at a redemption price equal to the outstanding principal amount of the Convertible Bonds, together with interest accrued to the redemption date, upon occurrence of certain changes in applicable tax laws.

Redemption by the Company for Minimal Outstanding Principal Amounts.

The Company may redeem the Convertible Bonds, in whole but not in part, at a redemption price equal to the outstanding principal amount of the Convertible Bonds, together with interest accrued to the redemption date, provided that prior to the date of the redemption notice at least 90% in principal amount of the Convertible Bonds originally issued has already been converted, redeemed or purchased and cancelled.

Redemption for Delisting, Suspension of Trading or Change of Control at the Option of the Bondholder.

Each Bondholder shall have the right to require the Company to redeem all but not some only of such Bondholder's Convertible Bonds at their principal amount, together with interest accrued to the redemption date when (i) the Shares cease to be listed or admitted to trading on the Stock Exchange (as defined in the Convertible Bonds Trust Deed) or suspended for trading on the Stock Exchange for a period equal to or exceeding 30 consecutive trading days or (ii) there is a change of control event.

Redemption at the Option of the Bondholder on the Put Option Date.

At the Bondholder's option, the Company may be required to redeem all or some only of the Convertible Bonds of such Bondholder on the put option date of January 24, 2021 at 100% of their principal amount.

REMITTANCE OF RENMINBI INTO AND OUTSIDE THE PRC

Current Account Items

Under PRC foreign exchange control regulations, current account items refer to any transaction for international receipts and payments involving goods, services, earnings and other frequent transfers.

Prior to July 2009, all current account items were required to be settled in foreign currencies with limited exceptions. Following progressive reforms, Renminbi settlement of imports and exports of goods and of services and other current account items became permissible nationwide in 2012.

Since July 2013, the procedures for cross-border Renminbi trade settlement under current account items have been simplified and trades through e-commerce can also be settled in Renminbi under the current regulatory regime. A cash pooling arrangement for qualified multinational enterprise group companies was introduced in late 2014, under which a multinational enterprise group can process cross-border Renminbi payments and receipts for current account items on a collective basis for eligible member companies in the group. In addition, the eligibility requirements for multinational enterprise groups have been lowered and the cap for net cash inflow has been increased in September 2015.

The regulations referred to above are subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying these regulations and impose conditions for settlement of current account items.

Capital Account Items

Under PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of, and/or registration or filing with, the relevant PRC authorities.

Historically, settlement of capital account items, for example, the capital contribution of foreign investors to foreign invested enterprises in the PRC, were generally required to be made in foreign currencies. Under progressive reforms, foreign enterprises are now permitted to use Renminbi to settle all capital account items that can be settled in foreign currencies. Cross-border Renminbi payment infrastructure and trading facilities are being improved. Approval, registration and filing requirements specifically for capital account payments in Renminbi are being removed gradually.

PRC entities are also permitted to borrow Renminbi-denominated loans from foreign lenders (which are referred to as "**foreign debt**") and lend Renminbi-denominated loans to foreign borrowers (which are referred to as "**outbound loans**"), as long as such PRC entities have the necessary quota, approval or registration. PRC entities may also denominate security or guarantee arrangements in Renminbi and make Renminbi payments thereunder to parties in the PRC as well as other jurisdictions (which is referred to as "**cross-border security**"). Under current rules promulgated by the State Administration of Foreign Exchange of the PRC ("**SAFE**") and PBOC, foreign debts borrowed, outbound loans extended, and the cross-border security provided by a PRC onshore entity (including a financial institution) in Renminbi shall, in principle, be regulated under the current PRC foreign debt, outbound loan and cross-border security regimes applicable to foreign currencies. After piloting in the free trade zones, PBOC and SAFE launched a nation-wide system of macro-prudential management on cross-border financing in 2016, which provides for a unified regime for financings denominated in both foreign currencies and Renminbi.

Since September 2015, qualified multinational enterprise groups can extend Renminbi-denominated loans to, or borrow Renminbi-denominated loans from, eligible offshore member entities within the same group by leveraging the cash pooling arrangements. The Renminbi funds will be placed in a special deposit account and may not be used to invest in stocks, financial derivatives, or non-self-use real estate assets, or purchase wealth management products or extend loans to enterprises outside the group.

The securities markets, specifically the Renminbi Qualified Foreign Institutional Investor ("**RQFII**") regime and the China Interbank Bond Market ("**CIBM**"), have been further liberalized for foreign investors. PBOC has relaxed the quota control for RQFII, initiated a bond market mutual access scheme between mainland China and Hong Kong to allow eligible investors to invest in CIBM, and has also expanded the list of foreign investors eligible to directly invest in CIBM, removed quota restriction, and granted more flexibility for the settlement agents to provide the relevant institutions with more trading facilities (for example, in relation to derivatives for hedging foreign exchange risk).

Interbank foreign exchange market is also opening-up. In January 2016, which has been further relaxed in 2018, CFETS set forth qualifications, application materials and procedure for foreign participating banks (which needs to have a relatively large scale of Renminbi purchase and sale business and international influence) to access the inter-bank foreign exchange market.

Recent reforms introduced were aimed at controlling the remittance of Renminbi for payment of transactions categorized as capital account items. There is no assurance that the PRC government will continue to gradually liberalize the control over Renminbi payments of capital account item transactions in the future. The relevant regulations are relatively new and will be subject to interpretation and application by the relevant PRC authorities. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorized as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Notes is based upon applicable laws, regulations, rulings and decisions in effect as at the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or any person acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes.

Persons considering the purchase of the Notes should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of the Notes.

HONG KONG

Withholding tax

No withholding tax is payable in Hong Kong in respect of payments of principal (including any premium payable on redemption of the Notes) or interest on the Notes or in respect of any capital gains arising from the sale of the Notes.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Chapter. 112 of the Laws of Hong Kong) (the "**Inland Revenue Ordinance**") as it is currently applied by the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(a) interest on the Notes is derived from Hong Kong and is received by or accrues to a corporation (other than a financial institution) carrying on a trade, profession or business in Hong Kong;

(b) interest on the Notes is derived from Hong Kong and is received by or accrues to a person, other than a corporation (such as a partnership), carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business; or

(c) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) by way of interest which arises through or from the carrying on by the financial institution of its business in Hong Kong, notwithstanding that the moneys in respect of which the interest is received or accrues are made available outside Hong Kong.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, from the carrying on of a trade, profession or business in Hong Kong and the sums are revenue in nature and have a Hong Kong source. The source of such sums will generally be determined by having regard to the manner in which the Notes are acquired and disposed of.

Stamp duty

Stamp duty will not be payable on the issue of Bearer Notes **provided that** either:

(a) such Bearer Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(b) such Bearer Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong) (the "**Stamp Duty Ordinance**").

If stamp duty is payable, it is payable by the Issuer on the issue of Bearer Notes at a rate of 3 per cent. of the market value of the Notes at the time of issue. No stamp duty will be payable on any subsequent transfer of Bearer Notes.

No stamp duty is payable on the issue of Registered Notes. Stamp duty may be payable on any transfer of Registered Notes if the relevant transfer is required to be registered in Hong Kong. Stamp duty will, however, not be payable on any transfers of Registered Notes **provided that** either:

(a) such Registered Notes are denominated in a currency other than the currency of Hong Kong and are not repayable in any circumstances in the currency of Hong Kong; or

(b) such Registered Notes constitute loan capital (as defined in the Stamp Duty Ordinance).

If stamp duty is payable in respect of the sale and purchase of the Registered Notes, it will be payable at the rate of 0.1 per cent. by the seller and 0.1 per cent. by the buyer, normally by reference to the consideration or its market value, whichever is higher. If, in the case of either the sale or purchase of the Registered Notes, stamp duty is not paid, both the seller and the buyer are liable jointly and severally to pay any unpaid stamp duty and also any penalties for late payment. If stamp duty is not paid on or before the due date (two days after the sale or purchase if effected in Hong Kong or 30 days if effected elsewhere) a penalty of up to 10 times the duty payable may be imposed. In addition, stamp duty is payable at the fixed rate of HK$5 on each instrument of transfer executed in relation to any transfer of the Registered Notes if the relevant transfer is required to be registered in Hong Kong.

Estate duty

No estate duty will be payable in respect of Notes in Hong Kong.

THE PROPOSED FINANCIAL TRANSACTION TAX

The European Commission has published a proposal (the "**Commission's Proposal**") for a Directive for a common financial transaction tax ("**FTT**") in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT remains subject to negotiation between participating Member States and the legality of the proposal is uncertain. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate and/or certain of the participating Member States may decide to withdraw.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

FATCA

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes to persons that fail to meet certain certification, reporting, or related requirements. The Issuer may be a foreign financial institution for these purposes. A number of jurisdictions (including Hong Kong) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change.

Under a grandfathering rule, even if we were a foreign financial institution, this withholding tax will not apply to Notes unless they are issued or materially modified on or after the "applicable grandfathering date", and such withholding would apply only for payments made more than two years after the date on which final U.S. Treasury Regulations defining the term "foreign passthru payment" are filed with the U.S. Federal Register. Holders should consult their own tax advisers regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg or the CMU Service currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that each of the Issuer believes to be reliable, but none of the Issuer, any Arranger or Dealer, the Trustee or any Agent takes any responsibility for the accuracy thereof. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Issuer or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Clearing Systems

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for participating organisations and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg participants are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Distributions of principal with respect to book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by any Paying Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

CMU Service

The CMU Service is a central depositary service provided by the Central Moneymarkets Unit of the HKMA for the safe custody and electronic trading between the CMU Service members of capital markets instruments which are specified in the CMU Service Reference Manual as capable of being held within the CMU Service.

The CMU Service is only available to CMU Notes issued by a CMU Service member or by a person for whom a CMU Service member acts as agent for the purposes of lodging instruments issued by such persons. Membership of the CMU Service is open to all members of the Hong Kong Capital Markets Association and "authorized institutions" under the Banking Ordinance (Cap. 155 of the Laws of Hong Kong).

Compared to clearing services provided by Euroclear and Clearstream, Luxembourg, the standard custody and clearing service provided by the CMU Service is limited. In particular (and unlike the European Clearing Systems), the HKMA does not as part of this service provide any facilities for the dissemination to the relevant CMU Service members of payments (of interest or principal) under, or notices pursuant to the notice provisions of, the CMU notes. Instead, the HKMA advises the lodging CMU Service member (or a designated paying agent) of the identities of the CMU Service members to whose accounts payments in respect of the relevant CMU Notes are credited, whereupon the lodging CMU Service member (or the designated paying agent) will make the necessary payments of interest or principal or send notices directly to the relevant CMU Service members. Similarly, the HKMA will not obtain certificates of non-U.S. beneficial ownership from CMU Service members or provide any such certificates on behalf of CMU members. The CMU Lodging and Paying Agent will collect such certificates from the relevant CMU Service members identified from an instrument position report obtained by request from the HKMA for this purpose.

An investor holding an interest through an account with either Euroclear or Clearstream, Luxembourg in any Notes held in the CMU Service will hold that interest through the respective accounts which Euroclear and Clearstream, Luxembourg each have with the CMU Service.

SUBSCRIPTION AND SALE

The Dealers have, in a dealer agreement (the "**Dealer Agreement**") dated November 30, 2016 as amended and restated by an amended and restated dealer agreement dated February 15, 2018, and as further amended and restated on March 8, 2020, agreed with us a basis upon which they or any of them may from time to time agree to severally, and not jointly, subscribe for the Notes. Any such agreement will extend to those matters stated under "*Forms of the Notes*" and "*Terms and Conditions of the Notes*". We will pay each relevant Dealer a commission as agreed between us in respect of the Notes subscribed by them. Where we agree to sell to the Dealer(s), who agree to subscribe and pay for, or to procure subscribers to subscribe and pay for, the Notes at an issue price (the "**Issue Price**"), any subsequent offering of those Notes to investors may be at a price different from such Issue Price. We have agreed to be responsible for certain of the Arranger's expenses incurred in connection with the establishment, and any future update, of the Programme and reimburse the Dealers certain of their activities in connection with the Programme. The commissions in respect of an issue of the Notes on a syndicated basis may be stated in the relevant Pricing Supplement. The Dealers and we may also, in relation to any Tranche of Notes, agree that we will pay private banks or other selling agents a commission in order to facilitate the offering of the Notes.

We have agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to us.

In connection with the issue of any Tranche of Notes, the Dealers or Dealers (if any) (or persons acting on behalf of the Dealer or Dealers (if any)) (the "**Stabilising Managers**") may over-allot Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no obligation on such Stabilising Managers to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, and regulations rules."

In connection with each Series of the Notes issued under the Programme, the Dealers or certain of their affiliates may subscribe or purchase Notes and be allocated Notes for asset management and/or proprietary purposes but not with a view to distribution. Further, the Dealers or their respective affiliates may purchase Notes for its or their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to such Notes and/or other of our securities or our subsidiaries or affiliates at the same time as the offer and sale of each Series of the Notes or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Series of the Notes to which a particular Pricing Supplement relates (notwithstanding that such selected counterparties may also be purchasers of such Series of the Notes).

The Dealers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Dealers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our subsidiaries, jointly controlled entities or associated companies from time to time. In the ordinary course of their various business activities, the Dealers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity as investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve our securities and instruments or those of our subsidiaries, jointly controlled entities or associated companies, including Notes issued under the Programme, may be entered into at the same time or proximate to offers and sales of the Notes or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of the Notes.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and a Dealer or any affiliate of that Dealer is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Dealer or such affiliate on behalf of the Issuer in such jurisdiction.

In connection with an issue of the Notes under the Programme, we may, pursuant to the subscription agreement relating to such issue, agree to pay, through the Dealers, a commission to certain private banks based on the principal amount of the Notes purchased by the clients of such private banks. If such commission is payable, it shall be specified in the Pricing Supplement relating to such issue of the Notes.

Selling Restrictions

United States of America

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Bearer Notes are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Bearer Notes) delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each of the Dealers has represented, warranted and undertaken that, except as permitted by the Dealer Agreement, it will not offer, sell or, in the case of Bearer Notes, deliver the Notes within the United States.

In addition, until 40 days after the commencement of any offering, an offer or sale of Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

European Economic Area

Prohibition of Sales to EEA and UK Retail Investors

If the Pricing Supplement in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA and UK Retail Investors", each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Offering Circular as completed by the Pricing Supplement in relation thereto to any retail investor in the European Economic Area or in the United Kingdom.

For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

    (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

    (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

    (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"); and

(b) the expression "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to subscribe for or purchase the Notes.

Public Offer Selling Restriction under the Prospectus Regulation

If the Pricing Supplement in respect of any Notes specifies "Prohibition of Sales to EEA and UK Retail Investors" as "Not Applicable", in relation to each Member State of the European Economic Area and the United Kingdom, each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake, that it has not made and will not make an offer of the Notes which are the subject of the offering contemplated by the Offering Circular as completed by the Pricing Supplement in relation thereto to the public in that Member State or the United Kingdom except that it may make an offer of such Notes to the public in that Member State or the United Kingdom:

(a) *Approved prospectus*: if the Pricing Supplement in relation to the Notes specify that an offer of those Notes may be made other than pursuant to Article 1(4) of the Prospectus Regulation in that Member State or the United Kingdom (a "**Non-exempt Offer**"), following the date of publication of a prospectus in relation to such Notes which has been approved by the competent authority in that Member State or, where appropriate, approved in another Member State or the United Kingdom and notified to the competent authority in that Member State, **provided that** any such prospectus has subsequently been completed by the Pricing Supplement contemplating such Non-exempt Offer, in accordance with the Prospectus Regulation, in the period beginning and ending on the dates specified in such prospectus or Pricing Supplement, as applicable and the Issuer has consented in writing to its use for the purpose of that Non-exempt Offer;

(b) *Qualified investors*: at any time to any legal entity which is a qualified investor as defined in the Prospectus Regulation;

(c) *Fewer than 150 offerees*: at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Regulation) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the Issuer for any such offer; or

(d) *Other exempt offers*: at any time in any other circumstances falling within Article 1(4) of the Prospectus Regulation.

provided that no such offer of Notes referred to in (b) to (d) above shall require us or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or supplement a prospectus pursuant to Article 16 of the Prospectus Regulation.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Member State or the United Kingdom means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

United Kingdom

Each Dealer has represented, warranted and undertaken and each further Dealer appointed under the Programme will be required to represent, warrant and undertake that:

(a) ***No deposit-taking***: in relation to any Notes having a maturity of less than one year:

  (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and

  (ii) it has not offered or sold and will not offer or sell any Notes other than to persons:

    (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or

    (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses, where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the Issuer.

(b) ***Financial promotion***: it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

(c) ***General compliance***: it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

PRC

Each Dealer has represented and undertaken and each further Dealer appointed under the Programme will be required to represent and undertake, that the offer of the Notes is not an offer of securities within the meaning of the PRC Securities Law or other pertinent laws and regulations of the PRC and the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the PRC (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the securities laws of the PRC.

Hong Kong

In relation to each Series of the Notes to be issued by the Issuer under the Programme, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes, other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**") and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of the Hong Kong) (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948), as amended (the "**FIEA**"). Accordingly, each Dealer has represented, warranted and undertaken, and each further Dealer appointed under the Programme will be required to represent, warrant and undertake, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer to sell any Notes in Japan or to, or for the benefit of, a resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan) or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident in Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, FIEA and other relevant laws and regulations of Japan.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Notes, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in the SFA) under Section 274 of the SFA, (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(x) a corporation (which is not an accredited investor (as defined in the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(y) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, securities (as defined in the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except:

   (i) to an institutional investor or to a relevant person defined in Section 275(2) of the SFA, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

   (ii) where no consideration is or will be given for the transfer;

   (iii) where the transfer is by operation of law; or

   (iv) as specified in Section 276(7) of the SFA.

Any reference to the SFA is a reference to the Securities and Futures Act, Chapter 289 of Singapore and a reference to any term as defined in the SFA or any provision in the SFA is a reference to that term or provision as modified or amended from time to time including by such of its subsidiary legislation as may be applicable at the relevant time.

General

These selling restrictions may be modified by the agreement of each of the Issuer and the relevant Dealers following a change in a relevant law, regulation or directive. Any such modification will be set out in the relevant Pricing Supplement issued in respect of the issue of the Notes to which it relates or in a supplement to this Offering Circular.

No representation is made that any action has been taken in any jurisdiction that would permit a public offering of any of the Notes, or possession or distribution of this Offering Circular or any other offering material or any Pricing Supplement, in any country or jurisdiction where action for that purpose is required.

GENERAL INFORMATION

1. Listing

Application has been made by the Issuer to the SEHK for the listing of the Programme (under which Notes may be issued by way of debt issues to Professional Investors only during the 12-month period from the date of this Offering Circular on the SEHK. Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and Conditions not contained herein which are applicable to each Series (as defined under "Terms and Conditions of the Notes") of Notes will be set out in the Pricing Supplement, which, with respect to Notes to be listed on the SEHK, will be delivered to the SEHK, on or before the date of issue of the Notes of such Tranche.

The issue price of Notes listed on the SEHK will be expressed as a percentage of their nominal amount. Transactions will normally be effected for settlement in the relevant specified currency and for delivery by the end of the second trading day after the date of the transaction. It is expected that dealings will, if permission is granted to deal in and for the listing of such Notes, commence on or about the next business day following the date of listing of the relevant Notes.

The Issuer may also issue unlisted Notes and/or Notes not admitted to trading on any market.

2. Authorization

The Issuer has obtained all necessary consents, approvals and authorizations in connection with the establishment of the Programme, the issue of the Notes thereunder and performance of its obligations under the Notes, the Trust Deed and the Agency Agreement. The establishment and update of the Programme and the issue of the Notes thereunder were authorized by a resolution of the board of directors of the Issuer passed on November 3, 2016 and November 7, 2019.

3. NDRC Registration

With respect to any applicable Tranche of the Notes, registration will be completed, or application for registration will be made, by the Issuer in accordance with the NDRC Circular as set forth in the applicable Pricing Supplement. After issuance of any applicable Tranche of the Notes, the Issuer shall report the issuance information to the NDRC within the time period prescribed in the NDRC Circular.

4. Significant/Material Change

Except as disclosed in this Offering Circular there has been no material adverse change since December 31, 2019 in the financial or trading position, prospects or results of operations of the Issuer.

5. Legal and Arbitration Proceedings

The Issuer is not involved in any litigation or arbitration proceedings, which the Issuer believes may have, or have had during the 12 months period prior to the date of this Offering Circular a significant effect on the financial position or profitability of the Issuer and, so far as the Issuer is aware, no such litigation or arbitration proceedings are pending or threatened.

6. Auditor

The consolidated financial statements of the Group as at and for each of the financial years ended March 31, 2019, 2018 and 2017 have been prepared and presented in accordance with HKFRS issued by the HKICPA and have been audited by PwC.

7. Documents on Display

Copies of the following documents will be available for inspection and, in the case of the documents referred to in paragraphs (ii) and (iii) below, copies may be obtained during normal business hours at the specified office of the Issuer at 23rd Floor, Lincoln House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong for so long as the Notes are capable of being issued under the Programme:

(i) constitutional documents (or equivalent) of the Issuer;

(ii) copies of the audited consolidated financial statements of the Issuer for the financial years ended March 31, 2019 and March 31, 2018;

(iii) each Pricing Supplement;

(iv) a copy of this Offering Circular, together with any Supplement to this Offering Circular;

(v) the Agency Agreement;

(vi) the Trust Deed (which contains the forms of the Notes in global and definitive form); and

(vii) the Programme Manual.

8. Clearing of the Notes

The Notes may be accepted for clearance through Euroclear, Clearstream, Luxembourg and the CMU Service. The appropriate common code and the International Securities Identification Number or CMU Instrument Number in relation to the Notes of each Tranche will be specified in the relevant Pricing Supplement. The relevant Pricing Supplement shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

9. Legal Entity Identifier

The Legal Entity Identifier (LEI) code of the Issuer is 254900VUZRGD5U73RE46.

INDEX TO FINANCIAL STATEMENTS

Index to Unaudited Consolidated Interim Financial Statements as at and for the Nine Months ended December 31, 2019

	Page
Consolidated Income Statement	F-3
Consolidated Statement of Comprehensive Income	F-4
Consolidated Balance Sheet	F-5
Consolidated Cash Flow Statement	F-7
Consolidated Statement of Changes in Equity	F-8
Notes	F-9

Index to Unaudited Consolidated Interim Financial Statements as at and for the Six Months ended September 30, 2019

	Page	Page reference to the Company's 2019/18 Published Unaudited Consolidated Interim Financial Statements
Consolidated Income Statement	F-27	3
Consolidated Statement of Comprehensive Income	F-28	4
Consolidated Balance Sheet	F-29	5
Consolidated Cash Flow Statement	F-31	7
Consolidated Statement of Changes in Equity	F-32	8
Notes	F-33	9

Index to Audited Consolidated Financial Statements as at and for the year ended March 31, 2019[1]

	Page	Page reference to the Company's 2018/19 Annual Report
Independent Auditor's Report[2]	F-58	173
Consolidated Income Statement	F-64	179
Consolidated Statement of Comprehensive Income	F-65	180
Consolidated Balance Sheet	F-66	181
Consolidated Cash Flow Statement	F-68	183
Consolidated Statement of Changes in Equity	F-70	185
Notes to the Financial Statements	F-72	187

(1) The Company's financial information included in this Offering Circular relating to each of the years ended March 31, 2019 and 2018 do 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 financial statements for the each of the years ended March 31, 2019 and 2018 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 financial statements. 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.

(2) The Independent Auditor's Reports on the consolidated financial statements of the Group set out herein are reproduced from the Company's annual reports for each of the years ended March 31, 2019 and 2018.

Index to Audited Consolidated Financial Statements as at and for the year ended March 31, 2018[(1)]

	Page	Page reference to the Company's 2017/18 Annual Report
Independent Auditor's Report[(2)]	F-176	162
Consolidated Income Statement	F-181	167
Consolidated Statement of Comprehensive Income	F-182	168
Consolidated Balance Sheet	F-183	169
Consolidated Cash Flow Statement	F-185	171
Consolidated Statement of Changes in Equity	F-186	172
Notes to the Financial Statements	F-187	173

(1) The Company's financial information included in this Offering Circular relating to each of the years ended March 31, 2019 and 2018 do 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 financial statements for the each of the years ended March 31, 2019 and 2018 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 financial statements. 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.

(2) The Independent Auditor's Reports on the consolidated financial statements of the Group set out herein are reproduced from the Company's annual reports for each of the years ended March 31, 2019 and 2018.

CONSOLIDATED INCOME STATEMENT

	Note	**3 months ended December 31, 2019 (unaudited)** *US$'000*	**9 months ended December 31, 2019 (unaudited)** *US$'000*	3 months ended December 31, 2018 (unaudited) *US$'000*	9 months ended December 31, 2018 (unaudited) *US$'000*
Revenue	*2*	**14,102,836**	**40,136,978**	14,035,130	39,327,664
Cost of sales		**(11,838,210)**	**(33,641,413)**	(11,985,465)	(33,852,223)
Gross profit		**2,264,626**	**6,495,565**	2,049,665	5,475,441
Selling and distribution expenses		**(816,261)**	**(2,357,394)**	(702,175)	(2,011,118)
Administrative expenses		**(609,157)**	**(1,804,407)**	(615,590)	(1,615,724)
Research and development expenses		**(341,232)**	**(988,575)**	(272,820)	(895,056)
Other operating expenses - net		**(9,863)**	**(72,681)**	(24,686)	(49,229)
Operating profit	*3*	**488,113**	**1,272,508**	434,394	904,314
Finance income	*4(a)*	**13,369**	**37,843**	6,001	17,475
Finance costs	*4(b)*	**(107,595)**	**(358,835)**	(85,905)	(239,485)
Share of losses of associates and joint ventures		**(3,659)**	**(11,107)**	(4,165)	(5,886)
Profit before taxation		**390,228**	**940,409**	350,325	676,418
Taxation	*5*	**(84,729)**	**(199,329)**	(85,488)	(152,779)
Profit for the period		**305,499**	**741,080**	264,837	523,639
Profit attributable to:					
Equity holders of the Company		**258,117**	**622,538**	232,771	478,218
Perpetual securities holders		**13,440**	**40,320**	13,440	40,320
Other non-controlling interests		**33,942**	**78,222**	18,626	5,101
		305,499	**741,080**	264,837	523,639
Earnings per share attributable to equity holders of the Company					
Basic	*6(a)*	**US2.16 cents**	**US5.22 cents**	US1.96 cents	US4.02 cents
Diluted	*6(b)*	**US2.07 cents**	**US5.01 cents**	US1.92 cents	US4.01 cents
Dividend			**96,640**		92,071

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended December 31, 2019 (unaudited) ***US$'000***	**9 months ended December 31, 2019 (unaudited)** ***US$'000***	3 months ended December 31, 2018 (unaudited) *US$'000*	9 months ended December 31, 2018 (unaudited) *US$'000*
Profit for the period	**305,499**	**741,080**	264,837	523,639
Other comprehensive (loss)/income:				
Items that will not be reclassified to profit or loss				
Remeasurements of post-employment benefit obligations, net of taxes	**(15,016)**	**(14,636)**	(2,322)	(2,322)
Fair value change on financial assets at fair value through other comprehensive income, net of taxes	**1,474**	**(1,984)**	(2,290)	(6,074)
Items that have been reclassified or may be subsequently reclassified to profit or loss				
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes				
- Fair value (loss)/gain, net of taxes	**(77,507)**	**20,104**	35,330	259,488
- Reclassified to consolidated income statement	**(11,741)**	**(76,629)**	(65,755)	(237,210)
Currency translation differences	**119,978**	**(120,541)**	60,022	(490,951)
Other comprehensive income/(loss) for the period	**17,188**	**(193,686)**	24,985	(477,069)
Total comprehensive income for the period	**322,687**	**547,394**	289,822	46,570
Total comprehensive income attributable to:				
Equity holders of the Company	**276,209**	**426,044**	257,756	1,149
Perpetual securities holders	**13,440**	**40,320**	13,440	40,320
Other non-controlling interests	**33,038**	**81,030**	18,626	5,101
	322,687	**547,394**	289,822	46,570

CONSOLIDATED BALANCE SHEET

	Note	**December 31, 2019 (unaudited)** ***US$'000***	March 31, 2019 (audited) *US$'000*
Non-current assets			
Property, plant and equipment		**1,731,501**	1,430,817
Prepaid lease payments		**439,437**	463,996
Construction-in-progress		**284,594**	232,097
Intangible assets		**8,230,856**	8,324,575
Interests in associates and joint ventures		**63,746**	79,061
Deferred income tax assets		**2,040,620**	1,862,902
Financial assets at fair value through profit or loss		**487,674**	449,363
Financial assets at fair value through other comprehensive income		**66,813**	71,486
Other non-current assets		**235,076**	187,985
		13,580,317	13,102,282
Current assets			
Inventories		**3,998,396**	3,434,660
Trade receivables	*7(a)*	**9,159,206**	6,661,484
Notes receivable		**83,232**	46,454
Derivative financial assets		**25,248**	70,972
Deposits, prepayments and other receivables	*8*	**4,406,367**	3,753,926
Income tax recoverable		**187,580**	185,643
Bank deposits		**65,079**	70,210
Cash and cash equivalents		**3,520,919**	2,662,854
		21,446,027	16,886,203
Total assets		**35,026,344**	29,988,485

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**December 31, 2019 (unaudited) *US$'000***	March 31, 2019 (audited) *US$'000*
Share capital	*12*	**3,185,923**	3,185,923
Reserves		**244,568**	210,530
Equity attributable to owners of the Company		**3,430,491**	3,396,453
Perpetual securities		**1,007,110**	993,670
Other non-controlling interests		**623,934**	473,178
Put option written on non-controlling interests	*10(b)*	**(766,238)**	(766,238)
Total equity		**4,295,297**	4,097,063
Non-current liabilities			
Borrowings	*11*	**2,153,138**	2,426,770
Warranty provision	*9(b)*	**268,036**	254,601
Deferred revenue		**865,823**	678,137
Retirement benefit obligations		**435,561**	434,246
Deferred income tax liabilities		**355,037**	359,679
Other non-current liabilities	*10*	**1,419,999**	1,247,646
		5,497,594	5,401,079
Current liabilities			
Trade payables	*7(b)*	**8,665,819**	6,429,835
Notes payable		**1,301,932**	1,272,840
Derivative financial liabilities		**85,609**	74,426
Other payables and accruals	*9(a)*	**10,567,858**	8,942,336
Provisions	*9(b)*	**758,720**	738,688
Deferred revenue		**832,194**	780,951
Income tax payable		**357,237**	298,224
Borrowings	*11*	**2,664,084**	1,953,043
		25,233,453	20,490,343
Total liabilities		**30,731,047**	25,891,422
Total equity and liabilities		**35,026,344**	29,988,485

CONSOLIDATED CASH FLOW STATEMENT

	Note	**9 months ended December 31, 2019 (unaudited)** *US$'000*	9 months ended December 31, 2018 (unaudited) *US$'000*
Cash flows from operating activities			
Net cash generated from operations	*14*	**2,432,768**	2,370,597
Interest paid		**(353,870)**	(235,895)
Tax paid		**(300,611)**	(184,071)
Net cash generated from operating activities		**1,778,287**	1,950,631
Cash flows from investing activities			
Purchase of property, plant and equipment		**(178,068)**	(158,500)
Sale of property, plant and equipment		**12,291**	114,366
Acquisition of subsidiaries, net of cash acquired		**-**	(104,198)
Disposal of subsidiaries, net of cash disposed		**(18,155)**	-
Deemed disposal of a subsidiary, net of cash disposed		**-**	(21,106)
Interest acquired in a joint venture		**(1,616)**	-
Payment for construction-in-progress		**(305,674)**	(192,091)
Payment for intangible assets		**(217,070)**	(117,739)
Purchase of financial assets at fair value through profit or loss		**(47,107)**	(62,552)
Purchase of financial assets at fair value through other comprehensive income		**-**	(3,802)
Loan to a joint venture		**(72,603)**	-
Net proceeds from sale of financial assets at fair value through profit or loss		**56,843**	33,996
Net proceeds from sale of financial assets at fair value through other comprehensive income		**2,803**	-
Decrease/(increase) in bank deposits		**5,131**	(24,325)
Dividends received		**6,206**	230
Interest received		**37,843**	17,475
Net cash used in investing activities		**(719,176)**	(518,246)
Cash flows from financing activities			
Capital contribution from other non-controlling interests		**61,696**	33,521
Contribution to employee share trusts		**(86,684)**	(88,878)
Issue of convertible preferred shares		**300,000**	-
Repayment of a note		**(786,244)**	-
Principal elements of lease payments		**(98,590)**	-
Dividends paid		**(431,148)**	(404,350)
Dividends paid to other non-controlling interests		**(4,620)**	(4,758)
Distribution to perpetual securities holders		**(26,880)**	(26,880)
Proceeds from borrowings		**3,046,800**	4,378,800
Repayments of borrowings		**(2,143,800)**	(3,678,800)
Net cash (used in)/generated from financing activities		**(169,470)**	208,655
Increase in cash and cash equivalents		**889,641**	1,641,040
Effect of foreign exchange rate changes		**(31,576)**	(89,197)
Cash and cash equivalents at the beginning of the period		**2,662,854**	1,848,017
Cash and cash equivalents at the end of the period		**3,520,919**	3,399,860

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	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**622,538**	**40,320**	**78,222**	**–**	**741,080**
Other comprehensive (loss)/income	**–**	**(1,984)**	**–**	**–**	**(56,525)**	**(123,349)**	**–**	**(14,636)**	**–**	**2,808**	**–**	**(193,686)**
Total comprehensive (loss)/income for the period	**–**	**(1,984)**	**–**	**–**	**(56,525)**	**(123,349)**	**–**	**607,902**	**40,320**	**81,030**	**–**	**547,394**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**–**	**11,995**	**(11,995)**	**–**	**–**	**–**	**–**
Transfer of gain on disposal of financial assets at fair value through other comprehensive income to retained earnings	**–**	**(1,696)**	**–**	**–**	**–**	**–**	**–**	**1,696**	**–**	**–**	**–**	**–**
Vesting of shares under long-term incentive program	**–**	**–**	**181,424**	**(242,631)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(61,207)**
Deferred tax charge in relation to long-term incentive program	**–**	**–**	**–**	**(7,048)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,048)**
Disposal of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**(267)**	**–**	**–**	**–**	**–**	**(267)**
Share-based compensation	**–**	**–**	**–**	**192,675**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**192,675**
Contribution to employee share trusts	**–**	**–**	**(86,684)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(86,684)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(431,148)**	**–**	**–**	**–**	**(431,148)**
Capital contribution from other non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**76,019**	**–**	**76,019**
Change of ownership of subsidiaries without loss of control	**–**	**–**	**–**	**–**	**–**	**–**	**1,673**	**–**	**–**	**(1,673)**	**–**	**–**
Dividends paid to other non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,620)**	**–**	**(4,620)**
Distribution to perpetual securities holders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(26,880)**	**–**	**–**	**(26,880)**
At December 31, 2019	**3,185,923**	**(39,775)**	**(45,469)**	**254,536**	**(33,285)**	**(1,495,281)**	**176,642**	**1,427,200**	**1,007,110**	**623,934**	**(766,238)**	**4,295,297**
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 for the period	–	–	–	–	–	–	–	478,218	40,320	5,101	–	523,639
Other comprehensive (loss)/income	–	(6,074)	–	–	22,278	(490,951)	–	(2,322)	–	–	–	(477,069)
Total comprehensive (loss)/income for the period	–	(6,074)	–	–	22,278	(490,951)	–	475,896	40,320	5,101	–	46,570
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	115,433	–	115,433
Vesting of shares under long-term incentive program	–	–	94,909	(105,694)	–	–	–	–	–	–	–	(10,785)
Deemed disposal of a subsidiary	–	–	–	–	–	–	–	–	–	(1,371)	–	(1,371)
Share-based compensation	–	–	–	155,643	–	–	–	–	–	–	–	155,643
Termination of put option written on non-controlling interests	–	–	–	–	–	–	11,913	–	–	–	212,900	224,813
Put option written on non-controlling interests	–	–	–	–	–	–	–	–	–	–	(703,341)	(703,341)
Contribution to employee share trusts	–	–	(88,878)	–	–	–	–	–	–	–	–	(88,878)
Dividends paid	–	–	–	–	–	–	–	(404,350)	–	–	–	(404,350)
Capital contribution from other non-controlling interests	–	–	–	–	–	–	–	–	–	33,521	–	33,521
Dividends paid to other non-controlling interests	–	–	–	–	–	–	–	–	–	(4,758)	–	(4,758)
Distribution to perpetual securities holders	–	–	–	–	–	–	–	–	(26,880)	–	–	(26,880)
At December 31, 2018	3,185,923	(26,191)	(95,671)	281,806	5,372	(1,428,858)	83,362	1,165,939	1,007,110	394,524	(703,341)	3,869,975

Notes

1 General information and basis of preparation

The financial information relating to the year ended March 31, 2019 included in the FY2019/20 third 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 has delivered the consolidated financial statements for the year ended March 31, 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong 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 on HKFRS 16

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

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

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

The associated right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated balance sheet as at March 31, 2019. As at December 31, 2019, the recognized right-of-use assets of the Group are solely related to properties and amounted to US$309,474,000 (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 December 31, 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.

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

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

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

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

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

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

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

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

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

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

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

New amendments to existing standards not yet effective

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

	Effective for annual periods beginning on or after
Amendments to HKFRS 3, Definition of a business	January 1, 2020
Amendments to HKAS 1 and HKAS 8, Definition of material	January 1, 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7, Interest rate benchmark reform	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

	9 months ended December 31, 2019 Revenue from external customers *US$'000*	**Pre-tax income/ (loss)** *US$'000*	9 months ended December 31, 2018 Revenue from external customers *US$'000*	Pre-tax income/ (loss) *US$'000*
IDG	**35,849,817**	**1,835,835**	34,554,496	1,380,305
DCG	**4,287,161**	**(149,716)**	4,773,168	(178,051)
Segment total	**40,136,978**	**1,686,119**	39,327,664	1,202,254
Unallocated:				
Headquarters and corporate (expenses)/income - net		**(503,272)**		(470,212)
Depreciation and amortization		**(118,338)**		(98,995)
Finance income		**19,526**		1,285
Finance costs		**(176,453)**		(91,510)
Share of losses of associates and joint ventures		**(11,107)**		(5,886)
Loss on disposal of property, plant and equipment		**(726)**		(817)
Fair value gain on financial assets at fair value through profit or loss		**49,435**		99,137
Fair value loss on a financial liability at fair value through profit or loss		**(13,000)**		-
Gain on deemed disposal of a subsidiary		**-**		22,811
Dilution gain on interest in an associate		**-**		18,121
Gain on disposal of interest in an associate		**3,922**		-
Dividend income		**4,303**		230
Consolidated profit before taxation		**940,409**		676,418

(b) Segment assets for reportable segments

	December 31, 2019 *US$'000*	March 31, 2019 *US$'000*
IDG	**22,797,962**	19,797,625
DCG	**5,214,283**	4,094,194
Segment assets for reportable segments	**28,012,245**	23,891,819
Unallocated:		
Deferred income tax assets	**2,040,620**	1,862,902
Financial assets at fair value through profit or loss	**487,674**	449,363
Financial assets at fair value through other comprehensive income	**66,813**	71,486
Derivative financial assets	**25,248**	70,972
Interests in associates and joint ventures	**63,746**	79,061
Bank deposits and cash and cash equivalents	**3,585,998**	2,733,064
Unallocated deposits, prepayments and other receivables	**202,285**	166,874
Income tax recoverable	**187,580**	185,643
Other unallocated assets	**354,135**	477,301
Total assets per consolidated balance sheet	**35,026,344**	29,988,485

(c) Segment liabilities for reportable segments

	December 31, 2019	March 31, 2019
	US$'000	*US$'000*
IDG	**22,321,610**	19,045,230
DCG	**2,009,259**	1,456,268
Segment liabilities for reportable segments	**24,330,869**	20,501,498
Unallocated:		
Deferred income tax liabilities	**355,037**	359,679
Derivative financial liabilities	**85,609**	74,426
Borrowings	**4,817,222**	4,379,813
Unallocated other payables and accruals	**743,748**	246,467
Unallocated provisions	**-**	1,336
Unallocated other non-current liabilities	**41,325**	29,979
Income tax payable	**357,237**	298,224
Total liabilities per consolidated balance sheet	**30,731,047**	25,891,422

(d) Analysis of revenue by geography

	9 months ended December 31, 2019	9 months ended December 31, 2018
	US$'000	*US$'000*
China	**8,854,350**	9,929,812
AP	**8,965,759**	7,231,652
EMEA	**9,478,596**	9,567,406
AG	**12,838,273**	12,598,794
	40,136,978	39,327,664

(e) Analysis of revenue by timing of revenue recognition

	9 months ended December 31, 2019	9 months ended December 31, 2018
	US$'000	*US$'000*
Point in time	**39,177,055**	38,589,717
Over time	**959,923**	737,947
	40,136,978	39,327,664

(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 nine months ended December 31						
Depreciation and amortization	**408,696**	340,321	**176,234**	155,226	**584,930**	495,547
Finance income	**15,863**	16,088	**2,454**	102	**18,317**	16,190
Finance costs	**168,469**	133,067	**13,913**	14,908	**182,382**	147,975
Additions to non-current assets (Note)	**612,731**	703,115	**208,929**	71,779	**821,660**	774,894

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$6,167 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 December 31, 2019

	China *US$ million*	**AP** *US$ million*	**EMEA** *US$ million*	**AG** *US$ million*	**Mature Market** *US$ million*	**Emerging Market** *US$ million*	**Total** *US$ million*
Goodwill							
- PCSD	**1,025**	**691**	**219**	**318**	**-**	**-**	**2,253**
- MBG	**-**	**-**	**-**	**-**	**672**	**896**	**1,568**
- DCG	**479**	**159**	**89**	**350**	**-**	**-**	**1,077**
Trademarks and trade names							
- PCSD	**209**	**59**	**104**	**67**	**-**	**-**	**439**
- MBG	**-**	**-**	**-**	**-**	**197**	**263**	**460**
- DCG	**162**	**54**	**31**	**123**	**-**	**-**	**370**

At March 31, 2019

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

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

3 Operating profit

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

	3 months ended December 31, 2019 *US$'000*	**9 months ended December 31, 2019** *US$'000*	3 months ended December 31, 2018 *US$'000*	9 months ended December 31, 2018 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**69,983**	**207,884**	75,248	219,504
Depreciation of right-of-use assets	**26,083**	**75,128**	-	-
Amortization of intangible assets	**155,183**	**420,256**	124,571	375,038
Employee benefit costs, including	**1,108,987**	**3,271,969**	1,015,040	2,961,493
- long-term incentive awards	***68,978***	***192,675***	*56,017*	*155,643*
Rental expenses under operating leases	**3,396**	**11,435**	30,109	101,883
Loss on disposal of property, plant and equipment	**642**	**1,348**	668	3,124
Loss on disposal of intangible assets	**50**	**1,066**	694	694
Fair value (gain)/loss on financial assets at fair value through profit or loss	**(49,543)**	**(49,435)**	5,270	(99,137)
Fair value loss on a financial liability at fair value through profit or loss	**10,000**	**13,000**	-	-
Gain on disposal of subsidiaries	**-**	**(12,844)**	-	-
Gain on deemed disposal of a subsidiary	**-**	**-**	(22,811)	(22,811)
Dilution gain on interest in an associate	**-**	**-**	-	(18,121)
Gain on disposal of interest in an associate	**(3,922)**	**(3,922)**	-	-

4 Finance income and costs

(a) Finance income

	3 months ended December 31, 2019 *US$'000*	**9 months ended December 31, 2019** *US$'000*	3 months ended December 31, 2018 *US$'000*	9 months ended December 31, 2018 *US$'000*
Interest on bank deposits	**11,694**	**31,463**	4,527	15,279
Interest on money market funds	**1,675**	**6,380**	1,474	2,196
	13,369	**37,843**	6,001	17,475

(b) Finance costs

	3 months ended December 31, 2019 *US$'000*	**9 months ended December 31, 2019** *US$'000*	3 months ended December 31, 2018 *US$'000*	9 months ended December 31, 2018 *US$'000*
Interest on bank loans and overdrafts	**20,321**	**67,933**	23,760	70,644
Interest on convertible bonds	**9,898**	**29,618**	-	-
Interest on notes	**21,785**	**68,993**	32,464	92,262
Interest on lease liabilities	**4,534**	**12,496**	-	-
Factoring costs	**44,202**	**158,353**	24,623	67,250
Interest on contingent consideration and written put option liabilities	**6,636**	**19,900**	4,355	7,379
Others	**219**	**1,542**	703	1,950
	107,595	**358,835**	85,905	239,485

5 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended December 31, 2019	**9 months ended December 31, 2019**	3 months ended December 31, 2018	9 months ended December 31, 2018
	US$'000	***US$'000***	*US$'000*	*US$'000*
Current tax				
Hong Kong profits tax	**26,351**	**57,335**	8,995	17,760
Taxation outside Hong Kong	**128,973**	**333,332**	128,379	304,156
Deferred tax				
Credit for the period	**(70,595)**	**(191,338)**	(51,886)	(169,137)
	84,729	**199,329**	85,488	152,779

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 employee share trusts for the purposes of awarding shares to eligible employees under the long term incentive program.

	3 months ended December 31, 2019	**9 months ended December 31, 2019**	3 months ended December 31, 2018	9 months ended December 31, 2018
Weighted average number of ordinary shares in issue	**12,014,791,614**	**12,014,791,614**	12,014,791,614	12,014,791,614
Adjustment for shares held by employee share trusts	**(57,160,242)**	**(90,663,388)**	(116,286,458)	(121,645,000)
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**11,957,631,372**	**11,924,128,226**	11,898,505,156	11,893,146,614
	US$'000	***US$'000***	*US$'000*	*US$'000*
Profit attributable to equity holders of the Company	**258,117**	**622,538**	232,771	478,218

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares. The Company has three (2018/19: two) categories of dilutive potential ordinary shares, namely long-term incentive awards, bonus warrants and convertible bonds (2018/19: long-term incentive awards and bonus warrants). Long-term incentive awards were dilutive for the three months and nine months ended December 31, 2019 and 2018. Bonus warrants were dilutive for the three months and nine months ended December 31, 2019 and anti-dilutive for the three months and nine months ended December 31, 2018. Convertible bonds were dilutive for the three months and nine months ended December 31, 2019.

	3 months ended December 31, 2019	**9 months ended December 31, 2019**	3 months ended December 31, 2018	9 months ended December 31, 2018
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	**11,957,631,372**	**11,924,128,226**	11,898,505,156	11,893,146,614
Adjustment for long-term incentive awards	**193,424,497**	**283,411,890**	253,804,385	38,371,004
Adjustment for bonus warrants	**3,886,240**	**10,646,786**	-	-
Adjustment for convertible bonds	**694,709,646**	**694,709,646**	-	-
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**12,849,651,755**	**12,912,896,548**	12,152,309,541	11,931,517,618
	US$'000	***US$'000***	*US$'000*	*US$'000*
Profit attributable to equity holders of the Company used to determine basic earnings per share	**258,117**	**622,538**	232,771	478,218
Adjustment for interest on convertible bonds, net of tax	**8,265**	**24,731**	-	-
Profit attributable to equity holders of the Company used to determine diluted earnings per share	**266,382**	**647,269**	232,771	478,218

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 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:

	December 31, 2019	March 31, 2019
	US$'000	*US$'000*
0 – 30 days	**6,237,230**	4,560,771
31 – 60 days	**1,880,846**	1,332,471
61 – 90 days	**612,601**	430,207
Over 90 days	**542,962**	438,377
	9,273,639	6,761,826
Less: loss allowance	**(114,433)**	(100,342)
Trade receivables – net	**9,159,206**	6,661,484

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

	December 31, 2019	March 31, 2019
	US$'000	*US$'000*
0 – 30 days	**5,218,182**	4,279,000
31 – 60 days	**2,076,885**	1,046,525
61 – 90 days	**932,475**	757,718
Over 90 days	**438,277**	346,592
	8,665,819	6,429,835

8 Deposits, prepayments and other receivables

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

	December 31, 2019	March 31, 2019
	US$'000	*US$'000*
Deposits	**15,427**	14,632
Other receivables	**3,132,513**	2,587,439
Prepayments	**1,258,427**	1,151,855
	4,406,367	3,753,926

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

9 Provisions, other payables and accruals

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

	December 31, 2019	March 31, 2019
	US$'000	*US$'000*
Accruals	**2,318,150**	1,969,914
Allowance for billing adjustments (i)	**2,064,570**	1,650,226
Contingent consideration (Note 10(a))	**116,824**	-
Other payables (ii)	**6,068,314**	5,322,196
	10,567,858	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	**Environmental restoration**	**Restructuring**	**Total**
	US$'000	***US$'000***	***US$'000***	***US$'000***
Year ended March 31, 2019				
At the beginning of the year	1,081,218	8,919	54,053	1,144,190
Exchange adjustment	(37,163)	(274)	(1,991)	(39,428)
Provisions made	807,636	14,545	-	822,181
Amounts utilized	(875,413)	(14,403)	(36,576)	(926,392)
Acquisition of subsidiaries	-	24,510	-	24,510
	976,278	33,297	15,486	1,025,061
Long-term portion classified as non-current liabilities	(254,601)	(31,772)	-	(286,373)
At the end of the year	721,677	1,525	15,486	738,688
Period ended December 31, 2019				
At the beginning of the period	**976,278**	**33,297**	**15,486**	**1,025,061**
Exchange adjustment	**(7,242)**	**655**	**(91)**	**(6,678)**
Provisions made	**643,494**	**14,673**	**-**	**658,167**
Amounts utilized	**(587,913)**	**(13,699)**	**(15,395)**	**(617,007)**
	1,024,617	**34,926**	**-**	**1,059,543**
Long-term portion classified as non-current liabilities	**(268,036)**	**(32,787)**	**-**	**(300,823)**
At the end of the period	**756,581**	**2,139**	**-**	**758,720**

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:

	December 31, 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)	**802,020**	783,505
Lease liabilities	**345,242**	-
Environmental restoration (Note 9(b))	**32,787**	31,772
Government incentives and grants received in advance (c)	**49,667**	50,087
Deferred rent liabilities	**-**	83,977
Others	**165,211**	159,950
	1,419,999	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 December 31, 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$330 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

	December 31, 2019	March 31, 2019
	US$'000	*US$'000*
Current liabilities		
Short-term loans (i)	**2,089,894**	1,166,907
Note (ii)	**574,190**	786,136
	2,664,084	1,953,043
Non-current liabilities		
Notes (ii)	**1,243,155**	1,836,264
Convertible bonds (iii)	**602,983**	590,506
Convertible preferred shares (iv)	**307,000**	-
	2,153,138	2,426,770
	4,817,222	4,379,813

(i) The majority of the short-term bank loans are denominated in United States dollars. As at December 31, 2019, the Group has total revolving and short-term loan facilities of US$2,735 million (March 31, 2019: US$2,501 million) which has been utilized to the extent of US$2,101 million (March 31, 2019: US$1,181 million).

(ii)

Issue date	**Principal amount**	**Term**	**Interest rate per annum**	**Due date**	**December 31, 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	**574,190**	594,747
March 16, 2017	US$500 million	5 years	3.875%	March 2022	**498,013**	497,391
March 29, 2018	US$750 million	5 years	4.75%	March 2023	**745,142**	744,126
					1,817,345	2,622,400

(iii) On January 24, 2019, the Company completed the issuance of 5-Year US$675 million convertible bonds bearing annual interest at 3.375% due in January 2024 ("the Bonds") to third party professional investors ("the bondholders"). The bondholders have the right, at any time on or after 41 days after the date of issue up to the 10th day prior to the maturity date, to convert part or all of the outstanding principal amount of the Bonds into ordinary shares of the Company at a conversion price of HK$7.99 per share, subject to adjustments. The conversion price was adjusted to HK$7.62 per share effective on November 30, 2019.

The outstanding principal amount of the Bonds is repayable by the Company upon the maturity of the Bonds on January 24, 2024, if not previously redeemed, converted or purchased and cancelled. The proceeds would be used to repay previous notes and for general corporate purposes. Assuming full conversion of the Bonds at the adjusted conversion price of HK$7.62 per share, the Bonds will be convertible into 694,709,646 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 December 31, 2019 and March 31, 2019 are as follows:

	December 31, 2019	March 31, 2019
	US$'000	*US$'000*
Within 1 year	**2,664,084**	1,953,043
Over 1 to 3 years	**498,013**	1,092,138
Over 3 to 5 years	**1,655,125**	1,334,632
	4,817,222	4,379,813

12 Share capital

	December 31, 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

	9 months ended December 31, 2019	9 months ended December 31, 2018
	US$'000	*US$'000*
Profit before taxation	**940,409**	676,418
Share of losses of associates and joint ventures	**11,107**	5,886
Finance income	**(37,843)**	(17,475)
Finance costs	**358,835**	239,486
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**207,884**	219,504
Depreciation of right-of-use assets	**75,128**	-
Amortization of intangible assets	**420,256**	375,038
Share-based compensation	**192,675**	155,643
Loss on disposal of property, plant and equipment	**1,348**	3,124
Loss on disposal of intangible assets	**1,066**	694
Gain on disposal of subsidiaries	**(12,844)**	-
Gain on deemed disposal of a subsidiary	**-**	(22,811)
Gain on disposal of interest in an associate	**(3,922)**	-
Dilution gain on interest in an associate	**-**	(18,121)
Fair value change on bonus warrants	**(15,869)**	3,541
Fair value change on financial instruments	**16,252**	6,259
Fair value change on financial assets at fair value through profit or loss	**(49,435)**	(99,137)
Fair value change on a financial liability at fair value through profit or loss	**13,000**	-
Dividend income	**(6,206)**	(230)
(Increase)/decrease in inventories	**(577,613)**	139,030
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(3,142,649)**	(785,491)
Increase in trade payables, notes payable, provisions, other payables and accruals	**3,967,285**	1,410,171
Effect of foreign exchange rate changes	**73,904**	79,068
Net cash generated from operations	**2,432,768**	2,370,597

Reconciliation of financing liabilities

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

Financing liabilities	**December 31, 2019** *US$'000*	March 31, 2019 *US$'000*
Short-term loans – current	**2,089,894**	1,166,907
Note – current	**574,190**	786,136
Notes – non-current	**1,243,155**	1,836,264
Convertible bonds – non-current	**602,983**	590,506
Convertible preferred shares – non-current	**307,000**	-
Lease liabilities – current	**87,347**	-
Lease liabilities – non-current	**345,242**	-
	5,249,811	4,379,813
Short-term loans – variable interest rates	**2,072,655**	1,166,907
Short-term loans – fixed interest rates	**17,239**	-
Notes – fixed interest rates	**1,817,345**	2,622,400
Convertible bonds – fixed interest rates	**602,983**	590,506
Convertible preferred shares – fair value	**307,000**	-
Lease liabilities – fixed interest rates	**432,589**	-
	5,249,811	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	**3,046,800**	**-**	**-**	**-**	**-**	**-**	**-**	**3,046,800**
Repayments of borrowings	**(2,143,800)**	**(786,244)**	**-**	**-**	**-**	**-**	**-**	**(2,930,044)**
Transfer	**-**	**581,389**	**(581,389)**	**-**	**-**	**51,424**	**(51,424)**	**-**
Issue of convertible preferred shares	**-**	**-**	**-**	**-**	**300,000**	**-**	**-**	**300,000**
Principal elements of lease payments	**-**	**-**	**-**	**-**	**-**	**(98,590)**	**-**	**(98,590)**
Foreign exchange adjustments	**-**	**(7,639)**	**(13,548)**	**-**	**-**	**-**	**-**	**(21,187)**
Other non-cash movements	**19,987**	**548**	**1,828**	**12,477**	**7,000**	**56,610**	**65,225**	**163,675**
Financing liabilities as at December 31, 2019	**2,089,894**	**574,190**	**1,243,155**	**602,983**	**307,000**	**87,347**	**345,242**	**5,249,811**

CONSOLIDATED INCOME STATEMENT

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

CONSOLIDATED BALANCE SHEET

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

CONSOLIDATED BALANCE SHEET

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

CONSOLIDATED CASH FLOW STATEMENT

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

NOTES

1 GENERAL INFORMATION AND BASIS OF PREPARATION

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

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

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

Adjustments recognized on adoption on HKFRS 16

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Group's leasing activities and how these are accounted for *(continued)*
Right-of-use assets are measured at cost comprising the following:

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

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

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

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

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

2 SEGMENT INFORMATION

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

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

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

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

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

2 SEGMENT INFORMATION *(continued)*

(b) Segment assets for reportable segments

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

(c) Segment liabilities for reportable segments

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

2 SEGMENT INFORMATION *(continued)*

(d) Analysis of revenue by geography

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

(e) Analysis of revenue by timing of revenue recognition

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

(f) Other segment information

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

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

NOTES

2 SEGMENT INFORMATION *(continued)*

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

At September 30, 2019

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

At March 31, 2019

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

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

3 OPERATING PROFIT

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

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

NOTES

4 FINANCE INCOME AND COSTS

(a) Finance income

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

(b) Finance costs

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

5 TAXATION

The amount of taxation in the consolidated income statement represents:

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

Hong Kong 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 employee share trusts for the purposes of awarding shares to eligible employees under the long term incentive program.

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

6 EARNINGS PER SHARE *(continued)*

(b) Diluted

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

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

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

6 EARNINGS PER SHARE *(continued)*

(b) Diluted *(continued)*

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

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

7 DIVIDEND

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

8 NON-CURRENT ASSETS

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

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

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

9 AGEING ANALYSIS

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

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

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

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

10 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

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

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

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

11 PROVISIONS, OTHER PAYABLES AND ACCRUALS

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

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

Notes:

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

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

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

(b) The components of provisions are as follows:

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

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

(b) *(continued)*

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

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

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

12 OTHER NON-CURRENT LIABILITIES

Details of other non-current liabilities are as follows:

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

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

12 OTHER NON-CURRENT LIABILITIES *(continued)*

(a) *(continued)*

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

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

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

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

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

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

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

13 BORROWINGS

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

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

(ii)

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

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

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

13 **BORROWINGS** *(continued)*

(iii) *(continued)*

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

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

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

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

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

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

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

14 SHARE CAPITAL

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

15 PERPETUAL SECURITIES

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

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

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

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

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

Reconciliation of financing liabilities

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

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

NOTES

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

Reconciliation of financing liabilities *(continued)*

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

17 BUSINESS COMBINATION

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

18 COMMITMENTS

The Group had the following capital commitments:

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

19 CONTINGENT LIABILITIES

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

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF LENOVO GROUP LIMITED

(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of Lenovo Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 179 to 290, which comprise:

- the consolidated balance sheet as at March 31, 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at March 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(continued)*

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of goodwill and other intangible assets with indefinite useful lives
- Recognition of deferred income tax assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill and other intangible assets with indefinite useful lives	
Refer to notes 4(a) and 16 to the consolidated financial statements As at March 31, 2019, the Group had goodwill and other intangible assets with indefinite useful lives totaling US$6,211 million. The Group tests at least annually whether goodwill and other intangible assets that have indefinite useful lives have suffered any impairment. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identified cash flows cash generating units ("CGUs"). The recoverable amount of each CGU was determined based on value in use calculations using cash flow projections. In carrying out the impairment assessments, significant management judgement was used to appropriately identify CGUs and to determine key assumptions, including revenue growth rates, operating margins and discount rates. Management are of the view that there was no evidence of impairment of goodwill or other intangible assets with indefinite useful lives as at March 31, 2019. We focused on this area because the value in use calculations required significant management judgements with respect to revenue growth rates, operating margins and discount rates.	Our procedures in relation to the Group's impairment assessment included: • Assessing management's identification of CGUs based on the Group's accounting policies and our understanding of the Group's business. • Assessing the value in use calculation methodology adopted by management. • Challenging the reasonableness of key assumptions such as revenue growth rates, operating margins and discount rates with reference to the business and industry circumstances. • Reconciling input data to supporting evidence, such as approved forecasts of future profits and strategic plans. • Considering the reasonableness of the forecasts of future profits and strategic plans by comparing them against past results achieved. • Assessing management's sensitivity analysis around the key assumptions, to ascertain the extent to which adverse changes, both individually or in aggregate, might impact on the outcome of the impairment assessment of the goodwill and other intangible assets with indefinite useful lives. We found the judgements made by management in relation to the impairment assessment to be supportable based on the available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter
Recognition of deferred income tax assets	
Refer to notes 4(b) and 19 to the consolidated financial statements	Our procedures in relation to the recognition of deferred income tax assets included:
As at March 31, 2019, the Group had deferred income tax assets of US$1,863 million. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and expected to apply when the related deferred income tax asset is realized. Recognition of the deferred income tax assets involves judgement regarding the future financial performance of the entity in which the deferred income tax asset has been recognized. A number of factors are evaluated in considering whether there is evidence that it is probable the deferred income tax assets will be realized, including whether there will be sufficient taxable profits available during the utilization periods, existence of taxable temporary differences, group relief and tax planning strategies. Management has performed its assessment on the recognition of these deferred income tax assets and considers that the realization of these assets is probable as at March 31, 2019.	• Evaluating management's assessment as to whether there will be sufficient taxable profits in future periods by reference to forecasts of future profits/strategic plans and future reversals of taxable temporary differences to support the recognition of deferred income tax assets. • Assessing the underlying assumptions used in management's approved forecasts of future profits such as revenue growth rates and operating margins by comparison to historical results and future strategic and tax plans and with reference to the business and industry circumstances. • Testing management's reconciliations of forecast profits to forecast taxable profits to supporting evidence on a sample basis. • Validating available tax losses, including the respective expiry periods to tax returns and tax correspondence of the relevant subsidiaries. • Testing the calculation of deferred income tax assets by reference to tax rates enacted or substantively enacted by the balance sheet date.
We focused on this area because of the inherent uncertainties involved in forecasting future taxable profits and future reversals of taxable temporary differences.	We found the judgements made by management in relation to recognition of deferred income tax assets to be supportable based on the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Shia Yuen Yee.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, May 23, 2019

Consolidated Income Statement

For the year ended March 31, 2019

	Note	2019 US$'000	2018 US$'000
Revenue	5	**51,037,943**	45,349,943
Cost of sales		**(43,667,299)**	(39,077,812)
Gross profit		**7,370,644**	6,272,131
Other income – net		**–**	301
Selling and distribution expenses		**(2,657,965)**	(2,833,253)
Administrative expenses		**(2,209,340)**	(1,757,319)
Research and development expenses		**(1,266,341)**	(1,273,729)
Other operating expenses – net		**(59,181)**	(21,408)
Operating profit	6	**1,177,817**	386,723
Finance income	7(a)	**27,399**	32,145
Finance costs	7(b)	**(337,027)**	(263,160)
Share of losses of associates and joint ventures	17	**(11,525)**	(2,506)
Profit before taxation		**856,664**	153,202
Taxation	8	**(199,460)**	(279,977)
Profit/(loss) for the year		**657,204**	(126,775)
Profit/(loss) attributable to:			
Equity holders of the Company		**596,343**	(189,323)
Perpetual securities holders		**53,760**	53,680
Other non-controlling interests		**7,101**	8,868
		657,204	(126,775)
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	11(a)	**US5.01 cents**	US(1.67) cents
Diluted	11(b)	**US4.96 cents**	US(1.67) cents
Dividends	12	**425,764**	399,284

Consolidated Statement of Comprehensive Income

For the year ended March 31, 2019

	Note	2019 US$'000	2018 US$'000
Profit/(loss) for the year		**657,204**	(126,775)
Other comprehensive (loss)/income:			
Item that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations, net of taxes	8, 35	**(25,641)**	(19,797)
Items that have been reclassified or may be subsequently reclassified to profit or loss			
Fair value change on available-for-sale financial assets, net of taxes	8, 20	**-**	224
Fair value change on financial assets at fair value through other comprehensive income, net of taxes	8, 20	**(15,978)**	–
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes	8		
– Fair value gain/(loss), net of taxes		**284,542**	(233,651)
– Reclassified to consolidated income statement		**(244,396)**	222,073
Currency translation differences		**(434,816)**	288,711
Other comprehensive (loss)/income for the year		**(436,289)**	257,560
Total comprehensive income for the year		**220,915**	130,785
Total comprehensive income attributable to:			
Equity holders of the Company		**160,845**	68,237
Perpetual securities holders		**53,760**	53,680
Other non-controlling interests		**6,310**	8,868
		220,915	130,785

Consolidated Balance Sheet

At March 31, 2019

	Note	2019 US$'000	2018 US$'000
Non-current assets			
Property, plant and equipment	13	**1,430,817**	1,304,751
Prepaid lease payments	14	**463,996**	507,628
Construction-in-progress	15	**232,097**	382,845
Intangible assets	16	**8,324,575**	8,514,504
Interests in associates and joint ventures	17	**79,061**	35,666
Deferred income tax assets	19	**1,862,902**	1,530,623
Available-for-sale financial assets	20	**–**	373,077
Financial assets at fair value through profit or loss	20	**449,363**	–
Financial assets at fair value through other comprehensive income	20	**71,486**	–
Other non-current assets		**187,985**	181,759
		13,102,282	12,830,853
Current assets			
Inventories	21	**3,434,660**	3,791,691
Trade receivables	22(a)	**6,661,484**	4,972,722
Notes receivable	22(b)	**46,454**	11,154
Derivative financial assets		**70,972**	24,890
Deposits, prepayments and other receivables	22(c)	**3,753,926**	4,703,335
Income tax recoverable		**185,643**	227,203
Bank deposits	23	**70,210**	84,306
Cash and cash equivalents	23	**2,662,854**	1,848,017
		16,886,203	15,663,318
Total assets		**29,988,485**	28,494,171

Consolidated Balance Sheet

At March 31, 2019

	Note	**2019 US$'000**	2018 US$'000
Share capital	28	**3,185,923**	3,185,923
Reserves		**210,530**	332,697
Equity attributable to owners of the Company		**3,396,453**	3,518,620
Perpetual securities	29	**993,670**	993,670
Other non-controlling interests		**473,178**	246,598
Put option written on non-controlling interests	25(a)(ii), 27(b)	**(766,238)**	(212,900)
Total equity		**4,097,063**	4,545,988
Non-current liabilities			
Borrowings	26	**2,426,770**	2,648,725
Warranty provision	25(b)	**254,601**	278,908
Deferred revenue		**678,137**	583,405
Retirement benefit obligations	35	**434,246**	413,482
Deferred income tax liabilities	19	**359,679**	230,609
Other non-current liabilities	27	**1,247,646**	333,332
		5,401,079	4,488,461
Current liabilities			
Trade payables	24(a)	**6,429,835**	6,450,792
Notes payable	24(b)	**1,272,840**	801,974
Derivative financial liabilities		**74,426**	62,694
Other payables and accruals	25(a)	**8,942,336**	9,217,764
Provisions	25(b)	**738,688**	858,475
Deferred revenue		**780,951**	732,552
Income tax payable		**298,224**	168,779
Borrowings	26	**1,953,043**	1,166,692
		20,490,343	19,459,722
Total liabilities		**25,891,422**	23,948,183
Total equity and liabilities		**29,988,485**	28,494,171

On behalf of the Board

Yang Yuanqing
Chairman and Chief Executive Officer

Ma Xuezheng
Director

Consolidated Cash Flow Statement

For the year ended March 31, 2019

	Note	2019 US$'000	2018 US$'000
Cash flows from operating activities			
Net cash generated from/(used in) operations	34	**2,115,996**	(61,991)
Interest paid		**(324,427)**	(243,584)
Tax paid		**(318,996)**	(450,718)
Net cash generated from/(used in) operating activities		**1,472,573**	(756,293)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(234,682)**	(217,849)
Purchase of prepaid lease payments		**-**	(10,908)
Sale of property, plant and equipment, prepaid lease payments and construction-in-progress		**129,683**	40,525
Interest acquired in associates and a joint venture		**(5,349)**	(2,205)
Acquisition of subsidiaries, net of cash acquired	36	**(99,298)**	–
Deemed disposal of a subsidiary, net of cash disposed		**(21,106)**	–
Net proceeds from disposal of a joint venture		**-**	160,564
Payment for construction-in-progress		**(303,045)**	(285,447)
Payment for intangible assets		**(163,094)**	(156,390)
Purchase of available-for-sale financial assets		**-**	(100,466)
Purchase of financial assets at fair value through profit or loss		**(73,836)**	–
Purchase of financial assets at fair value through other comprehensive income		**(4,739)**	–
Net proceeds from sale of financial assets at fair value through profit or loss		**33,996**	–
Net proceeds from sale of available-for-sale financial assets		**-**	165
Repayment of deferred consideration		**-**	(686,301)
Decrease in bank deposits		**14,096**	112,414
Dividends received		**230**	286
Interest received		**27,399**	32,145
Net cash used in investing activities		**(699,745)**	(1,113,467)

Consolidated Cash Flow Statement

For the year ended March 31, 2019

	Note	2019 US$'000	2018 US$'000
Cash flows from financing activities			
Net proceeds from issue of ordinary shares	11(b)	-	496,041
Capital contribution from other non-controlling interests		77,769	1,823
Contribution to employee share trusts		(157,343)	(61,211)
Issue of perpetual securities		-	149,625
Dividends paid		(404,350)	(380,750)
Dividends paid to other non-controlling interests		(4,758)	(4,937)
Distribution to perpetual securities holders		(53,760)	(53,312)
Issue of convertible bonds		675,000	–
Issuing costs of convertible bonds		(10,107)	–
Proceeds from borrowings		5,700,215	7,425,740
Repayments of borrowings		(5,700,000)	(6,724,406)
Issue of notes		-	749,119
Repayment of notes		-	(723,389)
Net cash generated from financing activities		122,666	874,343
Increase/(decrease) in cash and cash equivalents		895,494	(995,417)
Effect of foreign exchange rate changes		(80,657)	88,835
Cash and cash equivalents at the beginning of the year		1,848,017	2,754,599
Cash and cash equivalents at the end of the year	23	2,662,854	1,848,017

Consolidated Statement of Changes in Equity

For the year ended March 31, 2019

	Attributable to equity holders of the Company											
	Share capital	Investment revaluation reserve	Employee share trusts	Share-based compensation reserve	Hedging reserve	Exchange reserve	Other reserve	Retained earnings	Perpetual securities	Other non-controlling interests	Put option written on non-controlling interests	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At April 1, 2017	2,689,882	(2,965)	(111,228)	123,493	(5,328)	(1,226,618)	62,751	1,693,614	843,677	240,844	(212,900)	4,095,222
(Loss)/profit for the year	-	-	-	-	-	-	-	(189,323)	53,680	8,868	-	(126,775)
Other comprehensive income/(loss)	-	224	-	-	(11,578)	288,711	-	(19,797)	-	-	-	257,560
Total comprehensive income/(loss) for the year	-	224	-	-	(11,578)	288,711	-	(209,120)	53,680	8,868	-	130,785
Transfer to statutory reserve	-	-	-	-	-	-	15,097	(15,097)	-	-	-	-
Vesting of shares under long-term incentive program	-	-	70,737	(91,528)	-	-	-	-	-	-	-	(20,791)
Deferred tax charge in relation to long-term incentive program	-	-	-	(2,196)	-	-	-	-	-	-	-	(2,196)
Share-based compensation	-	-	-	202,088	-	-	-	-	-	-	-	202,088
Contribution to employee share trusts	-	-	(61,211)	-	-	-	-	-	-	-	-	(61,211)
Dividends paid	-	-	-	-	-	-	-	(380,750)	-	-	-	(380,750)
Issue of perpetual securities (Note 29)	-	-	-	-	-	-	-	-	149,625	-	-	149,625
Issue of ordinary shares	496,041	-	-	-	-	-	-	-	-	-	-	496,041
Issue of bonus warrants	-	-	-	-	-	-	(6,399)	-	-	-	-	(6,399)
Capital contribution from other non-controlling interests	-	-	-	-	-	-	-	-	-	1,823	-	1,823
Dividends paid to other non-controlling interests	-	-	-	-	-	-	-	-	-	(4,937)	-	(4,937)
Distribution to perpetual securities holders (Note 29)	-	-	-	-	-	-	-	-	(53,312)	-	-	(53,312)
At March 31, 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

Consolidated Statement of Changes in Equity

For the year ended March 31, 2019

	Attributable to equity holders of the Company											
	Share capital	Investment revaluation reserve	Employee share trusts	Share-based compensation reserve	Hedging reserve	Exchange reserve	Other reserve	Retained earnings	Perpetual securities	Other non-controlling interests	Put option written on non-controlling interests	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
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 for the year	-	-	-	-	-	-	-	596,343	53,760	7,101	-	657,204
Other comprehensive (loss)/income	-	(15,978)	-	-	40,146	(434,025)	-	(25,641)	-	(791)	-	(436,289)
Total comprehensive (loss)/income for the year	-	(15,978)	-	-	40,146	(434,025)	-	570,702	53,760	6,310	-	220,915
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	151,167	-	151,167
Vesting of shares under long-term incentive program	-	-	118,836	(137,317)	-	-	-	-	-	-	-	(18,481)
Deferred tax credit in relation to long-term incentive program	-	-	-	2,178	-	-	-	-	-	-	-	2,178
Deemed disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(1,371)	-	(1,371)
Share-based compensation	-	-	-	214,822	-	-	-	-	-	-	-	214,822
Termination of put option written on non-controlling interests	-	-	-	-	-	-	11,913	-	-	-	212,900	224,813
Put option written on non-controlling interests	-	-	-	-	-	-	-	-	-	-	(766,238)	(766,238)
Contribution to employee share trusts	-	-	(157,343)	-	-	-	-	-	-	-	-	(157,343)
Dividends paid	-	-	-	-	-	-	-	(404,350)	-	-	-	(404,350)
Capital contribution from other non-controlling interests	-	-	-	-	-	-	-	-	-	77,769	-	77,769
Change of ownership of subsidiaries without loss of control	-	-	-	-	-	-	2,537	-	-	(2,537)	-	-
Dividends paid to other non-controlling interests	-	-	-	-	-	-	-	-	-	(4,758)	-	(4,758)
Distribution to perpetual securities holders (Note 29)	-	-	-	-	-	-	-	-	(53,760)	-	-	(53,760)
Issue of convertible bonds	-	-	-	-	-	-	77,342	-	-	-	-	77,342
At March 31, 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

Notes to the Financial Statements

1 GENERAL INFORMATION AND BASIS OF PREPARATION

Lenovo Group Limited (the "Company") and its subsidiaries (together, the "Group") develop, manufacture and market reliable, high-quality, secure and easy-to-use technology products and services. Its product lines include legendary Think-branded commercial personal computers and Idea-branded consumer personal computers, as well as servers, workstations, and a family of mobile internet devices, including tablets and smartphones.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 23rd Floor, Lincoln House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong. The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). 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, as explained in the significant accounting policies set out below.

The preparation of the consolidated financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Changes in accounting policies and disclosures

The Group has adopted the following new standards, interpretation and amendments to an existing standard that are mandatory for the year ended March 31, 2019 which the Group considers is appropriate and relevant to its operations:

- HKFRS 9, Financial instruments

- HKFRS 15, Revenue from contracts with customers

- HK (IFRIC) – Int 22, Foreign currency transactions and advance consideration

- Amendments to HKFRS 2, Share-based payment

Except for the two new standards, the adoption of the newly effective interpretation and the amendments to an existing standard did not result in substantial changes to the Group's accounting policies or financial results. The following describes the key changes arising from the adoption of the two new standards that impact the consolidated financial statements of the Group.

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

Changes in accounting policies and disclosures *(continued)*

HKFRS 9, Financial instruments

The new standard addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVPL"). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at FVPL with the irrevocable option at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to the profit or loss in the future.

For financial liabilities there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at FVPL. The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39.

Under HKFRS 9, trade receivables of the Group are to be classified as FVOCI instruments with earlier recognition of loss expected, and the amount of any relevant impairment provision may be revised when ECL is referenced. The Group currently holds certain investments in equity instruments which are classified as FVOCI instruments. Gains or losses realized on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead will be reclassified below the line from the investments revaluation reserve to retained earnings.

The Group continues to apply HKAS 39 for hedge accounting.

Impact of adoption

The adoption of HKFRS 9 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

The total impact on the Group's retained earnings as at April 1, 2018 is as follows:

	US$'000
Closing retained earnings at March 31, 2018	**1,088,647**
Reclassify investments from available-for-sale financial assets to financial assets at FVPL	**17,376**
Bond refinancing	**(11,630)**
Opening retained earnings at April 1, 2018	**1,094,393**

Changes in accounting policies and disclosures *(continued)*

HKFRS 9, Financial instruments *(continued)*

Impact of adoption *(continued)*

(i) Classification and measurement

On April 1, 2018, the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

(a) *Reclassification from available-for-sale financial assets to financial assets at FVPL*

Certain investments were reclassified from available-for-sale financial assets to financial assets at FVPL (US$294,601,000 as at April 1, 2018). They do not meet the HKFRS 9 criteria for classification at amortized cost, because their cash flows do not represent solely payments of principal and interest. Related fair value gains of US$17,376,000 were transferred from the investment revaluation reserve to retained earnings on April 1, 2018. During the year, net fair value gains of US$125,550,000 relating to financial assets at FVPL were recognized in profit or loss.

(b) *Equity investments previously classified as available-for-sale financial assets*

The Group elected to present in other comprehensive income the changes in fair value of certain of its equity investments previously classified as available-for-sale financial assets, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of US$78,476,000 as of April 1, 2018 were reclassified from available-for-sale financial assets to financial assets at FVOCI.

(c) *Bond refinancing*

Following the adoption of HKFRS 9, the Group could no longer defer the recognition of a loss from the refinancing of a borrowing. Under the Group's previous accounting policies, this loss would have been recognized over the remaining life of the borrowing by adjusting the effective interest rate, on the basis that the terms and conditions of the facility remained largely unchanged. A related loss of US$11,630,000 was adjusted to retained earnings on April 1, 2018.

(d) *Impairment of financial assets*

The Group applies the HKFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. The Group has concluded that there is no material variance between the ECL and the allowance recorded as at April 1, 2018.

HKFRS 15, Revenue from contracts with customers

This standard replaced HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Under HKFRS 15, revenue arising from channel sales of the Group may be subject to a different timing of recognition, which may impact the amount of revenue recognized by the Group for a given period.

The Group has assessed the effects of applying the new standard on the consolidated financial statements and has not identified any significant impact to the Group.

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

Changes in accounting policies and disclosures *(continued)*

New standard, interpretation and amendments to existing standards not yet effective

The following new standard, interpretation and 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 ended March 31, 2019 and have not been early adopted:

	Effective for annual periods beginning on or after
HKFRS 16, Leases	January 1, 2019
HK (IFRIC) – Int 23, Uncertainty over income tax treatments	January 1, 2019
Amendments to HKFRS 9, Prepayment features with negative compensation	January 1, 2019
Amendments to HKAS 28, Long-term interests in associates and joint ventures	January 1, 2019
Amendments to HKAS 19, Plan amendment, curtailment or settlement	January 1, 2019
Annual improvements to HKFRS Standards 2015-2017 Cycle – various standards	January 1, 2019
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

Among the above, HKFRS 16 is of higher relevancy to the Group's operations. The following describes the key changes that may impact the consolidated financial statements of the Group.

HKFRS 16, Leases

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 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 will affect primarily the accounting for operating leases of the Group. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

At March 31, 2019, the Group had operating lease commitments of US$473 million. Upon adoption of HKFRS 16 the majority of operating lease commitments will be recognized in the consolidated balance sheet as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortized cost and the right-of-use asset will be depreciated on a straight-line basis over the lease term.

The Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Other than the impacts discussed above, the Group is in the opinion that the adoption of the other interpretation and amendments to existing standards will not result in a significant effect on its consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Principles of consolidation and equity accounting

(i) Subsidiaries

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to March 31.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to (ii)).

Intra-group transactions, balances, income and expenses on transactions are eliminated. Profits and losses resulting from intra-group transactions that are recognized in assets are also eliminated.

Adjustments have been made to the financial statements of subsidiaries when necessary to align their accounting policies to ensure consistency with the policies adopted by the Group.

For subsidiaries which adopted December 31 as their financial year end date for statutory reporting purposes, their financial statements for the years ended March 31, 2018 and 2019 have been used for the preparation of the Group's consolidated financial statements.

(ii) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Principles of consolidation and equity accounting *(continued)*

(ii) Business combinations *(continued)*

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in the consolidated income statement. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and, in a business combination achieved in stages the acquisition-date fair value of any previous equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed (Note 2(g)(i)). If it is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated income statement.

(iii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Principles of consolidation and equity accounting *(continued)*

(iii) Changes in ownership interests *(continued)*

The potential cash payments related to put options issued by the Group over the equity of a subsidiary are accounted for as financial liabilities. The amount that may become payable under the option on exercise is initially recognized at present value of redemption amount as a written put option liability with a corresponding charge directly to equity.

A written put option liability is subsequently 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 option expires unexercised, the written put option liability is derecognized with a corresponding adjustment to equity.

(iv) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized as other comprehensive income or loss in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized as other comprehensive income or loss are reclassified to the consolidated income statement.

(v) Separate financial statements

Investments in subsidiaries in the Company's balance sheet are accounted for at cost less impairment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(b) Associates and joint arrangements

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor, rather than the legal structures of the joint arrangements. The Group has assessed the nature of its joint arrangements and applied HKFRS 11 in preparing the consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Associates and joint arrangements *(continued)*

Associates and joint ventures

Interests in associates and joint ventures are accounted for using the equity method of accounting and are initially recognized at cost. The Group's interests in associates and joint ventures include goodwill identified on acquisition, net of any accumulated impairment losses.

The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income or loss is recognized as other comprehensive income or loss with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or the joint venture including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or the joint venture.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate and joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount adjacent to share of profit/(loss) of associates and joint ventures in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates or joint ventures are recognized in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates or the joint ventures. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

For associates and joint ventures which adopted December 31 as their financial year end date for statutory reporting purposes, their financial statements for the years ended March 31, 2018 and 2019 have been used for the preparation of the Group's consolidated financial statements.

Joint operation

Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. Investments in joint operations are accounted for such that each joint operator recognizes its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Lenovo Executive Committee (the "LEC") that makes strategic decisions.

(d) Translation of foreign currencies

(i) Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements of the Company and of the Group are presented in United States dollars, which is the Company's functional and the Group's presentation currency.

(ii) Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in the income statement. They are deferred in equity if they are related to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

All foreign exchange gains and losses that relate to monetary assets and liabilities denominated in foreign currency are presented in the income statement within "Other operating expenses – net".

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on financial assets and liabilities carried at fair value are as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at FVPL are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as FVOCI are recognized in other comprehensive income or loss.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Translation of foreign currencies *(continued)*

(iii) The results and financial position of all the group entities that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates of the transactions); and

- all resulting exchange differences are recognized as other comprehensive income or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized as other comprehensive income or loss and included in the exchange reserve in equity.

(iv) On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary, loss of joint control of a joint venture, or loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to the consolidated income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in the consolidated income statement. For all other partial disposals (that is, reductions in the Group's ownership interest in an associate or a joint venture that do not result in the Group losing influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated income statement.

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Freehold land and buildings comprise mainly factories and office premises. All freehold lands are located outside Hong Kong and are not depreciated. Depreciation of buildings, buildings related equipment and leasehold improvements is calculated using the straight-line method to allocate their costs to their estimated residual values over the unexpired periods of the leases or their expected useful lives to the Group ranging from 10 to 50 years whichever is shorter.

Depreciation on other property, plant and equipment is calculated using the straight-line method to allocate their costs to their estimated residual values over their estimated useful lives to the Group. The principal annual rates used for this purpose are:

Plant and machinery	
Tooling equipment	50% – 100%
Other machinery	14% – 20%
Furniture and fixtures	20% – 25%
Office equipment	20% – 33%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(h)).

Gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized within "Other operating expenses – net" in the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Construction-in-progress

Construction-in-progress represents buildings, plant and machinery and internal use software under construction and pending installation and is stated at historical cost, less any accumulated impairment losses. Historical cost comprises all direct and indirect costs of acquisition or construction or installation of buildings, plant and machinery or internal use software as well as interest expenses and exchange differences on the related funds borrowed during the construction, installation and testing periods and prior to the date when the assets were available for use. No depreciation or amortization is provided for on construction-in-progress. On completion, the carrying values of the buildings, plant and machinery or internal use software are transferred from construction-in-progress to property, plant and equipment or intangible assets.

Gain on disposal of construction-in-progress is the difference between the net sales proceeds and the carrying amount of the relevant assets, and is recognized within "Other operating expenses – net" in the consolidated income statement.

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the consideration of an acquisition transferred over the Group's interests in the fair value of the acquiree's identifiable assets acquired and liabilities assumed at the acquisition date. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in interests in associates and joint ventures.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(ii) Trademarks and trade names

Separately acquired trademarks and trade names are shown at historical cost. Trademarks and trade names acquired in a business combination are recognized at fair value at the acquisition date.

Trademarks and trade names that have an indefinite useful life are tested annually for impairment and carried at cost less accumulated impairment losses. They are considered to have an indefinite useful life as there is no foreseeable limit to the period over which they are expected to generate net cash inflows.

(iii) Customer relationships

Customer relationships acquired in a business combination are recognized at fair value at the acquisition date. Customer relationships have a definite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over their estimated useful lives of not more than 15 years.

(g) Intangible assets *(continued)*

(iv) Internal use software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Development costs that are directly attributable to the design and testing of identifiable and unique software controlled by the Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Development costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Costs associated with maintaining computer software are recognized as an expense as incurred.

Acquired computer software licenses costs and computer software development costs are amortized using the straight-line method over their estimated useful lives of not more than 8 years.

(v) Patents and technology

Expenditure on acquired patents and technology is capitalized at historical cost upon acquisition and amortized using the straight-line method over their estimated useful lives of not more than 10 years.

(vi) Exclusive right

An exclusive right acquired in a business combination is recognized at fair value at the acquisition date. An exclusive right has a definite useful life and is carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over their estimated useful lives of not more than 15 years.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to depreciation or amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Financial assets

(i) Classification

From April 1, 2018, the Group classifies its financial assets in the following measurement categories:

– those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and

– those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investments at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(i) Financial assets *(continued)*

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments
Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

– Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets, impairment losses, foreign exchange gains and losses, and gain or loss arising on derecognition are recognized directly in profit or loss.

– FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

– FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in profit or loss in the period in which it arises.

Equity instruments
The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss when the Group's right to receive payments is established. On disposal of these equity investments, any related balance within the investment revaluation reserve is reclassified to retained earnings. Changes in the fair value of financial assets at FVPL are recognized in the profit or loss as applicable.

Financial assets at FVOCI comprise equity investments which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognize in this category. These are strategic investments and the Group considers this classification to be more relevant.

Financial assets at FVPL comprise equity investments which are held for trading, and which the Group has not elected to recognize fair value gains and losses through other comprehensive income.

Details on how the fair value of financial instruments is determined are disclosed in note 3(d).

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial assets *(continued)*

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(v) Accounting policies applied until March 31, 2018

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Classification

The Group classifies its financial assets into: (i) at FVPL, (ii) loans and receivables; and (iii) available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Financial assets at FVPL

Financial assets at FVPL are financial assets held for trading, and those designated at FVPL at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges (Note 2(k)). Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables comprise trade, notes and other receivables, deposits, bank deposits and cash and cash equivalents in the balance sheet (Note 2(n) and 2(o)).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless mature or management intends to dispose of them within 12 months of the balance sheet date.

(i) Financial assets *(continued)*

(v) Accounting policies applied until March 31, 2018 *(continued)*

Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets not carried at FVPL are initially recognized at fair value plus transaction costs. Financial assets carried at FVPL are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at FVPL are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value are recognized as follows:

- for financial assets at FVPL – in profit or loss within other income or other expenses.

- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security are recognized in income statement and other changes in the carrying amount are recognized in other comprehensive income or loss.

- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income or loss.

Dividends on financial assets at FVPL and available-for-sale financial assets are recognized in profit or loss as other income when the Group's right to receive payments is established.

Interest income from financial assets at FVPL and available-for-sale financial assets is recognized in the income statement.

(j) Impairment of financial assets

From April 1, 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

Impairment losses on trade receivables are presented as net impairment losses in income statement. Subsequent recoveries of amounts previously written off are credited against the same line item.

2 **SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(j) Impairment of financial assets *(continued)*

Accounting policies applied until March 31, 2018

(i) Assets carried at amortized cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

(ii) Assets classified as available-for-sale

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Group uses the criteria referred to in (i) above. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative losses, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement, is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

(k) Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair values. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (i) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge) or (ii) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized as other comprehensive income or loss. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale or purchase that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the income statement within "Finance costs". The gain or loss relating to the ineffective portion is recognized in the income statement within "Other operating expenses – net".

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses on the hedging instrument that has been recognized as other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gains or losses on the hedging instrument that has been recognized as other comprehensive income from the period when the hedge was effective shall be reclassified from equity to the income statement immediately.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

- the amount determined in accordance with the expected credit loss model under HKFRS 9 and

- the amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the principles of HKFRS 15.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

(m) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis. The cost of finished goods (except for trading products) and work-in-progress comprises direct materials, direct labour and an attributable proportion of production overheads. For trading products, cost represents invoiced value on purchases, less purchase returns and discounts. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(n) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Majority of other receivables are amounts due from subcontractors for part components sold in the ordinary course of business. Trade receivables are recognized initially at fair value and subsequently measured at FVOCI, less loss allowance. Other receivables are recognized initially at fair value and subsequently measures at amortized cost using the effective interest method, less provision for impairment. See Note 2(i) for further information about the Group's accounting for trade receivables and Note 2(j) for a description of the Group's impairment policies.

If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

(o) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents mainly comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated balance sheet.

(p) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

(q) Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability 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. This is recognized and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(r) Trade and other payables

Trade payables are obligations to pay for part components or services that have been acquired in the ordinary course of business from suppliers. Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors. Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Provisions

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(i) Warranty provision

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

(ii) Other provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring costs provision comprises lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

(t) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

(t) Current and deferred income tax *(continued)*

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(u) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognized as a provision.

(v) Revenue

Income is classified by the Group as revenue when it arises from the sales of goods and the provision of services in the ordinary course of the Group's business.

(i) Sale of goods and provision of services

Revenue from sale of hardware, software, peripherals and mobile devices and the provision of services is recognized when control over such products or services is transferred to the customer at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value-added tax, an allowance for estimated returns, rebates and discounts.

The Group enters into different shipping terms with customers. Control of hardware, software, peripherals and mobile devices is transferred when delivery has occurred. Delivery is generally considered as occurred once the goods are shipped. For certain transactions that the Group retains control during the course of shipment, the Group defers the recognition of revenue and cost of such products until they are delivered to the designated locations. The Group's obligation to repair or replace faulty products under the standard warranty terms is recognized as a provision.

Control of systems integration service, information technology technical service and extended warranty service is transferred over time during the contract period or when services are rendered.

No element of financing is deemed present as the sales are made with a credit term of 0 – 120 days, which is consistent with market practice. A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Revenue *(continued)*

(ii) Interest income

Interest income is recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

(iii) Dividend income

Dividend income is recognized when the right to receive payment is established.

(w) Non-base manufacturing costs

Non-base manufacturing costs are costs that are periodic in nature as opposed to product specific. They are typically incurred after the physical completion of the product and include items such as outbound freight for in-country finished goods shipments, warranty costs, engineering charges, storage and warehousing costs, and contribute to bringing inventories to their present location and condition. Non-base manufacturing costs enter into the calculation of gross margin but are not inventoriable costs.

(x) Employee benefits

(i) Pension obligations

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

A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. Significant portion of the defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized as other comprehensive income or loss in the year in which they arise. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

(x) Employee benefits *(continued)*

(i) Pension obligations *(continued)*

Past service costs are recognized immediately in the income statement. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due and are reduced by employer's portion of voluntary contributions forfeited by those employees who leave the scheme prior to vesting fully. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group's contributions to local municipal government retirement schemes in connection with retirement benefit schemes in the Mainland of China ("Chinese Mainland") are expensed as incurred. The local municipal governments in the Chinese Mainland assume the retirement benefit obligations of the qualified employees.

(ii) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, the largest being in the United States. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized as other comprehensive income or loss in the period in which they arise. The obligations of these schemes in the United States are valued annually by independent qualified actuaries.

(iii) Long-term incentive program

The Group operates a long-term incentive program to recognize employees' individual and collective contributions, and includes two types of awards, namely share appreciation rights and restricted share units ("Long-term Incentive Awards"). The Company reserves the right, at its discretion, to pay the award in cash or ordinary shares of the Company. The fair value of the employee services received in exchange for the grant of the Long-term Incentive Awards is recognized as employee benefit expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the Long-term Incentive Awards granted, including any market performance conditions (for example, an entity's share price); excluding the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets); and including the impact of non-vesting conditions. Non-market performance and service conditions are included in assumptions about the number of Long-term Incentive Awards that are expected to become exercisable/vested. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Employee benefits *(continued)*

(iii) Long-term incentive program *(continued)*

At each balance sheet date, the Group revises its estimates of the number of Long-term Incentive Awards that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to share-based compensation reserve under equity.

Employee share trusts are established for the purposes of awarding shares to eligible employees under the long-term incentive program. The employee share trusts are administered by independent trustees and are funded by the Group's cash contributions and recorded as contributions to employee share trusts, an equity component. The administrator of the employee share trusts buys the Company's shares in the open market for award to employees upon vesting.

Upon vesting, the corresponding amounts in the share-based compensation reserve will be transferred to share capital for new allotment of shares to employees, or to the employee share trusts for shares awarded to employees by the employee share trusts.

(iv) Termination benefit

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(v) Share options

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

(y) Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized as "Other operating expenses – net" in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in other non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

(z) Operating leases (as the lessee)

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

Interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated balance sheet and is amortized over the lease terms on a straight line basis, ranging from 10 to 50 years for the Group.

(aa) Related party transactions

A related party transaction is a transfer of resources, services or obligations between the Group and a related party of the Group, regardless of whether a price is charged.

(i) A person, or a close member of that person's family, is related to the Group if that person:

- has control or joint control over the Group;
- has significant influence over the Group; or
- is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

- The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third party.
- The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- The entity is controlled or jointly controlled by a person identified in (i) above.
- A person, or a close member of that person's family, who has control or joint control over the Group, has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(ab) Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders in case of final dividend and by the Company's directors in case of interim dividend.

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, such as market risk (including foreign currency risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. Financial risk management is carried out by the centralized treasury department ("Group Treasury").

(a) Financial risk factors

(i) Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to United States dollar, Renminbi and Euro. Foreign currency risk arises from future commercial transactions, recognized assets and liabilities and net investment in foreign operations denominated in a currency that is not the group companies' functional currency.

Management has set up a policy to require group companies to manage their foreign currency risk against their functional currency. The Group's forward foreign currency contracts are either used to hedge a percentage of anticipated cash flows (mainly export sales and purchase of inventories) which are highly probable, or used as fair value hedges for the identified assets and liabilities.

For segment reporting purposes, external hedge contracts on assets, liabilities or future transactions are designated to each operating segment, as appropriate.

The following tables detail the Group's exposure at the balance sheet date to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate, except for the currency risk between United States dollar and Hong Kong dollar given the two currencies are under the linked exchange rate system. For presentation purposes, the amounts of the exposure are shown in United States dollar, translated using the spot rate at the balance sheet date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(i) *Foreign currency risk* *(continued)*

	2019			2018		
	United States dollar US$'000	**Renminbi US$'000**	**Euro US$'000**	United States dollar US$'000	Renminbi US$'000	Euro US$'000
Trade and other receivables	**271,290**	**12,181**	**11,172**	182,738	44,530	14,803
Bank deposits and cash and cash equivalents	**35,292**	**16,078**	**36,519**	24,478	9,132	20,554
Trade and other payables	**(352,175)**	**(67,591)**	**(12,420)**	(320,730)	(24,341)	(18,422)
Borrowings	**-**	**(594,747)**	**-**	–	(635,015)	–
Intercompany balances before elimination	**(3,506,479)**	**899,134**	**(413,895)**	(2,716,689)	1,136,490	(318,945)
Gross exposure	**(3,552,072)**	**265,055**	**(378,624)**	(2,830,203)	530,796	(302,010)
Notional amounts of forward exchange contracts used as economic hedges	**3,524,724**	**-**	**329,219**	3,118,896	–	269,936
Net exposure	**(27,348)**	**265,055**	**(49,405)**	288,693	530,796	(32,074)

3 **FINANCIAL RISK MANAGEMENT** *(continued)*

(a) Financial risk factors *(continued)*

(ii) Cash flow interest rate risk

The Group's interest rate risk mainly arises from short-term and long-term borrowings denominated in United States dollar. It is the Group's policy to mitigate interest rate risk through the use of appropriate interest rate hedging instruments. Generally, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

The Group operates various customer financing programs. The Group is exposed to fluctuation of interest rates of all the currencies covered by those programs.

(iii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers and subcontractors, including outstanding receivables and committed transactions.

For banks and other financial institutions, the Group controls its credit risk through monitoring their credit rating and setting approved counterparty credit limits that are regularly reviewed.

The Group has no significant concentration of customer credit risk. The Group has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

No credit limits were exceeded by any customers during the reporting period, and management does not expect any significant losses from non-performance by these counterparties.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iii) Credit risk *(continued)*

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on the days past due. The gross carrying amount of the trade receivables and the loss allowance provision determined under the new accounting policies from April 1, 2018 analyzed by aging band are set out below:

March 31, 2019	**Gross carrying amount US$'000**	**Loss allowance US$'000**	**Expected credit loss rate**
Not past due	**5,774,882**	**(172)**	**0%**
Past due less than 31 days	**513,051**	**(80)**	**0%**
Past due within 31 to 60 days	**125,345**	**(1)**	**0%**
Past due within 61 to 90 days	**59,705**	**(191)**	**0%**
Past due over 90 days	**288,843**	**(99,898)**	**35%**
	6,761,826	**(100,342)**	

April 1, 2018	Gross carrying amount US$'000	Loss allowance US$'000	Expected credit loss rate
Not past due	4,110,780	(78)	0%
Past due less than 31 days	444,645	(268)	0%
Past due within 31 to 60 days	140,562	(4,189)	3%
Past due within 61 to 90 days	74,125	(6,719)	9%
Past due over 90 days	311,226	(97,362)	31%
	5,081,338	(108,616)	

(iv) Liquidity risk

Cash flow forecasting at least for next 12 months of the Group is performed by Group Treasury. It monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational, financing and investing needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 26) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, net current liabilities position, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements, for example, currency restrictions.

Surplus cash held by the operating entities over and above balances required for working capital management are transferred to Group Treasury. Group Treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts, At the balance sheet date, the Group held money market funds of US$583,924,000 (2018: US$8,393,000) (Note 23).

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) **Financial risk factors** *(continued)*

(iv) Liquidity risk *(continued)*

The tables below analyze the Group's non-derivative financial liabilities and derivative financial liabilities into relevant maturity groupings based on the remaining periods at the balance sheet date to the contractual maturity dates. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the tables are the contractual undiscounted cash outflows/(inflows).

	Repayable on demand or 3 months or less US$'000	Over 3 months to 1 year US$'000	Over 1 to 3 years US$'000	Over 3 to 5 years US$'000	Total US$'000
At March 31, 2018					
Borrowings	1,138,704	159,243	1,599,043	1,340,625	4,237,615
Trade, notes and other payables and accruals	14,225,510	385,920	–	–	14,611,430
Deferred consideration	–	–	25,072	–	25,072
Written put option liability	224,813	–	–	–	224,813
Others	–	–	106,906	53,409	160,315
Derivatives settled in net:					
Forward foreign exchange contracts	4,844	–	–	–	4,844
Derivatives settled in gross:					
Forward foreign exchange contracts					
– outflow	5,952,722	909,683	–	–	6,862,405
– inflow	(5,930,706)	(903,571)	–	–	(6,834,277)
At March 31, 2019					
Borrowings	**1,950,291**	**151,061**	**1,263,286**	**1,506,166**	**4,870,804**
Trade, notes and other payables and accruals	**14,308,820**	**685,965**	**-**	**-**	**14,994,785**
Deferred consideration	**-**	**-**	**25,072**	**-**	**25,072**
Contingent consideration	**-**	**-**	**115,093**	**-**	**115,093**
Written put option liabilities	**-**	**-**	**330,269**	**542,127**	**872,396**
Others	**-**	**-**	**63,924**	**127,179**	**191,103**
Derivatives settled in net:					
Forward foreign exchange contracts	**7,860**	**1,996**	**-**	**-**	**9,856**
Derivatives settled in gross:					
Forward foreign exchange contracts					
– outflow	**5,740,706**	**1,958,660**	**-**	**-**	**7,699,366**
– inflow	**(5,760,493)**	**(1,968,788)**	**-**	**-**	**(7,729,281)**

3 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Market risk sensitivity analysis

HKFRS 7 "Financial instruments: Disclosures" requires the disclosure of a sensitivity analysis for market risks that show the effects of a hypothetical change in the relevant market risk variable to which the Group is exposed to at the balance sheet date on profit or loss and total equity.

The sensitivity analysis for each type of market risks does not reflect inter-dependencies between risk variables. The sensitivity analysis assumes that a hypothetical change of the relevant risk variable had occurred at the balance sheet date and had been applied to the relevant risk variable in existence on that date. The bases and assumptions adopted in the preparation of the analyses will by definition, seldom equal to the related actual results.

The disclosure of the sensitivity analysis on market risks is solely for compliance with HKFRS 7 disclosure requirements in respect of financial instruments, and are for illustration purposes only; and it should be noted that the hypothetical amounts so generated do not represent a projection of likely future events and profits or losses of the Group.

(i) Foreign currency exchange rate sensitivity analysis

At March 31, 2019, if United States dollar had weakened/strengthened by one percent against the major currencies with all other variables held constant, pre-tax profit for the year would have been US$2.4 million higher/lower (2018: pre-tax profit for the year would have been US$2.1 million higher/lower), mainly as a result of foreign exchange gains/losses on translation of unhedged portion of receivable and payable balances.

The analysis above is based on the assumption that United States dollar weakened or strengthened against all other currencies in the same direction and magnitude, but it may not be necessarily true in reality.

(ii) Interest rate sensitivity analysis

At March 31, 2019, if interest rate on borrowings had been 25 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been US$5.9 million lower/higher (2018: pre-tax profit for the year would have been US$3.6 million lower/higher).

At March 31, 2019, if interest rates on customer financing programs had been 25 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been US$7.1 million lower/higher (2018: pre-tax profit for the year would have been US$6.0 million lower/higher). This analysis is based on the assumption that the interest rates of all the currencies covered by the customer financing programs go up and down at the same time and with the same magnitude; however, such assumptions may not be necessarily true in reality.

(c) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Capital risk management *(continued)*

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as total borrowings (including current and non-current borrowings) divided by total equity. The Group's strategy remains unchanged and the gearing ratios and net debt position of the Group as at March 31, 2019 and 2018 are as follows:

	2019 US$ million	2018 US$ million
Bank deposits and cash and cash equivalents	**2,733**	1,932
Less: total borrowings	**(4,380)**	(3,815)
Net debt position	**(1,647)**	(1,883)
Total equity	**4,097**	4,546
Gearing ratio	**1.07**	0.84

(d) Fair value estimation

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Fair value estimation *(continued)*

The following table presents the assets and liabilities that are measured at fair value at March 31, 2019 and 2018.

	2019				2018			
	Level 1 US$'000	**Level 2 US$'000**	**Level 3 US$'000**	**Total US$'000**	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets								
Available-for-sale financial assets								
Listed equity investments	-	-	-	-	29,563	–	–	29,563
Unlisted equity investments	-	-	-	-	–	–	343,514	343,514
Financial assets at FVPL								
Listed equity investments	196,225	-	-	196,225	–	–	–	–
Unlisted equity investments	-	-	253,138	253,138	–	–	–	–
Financial assets at FVOCI								
Listed equity investments	30,858	-	-	30,858	–	–	–	–
Unlisted equity investments	-	-	40,628	40,628	–	–	–	–
Trade receivables	-	6,661,484	-	6,661,484	–	–	–	–
Derivative financial assets	-	70,972	-	70,972	–	24,890	–	24,890
	227,083	6,732,456	293,766	7,253,305	29,563	24,890	343,514	397,967
Liabilities								
Derivative financial liabilities	-	74,426	-	74,426	–	62,694	–	62,694
Contingent consideration	-	-	113,283	113,283	–	–	–	–
	-	74,426	113,283	187,709	–	62,694	–	62,694

3 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Fair value estimation *(continued)*

During the year ended March 31, 2019, there was a transfer of US$145,866,000 relating to financial assets at FVPL from Level 3 to Level 1 as those financial assets became listed in active markets. There were no significant transfers of financial assets among Levels 1, 2 and 3 fair value hierarchy classification during the year ended March 31, 2018.

The movements in the financial assets and liabilities included in Level 3 fair value hierarchy for the years ended March 31, 2019 and 2018 are as follows:

Equity securities

	2019	
	Financial assets at FVPL US$'000	**Financial assets at FVOCI US$'000**
At the beginning of the year	**–**	**–**
Change in accounting policy	**294,601**	**48,913**
Exchange adjustment	**(7,770)**	**(1,852)**
Fair value change recognized in other comprehensive income	**–**	**(11,172)**
Fair value change recognized in profit or loss	**87,497**	**–**
Transfer to Level 1	**(145,866)**	**–**
Additions	**58,672**	**4,739**
Disposals	**(33,996)**	**–**
At the end of the year	**253,138**	**40,628**

Available-for-sale financial assets

	2018 US$'000
At the beginning of the year	231,755
Exchange adjustment	15,172
Fair value change recognized in other comprehensive income	(2,828)
Additions	100,466
Transfer to investment in a joint venture	(901)
Disposals	(150)
At the end of the year	343,514

3 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Fair value estimation *(continued)*

Contingent consideration

	2019 US$'000
At the beginning of the year	-
Exchange adjustment	461
Additions	111,047
Recognized in profit or loss	1,775
At the end of the year	113,283
Total losses for the year included in profit or loss under "finance costs"	1,775

No sensitivity analysis for unlisted equity investments is presented as a reasonably possible change in key assumptions used in the sensitivity analysis would not result in any significant potential financial impact. Sensitivity analysis in respect of contingent consideration is disclosed in Note 27.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements often requires the use of judgment to select specific accounting methods and policies from several acceptable alternatives. Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following are the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the financial statements:

(a) Impairment of non-financial assets

The Group tests at least annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amounts of an asset or a cash-generating unit have been determined based on value-in-use calculations. These calculations require the use of estimates.

The value-in-use calculations primarily use cash flow projections based on financial budgets, in general covered five years, were approved by management and estimated terminal values at the end of the five-year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues and operating margin, growth rates and selection of discount rates, to reflect the risks involved and the earnings multiple that can be realized for the estimated terminal value.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(a) Impairment of non-financial assets *(continued)*

Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The tax liabilities recognized are based on management's assessment of the likely outcome.

The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements.

Deferred income tax assets are mainly recognized for temporary differences such as warranty provision, accrued sales rebates, bonus accruals, and other accrued expenses, and unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which deductible temporary differences and the unused tax losses can be utilized, based on all available evidence. Recognition primarily involves judgment regarding the future financial performance of the particular legal entity or tax group in which the deferred income tax asset has been recognized. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred income tax assets will ultimately be realized, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilized. The carrying amount of deferred income tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilization periods to allow utilization of the carry forward tax losses, the asset balance will be reduced and the difference charged to the income statement.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Warranty provision

Warranty provision is based on the estimated cost of product warranties when revenue is recognized. Factors that affect the Group's warranty liability include the number of sold units currently under warranty, historical and anticipated rates of warranty claims on those units, and cost per claim to satisfy our warranty obligation. The estimation basis is reviewed on an on-going basis and revised where appropriate. Certain of these costs are reimbursable from the suppliers in accordance with the terms of relevant arrangements with the suppliers. These amounts are recognized as a separate asset, to the extent of the amount of the provision made, when it is virtually certain that reimbursement will be received if the Group settles the obligation.

(d) Revenue recognition

Application of various accounting principles related to the measurement and recognition of revenue requires the Group to make judgments and estimates. Specifically, complex arrangements with non-standard terms and conditions may require significant contract interpretation to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate performance obligations. Other significant judgments include determining whether the Group or a reseller is acting as the principal in a transaction and whether separate contracts are considered part of one arrangement.

The Group sells products to channels. Sales through channels are primarily made under agreements allowing for volume discounts, price protection and rebates, and marketing development funds. The Group monitors the channel inventory level with reference to historical data. Revenue recognition is also impacted by the Group's ability to estimate volume discounts, price protection and rebates, marketing development funds. The Group considers various factors, including a review of specific transactions, historical experience, market and economic conditions and channel inventory level when calculating these provisions and allowances. Revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

Revenue from sales of goods is recognized when the control of the goods is transferred to customer, which are generally occurred upon shipment. For certain transactions that the Group retains control during the course of shipment, the Group defers the recognition of revenue and cost of such products until they are delivered to the designated locations.

(e) Retirement benefits

Pension and other post-retirement benefit costs and obligations are dependent on various assumptions. The Group's major assumptions primarily relate to discount rate, expected return on assets, and salary growth. In determining the discount rate, the Group references market yields at the balance sheet date on high quality corporate bonds. The currency and term of the bonds are consistent with the currency and estimated term of the benefit obligations being valued. The expected return on plan assets is based on market expectations for returns over the life of the related assets and obligations. The salary growth assumptions reflect the Group's long-term actual experience and future and near-term outlook. Actual results that differ from the assumptions are generally recognized in the year they occur.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(f) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analyses for various available-for-sale financial assets that are not traded in active markets.

(g) Fair value of identifiable assets and liabilities acquired through business combinations

The Group applies the acquisition method to account for business combinations, which requires the Group to record assets acquired and liabilities assumed at their fair values on the date of acquisition. Significant judgment is used to estimate the fair values of the assets and liabilities acquired, including estimating future cash flows from the acquired business, determining appropriate discount rates, asset lives and other assumptions.

5 SEGMENT INFORMATION

The Group has formed the Intelligent Devices Group ("IDG"), combining PC and Smart Device Business Group ("PCSD") and Mobile Business Group ("MBG") together. The new business group structure, namely IDG and Data Center Group ("DCG"), replaces the Group's original segment by geography and is designed to align the Group more closely with its strategic direction and market dynamics to better serve customers.

The Group has adopted the new business group structure as the reporting format effective for the year ended March 31, 2019 and the comparative segment information has been reclassified to conform to 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.

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.

5 SEGMENT INFORMATION *(continued)*

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

	2019		2018	
	Revenue from external customers US$'000	**Pre-tax income/(loss) US$'000**	Revenue from external customers US$'000	Pre-tax income/(loss) US$'000
IDG	**45,013,362**	**1,842,840**	40,955,583	880,406
DCG	**6,024,581**	**(230,600)**	4,394,360	(424,866)
Segment total	**51,037,943**	**1,612,240**	45,349,943	455,540
Unallocated:				
Headquarters and corporate (expenses)/income – net		**(640,312)**		(204,540)
Depreciation and amortization		**(136,263)**		(100,654)
Finance income		**4,121**		5,349
Finance costs		**(142,496)**		(65,236)
Share of losses of associates and joint ventures		**(11,525)**		(2,506)
(Loss)/gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress		**(1,651)**		62,750
Fair value gain on financial assets at FVPL		**125,550**		–
Dilution gain on interest in associates and a joint venture		**24,189**		2,499
Gain on deemed disposal of a subsidiary		**22,811**		–
Consolidated profit before taxation		**856,664**		153,202

Notes to the Financial Statements

5 **SEGMENT INFORMATION** *(continued)*

(b) Segment assets for reportable segments

	2019 US$'000	2018 US$'000
IDG	**19,797,625**	18,955,347
DCG	**4,094,194**	4,729,617
Segment assets for reportable segments	**23,891,819**	23,684,964
Unallocated:		
Deferred income tax assets	**1,862,902**	1,530,623
Financial assets at FVPL	**449,363**	–
Financial assets at FVOCI	**71,486**	–
Derivative financial assets	**70,972**	24,890
Available-for-sale financial assets	**-**	373,077
Interests in associates and joint ventures	**79,061**	35,666
Bank deposits and cash and cash equivalents	**2,733,064**	1,932,323
Unallocated deposits, prepayments and other receivables	**166,874**	242,899
Income tax recoverable	**185,643**	227,203
Other unallocated assets	**477,301**	442,526
Total assets per consolidated balance sheet	**29,988,485**	28,494,171

5 SEGMENT INFORMATION *(continued)*

(c) Segment liabilities for reportable segments

	2019 US$'000	2018 US$'000
IDG	**19,045,230**	17,287,630
DCG	**1,456,268**	1,809,529
Segment liabilities for reportable segments	**20,501,498**	19,097,159
Unallocated:		
Deferred income tax liabilities	**359,679**	230,609
Derivative financial liabilities	**74,426**	62,694
Borrowings	**4,379,813**	3,815,417
Unallocated other payables and accruals	**246,467**	538,972
Unallocated provisions	**1,336**	1,399
Unallocated other non-current liabilities	**29,979**	33,154
Income tax payable	**298,224**	168,779
Total liabilities per consolidated balance sheet	**25,891,422**	23,948,183

(d) Analysis of revenue by geography

	2019 US$'000	2018 US$'000
China	**12,357,527**	11,525,321
AP	**9,764,456**	7,156,293
EMEA	**12,502,510**	12,481,897
AG	**16,413,450**	14,186,432
	51,037,943	45,349,943

(e) Analysis of revenue by timing of revenue recognition

	2019 US$'000	2018 US$'000
Point in time	**50,052,707**	44,408,850
Over time	**985,236**	941,093
	51,037,943	45,349,943

5 SEGMENT INFORMATION *(continued)*

(f) Revenue recognized in relation to deferred revenue and receipt in advance

Deferred revenue and receipt in advance (included in "other payables and accruals") amounting to US$1,675 million (2018: US$1,687 million) primarily relate to the Group's unfulfilled performance obligations for which consideration has been received at the reporting date. Revenue is recognized in the period when the performance obligations are fulfilled. US$1,103 million was recognized as revenue during the year that was included in such balance at the beginning of the year.

(g) Transaction price allocated to the remaining performance obligations

The following table includes revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially unsatisfied at the reporting date.

	2019 US$'000
Within one year	**996,611**
More than one year	**678,137**
	1,674,748

(h) Other segment information

	IDG		**DCG**		**Total**	
	2019 US$'000	2018 US$'000	**2019 US$'000**	2018 US$'000	**2019 US$'000**	2018 US$'000
Depreciation and amortization	**452,511**	422,590	**209,846**	215,278	**662,357**	637,868
Finance income	**23,058**	26,791	**220**	5	**23,278**	26,796
Finance costs	**174,245**	183,655	**20,286**	14,269	**194,531**	197,924
Additions to non-current assets (Note)	**976,339**	587,710	**102,449**	82,883	**1,078,788**	670,593

Note: Excluding other non-current assets and including non-current assets acquired through acquisition of subsidiaries (Note 36).

The total of non-current assets other than financial instruments, deferred income tax assets and post-employment benefit assets (there are no rights arising under insurance contracts) located in China and other countries is approximately US$4,357,099,000 (2018: US$4,245,626,000) and US$6,361,432,000 (2018: US$6,681,527,000) respectively.

6 OPERATING PROFIT

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

	2019 US$'000	2018 US$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**291,760**	259,121
Amortization of intangible assets	**506,860**	479,401
Employee benefit costs (Note 9) (a)	**4,006,967**	3,663,301
Cost of inventories sold	**41,580,106**	36,970,355
Inventories write down	**-**	60,534
Auditor's remuneration		
– Audit services (b)	**10,383**	9,252
– Non-audit services	**4,701**	3,856
Rental expenses under operating leases	**131,918**	147,133
Government grants (Note 27(c))	**(69,391)**	(161,820)
Net foreign exchange loss	**111,529**	55,735
Net (gain)/loss on foreign exchange forward contracts for cash flow hedges reclassified from equity	**(244,396)**	222,073
Impairment of property, plant and equipment	**-**	4,608
Loss/(gain) on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**4,970**	(50,937)
Fair value gain on financial assets at FVPL	**(125,550)**	–
Dilution gain on interest in associates and a joint venture	**(24,189)**	(2,499)
Gain on deemed disposal of a subsidiary	**(22,811)**	–
Ineffectiveness on cash flow hedges	**(18,394)**	(7,807)

(a) During the year ended March 31, 2018, the Group announced resource actions to further enhance efficiency and competitiveness in view of industrial challenges. Severance costs of approximately US$101 million were recognized in "other operating expenses – net".

(b) Of the above audit services fees, US$9,211,000 (2018: US$8,421,000) is payable to the Company's auditor.

7 FINANCE INCOME AND COSTS

(a) Finance income

	2019 US$'000	2018 US$'000
Interest on bank deposits	**21,927**	27,672
Interest on money market funds	**5,472**	4,473
	27,399	32,145

(b) Finance costs

	2019 US$'000	2018 US$'000
Interest on bank loans and overdrafts	**92,103**	44,376
Interest on convertible bonds	**7,109**	–
Interest on notes	**123,428**	130,229
Interest on promissory note	**–**	11,589
Factoring costs	**96,730**	71,897
Commitment fee	**868**	779
Interest on contingent consideration and written put option liabilities	**14,758**	1,110
Others	**2,031**	3,180
	337,027	263,160

8 TAXATION

The amount of taxation in the consolidated income statement represents:

	2019 US$'000	2018 US$'000
Current tax		
– Hong Kong profits tax	**37,162**	16,997
– Taxation outside Hong Kong	**432,094**	332,795
Deferred tax (Note 19)		
– Credit for the year	**(269,796)**	(469,815)
– Effect of change in tax rate	**–**	400,000
	199,460	279,977

8 TAXATION *(continued)*

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the year. 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.

Pursuant to the Tax Cuts and Jobs Act enacted by the government of the United States ("US") on December 22, 2017, the US corporate tax rate is reduced for tax years beginning after December 31, 2017. This rate change led to a write-off of US deferred income tax assets of approximately US$400 million for the year ended March 31, 2018.

The Group has been granted certain tax concessions by tax authorities in the Chinese Mainland and overseas whereby the subsidiaries operating in the respective jurisdictions are entitled to tax concessions.

The differences between the Group's expected tax charge, calculated at the domestic rates applicable to the countries concerned, and the Group's tax charge for the year are as follows:

	2019 US$'000	2018 US$'000
Profit before taxation	**856,664**	153,202
Tax calculated at domestic rates applicable in countries concerned	**283,106**	45,038
Income not subject to taxation	**(386,175)**	(282,563)
Expenses not deductible for taxation purposes	**237,604**	141,540
Recognition/utilization of previously unrecognized temporary differences/tax losses	**(914)**	(58,020)
Effect on deferred income tax assets due to change in tax rates	**–**	400,000
Deferred income tax assets not recognized	**61,930**	20,023
Under-provision in prior years	**3,909**	13,959
	199,460	279,977

The weighted average applicable tax rate for the year was 33.0% (2018: 29.4%). The increase is caused by changes in tax concessions and profitability of the Group's subsidiaries in respective countries they are operating.

8 **TAXATION** *(continued)*

The tax credit/(charge) relating to components of other comprehensive income is as follows:

	2019			2018		
	Before tax US$'000	**Tax credit US$'000**	**After tax US$'000**	Before tax US$'000	Tax charge US$'000	After tax US$'000
Fair value change on available-for-sale financial assets	**-**	**-**	**-**	224	–	224
Fair value change on financial assets at FVOCI	**(16,304)**	**326**	**(15,978)**	–	–	–
Fair value change on cash flow hedges	**39,480**	**666**	**40,146**	(11,538)	(40)	(11,578)
Remeasurements of post-employment benefit obligations (Note 35)	**(25,641)**	**-**	**(25,641)**	(19,797)	–	(19,797)
Currency translation differences	**(434,816)**	**-**	**(434,816)**	288,711	–	288,711
Other comprehensive (loss)/income	**(437,281)**	**992**	**(436,289)**	257,600	(40)	257,560
Deferred tax (Note 19)		**992**			(40)	

9 EMPLOYEE BENEFIT COSTS

	2019 US$'000	2018 US$'000
Wages and salaries (2018: including severance and related costs of US$100,775,000)	**3,057,257**	2,778,153
Social security costs	**241,280**	247,117
Long-term incentive awards granted (Note 28)	**214,822**	199,779
Pension costs		
– Defined contribution plans	**192,184**	182,721
– Defined benefit plans (Note 35)	**23,302**	16,439
Others	**278,122**	239,092
	4,006,967	3,663,301

The Group contributes to respective local municipal government retirement schemes which are available to all qualified employees in the Chinese Mainland. Contributions to these schemes are calculated with reference to the monthly average salaries as set out by the local municipal government.

The Group participates in various defined contribution schemes, either voluntary or mandatory, for all qualified employees. The assets of those defined contribution schemes are held separately from those of the Group in independently administered funds.

The Group also contributes to certain defined benefit pension schemes, details of which are set out in Note 35.

10 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) Directors' and senior management's emoluments

Directors' emoluments comprise payments by the Group to directors of the Company in connection with the management of the affairs of the Company and its subsidiaries. The remuneration of each director and the chief executive who is also a director, for the years ended March 31, 2019 and 2018 is set out below:

	2019							
Name of Director	Fees US$'000	Salaries US$'000	Discretionary bonuses (note i) US$'000	Long-term incentive awards (note ii) US$'000	Retirement payments and employer's contribution to pension schemes US$'000	Housing allowance US$'000	Other benefits in-kind US$'000	Total US$'000
Executive director								
Mr. Yang Yuanqing (CEO)	-	1,314	1,478	11,833	140	-	606	15,371
Non-executive directors								
Mr. Zhu Linan	93	-	-	208	-	-	-	301
Mr. Zhao John Huan	93	-	-	208	-	-	-	301
Independent non-executive directors								
Dr. Tian Suning	93	-	-	208	-	-	-	301
Mr. Nicholas C. Allen	121	-	-	208	-	-	-	329
Mr. Nobuyuki Idei	93	-	-	208	-	-	-	301
Mr. William O. Grabe	128	-	-	208	-	-	-	336
Mr. William Tudor Brown	93	-	-	208	-	-	-	301
Ms. Ma Xuezheng	113	-	-	208	-	-	-	321
Mr. Yang Chih-Yuan Jerry	93	-	-	210	-	-	-	303
Mr. Gordon Robert Halyburton Orr	93	-	-	207	-	-	-	300
Professor Shoucheng Zhang	11	-	-	454	-	-	-	465
Mr. Woo Chin Wan Raymond	10	-	-	-	-	-	-	10
	1,034	1,314	1,478	14,368	140	-	606	18,940

10 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

	2018							
Name of Director	Fees US$'000	Salaries US$'000	Discretionary bonuses (note i) US$'000	Long-term incentive awards (note ii) US$'000	Retirement payments and employer's contribution to pension schemes US$'000	Housing allowance US$'000	Other benefits in-kind US$'000	Total US$'000
Executive director								
Mr. Yang Yuanqing (CEO)	-	1,404	1,213	15,286	149	-	700	18,752
Non-executive directors								
Mr. Zhu Linan	93	-	-	196	-	-	-	289
Mr. Zhao John Huan	93	-	-	196	-	-	-	289
Independent non-executive directors								
Dr. Tian Suning	93	-	-	196	-	-	-	289
Mr. Nicholas C. Allen	120	-	-	196	-	-	-	316
Mr. Nobuyuki Idei	93	-	-	196	-	-	-	289
Mr. William O. Grabe	128	-	-	196	-	-	-	324
Mr. William Tudor Brown	93	-	-	196	-	-	-	289
Ms. Ma Xuezheng	113	-	-	196	-	-	-	309
Mr. Yang Chih-Yuan Jerry	93	-	-	198	-	-	-	291
Mr. Gordon Robert Halyburton Orr	93	-	-	174	-	-	-	267
	1,012	1,404	1,213	17,226	149	-	700	21,704

Notes:

(i) Discretionary bonuses paid for the two years ended March 31, 2019 and 2018 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2018 and 2017 respectively.

(ii) Details of the long-term incentive program of the Company are set out in Note 28. The fair value of the employee services received in exchange for the grant of the long-term incentive awards is recognized as an expense. The total amount to be amortized over the vesting period is determined by reference to the fair value of the long-term incentive awards at the date of grant. The amounts disclosed above represent the amortized amounts for the two years ended March 31, 2019 and 2018.

(iii) Mr. William O. Grabe has elected to defer his receipt of the cash of director's fee into fully vested share units under the long-term incentive program (Note 28) for the two years ended March 31, 2019 and 2018.

(iv) During the years ended March 31, 2019 and 2018, annual pension payment of US$1.5 million was made to Mr. Liu Chuanzhi, a retired director.

(v) Professor Shoucheng Zhang was appointed as an independent non-executive director on August 17, 2018. Professor Zhang passed away on December 1, 2018 and ceased to be a director of the Company from the same day. Mr. Woo Chin Wan Raymond was appointed as an independent non-executive director on February 22, 2019.

10 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

During the year, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor any are payable (2018: nil). No consideration was provided to or receivable by third parties for making available directors' service (2018: nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled body corporate and connected entities (2018: nil).

No director of the Company had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the year or at any time during the year (2018: nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2018: one) director whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2018: four) individuals during the year are as follows:

	2019 **US$'000**	2018 US$'000
Basic salaries, allowances, and other benefits-in-kind	**4,276**	5,349
Discretionary bonuses (note i)	**6,502**	4,987
Retirement payments and employer's contribution to pension schemes	**2,292**	2,062
Long-term incentive awards	**20,205**	18,375
Compensation for loss of office	**–**	6,680
Others	**962**	623
	34,237	38,076

Note:

(i) Discretionary bonuses paid for the two years ended March 31, 2019 and 2018 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2018 and 2017 respectively.

10 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(continued)*

(b) Five highest paid individuals *(continued)*

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018
Emolument bands		
US$5,164,482 – US$5,228,240	**–**	1
US$5,419,518 – US$5,483,276	**1**	–
US$5,993,349 – US$6,057,107	**1**	–
US$7,077,253 – US$7,141,011	**–**	1
US$8,862,506 – US$8,926,264	**1**	–
US$11,221,590 – US$11,285,348	**–**	1
US$13,835,710 – US$13,899,468	**1**	–
US$14,473,301 – US$14,537,059	**–**	1

11 EARNINGS/(LOSS) PER SHARE

(a) Basic

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

	2019	2018
Weighted average number of ordinary shares in issue	**12,014,791,614**	11,441,318,678
Adjustment for shares held by employee share trusts	**(121,750,794)**	(130,726,638)
Weighted average number of ordinary shares in issue for calculation of basic earnings/(loss) per share	**11,893,040,820**	11,310,592,040

	2019 US$'000	2018 US$'000
Profit/(loss) attributable to equity holders of the Company	**596,343**	(189,323)

11 EARNINGS/(LOSS) PER SHARE *(continued)*

(b) Diluted

Diluted earnings/(loss) 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 categories (2018: two categories) of dilutive potential ordinary shares, namely long-term incentive awards, bonus warrants and convertible bonds (2018: long-term incentive awards and bonus warrants). Long-term incentive awards were dilutive for the year ended March 31, 2019 and anti-dilutive for the year ended March 31, 2018. Bonus warrants were anti-dilutive for the years ended March 31, 2019 and 2018. Convertible bonds were anti-dilutive for the year ended March 31, 2019.

	2019	2018
Weighted average number of ordinary shares in issue for calculation of basic earnings/(loss) per share	**11,893,040,820**	11,310,592,040
Adjustments for long-term incentive awards	**136,193,366**	–
Weighted average number of ordinary shares in issue for calculation of diluted earnings/(loss) per share	**12,029,234,186**	11,310,592,040

	2019 US$'000	2018 US$'000
Profit/(loss) attributable to equity holders of the Company used to determine diluted earnings/(loss) per share	**596,343**	(189,323)

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

11 EARNINGS/(LOSS) PER SHARE *(continued)*

(b) Diluted *(continued)*

The subscription and issuance of bonus warrants increase the total number of shares in issue of the Company ("the Company's shares"). Shares from the subscription represent (i) approximately 8.16% of the Company's shares and (ii) approximately 7.54% of the Company's shares as enlarged by the subscription. The exercise in full of the subscription rights attaching to the bonus warrants will result in the issue of 90,613,689 shares which represent (i) approximately 0.75% of the Company's shares as enlarged by the subscription and (ii) approximately 0.75% of the Company's shares as enlarged by the subscription and the full exercise of the bonus warrants (assuming there will be no other changes in the Company's shares). As at March 31, 2019, all of bonus warrants remains outstanding.

The calculation of the diluted earnings/(loss) per share amount is based on the profit/(loss) 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 year, as used in the basic earnings/(loss) 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.

12 DIVIDENDS

	2019 **US$'000**	2018 US$'000
Interim dividend of HK6.0 cents (2018: HK6.0 cents) per ordinary share, paid on November 30, 2018	**92,071**	85,434
Proposed final dividend – HK21.8 cents (2018: HK20.5 cents) per ordinary share	**333,693**	313,850
	425,764	399,284

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture and fixtures US$'000	Office equipment US$'000	Motor vehicles US$'000	Total US$'000
At April 1, 2017							
Cost	578,103	447,879	661,786	66,197	580,635	8,479	2,343,079
Accumulated depreciation and impairment losses	66,883	177,662	423,709	44,927	389,395	4,253	1,106,829
Net book amount	511,220	270,217	238,077	21,270	191,240	4,226	1,236,250
Year ended March 31, 2018							
Opening net book amount	511,220	270,217	238,077	21,270	191,240	4,226	1,236,250
Exchange adjustment	35,270	2,668	8,444	1,051	7,982	10	55,425
Additions	36,435	6,214	86,634	1,723	85,474	1,369	217,849
Transfers	60,777	3,614	5,546	516	2,570	447	73,470
Disposals	(907)	(1,633)	(7,836)	(282)	(6,453)	(340)	(17,451)
Depreciation	(20,631)	(41,266)	(98,339)	(7,473)	(87,051)	(1,424)	(256,184)
Impairment recognized	-	(4,608)	-	-	-	-	(4,608)
Closing net book amount	622,164	235,206	232,526	16,805	193,762	4,288	1,304,751
At March 31, 2018							
Cost	714,053	449,194	735,491	67,796	636,074	9,393	2,612,001
Accumulated depreciation and impairment losses	91,889	213,988	502,965	50,991	442,312	5,105	1,307,250
Net book amount	622,164	235,206	232,526	16,805	193,762	4,288	1,304,751
Year ended March 31, 2019							
Opening net book amount	**622,164**	**235,206**	**232,526**	**16,805**	**193,762**	**4,288**	**1,304,751**
Exchange adjustment	**(32,223)**	**(1,527)**	**(3,353)**	**(216)**	**(7,264)**	**(136)**	**(44,719)**
Acquisition of subsidiaries (Note 36)	**17,743**	**232**	**15,690**	**349**	**178**	**72**	**34,264**
Deemed disposal of a subsidiary	**-**	**-**	**(138)**	**-**	**-**	**-**	**(138)**
Additions	**14,394**	**14,146**	**100,462**	**7,111**	**95,481**	**3,088**	**234,682**
Transfers	**150,629**	**53,931**	**1,460**	**5,101**	**3,373**	**-**	**214,494**
Disposals	**(242)**	**(9,970)**	**(7,709)**	**(237)**	**(5,014)**	**(380)**	**(23,552)**
Depreciation	**(23,725)**	**(60,474)**	**(105,167)**	**(9,352)**	**(88,171)**	**(2,076)**	**(288,965)**
Closing net book amount	**748,740**	**231,544**	**233,771**	**19,561**	**192,345**	**4,856**	**1,430,817**
At March 31, 2019							
Cost	**858,096**	**479,171**	**788,336**	**76,589**	**650,985**	**9,736**	**2,862,913**
Accumulated depreciation and impairment losses	**109,356**	**247,627**	**554,565**	**57,028**	**458,640**	**4,880**	**1,432,096**
Net book amount	**748,740**	**231,544**	**233,771**	**19,561**	**192,345**	**4,856**	**1,430,817**

14 PREPAID LEASE PAYMENTS

	2019 US$'000	2018 US$'000
At the beginning of the year	**507,628**	473,090
Exchange adjustment	**(29,240)**	43,229
Additions	**-**	10,908
Disposals	**-**	(7,327)
Amortization	**(14,392)**	(12,272)
At the end of the year	**463,996**	507,628

Prepaid lease payments represent the payments for land use rights held by the Group in the Chinese Mainland under term leases between 10 to 50 years.

15 CONSTRUCTION-IN-PROGRESS

	Buildings under construction		Internal use software		Others		Total	
	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000
At the beginning of the year	**218,025**	210,674	**153,242**	156,769	**11,578**	45,717	**382,845**	413,160
Exchange adjustment	**(29,326)**	19,544	**(6,607)**	4,928	**(8,395)**	7,066	**(44,328)**	31,538
Additions	**90,890**	104,621	**152,676**	180,826	**59,479**	-	**303,045**	285,447
Transfers	**(178,606)**	(45,608)	**(124,433)**	(187,016)	**(43,373)**	(41,205)	**(346,412)**	(273,829)
Disposals	**(62,927)**	(71,206)	**-**	(2,265)	**(907)**	-	**(63,834)**	(73,471)
Acquisition of subsidiaries	**-**	-	**-**	-	**781**	-	**781**	-
At the end of the year	**38,056**	218,025	**174,878**	153,242	**19,163**	11,578	**232,097**	382,845

During the year, the Group had capitalized borrowing costs amounting to US$3.1 million (2018: US$4.4 million) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 4.69% (2018: 4.60%).

Notes to the Financial Statements

16 INTANGIBLE ASSETS

(a)

	Goodwill (Note (b))	Trademarks and trade names (Note (b))	Internal use software	Customer relationships	Patent and technology (Note (c))	Exclusive right	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At April 1, 2017							
Cost	4,855,738	1,305,073	910,972	1,387,483	1,709,761	-	10,169,027
Accumulated amortization and impairment losses	-	39,120	705,502	330,736	744,524	-	1,819,882
Net book amount	4,855,738	1,265,953	205,470	1,056,747	965,237	-	8,349,145
Year ended March 31, 2018							
Opening net book amount	4,855,738	1,265,953	205,470	1,056,747	965,237	-	8,349,145
Exchange adjustment	232,483	8,803	5,331	32,901	9,203	-	288,721
Additions	-	-	35,358	-	121,032	-	156,390
Transfer from construction-in-progress	-	-	197,716	-	2,643	-	200,359
Disposals	-	-	(683)	-	(27)	-	(710)
Amortization	-	(355)	(82,877)	(127,618)	(268,551)	-	(479,401)
Closing net book amount	5,088,221	1,274,401	360,315	962,030	829,537	-	8,514,504
At March 31, 2018							
Cost	5,088,221	1,313,745	1,171,245	1,433,773	1,846,553	-	10,853,537
Accumulated amortization and impairment losses	-	39,344	810,930	471,743	1,017,016	-	2,339,033
Net book amount	5,088,221	1,274,401	360,315	962,030	829,537	-	8,514,504
Year ended March 31, 2019							
Opening net book amount	**5,088,221**	**1,274,401**	**360,315**	**962,030**	**829,537**	**-**	**8,514,504**
Exchange adjustment	**(275,347)**	**(5,817)**	**(7,662)**	**(26,396)**	**(5,038)**	**-**	**(320,260)**
Acquisition of subsidiaries (Note 36)	**129,415**	**-**	**9,413**	**153,483**	**2,011**	**48,600**	**342,922**
Additions	**-**	**-**	**20,206**	**-**	**142,888**	**-**	**163,094**
Transfer from construction-in-progress	**-**	**110**	**128,814**	**-**	**2,994**	**-**	**131,918**
Disposals	**-**	**-**	**(363)**	**-**	**(380)**	**-**	**(743)**
Amortization	**-**	**(109)**	**(129,343)**	**(140,737)**	**(236,671)**	**-**	**(506,860)**
Closing net book amount	**4,942,289**	**1,268,585**	**381,380**	**948,380**	**735,341**	**48,600**	**8,324,575**
At March 31, 2019							
Cost	**4,942,289**	**1,307,330**	**1,288,725**	**1,544,885**	**1,988,698**	**48,600**	**11,120,527**
Accumulated amortization and impairment losses	**-**	**38,745**	**907,345**	**596,505**	**1,253,357**	**-**	**2,795,952**
Net book amount	**4,942,289**	**1,268,585**	**381,380**	**948,380**	**735,341**	**48,600**	**8,324,575**

16 INTANGIBLE ASSETS *(continued)*

(a) *(continued)*

Amortization of US$27,743,000 (2018: US$35,592,000), US$8,437,000 (2018: US$10,979,000), US$368,189,000 (2018: US$326,397,000) and US$102,491,000 (2018: US$106,433,000) are included in the 'cost of sales', 'selling and distribution expenses', 'administrative expenses' and 'research and development expenses' in the consolidated income statement respectively.

(b) Impairment tests for goodwill and intangible assets with indefinite useful lives

The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

	China US$ million	AP US$ million	EMEA US$ million	AG US$ million	Mature Market US$ million	Emerging Market US$ million	Total US$ million
At March 31, 2019							
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**

	China US$ million	AP US$ million	EMEA US$ million	AG US$ million	Mature Market US$ million	Emerging Market US$ million	Total US$ million
At March 31, 2018							
Goodwill							
– PCSD	1,117	574	247	334	–	–	2,272
– MBG	–	–	–	–	717	959	1,676
– DCG	503	161	123	353	–	–	1,140
Trademarks and trade names							
– PCSD	209	59	109	67	–	–	444
– MBG	–	–	–	–	197	263	460
– DCG	162	54	31	123	–	–	370

16 INTANGIBLE ASSETS *(continued)*

(b) Impairment tests for goodwill and intangible assets with indefinite useful lives *(continued)*

The Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amounts to their carrying amounts as at the reporting date. The recoverable amount of a CGU is determined based on value in use. These assessments use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period with a terminal value related to the future cash flow of the CGU extrapolated using constant projection of cash flows beyond the five-year period. The estimated growth rates adopted do not exceed the long-term average growth rates for the businesses in which the CGU operates.

Future cash flows are discounted at the rate of 9%, 11% and 10% for PCSD, MBG and DCG respectively (2018: 9%, 11% and 10% respectively). The estimated compound annual growth rates used for value-in-use calculations under the five-year financial budgets period are as follows:

	2019			2018		
	PCSD	MBG	DCG	PCSD	MBG	DCG
China	-1%	N/A	18%	0%	N/A	11%
AP	-1%	N/A	14%	-1%	24%	6%
EMEA	0%	N/A	12%	-1%	32%	4%
AG	0%	N/A	15%	0%	7%	12%
Mature Market	N/A	24%	N/A	N/A	N/A	N/A
Emerging Market	N/A	16%	N/A	N/A	N/A	N/A

The Group announced a new organizational structure in May 2018 by combining PCSD and MBG under IDG, following the earlier creation of the new reporting business units for MBG based upon market structure, namely MBG Mature Market and MBG Emerging Market. MBG's goodwill and trademarks and trade names with indefinite useful lives have been reallocated to the CGU affected using a relative value approach. Management determined budgeted gross margins based on past performance and its expectations for the market development. The budgeted growth rates are based on management expectations, and where considered appropriate, with adjustments made with reference to industry reports which are more conservative for the purpose of goodwill impairment test. The discount rates are pre-tax and reflect specific risks relating to the relevant segments.

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 March 31, 2019 (2018: nil).

The Group has performed a sensitivity analysis on key assumptions used for the annual impairment test for goodwill. A reasonably possible change in key assumptions used in the impairment test for goodwill would not cause any CGU's carrying amount to exceed its respective recoverable amount.

(c) At March 31, 2019, patent and technology of US$48,029,000 (2018: US$34,459,000) is under development.

17 INTERESTS IN ASSOCIATES AND JOINT VENTURES

	2019 US$'000	2018 US$'000
Share of net assets		
– Associates	**66,672**	26,005
– Joint ventures	**12,389**	9,661
	79,061	35,666

The following is a list of the principal associates and joint ventures:

Company name	Place of incorporation/ establishment	Interest held indirectly 2019	2018	Principal activities
Associates				
北京閃聯雲視信息技術有限公司 (Beijing Shanlian Yunshi Information Technology Limited) (Note ii)	Chinese Mainland	**23.7%**	23.7%	Distribution and development of IT technology
成都諦聽科技有限公司 (Chengdu Diting Technology Limited) (Note ii)	Chinese Mainland	**17.3%**	17.3%	Distribution and development of IT technology
茄子技術控股有限公司 (Shareit Technology Holdings Inc.) (Note ii)	Cayman Islands	**43.7%**	47.7%	Software development
深圳視見醫療科技有限公司 (Imsight Medical Technology Inc.) (Note ii)	Chinese Mainland	**16.5%**	17.8%	Development of techniques applied to clinical medical image analysis
北京聯想智慧醫療信息技術有限公司 (Beijing Lenovo Healthcare Information Technology Ltd.) (Note ii)	Chinese Mainland	**25.4%**	54.6%	Development of hospital and regional healthcare information system
河南聚聯智慧大數據科技有限公司 (Henan Ju Lian Smart Big Data Technology Limited) (Note ii)	Chinese Mainland	**19.9%**	-	Construction and operation of education-related informatization project
Joint ventures				
北京聯想金服科技有限公司 (Beijing Lenovo Fintech Co., Ltd.) (Note ii)	Chinese Mainland	**50.0%**	50.0%	Online payment platform development
聯想新視界（北京）科技有限公司 (Lenovo New Vision (Beijing) Technology Co., Ltd.) (Note ii)	Chinese Mainland	**35.1%**	35.1%	Software development
聯想教育科技（北京）有限公司 (Lenovo Education Technology (Beijing) Co., Ltd. (Note ii)	Chinese Mainland	**49.0%**	-	Talent development in vocational education

Notes:
(i) All the above associates and joint ventures operate principally in their respective places of incorporation or establishment.

(ii) The English name of the company is a direct translation or transliteration of its Chinese registered name.

17 INTERESTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

The following sets out the aggregate amount of the Group's share of associates and joint ventures:

	2019 US$'000	2018 US$'000
Share of (losses)/profits of associates	**(10,677)**	1,323
Share of losses of joint ventures	**(848)**	(3,829)
	(11,525)	(2,506)

18 FINANCIAL INSTRUMENTS BY CATEGORY

	Financial assets at amortized cost US$'000	**Financial assets at FVPL US$'000**	**Derivatives used for hedging US$'000**	**Financial assets at FVOCI (non-recycling) US$'000**	**Other financial assets at FVOCI (recycling) US$'000**	**Total US$'000**
Assets						
At March 31, 2019						
Financial assets at FVPL	-	449,363	-	-	-	449,363
Financial assets at FVOCI	-	-	-	71,486	-	71,486
Derivative financial assets	-	-	70,972	-	-	70,972
Trade receivables	-	-	-	-	6,661,484	6,661,484
Notes receivable	46,454	-	-	-	-	46,454
Deposits and other receivables	2,602,071	-	-	-	-	2,602,071
Bank deposits	70,210	-	-	-	-	70,210
Cash and cash equivalents	2,662,854	-	-	-	-	2,662,854
	5,381,589	449,363	70,972	71,486	6,661,484	12,634,894

18 FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

	Loans and receivables US$'000	Assets at fair value through profit and loss US$'000	Derivatives used for hedging US$'000	Available-for-sale financial assets US$'000	Total US$'000
Assets					
At March 31, 2018					
Available-for-sale financial assets	–	–	–	373,077	373,077
Derivative financial assets	–	15,037	9,853	–	24,890
Other non-current assets	43,901	–	–	–	43,901
Trade receivables	4,972,722	–	–	–	4,972,722
Notes receivable	11,154	–	–	–	11,154
Deposits and other receivables	3,362,293	–	–	–	3,362,293
Bank deposits	84,306	–	–	–	84,306
Cash and cash equivalents	1,848,017	–	–	–	1,848,017
	10,322,393	15,037	9,853	373,077	10,720,360

18 FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

	Financial liabilities at amortized cost US$'000	Financial liabilities at FVPL US$'000	Derivatives used for hedging US$'000	Total US$'000
Liabilities				
At March 31, 2019				
Trade payables	**6,429,835**	**-**	**-**	**6,429,835**
Notes payable	**1,272,840**	**-**	**-**	**1,272,840**
Derivative financial liabilities	**-**	**23,423**	**51,003**	**74,426**
Other payables and accruals	**8,942,336**	**-**	**-**	**8,942,336**
Borrowings	**4,379,813**	**-**	**-**	**4,379,813**
Deferred consideration	**25,072**	**-**	**-**	**25,072**
Contingent consideration	**-**	**113,283**	**-**	**113,283**
Written put option liabilities	**783,505**	**-**	**-**	**783,505**
	21,833,401	**136,706**	**51,003**	**22,021,110**
At March 31, 2018				
Trade payables	6,450,792	-	-	6,450,792
Notes payable	801,974	-	-	801,974
Derivative financial liabilities	-	35,937	26,757	62,694
Other payables and accruals	8,992,951	-	-	8,992,951
Borrowings	3,815,417	-	-	3,815,417
Deferred consideration	25,072	-	-	25,072
Written put option liability	224,813	-	-	224,813
	20,311,019	35,937	26,757	20,373,713

19 DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax is calculated in full on temporary differences under the liability method using the rates applicable in the respective jurisdictions.

Deferred income tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the consolidated balance sheet:

	2019 US$'000	2018 US$'000
Deferred income tax assets:		
Recoverable within 12 months	**775,932**	635,386
Recoverable after 12 months	**1,086,970**	895,237
	1,862,902	1,530,623
Deferred income tax liabilities:		
Recoverable after 12 months	**(359,679)**	(230,609)
Net deferred income tax assets	**1,503,223**	1,300,014

The movements in the net deferred income tax assets are as follows:

	2019 US$'000	2018 US$'000
At the beginning of the year	**1,300,014**	1,213,655
Reclassification and exchange adjustment	**(33,864)**	18,780
Credited to consolidated income statement (Note 8)	**269,796**	469,815
Credited/(charged) to other comprehensive income (Note 8)	**992**	(40)
Credited/(charged) to share-based compensation reserve	**2,178**	(2,196)
Acquisition of subsidiaries (Note 36)	**(35,893)**	–
Effect of change in tax rate (Note 8)	**–**	(400,000)
At the end of the year	**1,503,223**	1,300,014

19 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(continued)*

(a) The movements in deferred income tax assets (prior to offsetting of balances within the same tax jurisdiction), analyzed by major components, during the year are as follows:

	Provisions and accruals US$'000	Tax losses US$'000	Tax depreciation allowance US$'000	Deferred revenue US$'000	Share-based payment US$'000	Others US$'000	Total US$'000
At April 1, 2017	450,128	904,564	15,624	95,532	19,735	5,394	1,490,977
Reclassification and exchange adjustments	10,081	(303)	10,746	5,407	-	(1,527)	24,404
Credited/(charged) to consolidated income statement	99,193	394,009	2,760	(8,102)	7,942	846	496,648
Credited to other comprehensive income	-	-	-	-	-	488	488
Charged to share-based compensation reserve	-	-	-	-	(2,196)	-	(2,196)
Effect of change in tax rate	(56,580)	(351,713)	(836)	(11,210)	(8,851)	(823)	(430,013)
At March 31, 2018 and April 1, 2018	**502,822**	**946,557**	**28,294**	**81,627**	**16,630**	**4,378**	**1,580,308**
Reclassification and exchange adjustments	**(36,949)**	**(5,963)**	**8,211**	**8,698**	**-**	**(1,241)**	**(27,244)**
Credited/(charged) to consolidated income statement	**68,432**	**148,757**	**37,064**	**19,642**	**17,709**	**(1,589)**	**290,015**
Credited to share-based compensation reserve	**-**	**-**	**-**	**-**	**2,178**	**-**	**2,178**
Acquisition of subsidiaries	**25,898**	**-**	**-**	**-**	**-**	**-**	**25,898**
At March 31, 2019	**560,203**	**1,089,351**	**73,569**	**109,967**	**36,517**	**1,548**	**1,871,155**

Deferred income tax assets are recognized for deductible temporary differences and tax losses carried forward to the extent that realization of the related tax benefit through the future taxable profits is probable.

19 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(continued)*

(a) *(continued)*

At March 31, 2019, the Group did not recognize deferred income tax assets in respect of deductible temporary differences of approximately US$1,324,199,000 (2018: US$1,036,897,000) and tax losses of approximately US$2,383,242,000 (2018: US$2,258,581,000) that can be carried forward against future taxable income, of which, tax losses of US$937,153,000 (2018: US$1,015,591,000) can be carried forward indefinitely. The remaining balances of tax losses will expire as follows:

	2019 **US$'000**	2018 US$'000
Expiring in		
– 2018	**–**	131,173
– 2019	**55,850**	16,911
– 2020	**125,895**	21,635
– 2021	**141,492**	199,549
– 2022	**403,808**	381,940
– 2023	**423,072**	396,743
– 2024	**227,102**	51,870
– 2025	**37,406**	23,177
– 2026	**11,530**	6,114
– 2027	**18,166**	13,878
– 2028	**1,768**	–
	1,446,089	1,242,990

19 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(continued)*

(b) The movements in deferred income tax liabilities (prior to offsetting of balances within the same tax jurisdiction), analyzed by major components, during the year are as follows:

	Intangible valuation US$'000	Undistributed earnings US$'000	Property valuation US$'000	Accelerated tax depreciation US$'000	Others US$'000	Total US$'000
At April 1, 2017	129,263	57,677	3,116	87,128	138	277,322
Reclassification and exchange adjustments	8,485	(233)	472	(2,434)	(666)	5,624
(Credited)/charged to consolidated income statement	(25,256)	27,551	25	24,513	–	26,833
Charged to other comprehensive income	–	–	–	–	528	528
Effect of change in tax rate	(57)	–	–	(29,956)	–	(30,013)
At March 31, 2018 and April 1, 2018	**112,435**	**84,995**	**3,613**	**79,251**	**-**	**280,294**
Reclassification and exchange adjustments	**13,415**	**-**	**(1,460)**	**(6,538)**	**1,203**	**6,620**
(Credited)/charged to consolidated income statement	**(38,503)**	**(4,266)**	**11**	**63,222**	**(245)**	**20,219**
Credited to other comprehensive income	**-**	**-**	**-**	**-**	**(992)**	**(992)**
Acquisition of subsidiaries	**59,483**	**-**	**-**	**-**	**2,308**	**61,791**
At March 31, 2019	**146,830**	**80,729**	**2,164**	**135,935**	**2,274**	**367,932**

20 FINANCIAL ASSETS

(a) Financial assets at FVPL

	2019 US$'000
At the beginning of the year	–
Change in accounting policy (Note)	294,601
Exchange adjustment	(10,628)
Fair value change recognized in profit or loss	125,550
Additions	73,836
Disposals	(33,996)
At the end of the year	449,363
Listed equity securities:	
– In Hong Kong	56,226
– Outside Hong Kong	139,999
	196,225
Unlisted equity securities	253,138
	449,363

Note: These investments were classified as available-for-sale financial assets as at March 31, 2018, see Note 20(c).

20 FINANCIAL ASSETS *(continued)*

(b) Financial assets at FVOCI

	2019 US$'000
At the beginning of the year	-
Change in accounting policy (Note)	78,476
Exchange adjustment	(3,940)
Fair value change recognized in other comprehensive income	(16,304)
Additions	4,739
Acquisition of subsidiaries	8,515
At the end of the year	71,486
Listed equity securities:	
– In Hong Kong	11,516
– Outside Hong Kong	19,342
	30,858
Unlisted equity securities	40,628
	71,486

Note: These investments were classified as available-for-sale financial assets as at March 31, 2018, see Note 20(c).

20 FINANCIAL ASSETS *(continued)*

(c) Financial assets previously classified as available-for-sale financial assets

	2018 US$'000
At the beginning of the year	255,898
Exchange adjustment	17,540
Fair value change recognized in other comprehensive income	224
Additions	100,466
Transferred to investment in a joint venture	(901)
Disposals	(150)
At the end of the year	373,077
Listed equity securities:	
– In Hong Kong	12,108
– Outside Hong Kong	17,455
	29,563
Unlisted equity securities	343,514
	373,077

21 INVENTORIES

	2019 **US$'000**	2018 US$'000
Raw materials and work-in-progress	**1,796,880**	2,005,975
Finished goods	**1,016,132**	1,133,363
Service parts	**621,648**	652,353
	3,434,660	3,791,691

Notes to the Financial Statements

22 RECEIVABLES

(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:

	2019 US$'000	2018 US$'000
0 – 30 days	**4,560,771**	3,046,240
31 – 60 days	**1,332,471**	1,169,286
61 – 90 days	**430,207**	320,183
Over 90 days	**438,377**	545,629
	6,761,826	5,081,338
Less: loss allowance	**(100,342)**	(108,616)
Trade receivables – net	**6,661,484**	4,972,722

Trade receivables that are not past due are fully performing and not considered impaired.

At March 31, 2019, trade receivables, net of loss allowance, of US$886,774,000 (2018: US$862,020,000) were past due. The ageing of these receivables, based on due date, is as follows:

	2019 US$'000	2018 US$'000
Within 30 days	**512,971**	444,377
31 – 60 days	**125,344**	136,373
61 – 90 days	**59,514**	67,406
Over 90 days	**188,945**	213,864
	886,774	862,020

(a) *(continued)*

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

	2019 US$'000	2018 US$'000
At beginning of the year	**108,616**	104,379
Exchange adjustment	**7,245**	(2,390)
Increase in loss allowance recognized in profit or loss	**43,858**	55,052
Uncollectible receivables written off	**(5,168)**	(18,002)
Unused amounts reversed	**(54,209)**	(30,423)
At the end of the year	**100,342**	108,616

(b) Notes receivable of the Group are bank accepted notes mainly with maturity dates within six months.

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

	2019 US$'000	2018 US$'000
Deposits	**14,632**	15,818
Other receivables	**2,587,439**	3,346,475
Prepayments	**1,151,855**	1,341,042
	3,753,926	4,703,335

Note: Majority of other receivables of the Group are amounts due from subcontractors for parts components sold in the ordinary course of business.

(d) The carrying amounts of trade receivables, notes receivable, deposits and other receivables approximate their fair values. The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivable mentioned above.

23 BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2019 US$'000	2018 US$'000
Bank deposits		
– maturing between three to twelve months	**1,620**	11,013
– restricted bank balances	**68,590**	73,293
	70,210	84,306
Cash and cash equivalents		
– cash at bank and in hand	**2,078,930**	1,839,624
– money market funds	**583,924**	8,393
	2,662,854	1,848,017
	2,733,064	1,932,323
Maximum exposure to credit risk	**2,733,064**	1,932,323
Effective annual interest rates	**0%-6.5%**	0%-6.5%

24 PAYABLES

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

	2019 US$'000	2018 US$'000
0 – 30 days	**4,279,000**	3,694,507
31 – 60 days	**1,046,525**	1,793,380
61 – 90 days	**757,718**	727,029
Over 90 days	**346,592**	235,876
	6,429,835	6,450,792

(b) Notes payable of the Group are mainly repayable within three months.

(c) The carrying amounts of trade payables and notes payable approximate their fair values.

25 PROVISIONS, OTHER PAYABLES AND ACCRUALS

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

	2019 US$'000	2018 US$'000
Accruals	**1,969,914**	1,865,507
Allowance for billing adjustments (i)	**1,650,226**	1,634,287
Written put option liability (ii)	**–**	224,813
Other payables (iii)	**5,322,196**	5,493,157
	8,942,336	9,217,764

Notes:

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

(ii) Pursuant to the joint venture agreement entered into between the Company and Compal Electronics, Inc. ("Compal") to establish a joint venture company ("JV Co") to manufacture notebook computer products and related parts, the Company and Compal are respectively granted call and put options which entitle the Company to purchase from Compal and Compal to sell to the Company the 49% Compal's interests in the JV Co. The call and put options will be exercisable at any time after October 1, 2019 and October 1, 2017 respectively.

During the year, the Company entered into a put option termination agreement with Compal, while Compal signed a share purchase agreement with Hefei Zhi Ju Sheng Bao Equity Investment Co., Ltd. ("ZJSB") to dispose the 49% interest in JV Co to ZJSB. Please refer to note 27(b)(ii) for details of the put option granted.

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 of the JV Co 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.

Notes to the Financial Statements

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

(b) The components of provisions of the Group are as follows:

	Warranty US$'000	Environmental restoration US$'000	Restructuring US$'000	Total US$'000
Year ended March 31, 2018				
At the beginning of the year	1,061,906	8,390	89,652	1,159,948
Exchange adjustment	24,577	638	3,794	29,009
Provisions made	895,939	9,662	100,775	1,006,376
Amounts utilized	(901,204)	(9,771)	(140,168)	(1,051,143)
	1,081,218	8,919	54,053	1,144,190
Long-term portion classified as non-current liabilities	(278,908)	(6,807)	–	(285,715)
At the end of the year	802,310	2,112	54,053	858,475
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**

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.

26 BORROWINGS

	2019 US$'000	2018 US$'000
Current liabilities		
Short-term loans (i)	**1,166,907**	1,166,692
Note (ii)	**786,136**	–
	1,953,043	1,166,692
Non-current liabilities		
Notes (ii)	**1,836,264**	2,648,725
Convertible bonds (iii)	**590,506**	–
	2,426,770	2,648,725
	4,379,813	3,815,417

Notes:

(i) The majority of the short-term bank loans are denominated in United States dollar. As at March 31, 2019 the Group has total revolving and short-term loan facilities of US$2,501 million (2018: US$1,896 million) which has been utilized to the extent of US$1,181 million (2018: US$1,170 million).

(ii)

Issue date	Principal amount	Term	Interest rate per annum	Due date	2019 US$'000	2018 US$'000
May 8, 2014	US$786 million	5 years	4.7%	May 2019	**786,136**	774,341
June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	**594,747**	635,015
March 16, 2017	US$500 million	5 years	3.875%	March 2022	**497,391**	496,590
March 29, 2018	US$750 million	5 years	4.75%	March 2023	**744,126**	742,779
					2,622,400	2,648,725

(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 the outstanding 2019 notes and for the Company's working capital and 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 has sufficient unutilized bank facility to meet its redemption obligations of the Bonds.

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 liability and equity components of convertible bonds on initial recognition are presented as follows:

	US$'000
Face value of the convertible bonds on the issue date	675,000
Less: transaction costs	(10,107)
Net proceeds	664,893
Less: equity component	(77,342)
Liability component on initial recognition	587,551

26 BORROWINGS *(continued)*

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at March 31, 2019 and 2018 are as follows:

	2019 US$'000	2018 US$'000
Within 1 year	**1,953,043**	1,166,692
1 to 3 years	**1,092,138**	1,409,356
3 to 5 years	**1,334,632**	1,239,369
	4,379,813	3,815,417

The fair values of the notes and convertible bonds as at March 31, 2019 were US$2,626 million and US$779 million respectively (2018: fair value of the notes was US$2,659 million). The carrying amounts of other borrowings approximate their fair values as the impact of discounting is not significant.

Total bank facilities of the Group are as follows:

	Total facilities		Utilized amounts	
	2019 US$'000	2018 US$'000	2019 US$'000	2018 US$'000
Revolving loans	**1,800,000**	1,100,000	**1,125,000**	1,100,000
Short-term loans	**701,437**	795,637	**55,800**	70,000
Foreign exchange contracts	**9,525,182**	8,706,553	**9,525,182**	8,644,518
Other trade finance facilities	**2,194,695**	1,730,185	**1,636,823**	1,090,008
	14,221,314	12,332,375	**12,342,805**	10,904,526

All borrowings are unsecured and the effective annual interest rates at March 31, 2019 and March 31, 2018 are as follows:

	United States dollar	
	2019	2018
Short-term loans	**3.93%-6.44%**	3.38%-5.31%
Convertible bonds	**6.15%**	–

27 OTHER NON-CURRENT LIABILITIES

	2019 US$'000	2018 US$'000
Contingent consideration (a)	**113,283**	–
Deferred consideration (a)	**25,072**	25,072
Written put option liabilities (b)	**783,505**	–
Environmental restoration (Note 25(b))	**31,772**	6,807
Government incentives and grants received in advance (c)	**50,087**	58,988
Deferred rent liabilities	**83,977**	94,377
Others	**159,950**	148,088
	1,247,646	333,332

Notes:

(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, 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 their 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.

As at March 31, 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 Limited ("Fujitsu")	JPY2.55 billion to JPY12.75 billion

With reference to the performance indicators, if the actual performance of FCCL had been 10% higher/lower than its expected performance, the contingent consideration would have been increased/decreased by approximately nil and US$23 million respectively with the corresponding loss/gain recognized in consolidated income statement.

Notes to the Financial Statements

27 OTHER NON-CURRENT LIABILITIES *(continued)*

Notes: *(continued)*

(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, 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) With reference to note 25(a)(ii), during the year, ZJSB acquired the 49% interest in JV Co from Compal. 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$343 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.

28 SHARE CAPITAL

	2019		2018	
	Number of shares	**US$'000**	Number of shares	US$'000
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the year	**12,014,791,614**	**3,185,923**	11,108,654,724	2,689,882
Issue of ordinary shares	**–**	**–**	906,136,890	496,041
At the end of the year	**12,014,791,614**	**3,185,923**	12,014,791,614	3,185,923

On November 17, 2017, the Company has issued 906,136,890 shares at price of HK$4.31 per share through a subscription agreement entered into by the Company and Union Star Limited (Note 11).

28 SHARE CAPITAL *(continued)*

Long-term incentive program

A performance-related long-term incentive program was approved on May 26, 2005 for the purpose of rewarding and motivating directors, executives and top-performing employees of the Company and its subsidiaries (the "Participants"). The long-term incentive program is designed to enable the Company to attract and retain the best available personnel, and encourage and motivate Participants to work towards enhancing the value of the Company and its shares by aligning their interests with those of the shareholders of the Company.

The Company also approved a share-based compensation package for non-executive directors.

Under the long-term incentive program, the Company may grant awards, at its discretion, using any of the two types of equity-based compensation: (i) share appreciation rights and (ii) restricted share units, which are described below:

(i) Share Appreciation Rights ("SARs")

An SAR entitles the holder to receive the appreciation in value of the Company's share price above a predetermined level.

(ii) Restricted Share Units ("RSUs")

An RSU equals to the value of one ordinary share of the Company. Once vested, an RSU is converted to an ordinary share.

Under the two types of compensation, the Company reserves the right, at its discretion, to settle the award in cash or ordinary shares of the Company.

Movements in the number of units of award granted during the year and their related weighted average fair values are as follows:

	Number of units	
	SARs	RSUs
Outstanding at April 1, 2017	555,262,485	360,682,279
Granted during the year	490,920,405	301,523,867
Vested during the year	(249,496,096)	(142,386,897)
Lapsed/cancelled during the year	(87,244,882)	(41,623,477)
Outstanding at March 31, 2018	709,441,912	478,195,772
Outstanding at April 1, 2018	**709,441,912**	**478,195,772**
Granted during the year	**669,166,505**	**381,949,708**
Vested during the year	**(307,893,000)**	**(208,171,494)**
Lapsed/cancelled during the year	**(81,211,905)**	**(51,594,394)**
Outstanding at March 31, 2019	**989,503,512**	**600,379,592**
Average fair value per unit (HK$)		
– At March 31, 2018	1.01	5.50
– At March 31, 2019	**0.76**	**4.57**

28 SHARE CAPITAL *(continued)*

Long-term incentive program *(continued)*

The fair values of the SARs awarded under the long-term incentive program were calculated by applying a Black-Scholes pricing model. For the year ended March 31, 2019, the model inputs were the fair value (i.e. market value) of the Company's shares at the grant date, taking into account the expected volatility of 31.47 percent (2018: 34.04 percent), expected dividends during the vesting periods of 5.49 percent (2018: 5.59 percent), contractual life of 4.4 years (2018: 4.5 years), and a risk-free interest rate of 1.85 percent (2018: 0.94 percent).

The remaining vesting periods of the awards under the long-term incentive program as at March 31, 2019 ranged from 0.14 to 2.92 years (2018: 0.41 to 2.92 years).

29 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 proceed 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.

30 BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY

(a) Balance sheet of the Company

	At March 31	
	2019	2018
	US$'000	US$'000
Non-current assets		
Property, plant and equipment	**1,080**	1,376
Intangible assets	**890**	1,581
Interest in an associate	**1,887**	1,887
Investments in subsidiaries	**9,017,668**	8,580,253
Available-for-sale financial assets	**–**	46,291
Financial assets at FVPL	**45,792**	–
Financial assets at FVOCI	**15,782**	–
Other non-current assets	**50,000**	–
	9,133,099	8,631,388
Current assets		
Deposits, prepayments and other receivables	**39,604**	52,050
Amounts due from subsidiaries	**5,626,654**	4,201,643
Cash and cash equivalents	**12,975**	15,936
	5,679,233	4,269,629
Total assets	**14,812,332**	12,901,017

30 BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY *(continued)*

(a) Balance sheet of the Company *(continued)*

	At March 31	
	2019	2018
	US$'000	US$'000
Share capital	**3,185,923**	3,185,923
Reserves (Note 30(b))	**1,389,578**	981,864
Total equity	**4,575,501**	4,167,787
Non-current liabilities		
Borrowings	**2,426,770**	2,648,725
Amount due to a subsidiary	**1,000,000**	1,000,000
Deferred income tax liabilities	**684**	–
Other non-current liabilities	**139,138**	25,900
	3,566,592	3,674,625
Current liabilities		
Derivative financial liabilities	**23,423**	4,884
Other payables and accruals	**70,330**	86,904
Borrowings	**1,897,243**	1,096,689
Amounts due to subsidiaries	**4,679,243**	3,870,128
	6,670,239	5,058,605
Total liabilities	**10,236,831**	8,733,230
Total equity and liabilities	**14,812,332**	12,901,017

On behalf of the Board

Yang Yuanqing
Chairman and Chief Executive Officer

Ma Xuezheng
Director

30 BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY *(continued)*

(b) Movement of reserves of the Company

The changes in the reserves of the Company during the years ended March 31, 2019 and 2018 are as follows:

	Investment revaluation reserve US$'000	Share-based compensation reserve US$'000	Exchange reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Total US$'000
At April 1, 2017	(11,444)	118,647	10,204	8,614	713,824	839,845
Profit for the year	–	–	–	–	446,962	446,962
Other comprehensive loss	(22,779)	–	–	–	–	(22,779)
Total comprehensive (loss)/ income for the year	(22,779)	–	–	–	446,962	424,183
Vesting of shares under long-term incentive program	–	(91,528)	–	–	–	(91,528)
Share-based compensation	–	199,892	–	–	–	199,892
Issue of bonus warrants	–	–	–	(6,399)	–	(6,399)
Dividends paid	–	–	–	–	(384,129)	(384,129)
At March 31, 2018	(34,223)	227,011	10,204	2,215	776,657	981,864
At April 1, 2018	**(34,223)**	**227,011**	**10,204**	**2,215**	**776,657**	**981,864**
Change in accounting policy	**14,937**	**-**	**-**	**-**	**(26,567)**	**(11,630)**
Restated total equity	**(19,286)**	**227,011**	**10,204**	**2,215**	**750,090**	**970,234**
Profit for the year	**-**	**-**	**-**	**-**	**670,791**	**670,791**
Other comprehensive loss	**(356)**	**-**	**-**	**-**	**-**	**(356)**
Total comprehensive (loss)/ income for the year	**(356)**	**-**	**-**	**-**	**670,791**	**670,435**
Vesting of shares under long-term incentive program	**-**	**(137,317)**	**-**	**-**	**-**	**(137,317)**
Share-based compensation	**-**	**214,822**	**-**	**-**	**-**	**214,822**
Issue of convertible bonds	**-**	**-**	**-**	**77,342**	**-**	**77,342**
Dividends paid	**-**	**-**	**-**	**-**	**(405,938)**	**(405,938)**
At March 31, 2019	**(19,642)**	**304,516**	**10,204**	**79,557**	**1,014,943**	**1,389,578**

31 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) The Group had the following significant related party transactions in the normal course of business during the year:

	2019 US$'000	2018 US$'000
閃聯信息技術工程中心有限公司 (IGRS Engineering Lab Limited) (an associate) – Purchase of goods	**10,280**	15,654

Note: The English name of each company is a direct translation of its Chinese registered name.

(b) Key management compensation

Details on key management compensation are set out in Note 10.

32 COMMITMENTS

(a) Capital commitments

Apart from disclosed elsewhere in these financial statements, on March 31, 2019, the Group had the following other capital commitments:

	2019 US$'000	2018 US$'000
Contracted but not provided for:		
– Property, plant and equipment	**92,948**	154,658
– IT consulting services	**–**	1,092
– Investment in a subsidiary	**–**	188,692
– Investment in financial assets	**10,924**	13,776
	103,872	358,218

(b) Commitments under operating leases

The future aggregate minimum lease payments in respect of land and buildings and prepaid lease payments under non-cancellable operating leases of the Group are as follows:

	2019 US$'000	2018 US$'000
Not later than one year	**104,882**	33,454
Later than one year but not later than five years	**222,450**	293,253
Later than five years	**145,856**	194,161
	473,188	520,868

33 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.

34 RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH GENERATED FROM/(USED IN) OPERATIONS

	2019 US$'000	2018 US$'000
Profit before taxation	**856,664**	153,202
Share of losses of associates and joint ventures	**11,525**	2,506
Finance income	**(27,399)**	(32,145)
Finance costs	**337,027**	263,160
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**291,760**	259,121
Amortization of intangible assets	**506,860**	479,401
Share-based compensation	**214,822**	199,779
Impairment of property, plant and equipment	**–**	4,608
Loss/(gain) on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**4,970**	(50,937)
Loss on disposal of intangible assets	**743**	710
Gain on disposal of available-for-sale financial assets	**–**	(15)
Gain on deemed disposal of a subsidiary	**(22,811)**	–
Dilution gain on interests in associates and a joint venture	**(24,189)**	(2,499)
Fair value change on bonus warrants	**18,598**	(3,003)
Fair value change on financial instruments	**(12,802)**	12,749
Fair value change on financial assets at FVPL	**(125,550)**	–
Dividend income	**(230)**	(286)
Decrease/(increase) in inventories	**496,706**	(997,656)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(326,932)**	(1,012,749)
(Decrease)/increase in trade payables, notes payable, provisions, other payables and accruals	**(163,698)**	919,996
Effect of foreign exchange rate changes	**79,932**	(257,933)
Net cash generated from/(used in) operations	**2,115,996**	(61,991)

34 RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH GENERATED FROM/ (USED IN) OPERATIONS *(continued)*

(a) Reconciliation of financing liabilities

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

Financing liabilities	**2019 US$'000**	2018 US$'000
Short-term loans – current	**1,166,907**	1,166,692
Notes – current	**786,136**	–
Notes – non-current	**1,836,264**	2,648,725
Convertible bonds – non-current	**590,506**	–
Financing liabilities	**4,379,813**	3,815,417
Short-term loans – variable interest rates	**1,166,907**	1,166,692
Notes – fixed interest rates	**2,622,400**	2,648,725
Convertible bonds – fixed interest rates	**590,506**	–
Financing liabilities	**4,379,813**	3,815,417

	Short-term loans current US$'000	Long-term loans non-current US$'000	Note current US$'000	Notes non-current US$'000	Convertible bonds non-current US$'000	Total US$'000
Financing liabilities as at April 1, 2017	70,003	397,687	–	2,569,005	–	3,036,695
Proceeds from borrowings	7,413,740	12,000	–	–	–	7,425,740
Repayments of borrowings	(6,324,406)	(400,000)	–	–	–	(6,724,406)
Issue of notes	–	–	–	749,119	–	749,119
Repayment of notes	–	–	–	(723,389)	–	(723,389)
Foreign exchange adjustments	–	–	–	56,175	–	56,175
Other non-cash movements	7,355	(9,687)	–	(2,185)	–	(4,517)
Financing liabilities as at March 31, 2018 and 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**

35 RETIREMENT BENEFIT OBLIGATIONS

	2019 US$'000	2018 US$'000
Pension obligation included in non-current liabilities		
Pension benefits	**407,723**	387,632
Post-employment medical benefits	**26,523**	25,850
	434,246	413,482
Expensed in income statement		
Pension benefits (Note 9)	**23,302**	16,439
Post-employment medical benefits	**1,418**	1,177
	24,720	17,616
Remeasurements for:		
Defined pension benefits	**26,248**	20,597
Post-employment medical benefits	**(607)**	(800)

The Group's largest pension liabilities are now in Germany. Its defined benefit plan is closed to new entrants and now covers around 20% of employees. The defined benefit plan contains a large number of retirees and former employees with benefits which have vested, but where payment will be deferred until they retire.

The Group continues to maintain significant pension liabilities in Japan, where a cash balance benefit is provided for substantially all employees.

In the US, the defined benefit plan is closed to new entrants, and now covers only 1.0% of employees. There is also a supplemental defined benefit plan that covers certain executives.

The Group also operates final salary defined benefit plans in a number of countries as a result of past acquisitions.

The Group's major plans are valued by qualified actuaries annually using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

35 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(a) **Pension benefits**

The amounts recognized in the consolidated balance sheet are determined as follows:

	2019 US$'000	2018 US$'000
Present value of funded obligations	**568,780**	548,060
Fair value of plan assets	**(346,348)**	(334,597)
Deficit of funded plans	**222,432**	213,463
Present value of unfunded obligations	**185,291**	174,169
Liability in the balance sheet	**407,723**	387,632
Representing:		
Pension benefits obligation	**407,723**	387,632

The principal actuarial assumptions used are as follows:

	2019	2018
Discount rate	**0.5%-3.25%**	0.5%-3.25%
Future salary increases	**0%-4.5%**	0%-3.5%
Future pension increases	**0%-2%**	0%-2%
Life expectancy for male aged 60	**27**	27
Life expectancy for female aged 60	**28**	29

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

		Impact on defined benefit obligation	
2019	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**0.5%**	**Decrease by 10.6%**	**Increase by 10.7%**
Salary growth rate	**0.5%**	**Increase by 1.0%**	**Decrease by 0.9%**
Pension growth rate	**0.5%**	**Increase by 8.3%**	**Decrease by 7.5%**
		Increase by 1 year in assumption	**Decrease by 1 year in assumption**
Life expectancy		**Increase by 4.0%**	**Decrease by 3.9%**

(a) Pension benefits *(continued)*

2018	Change in assumption	Impact on defined benefit obligation Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 10.6%	Increase by 11.4%
Salary growth rate	0.5%	Increase by 1.2%	Decrease by 1.1%
Pension growth rate	0.5%	Increase by 8.0%	Decrease by 7.3%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		Increase by 3.3%	Decrease by 3.3%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the balance sheet.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

(b) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

The US plan (Lenovo Future Health Account and Retiree Life Insurance Program) is currently funded by a trust that qualifies for tax exemption under US tax law, out of which benefits to eligible retirees and dependents will be made.

Changes in future medical cost trend rates has no effect on the liabilities for post-employment medical benefits.

The amounts recognized in the consolidated balance sheet are determined as follows:

	2019 US$'000	2018 US$'000
Present value of funded obligations	**26,764**	26,652
Fair value of plan assets	**(1,453)**	(2,391)
	25,311	24,261
Present value of unfunded obligations	**1,212**	1,589
Liability in the balance sheet	**26,523**	25,850

35 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(c) Additional information on post-employment benefits (pension and medical)

Plan assets of the Group comprise:

	2019			2018		
	Quoted US$'000	**Unquoted US$'000**	**Total US$'000**	Quoted US$'000	Unquoted US$'000	Total US$'000
Pension plan						
Equity instruments						
Information technology	**530**	**-**	**530**	2,079	–	2,079
Energy	**245**	**-**	**245**	235	–	235
Manufacturing	**4,845**	**-**	**4,845**	9,726	–	9,726
Others	**4,203**	**-**	**4,203**	3,573	–	3,573
	9,823	**-**	**9,823**	15,613	–	15,613
Debt instruments						
Government	**77,716**	**-**	**77,716**	49,617	–	49,617
Corporate bonds (investment grade)	**56,267**	**-**	**56,267**	50,056	–	50,056
Corporate bonds (Non-investment grade)	**780**	**-**	**780**	8,864	–	8,864
	134,763	**-**	**134,763**	108,537	–	108,537
Others						
Property	**-**	**13,181**	**13,181**	–	13,270	13,270
Qualifying insurance policies	**-**	**66,966**	**66,966**	–	43,503	43,503
Cash and cash equivalents	**30,664**	**-**	**30,664**	16,302	–	16,302
Investment funds	**-**	**38,503**	**38,503**	–	55,821	55,821
Structured bonds	**-**	**50,158**	**50,158**	–	81,180	81,180
Others	**-**	**2,290**	**2,290**	–	371	371
	30,664	**171,098**	**201,762**	16,302	194,145	210,447
	175,250	**171,098**	**346,348**	140,452	194,145	334,597
Medical plan						
Cash and cash equivalents	**1,453**	**-**	**1,453**	2,391	–	2,391

The long term strategic asset allocations of the plans are set and reviewed from time to time by the plans' trustees taking into account the membership, liability profile and the liquidity requirements of the plans.

The weighted average duration of the defined benefit obligation is 12.5 years.

(c) Additional information on post-employment benefits (pension and medical) *(continued)*

Expected maturity analysis of undiscounted pension and post-employments medical benefits:

At March 31, 2019	Less than a year US$'000	Between 1-2 years US$'000	Between 2-5 years US$'000	Over 5 years US$'000	Total US$'000
Pension benefits	**21,238**	**21,450**	**81,261**	**822,903**	**946,852**
Post-employment medical benefits	**947**	**1,030**	**3,666**	**41,573**	**47,216**
Total	**22,185**	**22,480**	**84,927**	**864,476**	**994,068**

Pension and medical plan assets do not include any of the Company's ordinary shares or US real estate occupied by the Group (2018: nil).

Reconciliation of fair value of plan assets of the Group:

	Pension		Medical	
	2019 US$'000	2018 US$'000	**2019 US$'000**	2018 US$'000
Opening fair value	**334,597**	300,872	**2,391**	3,568
Exchange adjustment	**(21,483)**	21,767	**(15)**	–
Interest income	**5,156**	5,287	**79**	103
Remeasurements:				
Experience gain/(loss)	**3,661**	5,644	**(22)**	318
Contributions by the employer	**19,868**	25,681	**32**	41
Contributions by plan participants	**661**	663	**–**	–
Benefits paid	**(35,785)**	(25,317)	**(1,012)**	(1,639)
Acquisition of subsidiaries	**39,673**	–	**–**	–
Closing fair value	**346,348**	334,597	**1,453**	2,391
Actual return on plan assets	**8,817**	10,931	**57**	421

Contributions of US$20,603,000 are estimated to be made for the year ending March 31, 2020.

35 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(c) Additional information on post-employment benefits (pension and medical) *(continued)*

Reconciliation of movements in present value of defined benefit obligations of the Group:

	Pension		Medical	
	2019 US$'000	2018 US$'000	**2019 US$'000**	2018 US$'000
Opening defined benefit obligation	**722,229**	646,149	**28,241**	28,498
Exchange adjustment	**(48,978)**	54,847	**(110)**	215
Current service cost	**17,447**	14,516	**586**	315
Past service cost	**(1,235)**	(1,141)	**–**	–
Interest cost	**11,564**	11,051	**911**	965
Remeasurements:				
(Gain)/loss from change in demographic assumptions	**(1,024)**	(609)	**(201)**	5
Loss/(gain) from changes in financial assumptions	**27,538**	13,487	**(9)**	10
Experience loss/(gain)	**3,395**	13,363	**(419)**	(497)
Contributions by plan participants	**684**	663	**–**	–
Benefits paid	**(46,854)**	(27,397)	**(1,023)**	(1,270)
Curtailment loss/(gain)	**682**	(2,700)	**–**	–
Acquisition of subsidiaries	**68,623**	–	**–**	–
Closing defined benefit obligation	**754,071**	722,229	**27,976**	28,241

During the year, benefits of US$11,069,000 were settled directly by the Group (2018: US$2,080,000).

Summary of pensions and post-retirement medical benefits of the Group:

	2019 US$'000	2018 US$'000	2017 US$'000	2016 US$'000	2015 US$'000
Present value of defined benefit obligations	**782,047**	750,470	674,647	739,805	699,680
Fair value of plan assets	**347,801**	336,988	304,440	296,931	289,562
Deficit	**434,246**	413,482	370,207	442,874	410,118
Actuarial (gains)/losses arising on plan assets	**(3,639)**	(5,962)	6,620	3,580	(29,070)
Actuarial losses/(gains) arising on plan liabilities	**29,280**	25,759	(49,398)	21,082	99,157
	25,641	19,797	(42,778)	24,662	70,087

35 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(c) Additional information on post-employment benefits (pension and medical) *(continued)*

The amounts recognized in the consolidated income statement are as follows:

	Pension		Medical	
	2019 US$'000	2018 US$'000	**2019 US$'000**	2018 US$'000
Current service cost	**17,447**	14,516	**586**	315
Past service cost	**(1,235)**	(1,141)	**-**	–
Interest cost	**11,564**	11,051	**911**	965
Interest income	**(5,156)**	(5,287)	**(79)**	(103)
Curtailment loss/(gain)	**682**	(2,700)	**-**	–
Total expense recognized in the consolidated income statement	**23,302**	16,439	**1,418**	1,177

36 BUSINESS COMBINATIONS

During the year, the Group completed two business combination activities aiming at expanding the Group's existing scale of operations and to enlarge the Group's market share.

On May 2, 2018, the Group acquired 51% interest of FCCL. FCCL is principally engaged in manufacturing and distribution of PC products. Immediately following completion, the Company, Fujitsu Limited and Development Bank of Japan respectively own 51%, 44% and 5% of the interest in FCCL. The acquisition of FCCL provides the Group with efficiencies and economies of scale to benefit the development, manufacture and distribution of Fujitsu-branded personal computer products, while enabling improved global penetration of the Fujitsu personal computer brand for the benefit of both consumer and enterprise market customers.

During the year, the Group has set up a non-wholly owned subsidiary, Lenovo NetApp Technology Limited ("LNTL"), with Solidfire BV ("NetApp") for the purpose of business acquisition of storage business in China from NetApp. Such business acquisition was completed on February 18, 2019. Immediately following the completion, the Group and NetApp respectively own 51% and 49% of the interest in LNTL. LNTL is principally engaged in the business of developing and distributing storage solutions and products in China. The acquisition provides the Group with exclusive right in distributing NetApp branded storage products in China and enlarges the Group's market share of storage business in China.

The estimated total consideration for the business combination activities completed during the year is approximately US$287 million, including initial and contingent consideration.

36 BUSINESS COMBINATIONS *(continued)*

Set forth below is the preliminary calculation of goodwill:

	FCCL US$'000	LNTL US$'000	Total US$'000
Purchase consideration:			
– Cash paid (a)	127,104	48,600	175,704
– Fair value of contingent consideration (b)	111,047	–	111,047
Total purchase consideration	238,151	48,600	286,751
Less: fair value of net assets acquired	(114,267)	(43,069)	(157,336)
Goodwill	123,884	5,531	129,415

(a) For the acquisition of FCCL, cash payment comprising cash consideration of JPY17,680,280,000 (US$161.0 million) net of a downward adjustment of JPY3,722,999,906 (US$33.9 million) calculated based on the actual working capital amount and the actual net debt as at the completion date was made to Fujitsu Limited.

For the acquisition of LNTL, cash payment of US$48.6 million was made to LNTL.

(b) The contingent consideration is to be payable in cash after March 31, 2020. The fair value of contingent consideration is included in other non-current liabilities in the balance sheet.

The major components of assets and liabilities arising from the business combination activities are as follows:

	FCCL US$'000	LNTL US$'000	Total US$'000
Cash and cash equivalents	22,906	53,500	76,406
Property, plant and equipment	33,564	700	34,264
Deferred income tax assets less liabilities	(23,743)	(12,150)	(35,893)
Intangible assets	164,907	48,600	213,507
Other non-current assets	9,455	–	9,455
Net working capital except cash and cash equivalents	56,249	(6,200)	50,049
Non-current liabilities	(39,285)	–	(39,285)
Fair value of net assets acquired	224,053	84,450	308,503
Less: share of other non-controlling interests	(109,786)	(41,381)	(151,167)
Fair value of net assets attributable to the interest acquired	114,267	43,069	157,336

36 BUSINESS COMBINATIONS *(continued)*

Intangible assets arising from the business combination activities mainly represent customer relationships and an exclusive right. The Group has engaged external valuers to perform fair value assessments on these intangible assets in accordance with HKAS 38 “Intangible Assets” and HKFRS 3 (Revised) “Business Combination”.

At March 31, 2019, the Group has not finalized the fair value assessments for net assets acquired (including intangible assets) from the business combination activities. The relevant fair values of net assets stated above are on a provisional basis.

Acquisition-related costs of US$9.4 million have been charged to administrative expenses in the consolidated income statement for the year ended March 31, 2019.

The aggregate revenue included in the consolidated income statement since May 2, 2018 and February 18, 2019 contributed by FCCL and LNTL was approximately US$2,778 million and US$5 million, respectively. FCCL contributed an aggregate profit after taxation of approximately US$89 million and LNTL incurred an aggregate loss after taxation of approximately US$3 million over the same period.

No separate set of financial information was prepared for FCCL and LNTL before the acquisition. Accordingly, disclosure of the revenue and profit/loss after taxation of both newly acquired businesses for the full year from April 1, 2018 has not been made.

37 PRINCIPAL SUBSIDIARIES

The following includes the principal subsidiaries directly or indirectly held by the Company and, in the opinion of the directors, are significant to the results of the year or form a substantial portion of the net assets of the Group. The directors consider that giving details of other subsidiaries would result in particulars of excessive length.

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2019	2018	Principal activities
Held directly:					
聯想（北京）有限公司 (Lenovo (Beijing) Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$175,481,300	**100%**	100%	Manufacturing and distribution of IT products and provision of IT services
聯想（上海）有限公司 (Lenovo (Shanghai) Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$10,000,000	**100%**	100%	Distribution of IT products and provision of IT services

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2019	2018	Principal activities
Held indirectly:					
Fujitsu Client Computing Limited	Japan	JPY400,000,000	**51%**	-	Manufacturing and distribution of IT products
聯寶(合肥)電子科技有限公司 (LCFC (Hefei) Electronics Technology Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	US$265,000,000	**51%**	51%	Manufacturing and distribution of IT products
Lenovo (Asia Pacific) Limited	Hong Kong	HK$3,045,209,504.92	**100%**	100%	Investment holding and distribution of IT products
北京聯想軟件有限公司 (Beijing Lenovo Software Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$5,000,000	**100%**	100%	Provision of IT services and distribution of IT products
Lenovo (Australia & New Zealand) Pty Limited	Australia	AUD45,860,993.40	**100%**	100%	Distribution of IT products
Lenovo (Belgium) BVBA	Belgium	EUR1,317,700,834.94	**100%**	100%	Investment holding and distribution of IT products
Lenovo (Canada) Inc.	Canada	CAD10,000,000	**100%**	100%	Distribution of IT products
Lenovo Computer Limited	Hong Kong	HK$2	**100%**	100%	Procurement agency and distribution of IT products
Lenovo (Danmark) ApS	Denmark	DKK126,000	**100%**	100%	Distribution of IT products

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2019	Percentage of issued capital held 2018	Principal activities
Lenovo (Deutschland) GmbH	Germany	EUR25,100	**100%**	100%	Distribution of IT products
Lenovo Enterprise Solutions (Singapore) Pte. Ltd.	Singapore	SGD55,958,592	**100%**	100%	Manufacturing and wholesaling of computers, computer hardware and peripheral equipment
Lenovo Enterprise Solutions Ltd.	Japan	JPY50,000,000	**100%**	100%	Distribution of IT products
Lenovo (France) SAS	France	EUR1,837,000	**100%**	100%	Distribution of IT products
Lenovo HK Services Limited	Hong Kong	HK$2	**100%**	100%	Provision of business planning, management, global supply chain, finance, and administration support services
Lenovo Global Technology (Asia Pacific) Limited	Hong Kong	US$123,001	**100%**	100%	Investment holding and distribution of IT products
Lenovo Global Technology HK Limited	Hong Kong	US$10,000,001	**100%**	100%	Procurement agency and distribution of IT products
Lenovo Global Technology (Hong Kong) Distribution Limited	Hong Kong	US$1	**100%**	100%	Distribution of IT products
Lenovo (Hong Kong) Limited	Hong Kong	HK$74,256,023	**100%**	100%	Distribution of IT products

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2019	2018	Principal activities
惠陽聯想電子工業有限公司 (Lenovo (Huiyang) Electronic Industrial Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$31,955,500	**100%**	100%	Manufacturing and distribution of IT products
Lenovo (India) Private Limited	India	INR8,607,471,514	**100%**	100%	Manufacturing and distribution of IT products
聯想信息產品(深圳)有限公司 (Lenovo Information Products (Shenzhen) Co. Ltd.)[1] (limited liability company (wholly-owned entity))	Chinese Mainland	RMB643,966,800	**100%**	100%	Manufacturing and distribution of IT products
Lenovo (Israel) Ltd.	Israel	ILS1,000	**100%**	100%	Distribution of IT products
Lenovo (Italy) S.r.l	Italy	EUR100,000	**100%**	100%	Distribution of IT products
Lenovo (Japan) Ltd.	Japan	JPY100,000,000	**66.64%**	66.64%	Distribution of IT products
Lenovo Korea LLC	Korea	KRW3,580,940,000	**100%**	100%	Distribution of IT products
Lenovo Mexico, S. de R.L. de C.V.	Mexico	MXN1,424,048,114	**100%**	100%	Distribution of IT products
聯想移動通信科技有限公司 (Lenovo Mobile Communication Technology Ltd.)[1] (foreign-investment enterprise wholly-owned entity)	Chinese Mainland	RMB187,500,000	**100%**	100%	Manufacturing and distribution of IT products and provision of IT services

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2019	2018	Principal activities
摩托羅拉（武漢）移動技術通信有限公司 (Motorola (Wuhan) Mobility Technologies Communication Company Limited)[1] 前稱"聯想移動通信（武漢）有限公司" (formerly known as "Lenovo Mobile Communication (Wuhan) Limited")[1] (foreign-investment enterprise wholly-owned entity)	Chinese Mainland	RMB60,000,000	**100%**	100%	Manufacturing of mobile products
Lenovo NetApp Technology Limited	Chinese Mainland	US$10,000,000	**51%**	-	Delivering IT products and data management solution
Lenovo PC HK Limited	Hong Kong	HK$2,377,934,829.50 ordinary and HK$1,000,000 non-voting deferred	**100%**	100%	Procurement agency and distribution of IT products
Lenovo PC International Limited	Hong Kong	HK$4,758,857,785	**100%**	100%	Intellectual properties
Lenovo (Schweiz) GmbH	Switzerland	CHF2,000,000	**100%**	100%	Manufacturing and distribution of IT products
Lenovo (Singapore) Pte. Ltd.	Singapore	SGD1,971,231,035.94	**100%**	100%	Manufacturing and wholesaling of computers, computer hardware and peripheral equipment

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2019	2018	Principal activities
Lenovo (South Africa) (Pty) Limited	South Africa	RAND100	**100%**	100%	Distribution of IT products
Lenovo (Spain), S.L.	Spain	EUR37,475,456.40	**100%**	100%	Distribution of IT products
Lenovo (Sweden) AB	Sweden	SEK200,200	**100%**	100%	Distribution of IT products
聯想系統集成(深圳)有限公司 (Lenovo Systems Technology Company Limited)[1] (有限責任公司(法人獨資)) (limited liability company (wholly-owned entity))	Chinese Mainland	RMB263,407,660	**100%**	100%	Manufacturing and distribution of IT products
Lenovo Technology (United Kingdom) Limited	United Kingdom	GBP8,629,510	**100%**	100%	Distribution of IT products
Lenovo Technology B.V.	Netherlands	EUR20,000	**100%**	100%	Distribution of IT products
Lenovo Technology Sdn. Bhd.	Malaysia	MYR1,000,000	**100%**	100%	Selling and distribution of computer hardware, software and peripherals and services
Lenovo Tecnologia (Brasil) Ltda	Brazil	BRL4,424,321,818	**100%**	100%	Manufacturing and distribution of IT products
Lenovo (Thailand) Limited	Thailand	THB243,000,000	**100%**	100%	Distribution of IT products as well as mobile phone, smart phone and tablet, server and storage
Lenovo (United States) Inc.	United States	US$1	**100%**	100%	Distribution of IT products
Lenovo (Venezuela), SA	Venezuela	VEB717,184,632	**100%**	100%	Distribution of IT products

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2019	2018	Principal activities
聯想(西安)有限公司 (Lenovo (Xian) Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB10,000,000	**100%**	100%	Provision of IT services and distribution of IT products
LLC "Lenovo (East Europe/Asia)"	Russia	RUB1,910,000	**100%**	100%	Distribution and marketing of IT products
Medion AG	Germany	EUR48,418,400	**79.84%**	79.83%	Retail and service business for consumer electronic products and complementary digital services
Motorola Mobility Comércio de Produtos Eletronicos Ltda.	Brazil	BRL756,663,401	**100%**	100%	Developer, owner, licensor and seller of communications hardware and software
Motorola Mobility International Sales LLC	United States	–	**100%**	100%	Holding company
Motorola Mobility LLC	United States	–	**100%**	100%	Developer, owner, licensor and seller of communications hardware and software
NEC Personal Computers, Ltd.	Japan	JPY500,000,000	**66.64%**	66.64%	Manufacturing and distribution of IT products
深圳聯想海外控股有限公司 (Shenzhen Lenovo Overseas Holdings Limited)[1] (wholly-foreign owned enterprise)	Chinese Mainland	US$760,822,799.24	**100%**	100%	Investment management

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2019	2018	Principal activities
Shimane Fujitsu Limited	Japan	JPY450,000,000	**51%**	-	Manufacturing and distribution of IT products
Stoneware, Inc.	United States	US$861,341.25	**100%**	100%	Development and distribution of IT products
陽光雨露信息技術服務（北京）有限公司 (Sunny Information Technology Service, Inc.)1 (Chinese-foreign equity joint venture)	Chinese Mainland	RMB50,000,000	**100%**	100%	Provision of repair services for computer hardware and software systems

Notes:

(i) All the above subsidiaries operate principally in their respective places of incorporation or establishment.

(ii) All the Chinese Mainland subsidiaries are limited liability companies. They have adopted December 31 as their financial year end date for statutory reporting purposes. For the preparation of the consolidated financial statements, financial statements of these Chinese Mainland subsidiaries for the years ended March 31, 2018 and 2019 have been used.

(iii) Medion AG is a publicly traded German stock corporation listed on the Frankfurt am Main stock exchange. The percentage of issued capital held is equivalent to approximately 86.52% (2018: 86.51%) excluding treasury shares.

(iv) The company whose English name ends with a “1” is a direct transliteration of its Chinese registered name.

38 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on May 23, 2019.

Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF LENOVO GROUP LIMITED

(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of Lenovo Group Limited (the "Company") and its subsidiaries (the"Group") set out on pages 167 to 266, which comprise:

- the consolidated balance sheet as at March 31, 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at March 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(continued)*

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of goodwill and other intangible assets with indefinite useful lives

- Recognition of deferred income tax assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill and other intangible assets with indefinite useful lives	
Refer to notes 4(a) and 17 to the consolidated financial statements	Our procedures included:
As at March 31, 2018, the Group had goodwill and other intangible assets with indefinite useful lives totalling US$6,362 million, for which management is required to perform annual impairment assessment. For the purpose of assessing impairment, these assets were allocated to cash generating units ("CGUs"), and the recoverable amount of each CGU was determined by management based on value in use calculations using cash flow projections. In carrying out the impairment assessments, significant management judgements were used to appropriately identify CGUs and to determine the key assumptions, including revenue growth rates, operating margins and discount rates. Management has concluded that there is no impairment in respect of the goodwill and other intangible assets with indefinite useful lives. We focused on this area because the value in use calculations required significant management judgements with respect to revenue growth rates, operating margins and discount rates.	• We assessed management's identification of CGUs based on the Group's accounting policies and our understanding of the Group's business. • We assessed the value in use calculation methodology adopted by management. • We assessed the reasonableness of key assumptions such as revenue growth rates, operating margins and discount rates with reference to the business and industry circumstances. • We reconciled input data to supporting evidence, such as approved forecasts of future profits and strategic plans. • We considered the reasonableness of the forecasts of future profits and strategic plans by comparing them against past results achieved. • We assessed management's sensitivity analysis around the key assumptions, to ascertain the extent to which adverse changes, both individually or in aggregate, might impact on the outcome of the impairment assessment of the goodwill and other intangible assets with indefinite useful lives. We found the judgements made by management in relation to the impairment assessment to be supportable based on the available evidence.

KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Recognition of deferred income tax assets	
Refer to notes 4(b) and 20 to the consolidated financial statements	Our procedures included:
As at March 31, 2018, the Group had deferred income tax assets of US$1,531 million. Management has applied tax rates that have been enacted or substantively enacted by the balance sheet date in determining deferred income tax assets, including applying the new corporate tax rate in the United States which is effective from January 1, 2018. The recognition of the deferred income tax assets involves significant management judgements as to the likelihood of their realization that is dependent on a number of factors, including whether there will be sufficient taxable profits, or reversals of taxable temporary differences in future periods and tax plans. Management has performed its assessment on the recognition of these deferred income tax assets and considers that the realization of these assets is probable as at March 31, 2018. We focused on this area because of the inherent uncertainties involved in forecasting future taxable profits and future reversals of taxable temporary differences.	• We evaluated management's assessment as to whether there will be sufficient taxable profits in future periods by reference to forecasts of future profits and strategic plans and future reversals of taxable temporary differences to support the recognition of deferred income tax assets. • We assessed the underlying assumptions used in management's approved forecasts of future profits such as revenue growth rates and operating margins by comparison to historical results and future strategic and tax plans and with reference to the business and industry circumstances. • We tested management's reconciliations of forecast profits to forecast taxable profits to supporting evidence on a sample basis. • We tested and agreed available tax losses, including the respective expiry periods to tax returns and tax correspondence of the relevant subsidiaries. • We tested the calculation of deferred income tax assets by reference to tax rates enacted or substantively enacted by the balance sheet date. We found the judgements made by management in relation to recognition of deferred income tax assets to be supportable based on the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheng Woon Yin Michael.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, May 24, 2018

Consolidated Income Statement

For the year ended March 31, 2018

	Note	2018 US$'000	2017 US$'000
Revenue	5	**45,349,943**	43,034,731
Cost of sales		**(39,077,812)**	(36,929,215)
Gross profit		**6,272,131**	6,105,516
Other income – net	6	**301**	10,891
Selling and distribution expenses		**(2,833,253)**	(2,680,631)
Administrative expenses		**(1,757,319)**	(1,851,990)
Research and development expenses		**(1,273,729)**	(1,361,691)
Other operating (expenses)/income – net		**(21,408)**	450,253
Operating profit	7	**386,723**	672,348
Finance income	8(a)	**32,145**	27,795
Finance costs	8(b)	**(263,160)**	(231,627)
Share of (losses)/profits of associates and joint ventures	18	**(2,506)**	21,411
Profit before taxation		**153,202**	489,927
Taxation	9	**(279,977)**	40,514
(Loss)/profit for the year		**(126,775)**	530,441
(Loss)/profit attributable to:			
Equity holders of the Company		**(189,323)**	535,084
Perpetual securities holders		**53,680**	1,872
Other non-controlling interests		**8,868**	(6,515)
		(126,775)	530,441
(Loss)/earnings per share attributable to equity holders of the Company			
Basic	12(a)	**US(1.67) cents**	US4.86 cents
Diluted	12(b)	**US(1.67) cents**	US4.86 cents
Dividends	13	**399,284**	378,375

Consolidated Statement of Comprehensive Income

For the year ended March 31, 2018

	Note	**2018 US$'000**	2017 US$'000
(Loss)/profit for the year		**(126,775)**	530,441
Other comprehensive (loss)/income:			
Item that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations, net of taxes	9, 36	**(19,797)**	42,390
Items that have been reclassified or may be subsequently reclassified to profit or loss			
Fair value change on available-for-sale financial assets, net of taxes	9, 21	**224**	8,713
Investment revaluation reserve reclassified to consolidated income statement on disposal of available-for-sale financial assets	9	**-**	(12,640)
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes	9		
– Fair value (loss)/gain, net of taxes		**(233,651)**	96,993
– Reclassified to consolidated income statement		**222,073**	(13,993)
Currency translation differences		**288,711**	(85,423)
Other comprehensive income for the year		**257,560**	36,040
Total comprehensive income for the year		**130,785**	566,481
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		**68,237**	571,124
Perpetual securities holders		**53,680**	1,872
Other non-controlling interests		**8,868**	(6,515)
		130,785	566,481

Consolidated Balance Sheet

At March 31, 2018

	Note	2018 US$'000	2017 US$'000
Non-current assets			
Property, plant and equipment	14	**1,304,751**	1,236,250
Prepaid lease payments	15	**507,628**	473,090
Construction-in-progress	16	**382,845**	413,160
Intangible assets	17	**8,514,504**	8,349,145
Interests in associates and joint ventures	18	**35,666**	32,567
Deferred income tax assets	20	**1,530,623**	1,435,256
Available-for-sale financial assets	21	**373,077**	255,898
Other non-current assets		**181,759**	122,221
		12,830,853	12,317,587
Current assets			
Inventories	22	**3,791,691**	2,794,035
Trade receivables	23(a)	**4,972,722**	4,468,392
Notes receivable	23(b)	**11,154**	68,333
Derivative financial assets		**24,890**	53,808
Deposits, prepayments and other receivables	23(c)	**4,703,335**	4,333,351
Income tax recoverable		**227,203**	199,149
Bank deposits	24	**84,306**	196,720
Cash and cash equivalents	24	**1,848,017**	2,754,599
		15,663,318	14,868,387
Total assets		**28,494,171**	27,185,974

Consolidated Balance Sheet

At March 31, 2018

	Note	2018 US$'000	2017 US$'000
Share capital	29	**3,185,923**	2,689,882
Reserves		**332,697**	533,719
Equity attributable to owners of the Company		**3,518,620**	3,223,601
Perpetual securities	30	**993,670**	843,677
Other non-controlling interests		**246,598**	240,844
Put option written on non-controlling interest	26(a)(iii)	**(212,900)**	(212,900)
Total equity		**4,545,988**	4,095,222
Non-current liabilities			
Borrowings	27	**2,648,725**	2,966,692
Warranty provision	26(b)	**278,908**	280,421
Deferred revenue		**583,405**	537,428
Retirement benefit obligations	36	**413,482**	370,207
Deferred income tax liabilities	20	**230,609**	221,601
Other non-current liabilities	28	**333,332**	380,557
		4,488,461	4,756,906
Current liabilities			
Trade payables	25(a)	**6,450,792**	5,649,925
Notes payable	25(b)	**801,974**	835,613
Derivative financial liabilities		**62,694**	67,285
Other payables and accruals	26(a)	**9,217,764**	10,004,614
Provisions	26(b)	**858,475**	873,405
Deferred revenue		**732,552**	586,536
Income tax payable		**168,779**	246,465
Borrowings	27	**1,166,692**	70,003
		19,459,722	18,333,846
Total liabilities		**23,948,183**	23,090,752
Total equity and liabilities		**28,494,171**	27,185,974

On behalf of the Board

Yang Yuanqing
Chairman and Chief Executive Officer

Ma Xuezheng
Director

Consolidated Cash Flow Statement

For the year ended March 31, 2018

	Note	2018 US$'000	2017 US$'000
Cash flows from operating activities			
Net cash (used in)/generated from operations	35	**(61,991)**	2,697,332
Interest paid		**(243,584)**	(173,659)
Tax paid		**(450,718)**	(403,851)
Net cash (used in)/generated from operating activities		**(756,293)**	2,119,822
Cash flows from investing activities			
Purchase of property, plant and equipment		**(217,849)**	(117,873)
Purchase of prepaid lease payments		**(10,908)**	(175,570)
Sale of property, plant and equipment, prepaid lease payments and construction-in-progress		**40,525**	411,872
Interests acquired in an associate and joint ventures		**(2,205)**	(11,024)
Net proceeds from disposal of a joint venture		**160,564**	78,497
Payment for construction-in-progress		**(285,447)**	(345,685)
Payment for intangible assets		**(156,390)**	(164,326)
Purchase of available-for-sale financial assets		**(100,466)**	(124,110)
Net proceeds from disposal of available-for-sale financial assets		**165**	11,897
Repayment of contingent/deferred considerations		**(686,301)**	(983,335)
Decrease/(increase) in bank deposits		**112,414**	(44,384)
Dividends received		**286**	38,674
Interest received		**32,145**	27,795
Net cash used in investing activities		**(1,113,467)**	(1,397,572)
Cash flows from financing activities			
Net proceeds from issue of ordinary shares	12(b)	**496,041**	–
Acquisition of additional interest in a subsidiary		**–**	(20,439)
Contribution to employee share trusts		**(61,211)**	(119,042)
Dividends paid		**(380,750)**	(376,898)
Dividends paid to other non-controlling interests		**(4,937)**	–
Distribution to perpetual securities holders		**(53,312)**	–
Issue of perpetual securities		**149,625**	841,805
Capital contribution from other non-controlling interests		**1,823**	6,023
Proceeds from borrowings		**7,425,740**	3,223,391
Repayments of borrowings		**(6,724,406)**	(3,905,564)
Issue of notes		**749,119**	495,821
Repayment of notes		**(723,389)**	–
Net cash generated from financing activities		**874,343**	145,097
(Decrease)/increase in cash and cash equivalents		**(995,417)**	867,347
Effect of foreign exchange rate changes		**88,835**	(39,628)
Cash and cash equivalents at the beginning of the year		**2,754,599**	1,926,880
Cash and cash equivalents at the end of the year	24	**1,848,017**	2,754,599

Consolidated Statement of Changes in Equity

For the year ended March 31, 2018

	Attributable to equity holders of the Company											
	Share capital US$'000	Investment revaluation reserve US$'000	Employee share trusts US$'000	Share-based compensation reserve US$'000	Hedging reserve US$'000	Exchange reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Perpetual securities US$'000	Other non-controlling interests US$'000	Put option written on non-controlling interest US$'000	Total US$'000
At April 1, 2016	2,689,882	962	(52,897)	13,161	(88,328)	(1,141,195)	83,363	1,495,252	-	238,949	(212,900)	3,026,249
Profit/(loss) for the year	-	-	-	-	-	-	-	535,084	1,872	(6,515)	-	530,441
Other comprehensive (loss)/income	-	(3,927)	-	-	83,000	(85,423)	-	42,390	-	-	-	36,040
Total comprehensive (loss)/income for the year	-	(3,927)	-	-	83,000	(85,423)	-	577,474	1,872	(6,515)	-	566,481
Transfer to statutory reserve	-	-	-	-	-	-	2,214	(2,214)	-	-	-	-
Vesting of shares under long-term incentive program	-	-	60,711	(72,368)	-	-	-	-	-	-	-	(11,657)
Share-based compensation	-	-	-	182,700	-	-	-	-	-	-	-	182,700
Contribution to employee share trusts	-	-	(119,042)	-	-	-	-	-	-	-	-	(119,042)
Change in ownership interest in a subsidiary	-	-	-	-	-	-	(22,826)	-	-	2,387	-	(20,439)
Issue of perpetual securities (Note 30)	-	-	-	-	-	-	-	-	841,805	-	-	841,805
Capital contribution from other non-controlling interests	-	-	-	-	-	-	-	-	-	6,023	-	6,023
Dividends paid	-	-	-	-	-	-	-	(376,898)	-	-	-	(376,898)
At March 31, 2017	2,689,882	(2,965)	(111,228)	123,493	(5,328)	(1,226,618)	62,751	1,693,614	843,677	240,844	(212,900)	4,095,222
At April 1, 2017	**2,689,882**	**(2,965)**	**(111,228)**	**123,493**	**(5,328)**	**(1,226,618)**	**62,751**	**1,693,614**	**843,677**	**240,844**	**(212,900)**	**4,095,222**
(Loss)/profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(189,323)**	**53,680**	**8,868**	**-**	**(126,775)**
Other comprehensive income/(loss)	**-**	**224**	**-**	**-**	**(11,578)**	**288,711**	**-**	**(19,797)**	**-**	**-**	**-**	**257,560**
Total comprehensive income/(loss) for the year	**-**	**224**	**-**	**-**	**(11,578)**	**288,711**	**-**	**(209,120)**	**53,680**	**8,868**	**-**	**130,785**
Transfer to statutory reserve	**-**	**-**	**-**	**-**	**-**	**-**	**15,097**	**(15,097)**	**-**	**-**	**-**	**-**
Vesting of shares under long-term incentive program	**-**	**-**	**70,737**	**(91,528)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(20,791)**
Deferred tax charge in relation to long-term incentive program	**-**	**-**	**-**	**(2,196)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,196)**
Share-based compensation	**-**	**-**	**-**	**202,088**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**202,088**
Contribution to employee share trusts	**-**	**-**	**(61,211)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(61,211)**
Issue of perpetual securities (Note 30)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**149,625**	**-**	**-**	**149,625**
Issue of ordinary shares	**496,041**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**496,041**
Issue of bonus warrants	**-**	**-**	**-**	**-**	**-**	**-**	**(6,399)**	**-**	**-**	**-**	**-**	**(6,399)**
Capital contribution from other non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,823**	**-**	**1,823**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(380,750)**	**-**	**-**	**-**	**(380,750)**
Dividends paid to other non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,937)**	**-**	**(4,937)**
Distribution to perpetual securities holders (Note 30)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(53,312)**	**-**	**-**	**(53,312)**
At March 31, 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**

1 GENERAL INFORMATION AND BASIS OF PREPARATION

Lenovo Group Limited (the "Company") and its subsidiaries (together, the "Group") develop, manufacture and market reliable, high-quality, secure and easy-to-use technology products and services. Its product lines include legendary Think-branded commercial personal computers and Idea-branded consumer personal computers, as well as servers, workstations, and a family of mobile internet devices, including tablets and smartphones.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 23rd Floor, Lincoln House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong. The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are stated at fair values, as explained in the significant accounting policies set out below.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Changes in accounting policies and disclosures

The Group has adopted the following new amendments to existing standards that are mandatory for the year ended March 31, 2018 which the Group considers are appropriate and relevant to its operations:

– Amendments to HKAS 7, Disclosure initiative

– Amendments to HKAS 12, Recognition of deferred tax assets for unrealised losses

The adoption of these newly effective amendments to existing standards does not result in substantial changes to the Group's accounting policies or financial results. The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see note 35(a).

Notes to the Financial Statements

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

Changes in accounting policies and disclosures *(continued)*

At the date of approval of these financial statements, the following new standards and 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 ended March 31, 2018 and have not been early adopted:

	Effective for annual periods beginning on or after
HKFRS 9, Financial instruments	January 1, 2018
HKFRS 15, Revenue from contracts with customers	January 1, 2018
HKFRS 16, Leases	January 1, 2019
HKFRS 17, Insurance contracts	January 1, 2021
HK (IFRIC) – Int 22, Foreign currency transactions and advance consideration	January 1, 2018
HK (IFRIC) – Int 23, Uncertainty over income tax treatments	January 1, 2019
Amendments to HKFRS 2, Share-based payment	January 1, 2018
Amendments to HKFRS 10 and HKAS 28, Consolidated financial statements and investments in associates	Date to be determined

Among the above, the three new standards are of higher relevancy to the Group's operations. The following describes the key changes that may impact the consolidated financial statements of the Group.

HKFRS 9, Financial instruments

The new standard addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to the profit or loss in the future. For financial liabilities there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. Under the new hedge accounting rules, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

Under HKFRS 9, trade receivables of the Group are likely to be classified as FVOCI instruments with earlier recognition of loss is expected, and amount of relevant impairment provision may be revised when ECL is referenced. The Group currently holds certain investments in equity instruments which are classified as FVOCI instruments. Gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

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

HKFRS 9, Financial instruments *(continued)*

The Group has assessed the effects of applying the new standard on the consolidated financial statements and has not identified any material impact to the Group.

The Group will apply the new rules retrospectively from April 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated, except in relation to changes in the fair value of foreign exchange forward contracts attributable to forward points, which will be recognised in the costs of hedging reserve.

HKFRS 15, Revenue from contracts with customers

This standard will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Under HKFRS 15, revenue arising from channel sales of the Group may subject to a different timing of recognition, which may impact the amount of revenue recognized by the Group for a given period.

The Group has assessed the effects of the applying the new standard on the consolidated financial statements and has not identified any material impact to the Group.

The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of April 1, 2018 and that comparatives will not be restated.

HKFRS 16, Leases

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 standard, the right to use the leased item and the duty 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 will affect primarily the accounting for operating leases of the Group. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

At March 31, 2018, the Group had operating lease commitments of US$521 million. Upon adoption of HKFRS 16 the majority of operating lease commitments will be recognized in the consolidated balance sheet as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortized cost and the right-of-use asset will be depreciated on a straight-line basis during the lease term.

The Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Based on the assessment performed, the Group is in the opinion that the adoption of above new standards and amendments to standards will not result in a significant effect on its consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Principles of consolidation and equity accounting

(i) Subsidiaries

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to March 31.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to (ii))

Intra-group transactions, balances, income and expenses on transactions are eliminated. Profits and losses resulting from intra-group transactions that are recognized in assets are also eliminated.

Adjustments have been made to the financial statements of subsidiaries when necessary to align their accounting policies to ensure consistency with the policies adopted by the Group.

For subsidiaries which adopted December 31 as their financial year end date for statutory reporting purposes, their financial statements for the years ended March 31, 2017 and 2018 have been used for the preparation of the Group's consolidated financial statements.

(ii) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

(a) Principles of consolidation and equity accounting *(continued)*

(ii) Business combinations *(continued)*

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in the consolidated income statement. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and, in a business combination achieved in stages the acquisition-date fair value of any previous equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed (Note 2(g)(i)). If it is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated income statement.

(iii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Principles of consolidation and equity accounting *(continued)*

(iii) Changes in ownership interests *(continued)*

The potential cash payments related to put options issued by the Group over the equity of a subsidiary are accounted for as financial liabilities. The amount that may become payable under the option on exercise is initially recognized at fair value as a written put option liability with a corresponding charge directly to equity.

A written put option liability is subsequently 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 option expires unexercised, the written put option liability is derecognized with a corresponding adjustment to equity.

(iv) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized as other comprehensive income/expense in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized as other comprehensive income/expense are reclassified to the consolidated income statement.

(v) Separate financial statements

Investments in subsidiaries in the Company's balance sheet are accounted for at cost less impairment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(b) Associates and joint arrangements

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor, rather than the legal structures of the joint arrangements. The Group has assessed the nature of its joint arrangements and applied HKFRS 11 in preparing the consolidated financial statements.

(b) Associates and joint arrangements *(continued)*

Associates and joint ventures

Interests in associates and joint ventures are accounted for using the equity method of accounting and are initially recognized at cost. The Group's interests in associates and joint ventures include goodwill identified on acquisition, net of any accumulated impairment losses.

The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income/expense is recognized as other comprehensive income/expense with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or the joint venture including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or the joint venture.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate and joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount adjacent to share of profit/(loss) of associates and joint ventures in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates or joint ventures are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates or the joint ventures. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

For associates and joint ventures which adopted December 31 as their financial year end date for statutory reporting purposes, their financial statements for the years ended March 31, 2017 and 2018 have been used for the preparation of the Group's consolidated financial statements.

Joint operation

Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. Investments in joint operations are accounted for such that each joint operator recognizes its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Lenovo Executive Committee (the "LEC") that makes strategic decisions.

(d) Translation of foreign currencies

(i) Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements of the Company and of the Group are presented in United States dollars, which is the Company's functional and the Group's presentation currency.

(ii) Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in the income statement. They are deferred in equity if they are relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

All foreign exchange gains and losses that relate to monetary assets and liabilities denominated in foreign currency are presented in the income statement within "Other operating (expenses)/income – net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in the income statement, and other changes in the carrying amount are recognized as other comprehensive income/expense and included in the investment revaluation reserve in equity.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on financial assets and liabilities carried at fair value are as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized as other comprehensive income/expense and included in the investment revaluation reserve in equity.

(d) Translation of foreign currencies *(continued)*

(iii) The results and financial position of all the group entities that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates of the transactions); and

- all resulting exchange differences are recognized as other comprehensive income/expense.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized as other comprehensive income/expense and included in the exchange reserve in equity.

(iv) On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary, loss of joint control of a joint venture, or loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to the consolidated income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in the consolidated income statement. For all other partial disposals (that is, reductions in the Group's ownership interest in an associate or a joint venture that do not result in the Group losing influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated income statement.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Freehold land and buildings comprise mainly factories and office premises. All freehold lands are located outside Hong Kong and are not depreciated. Depreciation of buildings, buildings related equipment and leasehold improvements is calculated using the straight-line method to allocate their costs to their estimated residual values over the unexpired periods of the leases or their expected useful lives to the Group ranging from 10 to 50 years whichever is shorter.

Depreciation on other property, plant and equipment is calculated using the straight-line method to allocate their costs to their estimated residual values over their estimated useful lives to the Group. The principal annual rates used for this purpose are:

Plant and machinery	
Tooling equipment	50% – 100%
Other machinery	14% – 20%
Furniture and fixtures	20% – 25%
Office equipment	20% – 33%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(h)).

Gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized within "Other operating (expenses)/income – net" in the income statement.

(f) Construction-in-progress

Construction-in-progress represents buildings, plant and machinery and internal use software under construction and pending installation and is stated at historical cost, less any accumulated impairment losses. Historical cost comprises all direct and indirect costs of acquisition or construction or installation of buildings, plant and machinery or internal use software as well as interest expenses and exchange differences on the related funds borrowed during the construction, installation and testing periods and prior to the date when the assets were available for use. No depreciation or amortization is provided for on construction-in-progress. On completion, the carrying values of the buildings, plant and machinery or internal use software are transferred from construction-in-progress to property, plant and equipment or intangible assets.

Gain on disposal of construction-in-progress is the difference between the net sales proceeds and the carrying amount of the relevant assets, and is recognized within "Other operating (expenses)/income – net" in the income statement.

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the consideration of an acquisition transferred over the Group's interests in the fair value of the acquiree's identifiable assets acquired and liabilities assumed at the acquisition date. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in interests in associates and joint ventures.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(ii) Trademarks and trade names

Separately acquired trademarks and trade names are shown at historical cost. Trademarks and trade names acquired in a business combination are recognized at fair value at the acquisition date.

Trademarks and trade names that have an indefinite useful life are tested annually for impairment and carried at cost less accumulated impairment losses.

(iii) Customer relationships

Customer relationships acquired in a business combination are recognized at fair value at the acquisition date. Customer relations have a definite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over their estimated useful lives.

The estimated useful lives for customer relationships at the balance sheet date are not more than 15 years.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Intangible assets *(continued)*

(iv) Internal use software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Development costs that are directly attributable to the design and testing of identifiable and unique software controlled by the Group are recognized as intangible assets when the following criteria are met:

– it is technically feasible to complete the software so that it will be available for use;

– management intends to complete the software and use or sell it;

– there is an ability to use or sell the software;

– it can be demonstrated how the software will generate probable future economic benefits;

– adequate technical, financial and other resources to complete the development and to use or sell the software are available; and

– the expenditure attributable to the software during its development can be reliably measured.

Development costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Costs associated with maintaining computer software are recognized as an expense as incurred.

Acquired computer software licenses costs and computer software development costs are amortized using the straight-line method over their estimated useful lives of not more than 8 years.

(v) Patents and technology

Expenditure on acquired patents and technology is capitalized at historical cost upon acquisition and amortized using the straight-line method over their estimated useful lives of not more than 10 years.

(h) Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to depreciation or amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Financial assets

Classification

The Group classifies its financial assets into: (i) at fair value through profit or loss, (ii) loans and receivables; and (iii) available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges (Note 2(k)). Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables comprise trade, notes and other receivables, deposits, bank deposits and cash and cash equivalents in the balance sheet (Note 2(n) and 2(o)).

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless mature or management intends to dispose of them within 12 months of the balance sheet date.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial assets *(continued)*

Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value are recognized as follows:

- for financial assets at fair value through profit or loss – in profit or loss within other income or other expenses.
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security are recognized in income statement and other changes in the carrying amount are recognized in other comprehensive income or loss.
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income or loss.

Dividends on financial assets at fair value through profit or loss and available-for-sale financial assets are recognized in profit or loss as other income when the Group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss and available-for-sale financial assets is recognized in the income statement as other income.

Details on how the fair value of financial instruments is determined are disclosed in note 3(d).

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(j) Impairment of financial assets

(i) Assets carried at amortized cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

(ii) Assets classified as available-for-sale

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Group uses the criteria referred to in (i) above. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative losses, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement, is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair values. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (i) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge) or (ii) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized as other comprehensive income/expense. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale or purchase that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the income statement within “Finance costs”. The gain or loss relating to the ineffective portion is recognized in the income statement within “Other operating (expenses)/income – net”.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses on the hedging instrument that has been recognized as other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gains or losses on the hedging instrument that has been recognized as other comprehensive income from the period when the hedge was effective shall be reclassified from equity to the income statement immediately.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

(l) Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less cumulative amortization, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

(m) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis. The cost of finished goods (except for trading products) and work-in-progress comprises direct materials, direct labour and an attributable proportion of production overheads. For trading products, cost represents invoiced value on purchases, less purchase returns and discounts. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(n) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Majority of other receivables are amounts due from subcontractors for part components sold in the ordinary course of business. Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. See Note 2(i) for further information about the Group's accounting for trade receivables and Note 2(j) for a description of the Group's impairment policies.

If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

(o) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents mainly comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

(q) Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(r) Trade and other payables

Trade payables are obligations to pay for part components or services that have been acquired in the ordinary course of business from suppliers. Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors. Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

(s) Provisions

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(i) Warranty provision

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

(ii) Other provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring costs provision comprises lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

(t) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Current and deferred income tax *(continued)*

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(u) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognized as a provision.

(v) Revenue

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the normal course of the Group's activities.

(i) Sale of goods and services

Revenue from sale of hardware, software and peripherals, services and mobile devices is recognized, net of value-added tax, an allowance for estimated returns, rebates and discounts, when both ownership and risk of loss are effectively transferred to customer, generally when there is a persuasive evidence that a sales arrangement exists, the price is fixed or determinable, collectability is reasonably assured and delivery has occurred.

The Group enters into different shipping terms with customers. Delivery is generally considered as occurred once the goods are shipped. For certain transactions, the Group defers the recognition of revenue and cost of shipped products until the goods are delivered to designated locations.

Revenue from extended warranty contracts is deferred and amortized as earned over the contract period, ranging from one to four years. Revenue associated with undelivered elements is deferred and recorded when delivery occurs. Revenue from provision of systems integration service and information technology technical service is recognized over the term of contract or when services are rendered.

(v) Revenue *(continued)*

(ii) Interest income

Interest income is recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

(iii) Dividend income

Dividend income is recognized when the right to receive payment is established.

(w) Non-base manufacturing costs

Non-base manufacturing costs are costs that are periodic in nature as opposed to product specific. They are typically incurred after the physical completion of the product and include items such as outbound freight for in-country finished goods shipments, warranty costs, engineering charges, storage and warehousing costs, and contribute to bringing inventories to their present location and condition. Non-base manufacturing costs enter into the calculation of gross margin but are not inventoriable costs.

(x) Employee benefits

(i) Pension obligations

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

A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. Significant portion of the defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized as other comprehensive income/expense in the year in which they arise. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Employee benefits *(continued)*

(i) Pension obligations *(continued)*

Past service costs are recognized immediately in the income statement. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due and are reduced by employer's portion of voluntary contributions forfeited by those employees who leave the scheme prior to vesting fully. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group's contributions to local municipal government retirement schemes in connection with retirement benefit schemes in the Mainland of China ("Chinese Mainland") are expensed as incurred. The local municipal governments in the Chinese Mainland assume the retirement benefit obligations of the qualified employees.

(ii) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, the largest being in the United States. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized as other comprehensive income/expense in the period in which they arise. The obligations of these schemes in the United States are valued annually by independent qualified actuaries.

(iii) Long-term incentive program

The Group operates a long-term incentive program to recognize employees' individual and collective contributions, and includes two types of awards, namely share appreciation rights and restricted share units ("Long-term Incentive Awards"). The Company reserves the right, at its discretion, to pay the award in cash or ordinary shares of the Company. The fair value of the employee services received in exchange for the grant of the Long-term Incentive Awards is recognized as employee benefit expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the Long-term Incentive Awards granted, including any market performance conditions (for example, an entity's share price); excluding the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets); and including the impact of non-vesting conditions. Non-market performance and service conditions are included in assumptions about the number of Long-term Incentive Awards that are expected to become exercisable/vested. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

(x) Employee benefits *(continued)*

(iii) Long-term incentive program *(continued)*

At each balance sheet date, the Group revises its estimates of the number of Long-term Incentive Awards that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to share-based compensation reserve under equity.

Employee share trusts are established for the purposes of awarding shares to eligible employees under the long-term incentive program. The employee share trusts are administered by independent trustees and are funded by the Group's cash contributions and recorded as contributions to employee share trusts, an equity component. The administrator of the employee share trusts buys the Company's shares in the open market for award to employees upon vesting.

Upon vesting, the corresponding amounts in the share-based compensation reserve will be transferred to share capital for new allotment of shares to employees, or to the employee share trusts for shares awarded to employees by the employee share trusts.

(iv) Termination benefit

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(v) Share options

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

(y) Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized as "Other operating (expenses)/ income – net" in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in other non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Operating leases (as the lessee)

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

Interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated balance sheet and is amortized over the lease terms on a straight line basis, ranging from 10 to 50 years for the Group.

(aa) Related party transactions

A related party transaction is a transfer of resources, services or obligations between the Group and a related party of the Group, regardless of whether a price is charged.

(i) A person, or a close member of that person's family, is related to the Group if that person:

- has control or joint control over the Group;
- has significant influence over the Group; or
- is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

- The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third party.
- The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- The entity is controlled or jointly controlled by a person identified in (i) above.
- A person, or a close member of that person's family, who has control or joint control over the Group, has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(ab) Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders in case of final dividend and by the Company's directors in case of interim dividend.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, such as market risk (including foreign currency risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. Financial risk management is carried out by the centralized treasury department ("Group Treasury").

(a) Financial risk factors

(i) Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to United States dollar, Renminbi and Euro. Foreign currency risk arises from future commercial transactions, recognized assets and liabilities and net investment in foreign operations denominated in a currency that is not the group companies' functional currency.

Management has set up a policy to require group companies to manage their foreign currency risk against their functional currency. The Group's forward foreign currency contracts are either used to hedge a percentage of anticipated cash flows (mainly export sales and purchase of inventories) which are highly probable, or used as fair value hedges for the identified assets and liabilities.

For segment reporting purposes, external hedge contracts on assets, liabilities or future transactions are designated to each operating segment, as appropriate.

The following tables detail the Group's exposure at the balance sheet date to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate, except for the currency risk between United States dollar and Hong Kong dollar given the two currencies are under the linked exchange rate system. For presentation purposes, the amounts of the exposure are shown in United States dollar, translated using the spot rate at the balance sheet date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

3 **FINANCIAL RISK MANAGEMENT** *(continued)*

(a) Financial risk factors *(continued)*

(i) Foreign currency risk *(continued)*

	2018			2017		
	United States dollar US$'000	**Renminbi US$'000**	**Euro US$'000**	United States dollar US$'000	Renminbi US$'000	Euro US$'000
Trade and other receivables	**182,738**	**44,530**	**14,803**	195,839	24,535	169,571
Bank deposits and cash and cash equivalents	**24,478**	**9,132**	**20,554**	29,378	26,052	81,430
Trade and other payables	**(320,730)**	**(24,341)**	**(18,422)**	(532,157)	(111,446)	(19,468)
Borrowings	**-**	**(635,015)**	**-**	–	(578,103)	–
Intercompany balances before elimination	**(2,716,689)**	**1,136,490**	**(318,945)**	(2,383,059)	370,199	(367,276)
Gross exposure	**(2,830,203)**	**530,796**	**(302,010)**	(2,689,999)	(268,763)	(135,743)
Notional amounts of forward exchange contracts used as economic hedges	**3,118,896**	**-**	**269,936**	2,373,294	–	313,114
Net exposure	**288,693**	**530,796**	**(32,074)**	(316,705)	(268,763)	177,371

(a) Financial risk factors *(continued)*

(ii) Cash flow interest rate risk

The Group's interest rate risk mainly arises from short-term and long-term borrowings denominated in United States dollar. It is the Group's policy to mitigate interest rate risk through the use of appropriate interest rate hedging instruments. Generally, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

The Group operates various customer financing programs. The Group is exposed to fluctuation of interest rates of all the currencies covered by those programs.

(iii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers and subcontractors, including outstanding receivables and committed transactions.

For banks and other financial institutions, the Group controls its credit risk through monitoring their credit rating and setting approved counterparty credit limits that are regularly reviewed.

The Group has no significant concentration of customer credit risk. The Group has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

No credit limits were exceeded by any customers during the reporting period, and management does not expect any significant losses from non-performance by these counterparties.

(iv) Liquidity risk

Cash flow forecasting of the Group is performed by Group Treasury. It monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 27) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements, for example, currency restrictions.

Surplus cash held by the operating entities over and above balances required for working capital management are transferred to Group Treasury. Group Treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts, At the balance sheet date, the Group held money market funds of US$8,393,000 (2017: US$634,356,000) (Note 24).

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) **Financial risk factors** *(continued)*

(iv) Liquidity risk *(continued)*

The tables below analyze the Group's non-derivative financial liabilities and derivative financial liabilities into relevant maturity groupings based on the remaining periods at the balance sheet date to the contractual maturity dates. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the tables are the contractual undiscounted cash outflows/(inflows).

	Repayable on demand or 3 months or less US$'000	Over 3 months to 1 year US$'000	Over 1 to 3 years US$'000	Over 3 to 5 years US$'000	Total US$'000
At March 31, 2017					
Borrowings	53,005	148,629	2,109,617	1,133,778	3,445,029
Trade, notes and other payables and accruals	13,956,373	1,623,775	–	–	15,580,148
Deferred considerations	–	697,890	25,072	–	722,962
Written put option liability	–	224,790	–	–	224,790
Others	–	–	22,013	110,321	132,334
Derivatives settled in net:					
Forward foreign exchange contracts	1,597	–	–	–	1,597
Derivatives settled in gross:					
Forward foreign exchange contracts					
– outflow	6,470,583	194,434	–	–	6,665,017
– inflow	(6,457,668)	(195,600)	–	–	(6,653,268)
At March 31, 2018					
Borrowings	**1,138,704**	**159,243**	**1,599,043**	**1,340,625**	**4,237,615**
Trade, notes and other payables and accruals	**14,225,510**	**385,920**	**-**	**-**	**14,611,430**
Deferred consideration	**-**	**-**	**25,072**	**-**	**25,072**
Written put option liability	**224,813**	**-**	**-**	**-**	**224,813**
Others	**-**	**-**	**106,906**	**53,409**	**160,315**
Derivatives settled in net:					
Forward foreign exchange contracts	**4,844**	**-**	**-**	**-**	**4,844**
Derivatives settled in gross:					
Forward foreign exchange contracts					
– outflow	**5,952,722**	**909,683**	**-**	**-**	**6,862,405**
– inflow	**(5,930,706)**	**(903,571)**	**-**	**-**	**(6,834,277)**

(b) Market risk sensitivity analysis

HKFRS 7 "Financial instruments: Disclosures" requires the disclosure of a sensitivity analysis for market risks that show the effects of a hypothetical change in the relevant market risk variable to which the Group is exposed to at the balance sheet date on profit or loss and total equity.

The sensitivity analysis for each type of market risks does not reflect inter-dependencies between risk variables. The sensitivity analysis assumes that a hypothetical change of the relevant risk variable had occurred at the balance sheet date and had been applied to the relevant risk variable in existence on that date. The bases and assumptions adopted in the preparation of the analyses will by definition, seldom equal to the related actual results.

The disclosure of the sensitivity analysis on market risks is solely for compliance with HKFRS 7 disclosure requirements in respect of financial instruments, and are for illustration purposes only; and it should be noted that the hypothetical amounts so generated do not represent a projection of likely future events and profits or losses of the Group.

(i) Foreign currency exchange rate sensitivity analysis

At March 31, 2018, if United States dollar had weakened/strengthened by one percent against the major currencies with all other variables held constant, pre-tax profit for the year would have been US$2.1 million higher/lower (2017: pre-tax profit for the year would have been US$2.2 million higher/lower), mainly as a result of foreign exchange gains/losses on translation of unhedged portion of receivable and payable balances.

The analysis above is based on the assumption that United States dollar weakened or strengthened against all other currencies in the same direction and magnitude, but it may not be necessarily true in reality.

(ii) Interest rate sensitivity analysis

At March 31, 2018, if interest rate on borrowings had been 25 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been US$3.6 million lower/higher (2017: pre-tax profit for the year would have been US$4.0 million lower/higher).

At March 31, 2018, if interest rates on customer financing programs had been 25 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been US$4.0 million lower/higher (2017: pre-tax profit for the year would have been US$3.7 million lower/higher). This analysis is based on the assumption that the interest rates of all the currencies covered by the customer financing programs go up and down at the same time and with the same magnitude; however, such assumptions may not be necessarily true in reality.

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT *(continued)*

(c) *Capital risk management*

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as total borrowings (including current and non-current borrowings) divided by total equity. The Group's strategy remains unchanged and the gearing ratios and net debt position of the Group as at March 31, 2018 and 2017 are as follows:

	2018 US$ million	2017 US$ million
Bank deposits and cash and cash equivalents	**1,932**	2,951
Less: total borrowings	**(3,815)**	(3,037)
Net debt position	**(1,883)**	(86)
Total equity	**4,546**	4,095
Gearing ratio	**0.84**	0.74

(d) Fair value estimation

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Fair value estimation *(continued)*

The following table presents the assets and liabilities that are measured at fair value at March 31, 2018 and 2017.

	2018				2017			
	Level 1 US$'000	**Level 2 US$'000**	**Level 3 US$'000**	**Total US$'000**	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets								
Available-for-sale financial assets								
Listed equity investments	**29,563**	**-**	**-**	**29,563**	24,143	–	–	24,143
Unlisted equity investments	**-**	**-**	**343,514**	**343,514**	–	–	231,755	231,755
Derivative financial assets	**-**	**24,890**	**-**	**24,890**	–	53,808	–	53,808
	29,563	**24,890**	**343,514**	**397,967**	24,143	53,808	231,755	309,706
Liabilities								
Derivative financial liabilities	**-**	**62,694**	**-**	**62,694**	–	67,285	–	67,285
	-	**62,694**	**-**	**62,694**	–	67,285	–	67,285

(d) Fair value estimation *(continued)*

There were no significant transfers of financial assets among Levels 1, 2 and 3 fair value hierarchy classification during the years ended March 31, 2018 and 2017.

The movements in the financial assets and liabilities included in Level 3 fair value hierarchy for the years ended March 31, 2018 and 2017 are as follows:

Available-for-sale financial assets

	2018 **US$'000**	2017 US$'000
At the beginning of the year	**231,755**	100,278
Exchange adjustment	**15,172**	(2,332)
Fair value change recognized in other comprehensive income	**(2,828)**	10,704
Additions	**100,466**	124,110
Transferred to investment in a joint venture	**(901)**	–
Disposals	**(150)**	–
Impairment	**–**	(1,005)
At the end of the year	**343,514**	231,755

No sensitivity analysis for unlisted equity investments is presented as a reasonably possible change in key assumptions used in the sensitivity analysis would not result in any significant potential financial impact.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements often requires the use of judgment to select specific accounting methods and policies from several acceptable alternatives. Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following are the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the financial statements:

(a) Impairment of non-financial assets

The Group tests at least annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amounts of an asset or a cash-generating unit have been determined based on value-in-use calculations. These calculations require the use of estimates.

The value-in-use calculations primarily use cash flow projections based on financial budgets, in general covered five years, were approved by management and estimated terminal values at the end of the five-year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues and operating margin, growth rates and selection of discount rates, to reflect the risks involved and the earnings multiple that can be realized for the estimated terminal value.

Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The tax liabilities recognized are based on management’s assessment of the likely outcome.

The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

(b) Income taxes *(continued)*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements.

Deferred income tax assets are mainly recognized for temporary differences such as warranty provision, accrued sales rebates, bonus accruals, and other accrued expenses, and unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which deductible temporary differences and the unused tax losses can be utilized, based on all available evidence. Recognition primarily involves judgment regarding the future financial performance of the particular legal entity or tax group in which the deferred income tax asset has been recognized. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred income tax assets will ultimately be realized, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilized. The carrying amount of deferred income tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilization periods to allow utilization of the carry forward tax losses, the asset balance will be reduced and the difference charged to the income statement.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Warranty provision

Warranty provision is based on the estimated cost of product warranties when revenue is recognized. Factors that affect the Group’s warranty liability include the number of sold units currently under warranty, historical and anticipated rates of warranty claims on those units, and cost per claim to satisfy our warranty obligation. The estimation basis is reviewed on an on-going basis and revised where appropriate. Certain of these costs are reimbursable from the suppliers in accordance with the terms of relevant arrangements with the suppliers. These amounts are recognized as a separate asset, to the extent of the amount of the provision made, when it is virtually certain that reimbursement will be received if the Group settles the obligation.

(d) Revenue recognition

Application of various accounting principles related to the measurement and recognition of revenue requires the Group to make judgments and estimates. Specifically, complex arrangements with non-standard terms and conditions may require significant contract interpretation to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting. Other significant judgments include determining whether the Group or a reseller is acting as the principal in a transaction and whether separate contracts are considered part of one arrangement.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(d) Revenue recognition *(continued)*

The Group sells products to channels. Sales through channels are primarily made under agreements allowing for volume discounts, price protection and rebates, and marketing development funds. The Group monitors the channel inventory level with reference to historical data. Revenue recognition is also impacted by the Group's ability to estimate volume discounts, price protection and rebates, marketing development funds. The Group considers various factors, including a review of specific transactions, historical experience, market and economic conditions and channel inventory level when calculating these provisions and allowances.

Revenue from sales of goods is recognized when both ownership and risk of loss are effectively transferred to customer, which are generally occurred upon shipment. For certain transactions, risk of loss associated with goods-in-transit is retained by the Group, in which the Group books revenue upon delivery of products and defers the amounts of revenue based on the estimated days-in-transit at the end of each month. The days-in-transit is estimated based on the Group's weighted average estimated time of shipment arrival. Cost of in-transit products is deferred in deposits, prepayment and other receivables in the balance sheet until revenue is recognized. The estimates of days-in-transit are reviewed semi-annually.

(e) Retirement benefits

Pension and other post-retirement benefit costs and obligations are dependent on various assumptions. The Group's major assumptions primarily relate to discount rate, expected return on assets, and salary growth. In determining the discount rate, the Group references market yields at the balance sheet date on high quality corporate bonds. The currency and term of the bonds are consistent with the currency and estimated term of the benefit obligations being valued. The expected return on plan assets is based on market expectations for returns over the life of the related assets and obligations. The salary growth assumptions reflect the Group's long-term actual experience and future and near-term outlook. Actual results that differ from the assumptions are generally recognized in the year they occur.

(f) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analyses for various available-for-sale financial assets that are not traded in active markets.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(g) Fair value of identifiable assets and liabilities acquired through business combinations

The Group applies the acquisition method to account for business combinations, which requires the Group to record assets acquired and liabilities assumed at their fair values on the date of acquisition. Significant judgment is used to estimate the fair values of the assets and liabilities acquired, including estimating future cash flows from the acquired business, determining appropriate discount rates, asset lives and other assumptions.

5 SEGMENT INFORMATION

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

The LEC considers business from a geographical perspective. The Group has four geographical segments, China, Asia Pacific ("AP"), Europe-Middle East-Africa ("EMEA") and Americas ("AG"), which are also the Group's reportable operating segments.

The LEC assesses the performance of the reportable operating segments based on a measure of adjusted pre-tax income/(loss). This measurement basis excludes the effects of non-recurring expenditure such as restructuring costs from the operating segments. The measurement basis also excludes the effects of unrealized gains/(losses) on financial instruments. Certain interest income and expenditure are not allocated to segments, as this type of activity is 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 geographical location 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.

5 SEGMENT INFORMATION *(continued)*

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

	2018		2017	
	Revenue from external customers US$'000	**Adjusted pre-tax income/(loss) US$'000**	Revenue from external customers US$'000	Adjusted pre-tax income/(loss) US$'000
China	**11,525,321**	**557,641**	11,794,773	539,137
AP	**7,156,293**	**(133,664)**	7,011,595	(65,155)
EMEA	**12,481,897**	**(62,383)**	11,187,313	(336,666)
AG	**14,186,432**	**71,746**	13,041,050	157,452
Segment total	**45,349,943**	**433,340**	43,034,731	294,768
Unallocated:				
Headquarters and corporate expenses		**(26,675)**		(57,160)
Restructuring costs		**(100,775)**		(159,481)
Finance income		**15,258**		18,263
Finance costs		**(219,177)**		(207,563)
Impairment of an available-for-sale financial asset		**-**		(1,005)
Gain on disposal of available-for-sale financial assets		**15**		11,575
Dividend income from available-for-sale financial assets		**286**		321
Share of (losses)/profits of associates and joint ventures		**(2,506)**		21,411
Gain on disposal of a joint venture		**-**		218,366
Gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress		**50,937**		336,172
Dilution gain of interests in associates and a joint venture		**2,499**		14,260
Consolidated profit before taxation		**153,202**		489,927

5 **SEGMENT INFORMATION** *(continued)*

(b) Segment assets for reportable segments

	2018 US$'000	2017 US$'000
China	**8,868,706**	7,754,296
AP	**3,817,436**	3,497,366
EMEA	**3,347,797**	3,282,761
AG	**6,936,707**	6,633,117
Segment assets for reportable segments	**22,970,646**	21,167,540
Unallocated:		
Deferred income tax assets	**1,530,623**	1,435,256
Derivative financial assets	**24,890**	53,808
Available-for-sale financial assets	**373,077**	255,898
Interests in associates and joint ventures	**35,666**	32,567
Unallocated bank deposits and cash and cash equivalents	**313,366**	1,075,639
Unallocated inventories	**911,506**	823,619
Unallocated deposits, prepayments and other receivables	**1,808,182**	1,829,387
Income tax recoverable	**227,203**	199,149
Other unallocated assets	**299,012**	313,111
Total assets per consolidated balance sheet	**28,494,171**	27,185,974

5 SEGMENT INFORMATION *(continued)*

(c) Segment liabilities for reportable segments

	2018 US$'000	2017 US$'000
China	**4,927,436**	4,884,148
AP	**1,725,803**	1,631,624
EMEA	**1,584,893**	1,569,619
AG	**3,032,107**	3,375,555
Segment liabilities for reportable segments	**11,270,239**	11,460,946
Unallocated:		
Deferred income tax liabilities	**230,609**	221,601
Derivative financial liabilities	**62,694**	67,285
Unallocated borrowings	**3,815,417**	2,966,692
Unallocated trade and notes payables	**4,592,569**	4,249,522
Unallocated other payables and accruals	**3,378,036**	3,570,065
Unallocated provisions	**374,589**	237,907
Unallocated other non-current liabilities	**29,074**	25,070
Income tax payable	**168,779**	246,465
Other unallocated liabilities	**26,177**	45,199
Total liabilities per consolidated balance sheet	**23,948,183**	23,090,752

(d) Analysis of revenue by significant category

Revenue from external customers are mainly derived from the sale of personal technology products and services. Breakdown of revenue by business group is as follows:

	2018 US$'000	2017 US$'000
PC and Smart Device Business Group ("PCSD") (Note)	**32,378,666**	30,075,953
Mobile Business Group ("MBG")	**7,240,927**	7,707,448
Data Center Group ("DCG")	**4,394,360**	4,068,488
Others	**1,335,990**	1,182,842
	45,349,943	43,034,731

Note: PCSD consists of core PC business as well as slate tablets, detachables, gaming and other smart devices.

5 SEGMENT INFORMATION *(continued)*

(e) Other segment information

	Depreciation and amortization		Finance income		Finance costs		Additions to non-current assets (Note)	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000
China	**139,075**	197,306	**169**	225	**4,014**	3,818	**178,028**	174,458
AP	**143,158**	131,623	**1,256**	1,344	**10,941**	6,958	**33,441**	62,392
EMEA	**163,297**	183,927	**334**	147	**10,986**	4,925	**22,497**	38,818
AG	**292,992**	229,250	**15,128**	7,816	**18,042**	8,363	**81,802**	141,348
Total	**738,522**	742,106	**16,887**	9,532	**43,983**	24,064	**315,768**	417,016

Note: Other than financial instruments and deferred income tax assets; and excluding other non-current assets.

The total of non-current assets other than financial instruments, deferred income tax assets and post-employment benefit assets (there are no rights arising under insurance contracts) located in China and other countries is approximately US$4,245,626,000 (2017: US$3,880,145,000) and US$6,681,527,000 (2017: US$6,746,288,000) respectively.

6 OTHER INCOME – NET

	2018 US$'000	2017 US$'000
Impairment of an available-for-sale financial asset	**–**	(1,005)
Gain on disposal of available-for-sale financial assets	**15**	11,575
Dividend income from available-for-sale financial assets	**286**	321
	301	10,891

Notes to the Financial Statements

7 OPERATING PROFIT

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

	2018 US$'000	2017 US$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**259,121**	269,107
Amortization of intangible assets	**479,401**	472,999
Employee benefit costs (Note 10)	**3,663,301**	3,580,788
Cost of inventories sold	**36,970,355**	34,852,885
Inventories write down	**60,534**	23,533
Auditor's remuneration		
– Audit services (b)	**9,252**	8,023
– Non-audit services	**3,856**	5,009
Rental expenses under operating leases	**147,133**	140,286
Government grants (Note 28(ii))	**(161,820)**	(177,357)
Net foreign exchange loss	**55,735**	110,968
Net loss/(gain) on foreign exchange forward contracts for cash flow hedges reclassified from equity	**222,073**	(13,993)
Impairment of property, plant and equipment	**4,608**	7,303
Gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**(50,937)**	(336,172)
Gain on disposal of a joint venture	**–**	(218,366)
Ineffectiveness on cash flow hedges	**(7,807)**	(4,380)

(a) During the year, the Group announced resource actions to further enhance efficiency and competitiveness in view of industrial challenges. Severance costs of approximately US$101 million (2017: exceptional charges of approximately US$159 million comprising mainly severance costs, loss on impairment of assets and provision for lease obligations) were recognized in "other operating (expenses)/income – net".

(b) Of the above audit services fees, US$8,421,000 (2017: US$7,748,000) is payable to the Company's auditor.

8 FINANCE INCOME AND COSTS

(a) Finance income

	2018 US$'000	2017 US$'000
Interest on bank deposits	**27,672**	23,975
Interest on money market funds	**4,473**	3,820
	32,145	27,795

(b) Finance costs

	2018 US$'000	2017 US$'000
Interest on bank loans and overdrafts	**44,376**	38,546
Interest on notes	**130,229**	103,489
Interest on promissory note	**11,589**	52,746
Factoring costs	**71,897**	28,905
Commitment fee	**779**	440
Interest on contingent/deferred considerations and put option liability	**1,110**	3,434
Others	**3,180**	4,067
	263,160	231,627

9 TAXATION

The amount of taxation in the consolidated income statement represents:

	2018 US$'000	2017 US$'000
Current tax		
– Hong Kong profits tax	**16,997**	2,043
– Taxation outside Hong Kong	**332,795**	411,397
Deferred tax (Note 20)		
– Credit for the year	**(469,815)**	(453,954)
– Effect of change in tax rate	**400,000**	–
	279,977	(40,514)

9 TAXATION *(continued)*

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year. 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.

Pursuant to the Tax Cuts and Jobs Act enacted by the government of the United States ("US") on December 22, 2017, the US corporate tax rate is reduced for tax years beginning after December 31, 2017. The rate change leads to a write-off of US deferred income tax assets of approximately US$400 million for the year.

The Group has been granted certain tax concessions by tax authorities in the Chinese Mainland and overseas whereby the subsidiaries operating in the respective jurisdictions are entitled to tax concessions.

The differences between the Group's expected tax charge, calculated at the domestic rates applicable to the countries concerned, and the Group's tax charge/(credit) for the year are as follows:

	2018 US$'000	2017 US$'000
Profit before taxation	**153,202**	489,927
Tax calculated at domestic rates applicable in countries concerned	**45,038**	163,091
Income not subject to taxation	**(282,563)**	(237,916)
Expenses not deductible for taxation purposes	**141,540**	144,994
Recognition/utilization of previously unrecognized temporary differences/tax losses	**(58,020)**	(145,199)
Effect on deferred income tax assets due to change in tax rates	**400,000**	(1,599)
Deferred income tax assets not recognized	**20,023**	55,074
Under/(over)-provision in prior years	**13,959**	(18,959)
	279,977	(40,514)

The weighted average applicable tax rate for the year was 29.4% (2017: 33.3%). The decrease is caused by changes in tax concessions and profitability of the Group's subsidiaries in respective countries they are operating, and the enactment of Tax Cuts and Jobs Act by the US government.

9 **TAXATION** *(continued)*

The tax charge relating to components of other comprehensive income is as follows:

	2018			2017		
	Before tax US$'000	**Tax charge US$'000**	**After tax US$'000**	Before tax US$'000	Tax charge US$'000	After tax US$'000
Fair value change on available-for-sale financial assets	**224**	**-**	**224**	9,180	(467)	8,713
Investment revaluation reserve reclassified to consolidated income statement on disposal of available-for-sale financial assets	**-**	**-**	**-**	(12,640)	–	(12,640)
Fair value change on cash flow hedges	**(11,538)**	**(40)**	**(11,578)**	85,540	(2,540)	83,000
Remeasurements of post-employment benefit obligations (Note 36)	**(19,797)**	**-**	**(19,797)**	42,778	(388)	42,390
Currency translation differences	**288,711**	**-**	**288,711**	(85,423)	–	(85,423)
Other comprehensive income	**257,600**	**(40)**	**257,560**	39,435	(3,395)	36,040
Deferred tax (Note 20)		**(40)**			(3,395)	

10 EMPLOYEE BENEFIT COSTS

	2018 US$'000	2017 US$'000
Wages and salaries, including severance and related costs of US$100,775,000 (2017: US$146,368,000)	**2,778,153**	2,759,039
Social security costs	**247,117**	210,465
Long-term incentive awards granted (Note 29)	**199,779**	177,523
Pension costs		
– Defined contribution plans	**182,721**	165,148
– Defined benefit plans (Note 36)	**16,439**	18,011
Others	**239,092**	250,602
	3,663,301	3,580,788

The Group contributes to respective local municipal government retirement schemes which are available to all qualified employees in the Chinese Mainland. Contributions to these schemes are calculated with reference to the monthly average salaries as set out by the local municipal government.

The Group participates in various defined contribution schemes, either voluntary or mandatory, for all qualified employees. The assets of those defined contribution schemes are held separately from those of the Group in independently administered funds.

The Group also contributes to certain defined benefit pension schemes, details of which are set out in Note 36.

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) Directors' and senior management's emoluments

Directors' emoluments comprise payments by the Group to directors of the Company in connection with the management of the affairs of the Company and its subsidiaries. The remuneration of each director and the chief executive who is also a director, for the years ended March 31, 2018 and 2017 is set out below:

	2018							
Name of Director	Fees US$'000	Salaries US$'000	Discretionary bonuses (note i) US$'000	Long-term incentive awards (note ii) US$'000	Retirement payments and employer's contribution to pension schemes US$'000	Housing allowance US$'000	Other benefits in-kind US$'000	Total US$'000
Executive director								
Mr. Yang Yuanqing (CEO)	-	1,404	1,213	15,286	149	-	700	18,752
Non-executive directors								
Mr. Zhu Linan	93	-	-	196	-	-	-	289
Mr. Zhao John Huan	93	-	-	196	-	-	-	289
Independent non-executive directors								
Dr. Tian Suning	93	-	-	196	-	-	-	289
Mr. Nicholas C. Allen	120	-	-	196	-	-	-	316
Mr. Nobuyuki Idei	93	-	-	196	-	-	-	289
Mr. William O. Grabe	128	-	-	196	-	-	-	324
Mr. William Tudor Brown	93	-	-	196	-	-	-	289
Ms. Ma Xuezheng	113	-	-	196	-	-	-	309
Mr. Yang Chih-Yuan Jerry	93	-	-	198	-	-	-	291
Mr. Gordon Robert Halyburton Orr	93	-	-	174	-	-	-	267
	1,012	1,404	1,213	17,226	149	-	700	21,704

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

	2017							
Name of Director	Fees US$'000	Salaries US$'000	Discretionary bonuses (note i) US$'000	Long-term incentive awards (note ii) US$'000	Retirement payments and employer's contribution to pension schemes US$'000	Housing allowance US$'000	Other benefits in-kind US$'000	Total US$'000
Executive director								
Mr. Yang Yuanqing (CEO)	–	1,310	89	17,392	131	127	196	19,245
Non-executive directors								
Mr. Zhu Linan	93	–	–	190	–	–	–	283
Mr. Zhao John Huan	93	–	–	190	–	–	–	283
Independent non-executive directors								
Dr. Tian Suning	93	–	–	190	–	–	–	283
Mr. Nicholas C. Allen	120	–	–	190	–	–	–	310
Mr. Nobuyuki Idei	93	–	–	190	–	–	–	283
Mr. William O. Grabe	128	–	–	190	–	–	–	318
Mr. William Tudor Brown	93	–	–	190	–	–	–	283
Ms. Ma Xuezheng	113	–	–	190	–	–	–	303
Mr. Yang Chih-Yuan Jerry	93	–	–	186	–	–	–	279
Mr. Gordon Robert Halyburton Orr	93	–	–	115	–	–	–	208
	1,012	1,310	89	19,213	131	127	196	22,078

Notes:

(i) Discretionary bonuses paid for the two years ended March 31, 2018 and 2017 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2017 and 2016 respectively.

(ii) Details of the long-term incentive program of the Company are set out in Note 29. The fair value of the employee services received in exchange for the grant of the long-term incentive awards is recognized as an expense. The total amount to be amortized over the vesting period is determined by reference to the fair value of the long-term incentive awards at the date of grant. The amounts disclosed above represent the amortized amounts for the two years ended March 31, 2018 and 2017.

(iii) Mr. William O. Grabe has elected to defer his receipt of the cash of director's fee into fully vested share units under the long-term incentive program (Note 29) for the two years ended March 31, 2018 and 2017.

(iv) During the years ended March 31, 2018 and 2017, a pension payment of US$1.5 million was made to Mr. Liu Chuanzhi, a retired director.

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

During the year, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor any are payable (2017: nil). No consideration was provided to or receivable by third parties for making available directors' service (2017: nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled body corporate and connected entities (2017: nil).

No director of the Company had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the year or at any time during the year (2017: nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2017: one) director whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2017: four) individuals during the year are as follows:

	2018 US$'000	2017 US$'000
Basic salaries, allowances, and other benefits-in-kind	**5,349**	5,099
Discretionary bonuses (note i)	**4,987**	6,286
Retirement payments and employer's contribution to pension schemes	**2,062**	2,088
Long-term incentive awards	**18,375**	15,297
Compensation for loss of office	**6,680**	–
Others	**623**	550
	38,076	29,320

Note:

(i) Discretionary bonuses paid for the two years ended March 31, 2018 and 2017 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2017 and 2016 respectively.

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(continued)*

(b) Five highest paid individuals *(continued)*

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands		
US$3,841,748 – US$3,905,776	**–**	1
US$5,122,331 – US$5,186,359	**1**	–
US$5,378,448 – US$5,442,476	**–**	1
US$6,274,856 – US$6,338,884	**–**	1
US$7,107,234 – US$7,171,262	**1**	–
US$11,205,099 – US$11,269,127	**1**	–
US$13,574,177 – US$13,638,205	**–**	1
US$14,470,585 – US$14,534,613	**1**	–

12 (LOSS)/EARNINGS PER SHARE

(a) Basic

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

	2018	2017
Weighted average number of ordinary shares in issue	**11,441,318,678**	11,108,654,724
Adjustment for shares held by employee share trusts	**(130,726,638)**	(99,384,505)
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share	**11,310,592,040**	11,009,270,219

	US$'000	US$'000
(Loss)/profit attributable to equity holders of the Company	**(189,323)**	535,084

(b) Diluted

Diluted (loss)/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 two categories of dilutive potential ordinary shares, namely long-term incentive awards and bonus warrants. They were anti-dilutive for the year ended March 31, 2018 and dilutive for the year ended March 31, 2017.

	2018	2017
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share	**11,310,592,040**	11,009,270,219
Adjustments for long-term incentive awards and bonus warrants	**-**	11,377,359
Weighted average number of ordinary shares in issue for calculation of diluted (loss)/earnings per share	**11,310,592,040**	11,020,647,578

	US$'000	US$'000
(Loss) /profit attributable to equity holders of the Company used to determine diluted (loss)/earnings per share	**(189,323)**	535,084

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

The subscription and issuance of bonus warrants increase the total number of shares in issue of the Company ("the Company's shares"). Shares from the subscription represent (i) approximately 8.16% of the Company's shares and (ii) approximately 7.54% of the Company's shares as enlarged by the subscription. The exercise in full of the subscription rights attaching to the bonus warrants will result in the issue of 90,613,689 shares which represent (i) approximately 0.75% of the Company's shares as enlarged by the subscription and (ii) approximately 0.75% of the Company's shares as enlarged by the subscription and the full exercise of the bonus warrants (assuming there will be no other changes in the Company's shares). As at March 31, 2018, all of Bonus Warrants remains outstanding.

12 (LOSS)/EARNINGS PER SHARE *(continued)*

(b) Diluted *(continued)*

For the adjustment for dilutive potential ordinary share of long-term incentive awards, a calculation is performed to determine whether the long-term incentive awards are dilutive, and the number of shares that are deemed to be issued.

For the bonus warrants, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average periodic market share price of the Company's share) based on the monetary value of the subscription rights attached to outstanding bonus warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise in full of the bonus warrants.

There is no adjustment to (loss)/profit attributable to equity holders of the Company used for the calculation of diluted (loss)/earnings per share.

13 DIVIDENDS

	2018 US$'000	2017 US$'000
Interim dividend of HK6.0 cents (2017: HK6.0 cents) per ordinary share, paid on November 30, 2017	**85,434**	85,948
Proposed final dividend – HK20.5 cents (2017: HK20.5 cents) per ordinary share	**313,850**	292,427
	399,284	378,375

14 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture and fixtures US$'000	Office equipment US$'000	Motor vehicles US$'000	Total US$'000
At April 1, 2016							
Cost	610,686	511,353	638,645	65,629	556,994	7,761	2,391,068
Accumulated depreciation and impairment losses	84,540	210,169	337,049	39,035	325,090	3,691	999,574
Net book amount	526,146	301,184	301,596	26,594	231,904	4,070	1,391,494
Year ended March 31, 2017							
Opening net book amount	526,146	301,184	301,596	26,594	231,904	4,070	1,391,494
Exchange adjustment	(6,721)	(268)	(1,950)	(370)	(6,702)	(10)	(16,021)
Reclassification	(331)	585	357	(65)	(542)	(4)	–
Additions	1,709	9,227	41,116	2,722	61,335	1,764	117,873
Transfers	62,062	11,844	3,689	1,109	4,617	110	83,431
Disposals	(55,824)	(2,297)	(3,234)	(511)	(5,085)	(248)	(67,199)
Depreciation	(15,821)	(46,461)	(103,497)	(8,209)	(90,581)	(1,456)	(266,025)
Impairment recognized	–	(3,597)	–	–	(3,706)	–	(7,303)
Closing net book amount	511,220	270,217	238,077	21,270	191,240	4,226	1,236,250
At March 31, 2017							
Cost	578,103	447,879	661,786	66,197	580,635	8,479	2,343,079
Accumulated depreciation and impairment losses	66,883	177,662	423,709	44,927	389,395	4,253	1,106,829
Net book amount	511,220	270,217	238,077	21,270	191,240	4,226	1,236,250
Year ended March 31, 2018							
Opening net book amount	**511,220**	**270,217**	**238,077**	**21,270**	**191,240**	**4,226**	**1,236,250**
Exchange adjustment	**35,270**	**2,668**	**8,444**	**1,051**	**7,982**	**10**	**55,425**
Additions	**36,435**	**6,214**	**86,634**	**1,723**	**85,474**	**1,369**	**217,849**
Transfers	**60,777**	**3,614**	**5,546**	**516**	**2,570**	**447**	**73,470**
Disposals	**(907)**	**(1,633)**	**(7,836)**	**(282)**	**(6,453)**	**(340)**	**(17,451)**
Depreciation	**(20,631)**	**(41,266)**	**(98,339)**	**(7,473)**	**(87,051)**	**(1,424)**	**(256,184)**
Impairment recognized	**-**	**(4,608)**	**-**	**-**	**-**	**-**	**(4,608)**
Closing net book amount	**622,164**	**235,206**	**232,526**	**16,805**	**193,762**	**4,288**	**1,304,751**
At March 31, 2018							
Cost	**714,053**	**449,194**	**735,491**	**67,796**	**636,074**	**9,393**	**2,612,001**
Accumulated depreciation and impairment losses	**91,889**	**213,988**	**502,965**	**50,991**	**442,312**	**5,105**	**1,307,250**
Net book amount	**622,164**	**235,206**	**232,526**	**16,805**	**193,762**	**4,288**	**1,304,751**

15 PREPAID LEASE PAYMENTS

	2018 US$'000	2017 US$'000
At the beginning of the year	**473,090**	337,929
Exchange adjustment	**43,229**	(20,011)
Additions	**10,908**	175,570
Disposals	**(7,327)**	(8,501)
Amortization	**(12,272)**	(11,897)
At the end of the year	**507,628**	473,090

Prepaid lease payments represent the payments for land use rights held by the Group in the Chinese Mainland under term leases between 10 to 50 years.

16 CONSTRUCTION-IN-PROGRESS

	Buildings under construction		Internal use software		Others		Total	
	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000
At the beginning of the year	**210,674**	167,615	**156,769**	15,501	**45,717**	47,994	**413,160**	231,110
Exchange adjustment	**19,544**	(12,702)	**4,928**	(724)	**7,066**	(709)	**31,538**	(14,135)
Additions	**104,621**	111,255	**180,826**	204,192	**-**	30,238	**285,447**	345,685
Transfers	**(45,608)**	(55,494)	**(187,016)**	(62,200)	**(41,205)**	(31,806)	**(273,829)**	(149,500)
Disposals	**(71,206)**	–	**(2,265)**	–	**-**	–	**(73,471)**	–
At the end of the year	**218,025**	210,674	**153,242**	156,769	**11,578**	45,717	**382,845**	413,160

During the year, the Group had capitalised borrowing costs amounting to US$4.4 million (2017: US$6.9 million) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 4.60% (2017: 4.34%).

17 INTANGIBLE ASSETS

(a)

	Goodwill (Note (b)) US$'000	Trademarks and trade names (Note (b)) US$'000	Internal use software US$'000	Customer relationships US$'000	Patent and technology (Note (c)) US$'000	Total US$'000
At April 1, 2016						
Cost	4,898,637	1,438,131	815,387	1,422,110	1,598,762	10,173,027
Accumulated amortization and impairment losses	–	165,692	589,103	229,637	527,508	1,511,940
Net book amount	4,898,637	1,272,439	226,284	1,192,473	1,071,254	8,661,087
Year ended March 31, 2017						
Opening net book amount	4,898,637	1,272,439	226,284	1,192,473	1,071,254	8,661,087
Exchange adjustment	(42,899)	(3,581)	(5,798)	(14,768)	(1,875)	(68,921)
Additions	–	–	49,506	–	114,820	164,326
Transfer from construction-in-progress	–	–	66,069	–	–	66,069
Disposals	–	–	(218)	–	(199)	(417)
Amortization	–	(2,905)	(130,373)	(120,958)	(218,763)	(472,999)
Closing net book amount	4,855,738	1,265,953	205,470	1,056,747	965,237	8,349,145
At March 31, 2017						
Cost	4,855,738	1,305,073	910,972	1,387,483	1,709,761	10,169,027
Accumulated amortization and impairment losses	–	39,120	705,502	330,736	744,524	1,819,882
Net book amount	4,855,738	1,265,953	205,470	1,056,747	965,237	8,349,145
Year ended March 31, 2018						
Opening net book amount	**4,855,738**	**1,265,953**	**205,470**	**1,056,747**	**965,237**	**8,349,145**
Exchange adjustment	**232,483**	**8,803**	**5,331**	**32,901**	**9,203**	**288,721**
Additions	**-**	**-**	**35,358**	**-**	**121,032**	**156,390**
Transfer from construction-in-progress	**-**	**-**	**197,716**	**-**	**2,643**	**200,359**
Disposals	**-**	**-**	**(683)**	**-**	**(27)**	**(710)**
Amortization	**-**	**(355)**	**(82,877)**	**(127,618)**	**(268,551)**	**(479,401)**
Closing net book amount	**5,088,221**	**1,274,401**	**360,315**	**962,030**	**829,537**	**8,514,504**
At March 31, 2018						
Cost	**5,088,221**	**1,313,745**	**1,171,245**	**1,433,773**	**1,846,553**	**10,853,537**
Accumulated amortization and impairment losses	**-**	**39,344**	**810,930**	**471,743**	**1,017,016**	**2,339,033**
Net book amount	**5,088,221**	**1,274,401**	**360,315**	**962,030**	**829,537**	**8,514,504**

17 INTANGIBLE ASSETS *(continued)*

(a) *(continued)*

Amortization of US$35,592,000 (2017: US$40,003,000), US$10,979,000 (2017: US$10,658,000), US$326,397,000 (2017: US$314,971,000) and US$106,433,000 (2017: US$107,367,000) are included in the 'cost of sales', 'selling and distribution expenses', 'administrative expenses' and 'research and development expenses' in the consolidated income statement respectively.

(b) Impairment tests for goodwill and intangible assets with indefinite useful lives

The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

	China US$ million	**AP US$ million**	**EMEA US$ million**	**AG US$ million**	**Total US$ million**
At March 31, 2018					
Goodwill					
– PCSD	**1,117**	**574**	**247**	**334**	**2,272**
– MBG	**-**	**328**	**378**	**970**	**1,676**
– DCG	**503**	**161**	**123**	**353**	**1,140**
Trademarks and trade names					
– PCSD	**209**	**59**	**109**	**67**	**444**
– MBG	**-**	**90**	**104**	**266**	**460**
– DCG	**162**	**54**	**31**	**123**	**370**

	China US$ million	AP US$ million	EMEA US$ million	AG US$ million	Total US$ million
At March 31, 2017					
Goodwill					
– PCSD	1,032	552	208	336	2,128
– MBG	–	314	362	984	1,660
– DCG	468	157	89	354	1,068
Trademarks and trade names					
– PCSD	209	59	101	67	436
– MBG	–	90	104	266	460
– DCG	162	54	31	123	370

(b) Impairment tests for goodwill and intangible assets with indefinite useful lives *(continued)*

The Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amounts to their carrying amounts as at the reporting date. The recoverable amount of a CGU is determined based on value in use. These assessments use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period with a terminal value related to the future cash flow of the CGU extrapolated using constant projection of cash flows beyond the five-year period. The estimated growth rates adopted do not exceed the long-term average growth rates for the businesses in which the CGU operates.

Future cash flows are discounted at the rate of 9%, 11% and 10% for PCSD, MBG and DCG respectively (2017: 9%, 11% and 10% respectively). The estimated compound annual growth rates used for value-in-use calculations under the five-year financial budgets period are as follows:

	2018			2017		
	PCSD	**MBG**	**DCG**	PCSD	MBG	DCG
China	**0%**	**N/A**	**11%**	3%	N/A	7%
AP	**-1%**	**24%**	**6%**	-1%	26%	5%
EMEA	**-1%**	**32%**	**4%**	-1%	26%	7%
AG	**0%**	**7%**	**12%**	-1%	13%	16%

Management determined budgeted gross margins based on past performance and its expectations for the market development. The budgeted growth rates are based on management expectations, and where considered appropriate, with adjustments made with reference to industry reports which are more conservative for the purpose of goodwill impairment test. The discount rates are pre-tax and reflect specific risks relating to the relevant segments. The Group announced a new organizational structure in May 2018 by combining PCSD and MBG under Intelligent Devices Group, following the earlier creation of the new reporting business units for MBG based upon market structure, namely MBG Mature Market and MBG Emerging Market. MBG's goodwill and trademarks and trade names with indefinite useful lives have been reallocated to the CGU affected using a relative value approach in accordance with HKAS 36 "Impairment of assets". The estimated compound annual growth rates used for value-in-use calculations under the five-year financial budgets period for MBG Mature Market and MBG Emerging Market are 22% and 10% respectively.

The directors are of the view that there was no evidence of impairment of goodwill and trademarks and trade names as at March 31, 2018 arising from the review (2017: nil).

The Group has performed a sensitivity analysis on key assumptions used for the annual impairment test for goodwill. A reasonably possible change in key assumptions used in the impairment test for goodwill would not cause any CGU's carrying amount to exceed its respective recoverable amount.

(c) At March 31, 2018, patent and technology of US$34,459,000 (2017: US$61,939,000) is under development.

18 INTERESTS IN ASSOCIATES AND JOINT VENTURES

	2018 US$'000	2017 US$'000
Share of net assets		
– Associates	**26,005**	21,992
– Joint ventures	**9,661**	10,575
	35,666	32,567

The following is a list of the principal associates and joint ventures:

Company name	Place of incorporation/ establishment	Interest held indirectly 2018	2017	Principal activities
Associates				
北京閃聯雲視信息技術有限公司 (Beijing Shanlian Yunshi Information Technology Limited) (Note ii)	Chinese Mainland	**23.7%**	23.7%	Distribution and development of IT technology
成都諦聽科技有限公司 (Chengdu Diting Technology Limited) (Note ii)	Chinese Mainland	**17.3%**	17.3%	Distribution and development of IT technology
茄子技術控股有限公司 (Shareit Technology Holdings Inc.) (Note ii)	Cayman Islands	**47.7%**	47.7%	Software development
深圳視見醫療科技有限公司 (Imsight Medical Technology Inc.) (Note ii)	Chinese Mainland	**17.8%**	–	Development of techniques applied to clinical medical image analysis
Joint ventures				
北京聯想金服科技有限公司 (Beijing Lenovo Fintech Co., Ltd.) (Note ii)	Chinese Mainland	**50.0%**	50.0%	Online payment platform development
聯想新視界（北京）科技有限公司 (Lenovo New Vision (Beijing) Technology Co., Ltd.) (Note ii)	Chinese Mainland	**35.1%**	48.2%	Software development

Notes:
(i) All the above associates and joint ventures operate principally in their respective places of incorporation or establishment.

(ii) The English name of the company is a direct translation or transliteration of its Chinese registered name.

18 INTERESTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

The following sets out the aggregate amount of the Group's share of associates and joint ventures:

	2018 US$'000	2017 US$'000
Share of profits/(losses) of associates	**1,323**	(2,192)
Share of (losses)/profits of joint ventures	**(3,829)**	23,603
	(2,506)	21,411

19 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables US$'000	Assets at fair value through profit and loss US$'000	Derivatives used for hedging US$'000	Available for-sale financial assets US$'000	Total US$'000
Assets					
At March 31, 2018					
Available-for-sale financial assets	**-**	**-**	**-**	**373,077**	**373,077**
Derivative financial assets	**-**	**15,037**	**9,853**	**-**	**24,890**
Other non-current assets	**43,901**	**-**	**-**	**-**	**43,901**
Trade receivables	**4,972,722**	**-**	**-**	**-**	**4,972,722**
Notes receivable	**11,154**	**-**	**-**	**-**	**11,154**
Deposits and other receivables	**3,362,293**	**-**	**-**	**-**	**3,362,293**
Bank deposits	**84,306**	**-**	**-**	**-**	**84,306**
Cash and cash equivalents	**1,848,017**	**-**	**-**	**-**	**1,848,017**
	10,322,393	**15,037**	**9,853**	**373,077**	**10,720,360**
At March 31, 2017					
Available-for-sale financial assets	–	–	–	255,898	255,898
Derivative financial assets	–	45,024	8,784	–	53,808
Other non-current assets	43,184	–	–	–	43,184
Trade receivables	4,468,392	–	–	–	4,468,392
Notes receivable	68,333	–	–	–	68,333
Deposits and other receivables	3,345,946	–	–	–	3,345,946
Bank deposits	196,720	–	–	–	196,720
Cash and cash equivalents	2,754,599	–	–	–	2,754,599
	10,877,174	45,024	8,784	255,898	11,186,880

19 FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

	Liabilities at fair value through profit and loss US$'000	Derivatives used for hedging US$'000	Other financial liabilities at amortized cost US$'000	Total US$'000
Liabilities				
At March 31, 2018				
Trade payables	**-**	**-**	**6,450,792**	**6,450,792**
Notes payable	**-**	**-**	**801,974**	**801,974**
Derivative financial liabilities	**35,937**	**26,757**	**-**	**62,694**
Other payables and accruals	**-**	**-**	**8,992,951**	**8,992,951**
Borrowings	**-**	**-**	**3,815,417**	**3,815,417**
Deferred consideration	**-**	**-**	**25,072**	**25,072**
Written put option liability	**-**	**-**	**224,813**	**224,813**
	35,937	**26,757**	**20,311,019**	**20,373,713**
At March 31, 2017				
Trade payables	–	–	5,649,925	5,649,925
Notes payable	–	–	835,613	835,613
Derivative financial liabilities	53,305	13,980	–	67,285
Other payables and accruals	–	–	9,094,610	9,094,610
Borrowings	–	–	3,036,695	3,036,695
Deferred considerations	–	–	711,373	711,373
Written put option liability	–	–	223,703	223,703
	53,305	13,980	19,551,919	19,619,204

20 DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax is calculated in full on temporary differences under the liability method using the rates applicable in the respective jurisdictions.

Deferred income tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the consolidated balance sheet:

	2018 US$'000	2017 US$'000
Deferred income tax assets:		
Recoverable within 12 months	**635,386**	600,763
Recoverable after 12 months	**895,237**	834,493
	1,530,623	1,435,256
Deferred income tax liabilities:		
Recoverable after 12 months	**(230,609)**	(221,601)
Net deferred income tax assets	**1,300,014**	1,213,655

The movements in the net deferred income tax assets are as follows:

	2018 US$'000	2017 US$'000
At the beginning of the year	**1,213,655**	777,893
Reclassification and exchange adjustment	**18,780**	(14,797)
Credited to consolidated income statement (Note 9)	**469,815**	453,954
Charged to other comprehensive income (Note 9)	**(40)**	(3,395)
Charged to share-based compensation reserve	**(2,196)**	–
Effect of change in tax rate (Note 9)	**(400,000)**	–
At the end of the year	**1,300,014**	1,213,655

20 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(continued)*

(a) The movements in deferred income tax assets (prior to offsetting of balances within the same tax jurisdiction), analyzed by major components, during the year are as follows:

	Provisions and accruals US$'000	Tax losses US$'000	Tax depreciation allowance US$'000	Deferred revenue US$'000	Share-based payment US$'000	Others US$'000	Total US$'000
At April 1, 2016	343,495	511,986	14,094	139,772	17,714	12,131	1,039,192
Reclassification and exchange adjustments	(39,494)	2,987	351	3,135	-	(1,639)	(34,660)
Credited/(charged) to consolidated income statement	146,515	389,591	1,179	(47,375)	2,021	(1,907)	490,024
Charged to other comprehensive income	(388)	-	-	-	-	(3,191)	(3,579)
At March 31, 2017 and April 1, 2017	**450,128**	**904,564**	**15,624**	**95,532**	**19,735**	**5,394**	**1,490,977**
Reclassification and exchange adjustments	**10,081**	**(303)**	**10,746**	**5,407**	**-**	**(1,527)**	**24,404**
Credited/(charged) to consolidated income statement	**99,193**	**394,009**	**2,760**	**(8,102)**	**7,942**	**846**	**496,648**
Credited to other comprehensive income	**-**	**-**	**-**	**-**	**-**	**488**	**488**
Charged to share-based compensation reserve	**-**	**-**	**-**	**-**	**(2,196)**	**-**	**(2,196)**
Effect of change in tax rate	**(56,580)**	**(351,713)**	**(836)**	**(11,210)**	**(8,851)**	**(823)**	**(430,013)**
At March 31, 2018	**502,822**	**946,557**	**28,294**	**81,627**	**16,630**	**4,378**	**1,580,308**

Deferred income tax assets are recognized for deductible temporary differences and tax losses carried forward to the extent that realization of the related tax benefit through the future taxable profits is probable.

20 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(continued)*

(a) *(continued)*

At March 31, 2018, the Group did not recognize deferred income tax assets in respect of deductible temporary differences of approximately US$1,036,897,000 (2017: US$1,574,999,000) and tax losses of approximately US$2,258,581,000 (2017: US$2,435,848,000) that can be carried forward against future taxable income, of which, tax losses of US$1,015,591,000 (2017: US$1,596,982,000) can be carried forward indefinitely. The remaining balances of tax losses will expire as follows:

	2018 US$'000	2017 US$'000
Expiring in		
– 2018	**131,173**	174,129
– 2019	**16,911**	17,558
– 2020	**21,635**	12,337
– 2021	**199,549**	188,426
– 2022	**381,940**	382,929
– 2023	**396,743**	2,436
– 2024	**51,870**	4,778
– 2025	**23,177**	56,273
– 2026	**6,114**	–
– 2027	**13,878**	–
	1,242,990	838,866

20 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(continued)*

(b) The movements in deferred income tax liabilities (prior to offsetting of balances within the same tax jurisdiction), analyzed by major components, during the year are as follows:

	Intangible valuation US$'000	Undistributed earnings US$'000	Property valuation US$'000	Accelerated tax depreciation US$'000	Others US$'000	Total US$'000
At April 1, 2016	156,010	52,602	3,301	49,386	-	261,299
Reclassification and exchange adjustments	(17,244)	(5,429)	(191)	3,012	(11)	(19,863)
(Credited)/charged to consolidated income statement	(9,503)	10,504	6	34,730	333	36,070
Credited to other comprehensive income	-	-	-	-	(184)	(184)
At March 31, 2017 and April 1, 2017	**129,263**	**57,677**	**3,116**	**87,128**	**138**	**277,322**
Reclassification and exchange adjustments	**8,485**	**(233)**	**472**	**(2,434)**	**(666)**	**5,624**
(Credited)/charged to consolidated income statement	**(25,256)**	**27,551**	**25**	**24,513**	**-**	**26,833**
Charged to other comprehensive income	**-**	**-**	**-**	**-**	**528**	**528**
Effect of change in tax rate	**(57)**	**-**	**-**	**(29,956)**	**-**	**(30,013)**
At March 31, 2018	**112,435**	**84,995**	**3,613**	**79,251**	**-**	**280,294**

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 US$'000	2017 US$'000
At the beginning of the year	**255,898**	139,572
Exchange adjustment	**17,540**	(2,529)
Fair value change recognized in other comprehensive income	**224**	9,180
Additions	**100,466**	124,110
Transferred to investment in a joint venture	**(901)**	–
Disposals	**(150)**	(13,430)
Impairment	**-**	(1,005)
At the end of the year	**373,077**	255,898
Equity securities, at fair value		
Listed:		
– In Hong Kong	**12,108**	11,039
– Outside Hong Kong	**17,455**	13,104
	29,563	24,143
Unlisted	**343,514**	231,755
	373,077	255,898

22 INVENTORIES

	2018 US$'000	2017 US$'000
Raw materials and work-in-progress	**2,005,975**	1,273,562
Finished goods	**1,133,363**	1,007,413
Service parts	**652,353**	513,060
	3,791,691	2,794,035

23 RECEIVABLES

(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:

	2018 US$'000	2017 US$'000
0 – 30 days	**3,046,240**	2,923,083
31 – 60 days	**1,169,286**	985,251
61 – 90 days	**320,183**	283,050
Over 90 days	**545,629**	381,387
	5,081,338	4,572,771
Less: provision for impairment	**(108,616)**	(104,379)
Trade receivables – net	**4,972,722**	4,468,392

Trade receivables that are not past due are fully performing and not considered impaired.

At March 31, 2018, trade receivables, net of impairment, of US$862,020,000 (2017: US$637,895,000) were past due. The ageing of these receivables, based on due date, is as follows:

	2018 US$'000	2017 US$'000
Within 30 days	**444,377**	368,336
31 – 60 days	**136,373**	117,341
61 – 90 days	**67,406**	53,225
Over 90 days	**213,864**	98,993
	862,020	637,895

23 RECEIVABLES *(continued)*

(a) *(continued)*

Movements in the provision for impairment of trade receivables are as follows:

	2018 US$'000	2017 US$'000
At beginning of the year	**104,379**	106,172
Exchange adjustment	**(2,390)**	5,752
Provisions made	**55,052**	35,154
Uncollectible receivables written off	**(18,002)**	(9,495)
Unused amounts reversed	**(30,423)**	(33,204)
At the end of the year	**108,616**	104,379

(b) Notes receivable of the Group are bank accepted notes mainly with maturity dates within six months.

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

	2018 US$'000	2017 US$'000
Deposits	**15,818**	19,018
Other receivables	**3,346,475**	3,326,928
Prepayments	**1,341,042**	987,405
	4,703,335	4,333,351

Note: Majority of other receivables of the Group are amounts due from subcontractors for parts components sold in the ordinary course of business.

(d) The carrying amounts of trade receivables, notes receivables, deposits and other receivables approximate their fair values. The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivable mentioned above.

24 BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2018 US$'000	2017 US$'000
Bank deposits		
– maturing between three to twelve months	**11,013**	119,292
– restricted bank balances	**73,293**	77,428
	84,306	196,720
Cash and cash equivalents		
– cash at bank and in hand	**1,839,624**	2,120,243
– money market funds	**8,393**	634,356
	1,848,017	2,754,599
	1,932,323	2,951,319
Maximum exposure to credit risk	**1,932,323**	2,951,319
Effective annual interest rates	**0%-6.5%**	0%-11.25%

25 PAYABLES

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

	2018 US$'000	2017 US$'000
0 – 30 days	**3,694,507**	3,497,382
31 – 60 days	**1,793,380**	1,098,575
61 – 90 days	**727,029**	846,804
Over 90 days	**235,876**	207,164
	6,450,792	5,649,925

(b) Notes payable of the Group are mainly repayable within three months.

(c) The carrying amounts of trade payables and notes payable approximate their fair values.

26 PROVISIONS, OTHER PAYABLES AND ACCRUALS

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

	2018 US$'000	2017 US$'000
Accruals	**1,865,507**	2,066,687
Allowance for billing adjustments (i)	**1,634,287**	1,611,495
Deferred considerations (ii)	**-**	686,301
Written put option liability (iii)	**224,813**	223,703
Other payables (iv)	**5,493,157**	5,416,428
	9,217,764	10,004,614

Notes:

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

(ii) Pursuant to the completion of business combination, the Group is required to pay in cash to Google Inc. deferred consideration. Accordingly, current liability in respect of the present value of deferred consideration has been recognized. Deferred consideration is subsequently measured at amortized cost. The remaining deferred consideration payable to Google Inc. has been settled during the year.

(iii) Pursuant to the joint venture agreement entered into between the Company and Compal Electronics, Inc. ("Compal") to establish a joint venture company ("JV Co") to manufacture notebook computer products and related parts, the Company and Compal are respectively granted call and put options which entitle the Company to purchase from Compal and Compal to sell to the Company the 49% Compal's interests in the JV Co. The call and put options will be exercisable at any time after October 1, 2019 and October 1, 2017 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 US$750 million.

The financial liability that may become payable under the put option is initially recognized at fair value 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 resulting from the change in the expected performance of the JV Co 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.

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

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

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

(b) The components of provisions of the Group are as follows:

	Warranty US$'000	Environmental restoration US$'000	Restructuring US$'000	Total US$'000
Year ended March 31, 2017				
At the beginning of the year	1,322,267	8,817	123,103	1,454,187
Exchange adjustment	(16,316)	308	154	(15,854)
Provisions made	736,693	9,442	150,470	896,605
Amounts utilized	(980,738)	(10,177)	(184,075)	(1,174,990)
	1,061,906	8,390	89,652	1,159,948
Long-term portion classified as non-current liabilities	(280,421)	(6,122)	–	(286,543)
At the end of the year	781,485	2,268	89,652	873,405
Year ended March 31, 2018				
At the beginning of the year	**1,061,906**	**8,390**	**89,652**	**1,159,948**
Exchange adjustment	**24,577**	**638**	**3,794**	**29,009**
Provisions made	**895,939**	**9,662**	**100,775**	**1,006,376**
Amounts utilized	**(901,204)**	**(9,771)**	**(140,168)**	**(1,051,143)**
	1,081,218	**8,919**	**54,053**	**1,144,190**
Long-term portion classified as non-current liabilities	**(278,908)**	**(6,807)**	**-**	**(285,715)**
At the end of the year	**802,310**	**2,112**	**54,053**	**858,475**

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.

27 BORROWINGS

	2018 US$'000	2017 US$'000
Current liabilities		
Short-term loans (i)	**1,166,692**	70,003
Non-current liabilities		
Term loan (ii)	**-**	397,687
Notes (iii)	**2,648,725**	2,569,005
	2,648,725	2,966,692
	3,815,417	3,036,695

Notes:

(i) The majority of the short-term bank loans are denominated in United States dollar. As at March 31, 2018 the Group has total revolving and short-term loan facilities of US$1,896 million (2017: US$1,393 million) which has been utilized to the extent of US$1,170 million (2017: US$70 million).

(ii) Term loan comprised a US$1,200 million 5-year loan facility (comprising US$800 million short term) entered into in December 2013. The term loan was prepaid during the year (2017: US$400 million).

(iii)

Issue date	Principal amount	Term	Interest rate per annum	Due date	2018 US$'000	2017 US$'000
May 8, 2014	US$786 million (2017: US$1.5 billion)	5 years	4.7%	May 2019	**774,341**	1,495,081
June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	**635,015**	578,103
March 16, 2017	US$500 million	5 years	3.875%	March 2022	**496,590**	495,821
March 29, 2018	US$750 million	5 years	4.75%	March 2023	**742,779**	–
					2,648,725	2,569,005

On March 29, 2018, the Group completed the issuance of 5-Year US$750 million notes bearing annual interest at 4.75% due in March 2023. The proceeds would be used to repurchase the outstanding 2019 notes and for the Company's working capital and general corporate purposes.

27 BORROWINGS *(continued)*

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates at the end of the reporting period are as follows:

	2018 US$'000	2017 US$'000
Within 1 year	**1,166,692**	70,003
Over 1 to 3 years	**1,409,356**	1,892,768
Over 3 to 5 years	**1,239,369**	1,073,924
	3,815,417	3,036,695

The fair value of the notes as at March 31, 2018 was US$2,659 million (2017: US$2,633 million). The carrying amounts of other borrowings approximate their fair values as the impact of discounting is not significant.

Total bank facilities of the Group are as follows:

	Total facilities		Utilized amounts	
	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000
Revolving loans	**1,100,000**	1,100,000	**1,100,000**	–
Term loan	**–**	400,000	**–**	400,000
Short-term loans	**795,637**	292,807	**70,000**	70,000
Foreign exchange contracts	**8,706,553**	8,833,620	**8,644,518**	8,215,817
Other trade finance facilities	**1,730,185**	1,583,685	**1,090,008**	1,085,974
	12,332,375	12,210,112	**10,904,526**	9,771,791

All borrowings are unsecured and the effective annual interest rates at March 31, 2018 and March 31, 2017 are as follows:

	United States dollar	
	2018	2017
Term loan	**N/A**	2.63%
Short-term loans	**3.38%-5.31%**	0%-4.15%

28 OTHER NON-CURRENT LIABILITIES

	2018 US$'000	2017 US$'000
Deferred consideration (i)	**25,072**	25,072
Environmental restoration (Note 26(b))	**6,807**	6,122
Government incentives and grants received in advance (ii)	**58,988**	95,774
Deferred rent liabilities	**94,377**	102,756
Others	**148,088**	150,833
	333,332	380,557

Notes:

(i) Pursuant to the completion of business combination, the Group is required to pay in cash to NEC Corporation deferred consideration. Accordingly, non-current liability in respect of the present value of deferred consideration has been recognized. Deferred consideration is subsequently measured at amortized cost.

As at March 31, 2018, the potential undiscounted amount of future payment in respect of the deferred consideration that the Group could be required to make to NEC Corporation under the arrangement is US$25 million.

(ii) 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.

29 SHARE CAPITAL

	2018		2017	
	Number of shares	**US$'000**	Number of shares	US$'000
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the year	**11,108,654,724**	**2,689,882**	11,108,654,724	2,689,882
Issue of ordinary shares	**906,136,890**	**496,041**	–	–
At the end of the year	**12,014,791,614**	**3,185,923**	11,108,654,724	2,689,882

On November 17, 2017, the Company has issued 906,136,890 shares at price of HK$4.31 through a subscription agreement entered into by the Company and Union Star Limited (Note 12).

29 SHARE CAPITAL *(continued)*

Long-term incentive program

A performance-related long-term incentive program was approved on May 26, 2005 for the purpose of rewarding and motivating directors, executives and top-performing employees of the Company and its subsidiaries (the "Participants"). The long-term incentive program is designed to enable the Company to attract and retain the best available personnel, and encourage and motivate Participants to work towards enhancing the value of the Company and its shares by aligning their interests with those of the shareholders of the Company.

The Company also approved a share-based compensation package for non-executive directors.

Under the long-term incentive program, the Company may grant awards, at its discretion, using any of the two types of equity-based compensation: (i) share appreciation rights and (ii) restricted share units, which are described below:

(i) Share Appreciation Rights ("SARs")

An SAR entitles the holder to receive the appreciation in value of the Company's share price above a predetermined level.

(ii) Restricted Share Units ("RSUs")

An RSU equals to the value of one ordinary share of the Company. Once vested, an RSU is converted to an ordinary share.

Under the two types of compensation, the Company reserves the right, at its discretion, to settle the award in cash or ordinary shares of the Company.

Movements in the number of units of award granted during the year and their related weighted average fair values are as follows:

	Number of units	
	SARs	**RSUs**
Outstanding at April 1, 2016	286,222,558	186,431,731
Granted during the year	473,195,957	300,802,097
Vested during the year	(104,580,378)	(65,548,767)
Lapsed/cancelled during the year	(99,575,652)	(61,002,782)
Outstanding at March 31, 2017	555,262,485	360,682,279
Outstanding at April 1, 2017	**555,262,485**	**360,682,279**
Granted during the year	**490,920,405**	**301,523,867**
Vested during the year	**(249,496,096)**	**(142,386,897)**
Lapsed/cancelled during the year	**(87,244,882)**	**(41,623,477)**
Outstanding at March 31, 2018	**709,441,912**	**478,195,772**
Average fair value per unit (HK$)		
– At March 31, 2017	1.45	6.49
– At March 31, 2018	**1.01**	**5.50**

29 SHARE CAPITAL *(continued)*

Long-term incentive program *(continued)*

The fair values of the SARs awarded under the long-term incentive program were calculated by applying a Black-Scholes pricing model. For the year ended March 31, 2018, the model inputs were the fair value (i.e. market value) of the Company's shares at the grant date, taking into account the expected volatility of 34.04 percent (2017: 37.06 percent), expected dividends during the vesting periods of 5.59 percent (2017: 2.74 percent), contractual life of 4.5 years (2017: 4.5 years), and a risk-free interest rate of 0.94 percent (2017: 0.70 percent).

The remaining vesting periods of the awards under the long-term incentive program as at March 31, 2018 ranged from 0.41 to 2.92 years (2017: 0.25 to 3 years).

30 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 proceed 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. The distributions are at the Group's discretion, if the issuer and the Company, as guarantor of the securities, do not (a) declare or pay dividends to their shareholders or (b) cancel or reduce their share capital within each distribution payment period. As the perpetual securities do not contain any contractual obligation to pay cash or other financial assets, in accordance with HKAS 32, they are classified as equity and for accounting purpose regarded as part of non-controlling interests.

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

Notes to the Financial Statements

31 BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY

(a) Balance sheet of the Company

	At March 31 2018 US$'000	2017 US$'000
Non-current assets		
Property, plant and equipment	**1,376**	1,548
Intangible assets	**1,581**	5,217
Interest in an associate	**1,887**	1,887
Investments in subsidiaries	**8,580,253**	8,367,819
Available-for-sale financial assets	**46,291**	66,004
	8,631,388	8,442,475
Current assets		
Deposits, prepayments and other receivables	**52,050**	81,736
Amounts due from subsidiaries	**4,201,643**	3,206,011
Cash and cash equivalents	**15,936**	99,600
	4,269,629	3,387,347
Total assets	**12,901,017**	11,829,822
Share capital	**3,185,923**	2,689,882
Reserves (Note 31(b))	**981,864**	839,845
Total equity	**4,167,787**	3,529,727
Non-current liabilities		
Borrowings	**2,648,725**	2,966,692
Amount due to a subsidiary	**1,000,000**	850,000
Other non-current liabilities	**25,900**	26,149
	3,674,625	3,842,841
Current liabilities		
Derivative financial liabilities	**4,884**	68
Other payables and accruals	**86,904**	754,233
Borrowings	**1,096,689**	–
Deferred revenue	**–**	114
Amounts due to subsidiaries	**3,870,128**	3,702,839
	5,058,605	4,457,254
Total liabilities	**8,733,230**	8,300,095
Total equity and liabilities	**12,901,017**	11,829,822

On behalf of the Board

Yang Yuanqing

Chairman and Chief Executive Officer

Ma Xuezheng

Director

31 BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY *(continued)*

(b) Movement of reserves of the Company

The changes in the reserves of the Company during the years ended March 31, 2018 and 2017 are as follows:

	Investment revaluation reserve US$'000	Share-based compensation reserve US$'000	Exchange reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Total US$'000
At April 1, 2016	(7,860)	8,315	10,204	8,614	335,170	354,443
Profit for the year	–	–	–	–	758,261	758,261
Other comprehensive loss	(3,584)	–	–	–	–	(3,584)
Total comprehensive (loss)/ income for the year	(3,584)	–	–	–	758,261	754,677
Vesting of shares under long-term incentive program	–	(72,368)	–	–	–	(72,368)
Share-based compensation	–	182,700	–	–	–	182,700
Dividends paid	–	–	–	–	(379,607)	(379,607)
At March 31, 2017	(11,444)	118,647	10,204	8,614	713,824	839,845
At April 1, 2017	**(11,444)**	**118,647**	**10,204**	**8,614**	**713,824**	**839,845**
Profit for the year	**-**	**-**	**-**	**-**	**446,962**	**446,962**
Other comprehensive loss	**(22,779)**	**-**	**-**	**-**	**-**	**(22,779)**
Total comprehensive (loss)/ income for the year	**(22,779)**	**-**	**-**	**-**	**446,962**	**424,183**
Vesting of shares under long-term incentive program	**-**	**(91,528)**	**-**	**-**	**-**	**(91,528)**
Share-based compensation	**-**	**199,892**	**-**	**-**	**-**	**199,892**
Issue of bonus warrants	**-**	**-**	**-**	**(6,399)**	**-**	**(6,399)**
Dividends paid	**-**	**-**	**-**	**-**	**(384,129)**	**(384,129)**
At March 31, 2018	**(34,223)**	**227,011**	**10,204**	**2,215**	**776,657**	**981,864**

32 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) The Group had the following significant related party transactions in the normal course of business during the year:

	2018 US$'000	2017 US$'000
閃聯信息技術工程中心有限公司 (IGRS Engineering Lab Limited) (an associate) – Purchase of goods	**15,654**	11,811
上海視雲網絡科技有限公司 (Shanghai Shiyun Network Technology Limited) (an associate) – Purchase of goods	**219**	295

Note: The English name of each company is a direct translation of its Chinese registered name.

(b) Key management compensation

Details on key management compensation are set out in Note 11.

33 COMMITMENTS

(a) Capital commitments

Apart from disclosed elsewhere in these financial statements, on March 31, 2018, the Group had the following other capital commitments:

	2018 US$'000	2017 US$'000
Contracted but not provided for:		
– Property, plant and equipment	**154,658**	271,369
– IT consulting services	**1,092**	4,401
– Investment in a subsidiary	**188,692**	–
– Investment in financial assets	**13,776**	–
	358,218	275,770

(b) Commitments under operating leases

The future aggregate minimum lease payments in respect of land and buildings and prepaid lease payments under non-cancellable operating leases of the Group are as follows:

	2018 US$'000	2017 US$'000
Not later than one year	**33,454**	48,518
Later than one year but not later than five years	**293,253**	356,335
Later than five years	**194,161**	236,993
	520,868	641,846

34 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.

35 RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH (USED IN)/GENERATED FROM OPERATIONS

	2018 **US$'000**	2017 US$'000
Profit before taxation	**153,202**	489,927
Share of losses/(profits) of associates and joint ventures	**2,506**	(21,411)
Finance income	**(32,145)**	(27,795)
Finance costs	**263,160**	231,627
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**259,121**	269,107
Amortization of intangible assets	**479,401**	472,999
Share-based compensation	**199,779**	177,523
Impairment of an available-for-sale financial asset	**–**	1,005
Impairment of property, plant and equipment	**4,608**	7,303
Gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**(50,937)**	(336,172)
Gain on disposal of a joint venture	**–**	(218,366)
Dilution gain of interests in associates and a joint venture	**(2,499)**	(14,260)
Gain on disposal of available-for-sale financial assets	**(15)**	(11,575)
Loss on disposal of intangible assets	**710**	417
Dividend income from available-for-sale financial assets	**(286)**	(321)
Fair value change on financial instruments	**12,749**	(27,366)
Fair value change on bonus warrants	**(3,003)**	–
Increase in inventories	**(997,656)**	(156,718)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(1,012,749)**	(580,005)
Increase in trade payables, notes payable, provisions, other payables and accruals	**919,996**	2,354,218
Effect of foreign exchange rate changes	**(257,933)**	87,195
Net cash (used in)/generated from operations	**(61,991)**	2,697,332

Notes to the Financial Statements

35 RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH (USED IN)/GENERATED FROM OPERATIONS *(continued)*

(a) Reconciliation of financing liabilities

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

Financing liabilities	2018 US$'000
Short-term loans – current	1,166,692
Notes – non-current	2,648,725
Financing liabilities	3,815,417
Short-term loans – variable interest rates	1,166,692
Notes – fixed interest rates	2,648,725
Financing liabilities	3,815,417

	Short-term loans current US$'000	Long-term loans non-current US$'000	Notes non-current US$'000	Total US$'000
Financing liabilities as at April 1, 2017	70,003	397,687	2,569,005	3,036,695
Proceeds from borrowings	7,413,740	12,000	-	7,425,740
Repayments of borrowings	(6,324,406)	(400,000)	-	(6,724,406)
Issue of notes	-	-	749,119	749,119
Repayment of notes	-	-	(723,389)	(723,389)
Foreign exchange adjustments	-	-	56,175	56,175
Other non-cash movements	7,355	(9,687)	(2,185)	(4,517)
Financing liabilities as at March 31, 2018	1,166,692	-	2,648,725	3,815,417

36 RETIREMENT BENEFIT OBLIGATIONS

	2018 US$'000	2017 US$'000
Pension obligation included in non-current liabilities		
Pension benefits	**387,632**	345,277
Post-employment medical benefits	**25,850**	24,930
	413,482	370,207
Expensed in income statement		
Pension benefits (Note 10)	**16,439**	18,011
Post-employment medical benefits	**1,177**	1,084
	17,616	19,095
Remeasurements for:		
Defined pension benefits	**20,597**	(43,007)
Post-employment medical benefits	**(800)**	229

In Germany, the Group operates a sectionalised plan that has both defined contribution and defined benefit features, including benefits based on a final pay formula. This plan is closed to new entrants. Following the acquisition of System X and Motorola Mobility in 2014, the Group assumed approximately US$132,052,000 of defined benefit obligations in Germany. The defined benefit plan for Motorola's employees in Germany contains less than 10 active employees but a large number of retirees and former employees with benefits which have vested, but where payment will be deferred until they retire. As a result of these acquisitions and decreases in Euro interest rates, the Group's largest pension liabilities are now in Germany.

The Group continues to maintain significant pension liabilities in Japan, where a cash balance benefit is provided for substantially all employees.

In the United States, the defined benefit plan is closed to new entrants, and now covers only 1.1% of employees. There is also a supplemental defined benefit plan that covers certain executives.

The Group also operates final salary defined benefit plans in a number of countries as a result of past acquisitions.

The Group's major plans are valued by qualified actuaries annually using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(a) Pension benefits

The amounts recognized in the consolidated balance sheet are determined as follows:

	2018 US$'000	2017 US$'000
Present value of funded obligations	**548,060**	511,815
Fair value of plan assets	**(334,597)**	(300,872)
Deficit of funded plans	**213,463**	210,943
Present value of unfunded obligations	**174,169**	134,334
Liability in the balance sheet	**387,632**	345,277
Representing:		
Pension benefits obligation	**387,632**	345,277

The principal actuarial assumptions used are as follows:

	2018	2017
Discount rate	**0.5%-3.25%**	0.5%-3.25%
Future salary increases	**0%-3.5%**	0%-2.9%
Future pension increases	**0%-2%**	0%-1.75%
Life expectancy for male aged 60	**27**	23
Life expectancy for female aged 60	**29**	29

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation		
2018	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 10.6%	Increase by 11.4%
Salary growth rate	0.5%	Increase by 1.2%	Decrease by 1.1%
Pension growth rate	0.5%	Increase by 8.0%	Decrease by 7.3%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		Increase by 3.3%	Decrease by 3.3%

(a) Pension benefits *(continued)*

2017	Change in assumption	Impact on defined benefit obligation Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 10.7%	Increase by 12.4%
Salary growth rate	0.5%	Increase by 0.1%	Decrease by 1.6%
Pension growth rate	0.5%	Increase by 7.9%	Decrease by 7.2%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		Increase by 3.8%	Decrease by 3.4%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

(b) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

The US plan (Lenovo Future Health Account and Retiree Life Insurance Program) is currently funded by a trust that qualifies for tax exemption under US tax law, out of which benefits to eligible retirees and dependents will be made.

Changes in future medical cost trend rates has no effect on the liabilities for post-employment medical benefits.

The amounts recognized in the consolidated balance sheet are determined as follows:

	2018 **US$'000**	2017 US$'000
Present value of funded obligations	**26,652**	27,090
Fair value of plan assets	**(2,391)**	(3,568)
	24,261	23,522
Present value of unfunded obligations	**1,589**	1,408
Liability in the balance sheet	**25,850**	24,930

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(c) Additional information on post-employment benefits (pension and medical)

Plan assets of the Group comprise:

	2018			2017		
	Quoted US$'000	**Unquoted US$'000**	**Total US$'000**	Quoted US$'000	Unquoted US$'000	Total US$'000
Pension plan						
Equity instruments						
Information technology	**2,079**	**-**	**2,079**	1,028	–	1,028
Energy	**235**	**-**	**235**	309	–	309
Manufacturing	**9,726**	**-**	**9,726**	4,309	–	4,309
Others	**3,573**	**-**	**3,573**	5,402	–	5,402
	15,613	**-**	**15,613**	11,048	–	11,048
Debt instruments						
Government	**49,617**	**-**	**49,617**	45,944	–	45,944
Corporate bonds (investment grade)	**50,056**	**-**	**50,056**	47,808	–	47,808
Corporate bonds (Non-investment grade)	**8,864**	**-**	**8,864**	2,507	–	2,507
	108,537	**-**	**108,537**	96,259	–	96,259
Others						
Property	**-**	**13,270**	**13,270**	–	10,476	10,476
Qualifying insurance policies	**-**	**43,503**	**43,503**	–	48,495	48,495
Cash and cash equivalents	**16,302**	**-**	**16,302**	22,891	–	22,891
Investment funds	**-**	**55,821**	**55,821**	–	41,876	41,876
Structured bonds	**-**	**81,180**	**81,180**	–	69,279	69,279
Others	**-**	**371**	**371**	–	548	548
	16,302	**194,145**	**210,447**	22,891	170,674	193,565
	140,452	**194,145**	**334,597**	130,198	170,674	300,872
Medical plan						
Cash and cash equivalents	**2,391**	**-**	**2,391**	3,568	–	3,568

The long term strategic asset allocations of the plans are set and reviewed from time to time by the plans' trustees taking into account the membership, liability profile and the liquidity requirements of the plans.

The weighted average duration of the defined benefit obligation is 12.5 years.

(c) Additional information on post-employment benefits (pension and medical) *(continued)*

Expected maturity analysis of undiscounted pension and post-employments medical benefits:

At March 31, 2018	Less than a year US$'000	Between 1-2 years US$'000	Between 2-5 years US$'000	Over 5 years US$'000	Total US$'000
Pension benefits	19,515	17,177	66,892	801,881	905,465
Post-employment medical benefits	914	994	3,523	42,415	47,846
Total	20,429	18,171	70,415	844,296	953,311

Pension and medical plan assets do not include any of the Company's ordinary shares or US real estate occupied by the Group (2017: nil).

Reconciliation of fair value of plan assets of the Group:

	Pension		Medical	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000
Opening fair value	**300,872**	292,742	**3,568**	4,189
Exchange adjustment	**21,767**	(12,128)	**-**	–
Interest income	**5,287**	5,862	**103**	105
Remeasurements:				
Experience gain/(loss)	**5,644**	(6,334)	**318**	(286)
Contributions by the employer	**25,681**	35,061	**41**	41
Contributions by plan participants	**663**	568	**-**	–
Benefits paid	**(25,317)**	(14,899)	**(1,639)**	(481)
Closing fair value	**334,597**	300,872	**2,391**	3,568
Actual return on plan assets	**10,931**	(472)	**421**	(181)

Contributions of US$9,925,000 are estimated to be made for the year ending March 31, 2019.

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(c) Additional information on post-employment benefits (pension and medical) *(continued)*

Reconciliation of movements in present value of defined benefit obligations of the Group:

	Pension		Medical	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000
Opening defined benefit obligation	**646,149**	711,874	**28,498**	27,931
Exchange adjustment	**54,847**	(25,189)	**215**	(76)
Current service cost	**14,516**	15,950	**315**	412
Past service cost	**(1,141)**	(1,908)	**-**	–
Interest cost	**11,051**	10,157	**965**	790
Remeasurements:				
(Gain)/loss from change in demographic assumptions	**(609)**	(3,133)	**5**	8
Loss/(gain) from changes in financial assumptions	**13,487**	(29,806)	**10**	(74)
Experience loss/(gain)	**13,363**	(16,402)	**(497)**	9
Contributions by plan participants	**663**	568	**-**	–
Benefits paid	**(27,397)**	(15,636)	**(1,270)**	(489)
Curtailments	**(2,700)**	(326)	**-**	(13)
Closing defined benefit obligation	**722,229**	646,149	**28,241**	28,498

During the year, benefits of US$2,080,000 were paid directly by the Group (2017: US$737,000).

Summary of pensions and post-retirement medical benefits of the Group:

	2018 US$'000	2017 US$'000	2016 US$'000	2015 US$'000	2014 US$'000
Present value of defined benefit obligations	**750,470**	674,647	739,805	699,680	428,935
Fair value of plan assets	**336,988**	304,440	296,931	289,562	272,420
Deficit	**413,482**	370,207	442,874	410,118	156,515
Actuarial (gains)/losses arising on plan assets	**(5,962)**	6,620	3,580	(29,070)	(588)
Actuarial losses/(gains) arising on plan liabilities	**25,759**	(49,398)	21,082	99,157	(3,400)
	19,797	(42,778)	24,662	70,087	(3,988)

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(c) Additional information on post-employment benefits (pension and medical) *(continued)*

The amounts recognized in the consolidated income statement are as follows:

	Pension		Medical	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000
Current service cost	**14,516**	15,950	**315**	412
Past service cost	**(1,141)**	(1,908)	**-**	–
Interest cost	**11,051**	10,157	**965**	790
Interest income	**(5,287)**	(5,862)	**(103)**	(105)
Curtailment gains	**(2,700)**	(326)	**-**	(13)
Total expense recognized in the consolidated income statement	**16,439**	18,011	**1,177**	1,084

37 PRINCIPAL SUBSIDIARIES

The following includes the principal subsidiaries directly or indirectly held by the Company and, in the opinion of the directors, are significant to the results of the year or form a substantial portion of the net assets of the Group. The directors consider that giving details of other subsidiaries would result in particulars of excessive length.

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held		Principal activities
			2018	2017	
Held directly:					
聯想(北京)有限公司 (Lenovo (Beijing) Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$175,481,300	**100%**	100%	Manufacturing and distribution of IT products and provision of IT services
聯想(上海)有限公司 (Lenovo (Shanghai) Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$10,000,000	**100%**	100%	Distribution of IT products and provision of IT services
Held indirectly:					
聯寶(合肥)電子科技有限公司 (LCFC (Hefei) Electronics Technology Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	US$265,000,000	**51%**	51%	Manufacturing and distribution of IT products

37 PRINCIPAL SUBSIDIARIES (continued)

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held		Principal activities
			2018	2017	
Lenovo (Asia Pacific) Limited	Hong Kong	HK$3,042,972,340.42	100%	100%	Investment holding and distribution of IT products
北京聯想軟件有限公司 (Beijing Lenovo Software Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$5,000,000	100%	100%	Provision of IT services and distribution of IT products
Lenovo (Australia & New Zealand) Pty Limited	Australia	AUD45,860,993.40	100%	100%	Distribution of IT products
Lenovo (Belgium) BVBA	Belgium	EUR1,317,700,834.94	100%	100%	Investment holding and distribution of IT products
Lenovo (Canada) Inc.	Canada	CAD10,000,000	100%	100%	Distribution of IT products
Lenovo Computer Limited	Hong Kong	HK$2	100%	100%	Procurement agency and distribution of IT products
Lenovo (Danmark) ApS	Denmark	DKK126,000	100%	100%	Distribution of IT products
Lenovo (Deutschland) GmbH	Germany	EUR25,100	100%	100%	Distribution of IT products
Lenovo Enterprise Solutions (Singapore) Pte. Ltd.	Singapore	SGD55,958,592	100%	100%	Manufacturing and wholesaling of computers, computer hardware and peripheral equipment
Lenovo Enterprise Solutions Ltd.	Japan	JPY50,000,000	100%	100%	Distribution of IT products
Lenovo (France) SAS	France	EUR1,837,000	100%	100%	Distribution of IT products

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held		Principal activities
			2018	2017	
Lenovo HK Services Limited	Hong Kong	HK$2	100%	100%	Provision of business planning, management, global supply chain, finance, and administration support services
Lenovo Global Technology (Asia Pacific) Limited	Hong Kong	US$123,001	100%	100%	Investment holding and distribution of IT products
Lenovo Global Technology HK Limited	Hong Kong	US$1	100%	100%	Procurement agency and distribution of IT products
Lenovo Global Technology (Hong Kong) Distribution Limited	Hong Kong	US$1	100%	100%	Distribution of IT products
Lenovo (Hong Kong) Limited	Hong Kong	HK$74,256,023	100%	100%	Distribution of IT products
惠陽聯想電子工業有限公司 (Lenovo (Huiyang) Electronic Industrial Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$31,955,500	100%	100%	Manufacturing and distribution of IT products
Lenovo (India) Private Limited	India	INR8,607,471,514	100%	100%	Manufacturing and distribution of IT products
聯想信息產品（深圳）有限公司 (Lenovo Information Products (Shenzhen) Co. Ltd.)[1] (limited liability company (wholly-owned entity))	Chinese Mainland	RMB643,966,800	100%	100%	Manufacturing and distribution of IT products

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2018	2017	Principal activities
Lenovo (Israel) Ltd.	Israel	ILS1,000	**100%**	100%	Distribution of IT products
Lenovo (Italy) S.r.l	Italy	EUR100,000	**100%**	100%	Distribution of IT products
Lenovo (Japan) Ltd.	Japan	JPY100,000,000	**66.64%**	66.64%	Distribution of IT products
Lenovo Korea LLC	Korea	KRW3,580,940,000	**100%**	100%	Distribution of IT products
Lenovo Mexico, S. de R.L. de C.V.	Mexico	MXN226,308,454	**100%**	100%	Distribution of IT products
聯想移動通信科技有限公司 (Lenovo Mobile Communication Technology Ltd.)[1] (foreign-investment enterprise wholly-owned entity)	Chinese Mainland	RMB187,500,000	**100%**	100%	Manufacturing and distribution of IT products and provision of IT services
聯想移動通信軟件（武漢）有限公司 (Lenovo Mobile Communication Software (Wuhan) Limited)[1] (foreign-investment enterprise wholly-owned entity)	Chinese Mainland	RMB10,000,000	**-**	100%	R&D of mobile software
摩托羅拉（武漢）移動技術通信有限公司 (Motorola (Wuhan) Mobility Technologies Communication Company Limited)[1] 前稱"聯想移動通信（武漢）有限公司" (formerly known as "Lenovo Mobile Communication (Wuhan) Limited")[1] (foreign-investment enterprise wholly-owned entity)	Chinese Mainland	RMB60,000,000	**100%**	100%	Manufacturing of mobile products
Lenovo PC HK Limited	Hong Kong	HK$2,377,934,829.50 ordinary and HK$1,000,000 non-voting deferred	**100%**	100%	Procurement agency and distribution of IT products

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2018	2017	Principal activities
Lenovo PC International Limited	Hong Kong	HK$4,758,857,785	**100%**	100%	Intellectual properties
Lenovo (Schweiz) GmbH	Switzerland	CHF2,000,000	**100%**	100%	Manufacturing and distribution of IT products
Lenovo (Singapore) Pte. Ltd.	Singapore	SGD1,971,231,035.94	**100%**	100%	Manufacturing and wholesaling of computers, computer hardware and peripheral equipment
Lenovo (South Africa) (Pty) Limited	South Africa	RAND100	**100%**	100%	Distribution of IT products
Lenovo (Spain), S.L.	Spain	EUR37,475,456.40	**100%**	100%	Distribution of IT products
Lenovo (Sweden) AB	Sweden	SEK200,200	**100%**	100%	Distribution of IT products
聯想系統集成(深圳)有限公司 (Lenovo Systems Technology Company Limited)[1] (有限責任公司(法人獨資)) (limited liability company (wholly-owned entity))	Chinese Mainland	RMB263,407,660	**100%**	100%	Manufacturing and distribution of IT products
Lenovo Technology (United Kingdom) Limited	United Kingdom	GBP8,629,510	**100%**	100%	Distribution of IT products
Lenovo Technology B.V.	Netherlands	EUR20,000	**100%**	100%	Distribution of IT products
Lenovo Technology Sdn. Bhd.	Malaysia	MYR1,000,000	**100%**	100%	Selling and distribution of computer hardware, software and peripherals and services

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2018	2017	Principal activities
Lenovo Tecnologia (Brasil) Ltda	Brazil	BRL4,424,321,818	**100%**	100%	Manufacturing and distribution of IT products
Lenovo (Thailand) Limited	Thailand	THB243,000,000	**100%**	100%	Distribution of IT products as well as mobile phone, smart phone and tablet, server and storage
Lenovo (United States) Inc.	United States	US$1	**100%**	100%	Distribution of IT products
Lenovo (Venezuela), SA	Venezuela	VEB3,846,897	**100%**	100%	Distribution of IT products
聯想(西安)有限公司 (Lenovo (Xian) Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB10,000,000	**100%**	100%	Provision of IT services and distribution of IT products
LLC "Lenovo (East Europe/Asia)"	Russia	RUB1,910,000	**100%**	100%	Distribution and marketing of IT products
Medion AG	Germany	EUR48,418,400	**79.83%**	79.83%	Retail and service business for consumer electronic products
Motorola Mobility Comércio de Produtos Eletronicos Ltda.	Brazil	BRL756,663,401	**100%**	100%	Developer, owner, licensor and seller of communications hardware and software
Motorola Mobility International Sales LLC	United States	-	**100%**	100%	Holding company

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2018	Percentage of issued capital held 2017	Principal activities
Motorola Mobility LLC	United States	-	**100%**	100%	Developer, owner, licensor and seller of communications hardware and software
NEC Personal Computers, Ltd.	Japan	JPY500,000,000	**66.64%**	66.64%	Manufacturing and distribution of IT products
深圳聯想海外控股有限公司 (Shenzhen Lenovo Overseas Holdings Limited)[1] (wholly-foreign owned enterprise)	Chinese Mainland	US$760,822,799.24	**100%**	100%	Investment management
Stoneware, Inc.	United States	US$861,341.25	**100%**	100%	Development and distribution of IT products
陽光雨露信息技術服務（北京）有限公司 (Sunny Information Technology Service, Inc.)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB50,000,000	**100%**	100%	Provision of repair services for computer hardware and software systems

Notes:

(i) All the above subsidiaries operate principally in their respective places of incorporation or establishment.

(ii) All the Chinese Mainland subsidiaries and Motorola's subsidiaries are limited liability companies. They have adopted December 31 as their financial year end date for statutory reporting purposes. For the preparation of the consolidated financial statements, financial statements of these Chinese Mainland subsidiaries and Motorola's subsidiaries for the years ended March 31, 2017 and 2018 have been used.

(iii) Medion AG is a publicly traded German stock corporation listed on the Frankfurt am Main stock exchange. The percentage of issued capital held is equivalent to approximately 86.51% (2017: 86.51%) excluding treasury shares.

(iv) In November 2017, the Company entered into an equity interest transfer and framework agreement in relation to disposal of 100% equity interest in 聯想移動通信軟件（武漢）有限公司 (Lenovo Mobile Communication Software (Wuhan) Limited) to a third party.

(v) The company whose English name ends with a "1" is a direct transliteration of its Chinese registered name.

Notes to the Financial Statements

38 NON-ADJUSTING POST BALANCE SHEET EVENT

On May 2, 2018, the Company completed the acquisition of 51% in Fujitsu Client Computing Limited and its subsidiary, Shimane Fujitsu Limited (together "FCCL"), pursuant to the sales and purchase agreement and joint venture agreement dated November 2, 2017. FCCL is principally engaged in manufacturing and distribution of PC products. Immediately following completion, the Company, Fujitsu Corporation ("Fujitsu"), and Development Bank of Japan ("DBJ") respectively owns 51%, 44%, and 5% of the interest in FCCL.

Pursuant to the joint venture agreement, both the Company and Fujitsu are respectively granted call and put options which entitle the Company to purchase from Fujitsu and DBJ, or Fujitsu and DBJ to sell to the Company, 49% interest in FCCL. Both options will be exercisable following the fifth anniversary of the date of completion.

The estimated total consideration for the business combination activity comprises:

(i) JPY17.85 billion, on the assumption that FCCL has zero net debt and normalized working capital, payable in cash on completion, minus 51% of (a) the net debt and (b) the working capital adjustment; and

(ii) JPY2.55 billion to JPY12.75 billion performance-adjusted consideration based on business performance to March 31, 2020, payable in cash after March 31, 2020.

39 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on May 24, 2018.

THE ISSUER

Lenovo Group Limited
23rd Floor, Lincoln House, Taikoo Place
979 King's Road, Quarry Bay
Hong Kong

CMU LODGING AND PAYING AGENT AND REGISTRAR

Citicorp International Limited
10/F Citi Tower
One Bay East
83 Hoi Bun Road
Kwun Tong
Kowloon
Hong Kong

TRUSTEE

Citicorp International Limited
39th Floor, Champion Tower
Three Garden Road
3 Garden Road, Central
Hong Kong

PRINCIPAL REGISTRAR

Citigroup Global Markets Europe AG
(formerly known as Citigroup Global Markets Deutschland AG)
Reuterweg 16
60323 Frankfurt-am-Main
Germany

PRINCIPAL PAYING AGENT AND TRANSFER AGENT

Citibank, N.A., London Branch
c/o Citibank, N.A. Dublin Branch
1 North Wall Quay
Dublin 1
Ireland

LEGAL ADVISERS

To the Issuer as to Hong Kong and English law

Cleary Gottlieb Steen & Hamilton (Hong Kong)
37th Floor, Hysan Place
500 Hennessy Rosad
Hong Kong

To the Arranger and Dealers as to English law and to the Trustee as to English Law

Clifford Chance
27th Floor
Jardine House
One Connaught Place
Central
Hong Kong

INDEPENDENT AUDITOR OF THE GROUP

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central
Hong Kong