

Bucephalus Research Partnership Limited

15c, Casey Building
38 Lok Ku Road
Central
Hong Kong

Tel +852 3464 0990
www.buceph.com

**March 2020**

Lenovo
23rd Floor, Lincoln House
Taikoo Place
979 King's Road, Quarry Bay

Dear Jenny

Thank you for your letter.

I appreciate your attempt to safeguard your companies reputation but using words like absurd, irresponsible, without merit while suggesting that we might be careless or making statement that could confuse or mislead the market appears to us to be simply designed to belittle our work without address our points. Please try and leave out the childish responses and deal with the issues at hand.

You say that you commit to the highest standards of transparency and integrity in your financial reporting. If you really mean this, then please can you disclose

- 1) Your factored balances since Q1 FY 2015
- 2) The revenue and profit impact from the FCCL acquisition in FY19 and FY20
- 3) Operating profit by region, as you did in the past
- 4) Breakdown revenue and operating profit for IDG and MBS, as you used to
- 5) The make-up of your non-controlling interests and what is driving the changes
- 6) Your debt covenants
- 7) Why the ZJSB transaction was guaranteed by Lenovo rather than bought. This appears to be a 7% loan from a company related to Legend.

Finally, please can you put the transcripts of your webcasts on your website

All of this would have been done by companies with the highest standards of transparency and integrity. We can happily send you examples if you would like.

As to your purported answers

Invoice pattern

This changed a year ago and has stayed odd ever since, as such your answer "late delivery in the last quarter" fails to explain the issue.

You say you have never engaged in evergreen invoicing and our assertion to this is absurd.

- 1) This tends to happen at a local, not head office level. Your answer is very definitive. Have you checked?
- 2) We didn't assert that you were doing this we said it could offer an explanation, very different.

As you have yet to fully explain why the pattern changed in Q4 FY19, please can you respond with an explanation that covers the relevant period

Finance cost and receivables

We are trying to understand your answer

- 1) You say that receivables have risen because the factored balance has dropped
- 2) Q1&2 costs spiked due to new partner, but factoring costs fell in Q3 due to improved efficiency
- 3) Yet Q3 FY20 factoring costs are still double a year earlier.

Rationally the increase in Q3 fees would be driven by either a higher balance or higher interest costs. You say the former has dropped so it shouldn't be that.

The latter would be driven by credit quality or time. If it is not credit quality as you allege, then it must be time but that was presumably reasonably constant. So what is the issue?

Our suggestion may or may not be unfounded, but your answer does not explain the rising cost.

Bad debt provision

Apologies, our wording was imprecise. We should have said the "bad debt provisions as a % of receivables are falling. However, your answer does not explain why provisions as a % of either total or aged receivables has fallen. Yes, the provision has risen in dollar terms but not as fast as either total or aged receivables.

Independent directors

Best practice is a maximum of 10 years. We judge directors by their decisions. We think several decisions made have benefitted Legend and disadvantaged Lenovo. If you are happy to provide evidence that disproves our thesis that minorities are left vulnerable, we will happily change our mind.

Legend

Please can you explain what you mean by what is best for Lenovo. How should this be judged.

Presumably having its parent collapse would not be good for Lenovo, so now there is a circular argument.

Trade and other payables

Apologies, again we used imprecise language. We totally accept that there is a difference between delaying payments and lengthening payment terms. However, we suspect that your suppliers will see it as the same thing.

Other payables: Please check your accounts, your Accruals are up, billing adjustments are up and while other payables are down YOY, they are up QoQ.

Our reference is accurate

Dividend

Money is fungible so it was again imprecise of us to say that you borrowed to fund the dividend.

However, you have raised capital every year since FY15 while paying dividends. You have gone from net cash to substantially net debt and have raised equity capital. All of this would have been reduced had you stopped paying dividends.

If you had not been able to lengthen your payment terms so much this year, you would be cashflow negative and paying dividends would require more capital.

You say our suggestion that you pay a dividend because Legend needs it is wrong. Could you provide some evidence to support this rather emphatic statement.

Growth from acquisition

You say that all of Lenovo's growth over the last twelve months has been organic.

Are we to take it that the Fujitsu PC operations have gone bust?

Otherwise your comment makes no sense.

Fujitsu was purchased May 2018, so YTD 9m FY19 would see a six month contribution whereas YTD 9m FY20 would see a nine month contribution.

It is noticeable that revenue grew fastest in AP in FY19 and again in FY20, where we believe Fujitsu was strong. Under global best practice, you would have revealed this information.

Growth from China

According to your own filing revenue in China has fallen, I am not sure how studying the market would have persuaded us that your revenue had risen.

Data centres

According to your own filing, data centre revenue is flat YoY and YTD, I don't see how our comments are wrong.

Mobile devices

We care about results and how they are portrayed, not strategic intent. Of course if you improved your disclosure it would at least be possible to verify how your performance matched up with your strategic intent.

I am afraid your clarifications have not been helpful, but I appreciate your offer to respond to any questions we might have and to provide transparent, quality public information.

We look forward to seeing your disclosure improve to the highest standards of transparency and integrity.

Yours faithfully

Robert Medd

Bucephalus Research Partnership