Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

FY2019/20 THIRD QUARTER RESULTS ANNOUNCEMENT

QUARTERLY RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") announces the unaudited results of the Company and its subsidiaries (the "Group") for the three and nine months ended December 31, 2019 together with comparative figures for the corresponding period of last year, as follows:

FINANCIAL HIGHLIGHTS

- Record-high quarterly revenue and pre-tax profit achieved thanks to growth in PC and Smart Device (PCSD) business and improvement of Data Center Group (DCG) business
- PCSD business set record pre-tax margin by leveraging the momentum of high-growth and premium hardware segments, and the software and services business; strong execution mitigated the persisting component shortages
- Mobile Business Group (MBG) maintained positive PTI for the 5th consecutive quarter despite slower revenue momentum due to supply constraint
- DCG business recorded double-digit YTY shipments growth; lower revenue growth caused by average selling price erosion reflecting lowered component prices
- Software & Services revenue surpassed US$1 billion

	3 months ended December 31, 2019 (unaudited) *US$ million*	9 months ended December 31, 2019 (unaudited) *US$ million*	3 months ended December 31, 2018 (unaudited) *US$ million*	9 months ended December 31, 2018 (unaudited) *US$ million*	Year-on-year change 3 months ended December 31	Year-on-year change 9 months ended December 31
Revenue	14,103	40,137	14,035	39,328	0%	2%
Gross profit	2,265	6,496	2,050	5,475	10%	19%
Gross profit margin	16.1%	16.2%	14.6%	13.9%	1.5 pts	2.3 pts
Operating expenses	(1,777)	(5,223)	(1,616)	(4,571)	10%	14%
Operating profit	488	1,273	434	904	12%	41%
Other non-operating expenses - net	(98)	(333)	(84)	(228)	16%	46%
Profit before taxation	390	940	350	676	11%	39%
Profit for the period	305	741	265	523	15%	42%
Profit attributable to equity holders of the Company	258	623	233	478	11%	30%
Earnings per share attributable to equity holders of the Company						
Basic	US2.16 cents	US5.22 cents	US1.96 cents	US4.02 cents	US0.20 cents	US1.20 cents
Diluted	US2.07 cents	US5.01 cents	US1.92 cents	US4.01 cents	US0.15 cents	US1.00 cents

BUSINESS REVIEW AND OUTLOOK

Highlights

During the three months ended December 31, 2019, Lenovo (the Group) set new performance records on the back of strong operational excellence and strategy execution. The Group delivered the highest pre-tax profit in its history. Specifically, the PC and Smart Device (PCSD) business achieved record-breaking pre-tax margin, while Mobile Business Group (MBG) remained profitable. Data Center Group (DCG) continued to improve.

In addition to maintaining growth, the Group made steady progress in exploring and developing future growth opportunities. The 3S (Smart IoT, Smart Verticals, and Smart Infrastructure) strategy is accelerating the Group's Intelligent Transformation and is paving a new path towards delivering long-term sustainable growth. Strategic investments underlying the 3S strategy have led to strong double-digit year-on-year growth in the Group's Software and Services business. The invoiced revenue from Software and Services exceeded US$1 billion and contributed over 7 percent of the Group's revenue for the period under review, with the highest gross margin among all the Group's products.

Net cash generated from operating activities was US$538 million in Q3FY20, compared to US$1.2 billion in 1HFY20. The cash generated from operation was lower year-on-year due to higher inventory level on critical parts and less accounts receivable factoring.

Group Financial Performance

For the three months ended December 31, 2019, the Group delivered record revenues and grew its pre-tax profit by 11 percent year-on-year to US$390 million. Profit attributable to equity holders rose by 11 percent to US$258 million.

The Group's gross margin expanded by 1.5 percentage points year-on-year to 16.1 percent, thanks to the continued sales mix shift of PCSD into high growth and premium segments. The operating expense-to-revenue ratio increased by 1.1 percentage points to 12.6 percent due to rising investments in sales, marketing and promotion, as well as higher wages, salaries and long-term incentive awards. The Group expanded its pre-tax margin by 0.3 percentage points year-on-year to 2.8 percent, representing its highest profitability level since the acquisition of Motorola Mobility and IBM x86 server businesses in 2014.

Among the three business groups, the PCSD business remained the global market share leader, delivering industry-leading profitability. The DCG business saw strong double-digit growth in volume, although its quarterly revenue growth was constrained by average selling price (ASP) compression and lowered component cost. MBG remained profitable despite challenges on the supply side impacting sales of its popular new models.

Performance by Product Business Group

Intelligent Devices Group (IDG)

During the three months ended December 31, 2019, the revenue of Intelligent Devices Group (IDG) - consisting of the PCSD and MBG businesses - grew 0.5 percent year-on-year to an all-time high of US$12,502 million. Its pre-tax profit increased strongly by 17 percent year-on-year to reach US$687 million. Market share gain across the high-growth and premium PC segments was the primary catalyst for IDG's strong profit performance. This sales mix change made possible the record pre-tax profit margin of 5.5 percent achieved by IDG during the period under review.

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

During the period under review, the PCSD business was not only the largest PC brand in the world with a 24.8 percent market share but also the sector leader in terms of profitability. The PC business continued its growth trajectory with an all-time high revenue and shipments on a quarterly basis, despite severe shortages of a key component. The success of this business is rooted in its execution, which enabled a strategic shift towards high-growth and premium segments. PCSD enjoyed double-digit revenue and shipment growth across the Workstation, Thin and Light, Visual, and Gaming PC segments. The business overall reported a 3 percent year-on-year growth in revenue to US$11,074 million, representing 79 percent of the Group's total revenue, for the three months ended December 31, 2019.

These high-growth and premium segments now contribute over half of the business' top-line scale. Together with a higher attach rate for its highly profitable Software and Services offerings, PCSD further expanded its industry-leading profitability to set a record pre-tax margin of 6.2 percent in the three-month period under review, representing a year-on-year expansion of 0.7 percentage points. Its pre-tax profit increased 17 percent year-on-year to US$684 million.

Intelligent Devices Group - Mobile Business Group (MBG)

The Group's mobile business has continued its focused strategy to invest and develop in regions and/or countries where it has notable competitive advantages. Leveraging this focused strategy, the MBG business again delivered on its promise, marking its fifth profitable quarter in a row. The business made a moderate profit before taxation of US$3 million during the quarter under review.

Operations in its biggest core market, Latin America, remained robust and the region's pre-tax margin further expanded. However, the business' performance in other geographical markets faced challenges arising from shortage of components. Thus resulted a decline in the business' revenue by 17 percent to US$1,381 million for the three months ended December 31, 2019.

The MBG business continued to deliver innovative products including the recently announced foldable smartphone - the razr foldable. This product has earned positive customer reviews and will start contributing to the business' revenue as well as providing an opportunity to upsell and reenter the premium segment.

Data Center Group (DCG)

In fiscal quarter three, the DCG Group staged a notable improvement from a multiple-quarter setback with an 18 percent shipment growth year-on-year on products including servers, its traditional core business, and storage. Nevertheless its revenue growth remained constrained mainly due to the impact of lower commodity prices. The business grew 20 percent in revenue quarter by quarter to reach US$1,601 million for the period under review, contributing 11 percent of the Group's total revenue. While the year-on-year revenue growth is subdued in the period under review, it represented significant improvement from the 14 and 17 percent declines in the first two quarters of current fiscal year.

The business reported double-digit year-on-year growth for its non-hyperscale segment. The most notable success is seen in Data Center Infrastructure (DCI), Software Defined Infrastructure (SDI), storage, and Software and Services. The DCI business continued to grow year-on-year in fiscal quarter three as DCG in China seized the opportunity to broaden its sales coverage and product portfolio. Its storage revenue grew at a strong, double-digit rate during the period under review thanks to the NetApp Joint Venture and new product growth in entry- and mid-range flash arrays. SDI sales also increased at a strong double-digit rate year-on-year as its product performance helped win market share. The robust growth of Software and Services business was driven by an increasingly diversified portfolio and strength in selective regional markets such as China. For the hyperscale business, annual revenue comparison remained difficult for the period under review due to sharply lowered component prices severely eroding ASP. However, the price erosion will come to an anniversary after this quarter, implying easier base of comparison going forward.

Losses from DCG narrowed by US$8 million year-on-year to US$47 million for the period. The reduced losses were achieved despite investments into expanding product portfolio and pursuing growth opportunities in Telecom, Edge computing and Artificial Intelligence.

Outlook

Macro risk factors, especially the outbreak of the Novel coronavirus, could bring short-term volatility and challenges. The vast majority of the Group's factories in China have reopened and are operational on a limited basis, although its suppliers and even logistics services across the countries remained impacted. Nevertheless, given its extensive global footprint, the company is well positioned to address the supply challenges by leveraging its strength as a global company with worldwide manufacturing capabilities and supply chain efficiency. The Group's immediate priorities remain the welfare and health of its workforce, continuity of manufacturing and rebuilding capacity, working with its supply chain to drive recovery and assisting those working to contain the outbreak. The Group is leveraging the full strength of its global manufacturing and distribution networks to minimize any potential impact on its customers. Demand in China is expected to rebound after stabilization of the coronavirus outbreak, and new demand drivers could emerge to bode well for the businesses.

The Group will continue to target premium-to-market revenue growth and thereby industry-leading profitability in its PCSD business through further expansion in the high-growth and premium segments. Building capabilities to drive sales growth in software and services will also remain a key strategy focus. For its Mobile business, the Group will further strengthen its competitiveness in target markets to sustain profitable growth while extending its technology leadership.

The improvement of DCG business is at an early stage. The trend of data growth is expected to accelerate and fuel growth in sales for DCG business following the debut of more products and applications featuring new technologies including 5G. Lenovo will tap into this opportunity to drive continued revival of its hyperscale business and to forge its DCG business as a full stack industry leader through the introduction of solution capabilities and a reliable end-to-end product portfolio.

Moving forward, Lenovo will continue to drive growth in enterprise servers, Software Defined Infrastructure, storage, and services and software. For hyperscale business, the Group will leverage its differentiated in-house design and manufacturing capability to expand product coverage from the heritage server products to storage, and broaden its customer base to build a profitable business model in the future.

Strategic Highlights

The Group continues to execute its strategy to be the leader and enabler of Intelligent Transformation. Lenovo has the vision of bringing smarter technology to all - through Smart Infrastructure, Smart Verticals and Smart IoT. This 3S strategy, in parallel with its customer-centric positioning, has led to a higher Software and Services attach rate. During fiscal quarter three, the invoiced revenue from Software and Services grew at a strong double-digit year-on-year, not only contributing over 7 percent of the Group revenue but also carrying the highest margin profile among all of the Group's products. The Software and Services business is considered a strong, long-term growth catalyst.

Smart Infrastructure provides the computing, storage and networking power to support smart devices, which will more than double in number in 2020 from 2017 creating an enormous amount of data. Lenovo launched its next-generation data center solutions in SDI and expects it to remain a future growth catalyst. These new solutions, which include collaboration with several partners based on the ThinkAgile platform, have grown significantly during fiscal quarter three.

Smart Verticals combine big data generated by smart devices and the computing power of smart infrastructure in order to provide more insights and improve processes for customers. The Data Intelligence Business Group (DIBG) has expanded its footprint to win projects in the energy and manufacturing industry during fiscal quarter three. Its healthcare and education virtual reality solutions also gained strong momentum in driving revenue growth.

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

FINANCIAL REVIEW

Results for the nine months ended December 31, 2019

	9 months ended December 31, 2019 (unaudited) ***US$ million***	9 months ended December 31, 2018 (unaudited) *US$ million*	Year-on-year change
Revenue	**40,137**	39,328	2%
Gross profit	**6,496**	5,475	19%
Gross profit margin	**16.2%**	13.9%	2.3 pts
Operating expenses	**(5,223)**	(4,571)	14%
Operating profit	**1,273**	904	41%
Other non-operating expenses – net	**(333)**	(228)	46%
Profit before taxation	**940**	676	39%
Profit for the period	**741**	523	42%
Profit attributable to equity holders of the Company	**623**	478	30%
Earnings per share attributable to equity holders of the Company			
Basic	**US5.22 cents**	US4.02 cents	US1.20 cents
Diluted	**US5.01 cents**	US4.01 cents	US1.00 cents

For the nine months ended December 31, 2019, the Group achieved total sales of approximately US$40,137 million. Compared to the corresponding period of last year, profit attributable to equity holders for the period surged by US$145 million to approximately US$623 million. In the same reporting period, gross profit margin advanced by 2.3 percentage points from 13.9 percent, 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.

Analysis of operating expenses by function for the nine months ended December 31, 2019 and 2018 is as follows:

	9 months ended December 31, 2019 ***US$'000***	9 months ended December 31, 2018 *US$'000*
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)

Operating expenses for the period were 14 percent over that of the corresponding period of last year. 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. The Group also raised advertising and promotional expenses 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. There was also a reduction in net gain on fair valuation of certain financial assets and a financial liability to US$36 million (2018/19: US$99 million). The overall increase was partially offset by the reduction in net foreign exchange loss to US$70 million (2018/19: US$92 million).

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

Key expenses by nature comprise:

	9 months ended December 31, 2019 *US$'000*	9 months ended December 31, 2018 *US$'000*
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)

Other non-operating expenses (net) for the nine months ended December 31, 2019 and 2018 comprise:

	9 months ended December 31, 2019 *US$'000*	9 months ended December 31, 2018 *US$'000*
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)

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 50 percent over that of the corresponding period of last year. The change is a combined effect of 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, offset by the decrease in interest on notes of US$23 million.

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

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

	9 months ended December 31, 2019		9 months ended December 31, 2018	
	Revenue from external customers	**Pre-tax income/ (loss)**	Revenue from external customers	Pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
IDG	**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

Headquarters and corporate (expenses)/income for the period comprise various expenses, after appropriate allocation to business groups, which are attributable to headquarters and corporate of US$503 million (2018/19: US$470 million) such as employee benefit costs, legal and professional fees, and research and technology expenses. Employee benefit costs rose by US$48 million due to an increase in headcount and the Group recorded central research and technology expenses of US$141 million which were not allocated to a business group (2018/19: US$53 million).

Moreover, the Group recognized fair value gain on bonus warrants of US$16 million during the period (2018/19: fair value loss of US$4 million), and certain one-time charges associated with the execution of previously announced resource actions at the corporate level. These one-time charges include the disposal of certain inventories of US$45 million (2018/19: US$77 million) caused by product portfolio simplification, and onerous lease contracts and claims of US$3 million (2018/19: US$26 million).

Third Quarter 2019/20 compared to Third Quarter 2018/19

	3 months ended December 31, 2019 (unaudited) ***US$ million***	3 months ended December 31, 2018 (unaudited) *US$ million*	Year-on-year change
Revenue	**14,103**	14,035	0%
Gross profit	**2,265**	2,050	10%
Gross profit margin	**16.1%**	14.6%	1.5 pts
Operating expenses	**(1,777)**	(1,616)	10%
Operating profit	**488**	434	12%
Other non-operating expenses – net	**(98)**	(84)	16%
Profit before taxation	**390**	350	11%
Profit for the period	**305**	265	15%
Profit attributable to equity holders of the Company	**258**	233	11%
Earnings per share attributable to equity holders of the Company			
Basic	**US2.16 cents**	US1.96 cents	US0.20 cents
Diluted	**US2.07 cents**	US1.92 cents	US0.15 cents

For the three months ended December 31, 2019, the Group achieved total sales of approximately US$14,103 million. Compared to the corresponding period of last year, profit attributable to equity holders for the period surged by US$25 million to approximately US$258 million. In the same reporting period, gross profit margin advanced by 1.5 percentage points from 14.6 percent, while basic and diluted earnings per share were US2.16 cents and US2.07 cents respectively, representing an increase of US0.20 cents and US0.15 cents.

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

Analysis of operating expenses by function for the three months ended December 31, 2019 and 2018 is as follows:

	3 months ended December 31, 2019 ***US$'000***	3 months ended December 31, 2018 *US$'000*
Selling and distribution expenses	**(816,261)**	(702,175)
Administrative expenses	**(609,157)**	(615,590)
Research and development expenses	**(341,232)**	(272,820)
Other operating expenses – net	**(9,863)**	(24,686)
	(1,776,513)	(1,615,271)

Operating expenses for the period were 10 percent over that of the corresponding period of last year. Employee benefit costs increased by US$67 million mainly due to higher wages and salaries and long-term incentive awards. The Group also raised advertising and promotional expenses by US$57 million. Amortization of intangible assets increased by US$29 million with more investments in trademarks and trade names and internal use software. The overall increase was partially offset by net gain on fair valuation of certain financial assets and a financial liability of US$40 million (2018/19: loss of US$5 million). Currency fluctuations during the period presented a challenge to the Group resulting in a net exchange loss of US$22 million (2018/19: US$33 million).

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

Key expenses by nature comprise:

	3 months ended December 31, 2019 ***US$'000***	3 months ended December 31, 2018 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(38,432)**	(45,268)
Depreciation of right-of-use assets	**(23,646)**	-
Amortization of intangible assets	**(150,290)**	(121,378)
Employee benefit costs, including	**(942,865)**	(875,500)
- *long-term incentive awards*	***(68,978)***	*(56,017)*
Rental expenses under operating leases	**(2,748)**	(25,628)
Net foreign exchange loss	**(21,859)**	(32,544)
Advertising and promotional expenses	**(247,555)**	(190,256)
Loss on disposal of property, plant and equipment	**(642)**	(668)
Fair value gain/(loss) on financial assets at fair value through profit or loss	**49,543**	(5,270)
Fair value loss on a financial liability at fair value through profit or loss	**(10,000)**	-
Gain on deemed disposal of a subsidiary	**-**	22,811
Gain on disposal of interest in an associate	**3,922**	-
Others	**(391,941)**	(341,570)
	(1,776,513)	(1,615,271)

Other non-operating expenses (net) for the three months ended December 31, 2019 and 2018 comprise:

	3 months ended December 31, 2019 ***US$'000***	3 months ended December 31, 2018 *US$'000*
Finance income	**13,369**	6,001
Finance costs	**(107,595)**	(85,905)
Share of losses of associates and joint ventures	**(3,659)**	(4,165)
	(97,885)	(84,069)

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 25 percent as compared to the corresponding period of last year. The change is a combined effect of the increase in factoring costs of US$20 million, interest on convertible bonds of US$10 million and interest on lease liabilities of US$5 million, offset by the decrease in interest on notes of US$11 million.

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

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

	3 months ended December 31, 2019		3 months ended December 31, 2018	
	Revenue from external customers	**Pre-tax income/ (loss)**	Revenue from external customers	Pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
IDG	**12,502,275**	**687,050**	12,434,761	586,313
DCG	**1,600,561**	**(46,546)**	1,600,369	(54,594)
Segment total	**14,102,836**	**640,504**	14,035,130	531,719
Unallocated:				
Headquarters and corporate (expenses)/income - net		**(228,559)**		(127,946)
Depreciation and amortization		**(41,506)**		(36,023)
Finance income		**6,585**		-
Finance costs		**(28,369)**		(30,718)
Share of losses of associates and joint ventures		**(3,659)**		(4,165)
Loss on disposal of property, plant and equipment		**(146)**		(150)
Fair value gain/(loss) on financial assets at fair value through profit or loss		**49,543**		(5,270)
Fair value loss on a financial liability at fair value through profit or loss		**(10,000)**		-
Gain on deemed disposal of a subsidiary		**-**		22,811
Gain on disposal of interest in an associate		**3,922**		-
Dividend income		**1,913**		67
Consolidated profit before taxation		**390,228**		350,325

Headquarters and corporate (expenses)/income for the period comprise various expenses, after appropriate allocation to business groups, which are attributable to headquarters and corporate of US$229 million (2018/19: US$128 million) such as employee benefit costs, legal and professional fees, and research and technology expenses. Employee benefit costs rose by US$26 million due to an increase in headcount. The Group recorded a net exchange loss of US$22 million (2018/19: US$16 million) and central research and technology expenses of US$56 million which were not allocated to a business group (2018/19: US$19 million).

Moreover, the Group did not recognize any fair value gain on bonus warrants during the period (2018/19: US$3 million). The Group recognized one-time charge associated with the execution of previously announced resource actions at the corporate level, representing the disposal of certain inventories of US$40 million (2018/19: US$30 million) caused by product portfolio simplification.

Capital Expenditure

The Group incurred capital expenditure of US$701 million (2018/19: US$468 million) during the nine months ended December 31, 2019, mainly for the acquisition of property, plant and equipment and additions in construction-in-progress and intangible assets.

Liquidity and Financial Resources

At December 31, 2019, total assets of the Group 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). At December 31, 2019, the current ratio of the Group was 0.85 (March 31, 2019: 0.82).

At December 31, 2019, bank deposits and cash and cash equivalents totaled US$3,586 million (March 31, 2019: US$2,733 million) analyzed by major currency are as follows:

	December 31, 2019	March 31, 2019
	%	%
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

The Group adopts a conservative policy to invest the surplus cash generated from operations. At December 31, 2019, 87.5 (March 31, 2019: 78.6) percent of cash are bank deposits, and 12.5 (March 31, 2019: 21.4) percent are investments in liquid money market funds of investment grade.

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

The Group has the following banking facilities:

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

Notes, perpetual securities, convertible bonds and convertible preferred shares issued by the Group and outstanding as at December 31, 2019 are 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

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

	Total facilities amount at		**Drawn down amount at**	
Credit facilities	**December 31, 2019**	March 31, 2019	**December 31, 2019**	March 31, 2019
	US$ million	*US$ million*	***US$ million***	*US$ million*
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

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

	December 31, 2019	March 31, 2019
	US$ million	*US$ million*
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

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At December 31, 2019, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$9,429 million (March 31, 2019: US$9,525 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

Contingent Liabilities

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

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

	Note	**3 months ended December 31, 2019 (unaudited)**	**9 months ended December 31, 2019 (unaudited)**	3 months ended December 31, 2018 (unaudited)	9 months ended December 31, 2018 (unaudited)
		US$'000	***US$'000***	*US$'000*	*US$'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.

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

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

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

From April 1, 2019, leases are 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		9 months ended December 31, 2018	
	Revenue from external customers	**Pre-tax income/ (loss)**	Revenue from external customers	Pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
IDG	**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	March 31, 2019
	US$'000	*US$'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 *US$'000*	March 31, 2019 *US$'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 *US$'000*	9 months ended December 31, 2018 *US$'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 *US$'000*	9 months ended December 31, 2018 *US$'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 *US$'000*	2018 *US$'000*	**2019** *US$'000*	2018 *US$'000*	**2019** *US$'000*	2018 *US$'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	**AP**	**EMEA**	**AG**	**Mature Market**	**Emerging Market**	**Total**
	US$ million	***US$ million***	***US$ million***	***US$ million***	***US$ million***	***US$ million***	***US$ million***
Goodwill							
- PCSD	**1,025**	**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	AP	EMEA	AG	Mature Market	Emerging Market	Total
	US$ million	*US$ million*	*US$ million*	*US$ million*	*US$ million*	*US$ million*	*US$ million*
Goodwill							
- PCSD	1,051	679	221	320	-	-	2,271
- MBG	-	-	-	-	679	905	1,584
- DCG	490	158	88	351	-	-	1,087
Trademarks and trade names							
- PCSD	209	59	104	67	-	-	439
- MBG	-	-	-	-	197	263	460
- DCG	162	54	31	123	-	-	370

The directors are of the view that there was no impairment of goodwill and trademarks and trade names based on impairment tests performed as at 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 *US$'000*	9 months ended December 31, 2018 *US$'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**

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

During the nine months ended December 31, 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities, except that the respective trustee of the long-term incentive program and the employee share purchase plan of the Company purchased a total of 124,448,639 shares from the market for award to employees upon vesting. Details of these program and plan are set out in the 2019/20 interim report of the Company.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the unaudited financial results of the Group for the nine months ended December 31, 2019. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the nine months ended December 31, 2019, in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with the exception that the roles of the chairman of the Board (the “Chairman”) and the chief executive officer of the Company (the “CEO”) have not been segregated as required by code provision A.2.1 of the CG Code.

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

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

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

February 20, 2020

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