Lenovo™

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

(1) PROPOSED ISSUANCE OF U.S. DOLLAR-DENOMINATED NOTES
(2) CONCURRENT TENDER OFFER TO PURCHASE THE PREFERRED SHARES, THE 2022 NOTES AND THE 2023 NOTES
AND
(3) EXTRACT OF FINANCIAL INFORMATION

PROPOSED NOTES ISSUE

Introduction

The Board is pleased to announce that the Company proposes to conduct an international offering of the New Notes to professional and institutional investors only. It is intended that the New Notes will constitute direct, unconditional, unsecured and unsubordinated obligations of the Company denominated in U.S. dollars. The completion of the Notes Issue is dependent on several factors, including but not limited to global market conditions, corporate needs of the Company and investors' interests. The size and pricing of the proposed Notes Issue will be determined following a book-building process to be conducted by Citigroup, Morgan Stanley, Credit Suisse, J.P. Morgan, BNP PARIBAS and Goldman Sachs (Asia) L.L.C. as the joint global coordinators, and DBS Bank Ltd., Crédit Agricole CIB, Mizuho Securities, MUFG, and Société Générale Corporate & Investment Banking as the joint bookrunners in respect of the Notes Issue.

The New Notes to be issued by the Company have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States. The New Notes will only be offered (i) in the United States to qualified institutional buyers in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A or in transactions not subject to the registration requirements of the U.S. Securities Act; and (ii) in offshore transactions to Non-U.S. Persons in compliance with Regulation S.

There will be no public offering of the New Notes in Hong Kong, the United States, or any other jurisdictions.

Proposed use of net proceeds

The Company intends to use the net proceeds of the proposed Notes Issue to purchase for cash all or a portion of the Securities pursuant to the terms set forth in the Tender Offer Memorandum, and for the Company's working capital purposes.

Listing

The Company intends to make an application to the Stock Exchange for the listing of, and permission to deal in, the New Notes. Admission of the New Notes for listing on the Stock Exchange is not to be taken as an indication of the merits of the Company or the New Notes.

CONCURRENT TENDER OFFER TO PURCHASE THE PREFERRED SHARES, THE 2022 NOTES AND THE 2023 NOTES UP TO THE TENDER CAP

Summary of the outstanding Securities

The Preferred Shares were issued on March 16, 2017 and April 6, 2017 and are listed on the Singapore Exchange Securities Trading Limited. The ISIN for the Preferred Shares is XS1575529539. The outstanding principal amount under the Preferred Shares is U.S.$1,000,000,000 as of the date of this announcement.

The 2022 Notes and the 2023 Notes were issued in 2017 and 2018, respectively and are listed on the Stock Exchange. The ISIN for the 2022 Notes and the 2023 Notes are XS1573181440 and XS1765886244, and as of the date of this announcement, the outstanding principal amount under the 2022 Notes and the 2023 Notes are U.S.$500,000,000 and U.S.$750,000,000 respectively.

Summary of the Tender Offer

On October 22, 2020, the Company and LPSL commenced the Tender Offer to purchase for cash the outstanding Securities subject to the Tender Cap.

The Company and LPSL are offering to purchase Securities tendered up to the Tender Cap. If the aggregate principal amount of Securities validly tendered in the Tender Offer exceeds the Tender Cap, the tender instructions will be accepted in accordance with the following acceptance priority:

1. firstly, towards tender instructions validly received in respect of any Preferred Shares;
2. secondly, towards tender instructions validly received in respect of any 2022 Notes; and
3. finally, towards tender instructions validly received in respect of any 2023 Notes.

Each of the Company and LPSL reserves the right, in their sole discretion, to purchase the Securities in excess of or below the Tender Cap, or not to purchase any Securities, subject to applicable law.

If the aggregate principal amount of the Securities validly tendered exceeds the Tender Cap, the Company and LPSL will, subject to the acceptance priority set forth above, accept such Securities tendered on a pro-rata basis such that the aggregate principal amount of Securities accepted for purchase does not exceed the Tender Cap. If the Tender Cap is exceeded and the proration would leave any holder of the Securities with less than the minimum denomination of U.S.$200,000 in aggregate principal amount of the Securities, whether in the Securities (i) validly tendered; or (ii) returned to a Holder as a result of proration, the Company and LPSL, at their sole discretion, may elect not to prorate such Securities and will either accept or reject all of the Securities subject of that holder's tender instruction.

A separate tender instruction must be completed on behalf of each beneficial owner of the Securities and for each series of Securities being tendered due to potential proration.

Tender instructions will be irrevocable in all circumstances.

The Tender Offer commenced today and will expire at the Expiration Deadline, unless the period for the Tender Offer is extended or re-opened, revoked or terminated by the Company or LPSL in their sole discretion. An announcement will be made if and when the Expiration Deadline is extended.

Holders who validly tender their Securities at or prior to the Expiration Deadline (and do not subsequently revoke such tender in the limited circumstances in which such revocation is permitted) will be eligible to receive the relevant Tender Consideration in cash consisting of (a) the product of (i) the aggregate principal amount of the relevant Securities validly tendered and accepted for purchase, and (ii) the relevant Tender Price; plus (b) the Accrued Distribution (in the case of the Preferred Shares) or the Accrued Interest (in the case of the 2022 Notes and/or the 2023 Notes, as applicable), if the tendered Securities are accepted by the Company or LPSL for purchase. Such Tender Consideration is expected to be paid on or about the Settlement Date.

The completion and settlement of the Tender Offer is conditional upon the issuance and settlement of the New Notes, unless waived in the Company or LPSL’s sole discretion. Further, the Company and LPSL may, in their sole and absolute discretion, amend, extend or terminate the Tender Offer in compliance with applicable law.

Further Details

The terms of the Tender Offer are more fully described in the Tender Offer Memorandum. For additional information regarding the tender and approval delivery procedures and the conditions of the Tender Offer, please refer to the Tender Offer Memorandum and its related documents.

The Company and LPSL have appointed Citigroup, Morgan Stanley, BNP PARIBAS, Credit Suisse, and DBS Bank Ltd. as the Dealer Managers and Morrow Sodali Ltd. as the Tender and Information Agent with respect to the Tender Offer.

Copies of the Tender Offer Memorandum and its related documents can be found on the Offer Website or may be requested from the Tender and Information Agent at:

Phone (London):	+44 208 089 3287
Phone (Hong Kong):	+852 2158 8405
Email:	lenovo@investor.morrowsodali.com
Offer Website:	https://bonds.morrowsodali.com/lenovo

Any questions or requests for assistance concerning the Tender Offer may be directed to the Dealer Managers at:

Citigroup

Address:	50/F Champion Tower, Three Garden Road, Central, Hong Kong
Phone (Hong Kong):	+852 2501 2693
Email:	liabilitymanagement.asia@citi.com

Morgan Stanley

Address:	25 Cabot Square, Canary Wharf, London E14 4QA, United Kingdom
Phone (Hong Kong):	+852 2848 5200
Email:	apsynd@morganstanley.com

BNP PARIBAS

Address:	63/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong
Phone (Hong Kong):	+852 2108 5228
Email:	asia_syndicate@bnpparibas.com

Credit Suisse

Address:	Level 88, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong
Phone (Hong Kong):	+852 2101 7132
Email:	list.liabilitymanagementasia@credit-suisse.com

DBS Bank Ltd.

Address:	10/F, The Center, 99 Queen’s Road Central, Hong Kong
Phone (Hong Kong):	+852 3668 1900
Email:	liabilitymanagement@dbs.com

EXTRACT OF FINANCIAL INFORMATION

In connection with the Notes Issue, the Company will provide professional investors with certain recent corporate and financial information of the Company. An extract of such information which relates to the management's discussion and analysis of financial condition and results of the operations of the Company is attached to this announcement. It is expected that the unaudited financial results of the Company for the six months ended September 30, 2020 will be released on or about November 3, 2020.

GENERAL

No binding agreement in relation to the proposed Notes Issue has been entered into as at the date of this announcement. The proposed Notes Issue may or may not materialise and are subject to, among other things, market conditions and investors' interest. Investors and shareholders of the Company are reminded to exercise caution when dealing in the securities of the Company.

This announcement is not an offer to purchase, a solicitation of an offer to purchase, or a solicitation of an offer to sell, the Securities or the New Notes.

DEFINITIONS

In this announcement, unless otherwise indicated in the context, the following expressions have the meanings set out below:

"**2022 Notes**"	the U.S.$500,000,000 3.875% notes due 2022 (ISIN: XS1573181440) issued by the Company
"**2022 Notes Tender Price**"	the tender price payable per U.S.$1,000 in principal amount of 2022 Notes
"**2023 Notes**"	the U.S.$750,000,000 4.750% notes due 2023 (ISIN: XS1765886244) issued by the Company
"**2023 Notes Tender Price**"	the tender price payable per U.S.$1,000 in principal amount of 2023 Notes
"**Accrued Distribution**"	distribution accrued and unpaid on the relevant Preferred Shares from (and including) the immediately preceding relevant distribution payment date up to (but excluding) the Settlement Date
"**Accrued Interest**"	interest accrued and unpaid on the 2022 Notes and/ or the 2023 Notes (as applicable) from (and including) the immediately preceding relevant interest payment date up to (but excluding) the Settlement Date
"**Board**"	the board of Directors

"**Company**"	Lenovo Group Limited, a company incorporated on October 5, 1993 with limited liability under the laws of Hong Kong, the ordinary shares of which are listed on the main board of the Stock Exchange
"**Dealer Managers**"	Citigroup Global Markets Limited, Morgan Stanley & Co. International plc, BNP Paribas, Credit Suisse (Hong Kong) Limited, DBS Bank Ltd.
"**Director(s)**"	the director(s) of the Company
"**Expiration Deadline**"	5:00 P.M. (Central European time) on October 28, 2020/ 12:00 A.M. (Hong Kong time) on October 29, 2020, subject to the right of the Company and LPSL to extend, re-open and/or terminate the Tender Offer in their sole discretion
"**Holder(s)**"	the holder(s) of the Securities
"**Hong Kong**"	the Hong Kong Special Administrative Region of the People's Republic of China
"**LPSL**"	Lenovo Perpetual Securities Limited, a company incorporated in Cayman Islands with limited liability and a direct wholly-owned subsidiary of the Company
"**New Notes**"	the U.S. dollars-denominated senior unsecured notes proposed to be issued by the Company
"**Notes Issue**"	the issuance of the New Notes by the Company
"**Offer Website**"	https://bonds.morrowsodali.com/lenovo, the website operated by the Tender and Information Agent for the purpose of the Tender Offer
"**Preferred Shares**"	the U.S.$1,000,000,000 5.375% perpetual securities (ISIN: XS1575529539) issued by LPSL and guaranteed by the Company
"**Preferred Shares Tender Price**"	the tender price payable per U.S.$1,000 in principal amount of Preferred Shares
"**Regulation S**"	Regulation S under the U.S. Securities Act
"**Rule 144A**"	Rule 144A under the U.S. Securities Act
"**Securities**"	the Preferred Shares, the 2022 Notes and the 2023 Notes, as applicable
"**Settlement Date**"	on or about November 2, 2020, subject to the right of the Company and LPSL to extend, re-open, amend and/or terminate the Tender Offer in their sole discretion

"**Stock Exchange**"	The Stock Exchange of Hong Kong Limited
"**Tender and Information Agent**"	Morrow Sodali Ltd.
"**Tender Cap**"	an amount being the aggregate principal amount of Securities up to which the Company and LPSL are offering to purchase, to be determined and announced by the Company and LPSL on the terms and subject to the conditions contained in the Tender Offer Memorandum, which may be raised, amended or otherwise waived by the Company and LPSL at their sole discretion
"**Tender Consideration**"	the consideration payable by the Company and the LPSL to the relevant Holder(s) pursuant to the Tender Offer
"**Tender Offer**"	the offer by the Company and LPSL to purchase for cash the outstanding Securities up to the Tender Cap upon the terms and subject to the conditions described in the Tender Offer Memorandum and any amendments or supplements thereto
"**Tender Offer Memorandum**"	the tender offer memorandum dated on or about October 22, 2020 issued by the Company and LPSL in connection with the Tender Offer
"**Tender Price**"	the Preferred Shares Tender Price, the 2022 Notes Tender Price and/or the 2023 Notes Tender Price, as applicable
"**United States**" or "**U.S.**"	the United States of America
"**U.S. Securities Act**"	the United States Securities Act of 1933, as amended
"**U.S.$**", "**U.S. dollars**" or "**USD**"	United States dollars, the lawful currency of the United States
"**%**"	per cent

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

October 22, 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. William O. Grabe, Mr. William Tudor Brown, Mr. Yang Chih-Yuan Jerry, Mr. Gordon Robert Halyburton Orr, Mr. Woo Chin Wan Raymond and Ms. Yang Lan.

This announcement contains forward-looking statements relating to the business outlook, estimates of financial performance, forecast business plans and growth strategies of the Company. These forward-looking statements are based on information currently available to the Company and are stated herein on the basis of the outlook at the time of this announcement. They are based on certain expectations, assumptions and premises, some of which are subjective or beyond our control. These forward-looking statements may prove to be incorrect and may not be realised in the future. Underlying these forward-looking statements are a lot of risks and uncertainties. In light of the risks and uncertainties, the inclusion of forward-looking statements in this announcement should not be regarded as representations by the Board or the Company that the plans and objectives will be achieved, and investors should not place undue reliance on such statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion of our financial condition and results of operations as at and for the years ended March 31, 2018, 2019 and 2020, and the three months ended June 30, 2019 and 2020, and of the material factors that we believe are likely to affect our financial condition and results of operations. Our consolidated financial statements have been prepared in accordance with HKFRS. This discussion contains forward-looking statements that involve risks and uncertainties about our business and operations. Our actual results may differ materially from those we currently anticipate as a result of many factors.

Overview

We are a leading technology company that develops, manufactures and markets high-quality, easy-to-use technology products and services for enterprises and consumers worldwide. Focused on a bold vision to deliver smarter technology for all, we are developing world-changing technologies that create a more inclusive, trustworthy and sustainable digital society. By designing, engineering and building the world's most complete portfolio of smart devices and infrastructure, we are also leading an Intelligent Transformation - to create better experiences and opportunities for millions of customers around the world.

We were founded in the 1980s and have been listed on the Hong Kong Stock Exchange since 1994. We expanded our business and operations to a global scale through our acquisition of the personal computer division of IBM in 2005. In 2010, we adopted our PC+ strategy and established a business group focusing on our mobile, internet and digital home business. We have since achieved strong growth in our smartphones and tablets sales and further diversified our business.

In October 2014, we acquired Motorola Mobility from Google Inc., a move that enabled us to immediately become a global smartphone player with strong positions in key emerging markets. Also in October 2014, we acquired System X, IBM's x86 server and hardware and maintenance business, enabling us to gain scale and expand into the server market. As a result, we became a top global x86 server provider and are capturing what we believe are significant growth opportunities in the enterprise hardware system market. We aim to deliver Intelligent Transformation through the development of software and service offerings and building a holistic product and service portfolio that best meets our customers' evolving technology needs.

We operate a global business in more than 180 markets across the globe. Our operations are divided into two business groups: IDG, which comprises PCSD and MBG; and DCG. We offer customers integrated solutions by providing them with some of the world's most innovative PCs (including the renowned Think and multimode YOGA brands), workstations, servers, storage, smart TVs and a family of mobile products including smartphones (including Motorola brand smartphones), tablets and apps. We have worldwide leadership positions in each of these business lines.

Our strengths across various segments translate into robust financial performance. Our revenue grew from US$45,350 million in the year ended March 31, 2018 to US$50,716 million in the year ended March 31, 2020. Our revenue increased from US$12,512 million in the three months ended June 30, 2019 to US$13,348 million in the same period of 2020. At the same time, while we had a loss in the year ended March 31, 2018, our net profit margin increased from 1.3% in the year ended March 31, 2019 to 1.6% in the year ended March 31, 2020 and 1.8% in the three months ended June 30, 2020. In addition, our EBITDA margin increased consistently: 2.9%, 4.3%, 5.3% and 5.6% in the years ended March 31, 2018, 2019 and 2020 and the three months ended June 30, 2020, respectively.

We expect to announce our unaudited financial results for the six months ended September 30, 2020 on or about November 3, 2020.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been, and are expected to continue to be, materially affected by a number of factors, many of which are outside of our control, including the following:

General Factors

Our business and operating results are affected by general factors affecting the information technology industry in the markets where we focus. These factors include:

- Overall economic growth and level of per capita disposable income in the various countries in which we market our products and services;
- Growth and competition in the PC, smartphone and other smart devices markets;
- Growth and competition in the data center market; and
- New and innovative technologies that could revolutionize our industry.

Changes in any of these general economic and industry conditions could materially affect demand for our products and services and correspondingly materially affect our results of operations.

Specific Factors

Our results of operations are also affected by specific factors affecting our results of operations, including the following major factors:

Popularity of Our Products

We derive a substantial majority of our revenue from our IDG segment, which includes PCSD and MBG. For the years ended March 31, 2018, 2019 and 2020 and for the three months ended June 30, 2020, IDG revenue accounted for 90.3%, 88.2%, 89.2% and 87.9% of our total revenue, respectively. The markets in which we operate these businesses are characterized by rapid changes in customer preferences. To maintain our growth and competitive position, we must continue to innovate and offer our customers the most current and desired product features at competitive prices. For example, we recently announced new customer-centric innovative PCSD products, including the world's first foldable screen laptop, the X1 Fold; the first 5G-connected PC; and the 21.5" Lenovo Smart Frame, which integrates smart technology in the home. We also recently announced new innovative MBG products, including the recently announced Motorola Edge and Edge+, in addition to the previously launched foldable smartphone—Motorola razr. Our operating results have been, and will continue to be, affected by our ability to stimulate customer demand for new and upgraded products and to anticipate and respond to emerging customer preferences and demands. To accomplish this, we will need to ensure our continuing and timely development of new products, as well as enhancements to our existing products.

Product, Customer and Geographic Sales Mix and Seasonal Sales Trends

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

Marketing and Brand Promotion

To support our global footprint, we engage in active marketing campaigns that promote focused brand awareness, market new products and services, and expand our customer base. For example, In 2019 we launched our vision "Smarter Technology for All" with the largest brand campaign in our company history, running in the top 12 markets and reinforcing how our customers are using smarter technology to significantly improve their lives, work and the planet. This campaign was tightly integrated with our global event series-including TechWorld, where we unveil our latest technology and key partnerships-and also used innovative digital media to drive deep engagement with our key customers. The results show increased awareness of our Lenovo brand, a significant improvement in the company's reputation and also show that our customers increasingly see us as a 3S Solutions company. We continue to retain our ranking as a top brand on highly regarded surveys and lists, including Brand Finance's Global Top 500 Most Valuable Brand in 2020 and BrandZ China Top 50 in 2019. For the years ended March 31, 2018, 2019 and 2020, and for the three months ended June 30, 2020, we had selling and distribution expenses of US$2,833 million, US$2,658 million, US$2,972 million and US$632 million, respectively. We believe brand recognition and awareness have been and will continue to be an important factor to our success.

Management of Our Global Operations

We are a truly global company in terms of both our production and sales. Geographically, revenue from China, AP, EMEA and the AG accounted for 21.4%, 22.2%, 24.5% and 31.9% of our revenue for the year ended March 31, 2020, respectively, and for the three months ended June 30, 2020, revenue from these geographies accounted for 22.0%, 21.1%, 27.1% and 29.8% of our revenue. Our financial condition has and we expect it to continue to be affected by our ability to manage a variety of risks and to capitalize on opportunities associated with our international operations. These include our ability to develop and promote products that respond to the preferences of consumers in the over 180 markets in which we sell our products and services, to manage a geographically dispersed workforce and adapt to local labor conditions and regulations, our ability to manage global supply chain and supply risk, as well as our ability to manage our operations against the backdrop of ongoing instability or changes in a country's or region's economic or political conditions, including inflation, recession, interest rate or foreign exchange rate fluctuations and actual or anticipated military or political conflicts.

Intelligent Transformation Driven by Smart IoT, Smart Infrastructure and Smart Verticals

We are a global technology company focused on customer-led innovation. As the world is heading towards the age of the "Internet of Things," we expect an increasing number of the devices we offer and compete against will have computing, storage and networking modules built inside. Additionally, as we transition to an environment characterized by cloud computing and software being delivered as a service, we must continue to successfully develop and deploy cloud-based solutions for our customers. To capitalize on these developments, we have adopted an intelligent transformation strategy, which seeks to maintain and develop our strengths in our core, established markets and to explore and develop growth opportunities in line with our vision of "Smarter Technology for All." Our sales of software as a service and other services typically achieve the highest margin among our products. We believe a deeper, service-led transformation will lead to new competencies across our business and offer new profitable revenue streams.

Hybrid Manufacturing Model and Efficient Supply Chain

We believe our hybrid manufacturing model and efficient supply chain are critical to improving our profitability. We utilize both in-house manufacturing capabilities and external manufacturers to achieve cost-efficiency and improved visibility of and control over our product-development process. We manufacture a significant portion of our products in-house through our manufacturing facilities in Japan, the United States, Mexico, India, Brazil, Germany and multiple locations in China. In addition to our in-house manufacturing capacity, we also outsource the remainder of our manufacturing requirements through original design manufacturing partnerships and joint venture arrangements. We leverage our hybrid manufacturing model to serve diverse needs from our customers. Failures of, or disruption in, any of these manufacturing facilities may materially negatively affect our results of operations. We intend to continue investing in manufacturing efficiencies in order to reduce our overall manufacturing costs. While we believe our hybrid model offers advantages over either a fully in-house or fully external manufacturing capability, these arrangements may be more complex to manage as compared to others in our industry. If we fail to expand our hybrid manufacturing capacity on a timely basis or in an appropriate scale, we may fail to achieve desired economies of scale and profitability.

We manage a complex global supply chain with suppliers, manufacturing facilities, logistics hubs and consumers located across the globe. We maintain several single-source or limited-source supplier relationships. In addition, we sell our products primarily through third party distributors, resellers, retailers and network carriers for our mobile devices. Changes in our relationships with or the service capabilities of these third-party suppliers, distributors, resellers, retailers and network carriers, which can occur for various reasons in or out of our control, also have the potential to increase our expenses and adversely affect our results of operations.

Investment in Technology, People and Infrastructure

We operate in an industry in which there are rapid technological advances in hardware, software, and service offerings; and we face aggressive product and price competition from both branded and generic competitors. To address these challenges, we must be a truly innovative company. We have made, and will continue to make, significant investments in technology, people and infrastructure, which will both enhance our customer experience and differentiate us from our competitors. For the years ended March 31, 2018, 2019 and 2020, and for the three months ended June 30, 2020, our research and development expenses amounted to US$1,274 million, US$1,266 million, US$1,336 million and US$333 million, respectively.

Our patent portfolio, especially our global patent portfolio, has grown rapidly in recent years as a result of our continued investments. We expect our future investments will include designing and developing new products and services with enhanced functionalities and features, as well as continued building of our patent reserve around the world. Talent attraction and retention are critical for our business, operations and growth prospects. We have provided a competitive compensation package, including fixed compensation, performance bonus, retirement benefits and equity-based compensation under our long term incentive program. For the years ended March 31, 2018, 2019 and 2020, and for the three months ended June 30, 2020, our administrative expenses amounted to US$1,757 million, US$2,209 million, US$2,525 million and US$661 million, respectively. We will continue to invest in our people, particularly engineers, researchers and scientists. In addition, we continue to upgrade and expand our technology infrastructure to keep pace with the growth of our business. Our key focus areas include: smart devices, artificial intelligence, cloud and edge computing, 5G, and smart solutions for selected verticals, and we expect to continue to invest in these areas for the foreseeable future.

Management of COVID-19 Pandemic

The outlook of COVID-19 has affected our business in various ways, presenting challenges and opportunities that we continue to address.

Due to the outbreak of COVID-19, our primary smartphone manufacturing site in Wuhan, China was shut down from late-January 2020 to late-February 2020 but has been fully operational since April 2020. Although this interruption to the Wuhan manufacturing site resulted in product shortages that affected the results of MBG in the last quarter of the year ended March 31, 2020, we managed to overcome short-term supply issues by taking advantage of other facilities of both our in-house and third-party manufacturing sites around the world. We closely monitor changing demand and inventory levels to identify gaps in supply and production capacity, and prepare contingency plans to minimize any disruptions.

In China, we have developed a stronger e-commerce strategy. While we strengthen our third-party e-commerce channels, we also enhance our in-house Lenovo.com sales channel. In addition, we have also built a new retail business model we call online-merge-offline that enables our online team to collaborate with offline partners and retail stores to provide a more efficient route to markets.

The global outbreak of COVID-19 reinforced the importance of using the power of technology to fight the pandemic and protect the wellbeing of society. This technological empowerment is expected to lead to secular growth trends in work-from-home ("WFH") and study-at-home ("SAH") with broad investment implications on PCs, cloud infrastructure and 5G services. As many commercial customers buy laptops for their employees to meet WFH needs and parents and schools buy laptops for students and educators in SAH arrangements, we continue to see strong demand for notebooks. In addition, companies are increasing their capacity for virtual desktop infrastructure, boosting demand for our back-end infrastructure products. Moreover, as online healthcare, e-commerce and gaming flourish, we expect greater demand for our IDG products in the long term. Strong growth in data usage and accelerated public cloud migration have also boosted demand for our services and storage products. We target to capture these opportunities to deliver premium growth to the market, leveraging our operational efficiency and global footprint.

Cyber-attacks and Security Risk

We manage and store various proprietary information and sensitive and confidential data relating to our operations. In addition, our cloud computing businesses routinely process, store, and transmit large amounts of data for our customers, including sensitive and personally identifiable information. We believe our customers are focused on all aspects of cyber security, including information and physical security, intellectual property, and compliance requirements related to industry and government regulations.

Over the last several years, cyber-attacks have become more sophisticated, numerous, and pervasive. The costs to us to eliminate or address the security problems and security vulnerabilities are likely to grow as we expand our operations and these costs could be significant.

KEY COMPONENTS OF RESULTS OF OPERATIONS

Revenue

We generate our revenue primarily from our IDG and our DCG. The following table sets forth our revenue by segment for the years/periods indicated.

	Year ended March 31,						Three months ended June 30,			
	2018		2019		2020		2019		2020	
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in thousands, except %)						(unaudited)		(unaudited)	
IDG	40,955,583	90.3	45,013,362	88.2	45,216,190	89.2	11,156,233	89.2	11,735,780	87.9
DCG	4,394,360	9.7	6,024,581	11.8	5,500,159	10.8	1,355,920	10.8	1,612,076	12.1
Total	45,349,943	100.0	51,037,943	100.0	50,716,349	100.0	12,512,153	100.0	13,347,856	100.0

IDG. IDG revenue consists primarily of PCSD revenue and MBG revenue. PCSD revenue is derived from sales of notebook computers, desktop computers, tablets, and smart devices such as augmented reality devices. MBG revenue is derived from sales of smartphone devices, which include Motorola- and Lenovo-branded smartphones.

DCG. DCG revenue is derived primarily from sales of data center devices, which includes our servers, storage, converged systems, networking, cloud service provider, software and services businesses.

We also generate revenue from computer accessories and services-related hardware.

We are a global company and we do business in more than 180 markets. We maintain a strong geographical balance across our four geographies: China, AP, EMEA and AG. The following table sets forth our revenue by geography for the years/periods indicated.

	Year ended March 31,						Three months ended June 30,			
	2018		2019		2020		2019		2020	
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in thousands, except for %)						(unaudited)			(unaudited)
China	11,525,321	25.4	12,357,527	24.2	10,857,955	21.4	2,518,394	20.1	2,937,372	22.0
AP	7,156,293	15.8	9,764,456	19.1	11,263,518	22.2	2,795,827	22.4	2,815,326	21.1
EMEA	12,481,897	27.5	12,502,510	24.5	12,419,641	24.5	2,817,338	22.5	3,614,729	27.1
AG	14,186,432	31.3	16,413,450	32.2	16,175,235	31.9	4,380,594	35.0	3,980,429	29.8
Total	**45,349,943**	**100.0**	**51,037,943**	**100.0**	**50,716,349**	**100.0**	**12,512,153**	**100.0**	**13,347,856**	**100.0**

Cost of Sales

Our cost of sales consists primarily of the direct costs for operating and offering our products and services. Cost of inventories sold typically amounted to substantially all of our cost of sales for the years ended March 31, 2018, 2019 and 2020, and the three months ended June 30, 2019 and 2020.

Operating Expenses

Selling and Distribution Expenses

Our selling and distribution expenses consist primarily of employee benefit costs (including wages and salaries, bonuses, long-term incentive awards and other benefits) relating to our selling and marketing personnel. These employee benefit costs represent the majority of our selling and distribution expenses. Our selling and distribution expenses also include promotional and advertising expenses relating to our selling and marketing activities.

Administrative Expenses

Our administrative expenses consist primarily of employee benefit costs (including wages and salaries, bonuses, long-term incentive awards and other benefits) relating to our administrative personnel. These employee benefit costs represent the majority of our administrative expenses. Our administrative expenses also include depreciation and amortization expenses allocated to administrative expenses, third-party professional fees, service supplier expenses and IT expenses.

Research and Development Expenses

Our research and development expenses consist primarily of employee benefit costs (including wages and salaries, bonuses, long-term incentive awards and other benefits) relating to our research and development personnel. These employee benefit costs represent the majority of our research and development expenses. Our research and development expenses also include depreciation and amortization expenses associated with facilities, patent and technologies used for research and development purposes, expenses for supplies and spare parts, and service supplier expenses.

Other Operating (Expenses)/Income—Net

Our operating (expenses)/income—net primarily reflects the combined effect of our gains or losses on disposal of tangible and intangible assets, fair value gains or losses on financial assets or liabilities at fair value through profit or loss reflecting the change in value of our strategic investment portfolio and our convertible preferred shares which include a right for the holders to require a repurchase or redemption under certain conditions, exchange gains and losses from currency fluctuation, government subsidies, donations and other fees or charges.

Finance Income

Our finance income primarily relates to interest earned on our bank deposits and money market funds.

Finance Costs

Our finance costs primarily relate to our interest payments and factoring costs.

Share of Losses of Associates and Joint Ventures

Our share of losses of associates and joint ventures primarily relates to operating losses arising from the business activities of our associates and joint ventures.

RESULTS OF OPERATIONS

The following table summarizes our results of operations in absolute amounts and as percentages of our revenue for the years/periods indicated:

	Year ended March 31,						Three months ended June 30,			
	2018		2019		2020		2019		2020	
	US$	%	US$	%	US$	%	US$	%	US$	%
	(in thousands, except for %)						(unaudited)		(unaudited)	
Revenue	45,349,943	100.0	51,037,943	100.0	50,716,349	100.0	12,512,153	100.0	13,347,856	100.0
Cost of sales	(39,077,812)	(86.2)	(43,667,299)	(85.6)	(42,359,045)	(83.5)	(10,463,762)	(83.6)	(11,306,548)	(84.7)
Gross profit	**6,272,131**	**13.8**	**7,370,644**	**14.4**	**8,357,304**	**16.5**	**2,048,391**	**16.4**	**2,041,308**	**15.3**
Other income—net	301	0.0	—	—	—	—	—	—	—	—
Selling and distribution expenses	(2,833,253)	(6.2)	(2,657,965)	(5.2)	(2,972,260)	(5.9)	(763,329)	(6.1)	(632,167)	(4.7)
Administrative expenses	(1,757,319)	(3.9)	(2,209,340)	(4.3)	(2,524,818)	(5.0)	(610,716)	(4.9)	(661,102)	(5.0)
Research and development expenses	(1,273,729)	(2.8)	(1,266,341)	(2.5)	(1,335,744)	(2.6)	(329,315)	(2.7)	(332,570)	(2.5)
Other operating (expenses)/income —net	(21,408)	(0.0)	(59,181)	(0.1)	(85,886)	(0.2)	(2,380)	(0.0)	20,408	0.2
Operating profit	**386,723**	**0.9**	**1,177,817**	**2.3**	**1,438,596**	**2.8**	**342,651**	**2.7**	**435,877**	**3.3**
Finance income	32,145	0.1	27,399	0.1	47,850	0.1	13,872	0.1	7,991	0.1
Finance costs	(263,160)	(0.7)	(337,027)	(0.7)	(454,194)	(0.9)	(115,022)	(0.9)	(106,832)	(0.9)
Share of losses of associates and joint ventures	(2,506)	(0.0)	(11,525)	(0.0)	(14,545)	(0.0)	(1,376)	(0.0)	(4,960)	(0.0)
Profit before taxation	**153,202**	**0.3**	**856,664**	**1.7**	**1,017,707**	**2.0**	**240,125**	**1.9**	**332,076**	**2.5**
Taxation	(279,977)	(0.6)	(199,460)	(0.4)	(213,204)	(0.4)	(48,183)	(0.4)	(85,269)	(0.7)
(Loss)/profit for the year/period	**(126,775)**	**(0.3)**	**657,204**	**1.3**	**804,503**	**1.6**	**191,942**	**1.5**	**246,807**	**1.8**

Three Months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019

Revenue

The table below presents our revenue by segment for the periods indicated and the period-on-period change, in absolute amount and by percentage.

	Three months ended June 30,					
	2019		2020		Change	
	US$	%	US$	%	US$	%
	(unaudited)		(unaudited)			
			(in thousands, except %)			
IDG						
—PCSD	9,630,590	77.0	10,602,633	79.4	972,043	10.1
—MBG	1,502,668	12.0	1,092,942	8.2	(409,726)	(27.3)
—Others	22,975	0.2	40,205	0.3	17,230	75.0
—**Sub-total**	**11,156,233**	**89.2**	**11,735,780**	**87.9**	**579,547**	**5.2**
DCG	**1,355,920**	**10.8**	**1,612,076**	**12.1**	**256,156**	**18.9**
Total	**12,512,153**	**100.0**	**13,347,856**	**100.0**	**835,703**	**6.7**

Our revenue increased by 6.7% to US$13,348 million for the three months ended June 30, 2020, from US$12,512 million for the same period in 2019, primarily due to a US$580 million increase in IDG revenue, and to a lesser extent, a US$256 million increase in DCG revenue.

- IDG revenue increased by 5.2% to US$11,736 million for the three months ended June 30, 2020, from US$11,156 million for the same period in 2019, primarily due to a 10.1% increase in PCSD revenue, partially offset by a 27.3% decrease in MBG revenue. The higher PCSD revenue was primarily driven by increased demand in the consumer PC market and higher sales of premium products. The COVID-19 outbreak has driven a shift to WFH and SAH arrangements, which has contributed to higher notebook PC sales, while consumers also bought more gaming PCs in light of COVID-19 restrictions. The lower MBG revenue was primarily due to lower sales in its biggest market, Latin America, as a result of lower local demand following the COVID-19 outbreak.

- DCG revenue increased by 18.9% to US$1,612 million for the three months ended June 30, 2020, from US$1,356 million for the same period in 2019, primarily due to higher cloud service provider business sales, driven by increased demand in cloud infrastructure, reflecting reactions to the COVID-19 among customers for these services.

Cost of Sales

Our cost of sales increased by 8.1% to US$11,307 million for the three months ended June 30, 2020, from US$10,464 million for the same period in 2019, primarily as a result of higher sales of our PCSD products.

Gross Profit and Gross Profit Margin

Our gross profit was US$2,041 million for the three months ended June 30, 2020, a 0.3% decrease from US$2,048 million for the same period in 2019. Our gross profit margin decreased to 15.3% for the three months ended June 30, 2020, from 16.4% for the same period in 2019, primarily due to a lower profitability in MBG.

Operating Expenses

Our total operating expenses decreased by 5.9% to US$1,605 million for the three months ended June 30, 2020, from US$1,706 million for the same period in the prior year, primarily due to lower selling and distribution expenses as we implemented cost containment measures in reaction to the COVID-19 outbreak. Our total operating expenses as a percentage of revenue decreased to 12.0% for the three months ended June 30, 2020, from 13.6% for the same period in 2019, as we improved our operational efficiency by controlling operating expenses across all of our business groups.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 17.2% to US$632 million for the three months ended June 30, 2020, from US$763 million for the same period in 2019. This decrease was primarily due to lower promotional and advertising expenses, as we took actions to control these expenses in light of anticipated lower market demand following the outbreak of COVID-19. This decrease was partially offset by higher employee benefit costs primarily as a result of higher performance-driven incentive award levels.

Administrative Expenses

Our administrative expenses increased by 8.3% to US$661 million for the three months ended June 30, 2020, from US$611 million for the same period in 2019, primarily due to higher administrative staff bonuses in recognition of our improved business performance.

Research and Development Expenses

Our research and development expenses increased by 1.0% to US$333 million for the three months ended June 30, 2020, from US$329 million for the same period in 2019, primarily due to increased research and development headcount, as well as higher wages and salaries and bonuses.

Other Operating (Expenses)/Income—Net

We recorded other operating income—net of US$20 million for the three months ended June 30, 2020, compared to other operating expenses—net of US$2 million for the same period in 2019. This change was primarily because in the three months ended June 30, 2020, we recorded gain on disposal of non-core property assets and we recorded fair value gain reflecting the change in value of our strategic investment portfolio, which were partially offset by severance costs.

Operating Profit

As a result of the factors discussed above, our operating profit increased by 27.2% to US$436 million for the three months ended June 30, 2020, from US$343 million for the same period in 2019.

Finance Income

Our finance income decreased by 42.4% to US$8 million for the three months ended June 30, 2020, from US$14 million for the same period in 2019, primarily due to lower interest earnings on bank deposits.

Finance Costs

Our finance costs decreased by 7.1% to US$107 million for the three months ended June 30, 2020, from US$115 million for the same period in 2019. This decrease was primarily due to a US$10 million decrease in interest payments as a result of lower balance of bank loans and overdrafts, and a US$3 million decrease in factoring costs, reflecting the improved performance of our new factoring arrangements, partially offset by a US$4 million increase in interest on notes following our issuance of an aggregate US$1 billion notes due 2025 in April and May 2020.

Share of Losses of Associates and Joint Ventures

We recorded share of losses of associates and joint ventures of US$5 million for the three months ended June 30, 2020, compared to US$1 million for the same period in 2019.

Profit Before Taxation

As a result of the factors discussed above, our profit before taxation increased by 38.3% to US$332 million for the three months ended June 30, 2020, compared to US$240 million for the same period in 2019.

Our pre-tax income for reportable segments increased by 17.7% to US$561 million for the three months ended June 30, 2020, from US$477 million for the same period in 2019, primarily due to a US$91 million increase in IDG pre-tax income, partially offset by a US$7 million increase in DCG pre-tax loss.

- IDG pre-tax income increased by 17.2% to US$620 million for the three months ended June 30, 2020, from US$529 million for the same period in 2019, primarily due to higher PCSD pre-tax income, partially offset by MBG pre-tax loss.

- DCG pre-tax loss increased by 13.2% to US$58 million for the three months ended June 30, 2020, from US$52 million for the same period in 2019.

Taxation

Taxation increased by 77.0% to US$85 million for the three months ended June 30, 2020, from US$48 million for the same period in 2019, primarily due to higher taxation outside Hong Kong, partially offset by an increase in deferred tax credit recognized in relation to temporary differences.

Profit for the Period

As a result of the factors discussed above, our profit for the period increased by 28.6% to US$247 million for the three months ended June 30, 2020, from US$192 million for the same period in 2019.

Year Ended March 31, 2020 Compared to Year Ended March 31, 2019

Revenue

The table below presents our revenue by segment for the years indicated and the year-on-year change, in absolute amount and by percentage.

	Year ended March 31,					
	2019		2020		Change	
	US$	%	US$	%	US$	%
	(in thousands, except %)					
IDG						
—PCSD	38,475,179	75.4	39,859,490	78.6	1,384,311	3.6
—MBG	6,460,460	12.6	5,217,981	10.3	(1,242,479)	(19.2)
—Others	77,723	0.2	138,719	0.3	60,996	78.5
—**Sub-total**	**45,013,362**	**88.2**	**45,216,190**	**89.2**	**202,828**	**0.5**
DCG	**6,024,581**	**11.8**	**5,500,159**	**10.8**	**(524,422)**	**(8.7)**
Total	**51,037,943**	**100.0**	**50,716,349**	**100.0**	**(321,594)**	**(0.6)**

Our revenue decreased by 0.6% to US$50,716 million for the year ended March 31, 2020, from US$51,038 million for the prior year, primarily as a result of a US$524 million decrease in DCG revenue, partially offset by a US$203 million increase in IDG revenue. Overall, the outbreak of COVID-19 had a significant effect on our revenue in the fourth quarter of the year ended March 31, 2020, which was 9.7% lower than revenue for the same period in the prior year.

- IDG revenue increased by 0.5% to US$45,216 million for the year ended March 31, 2020, from US$45,013 million for the prior year, primarily due to a 3.6% increase in PCSD revenue, which was partially offset by a 19.2% decrease in MBG revenue. The higher PCSD revenue was primarily due to higher sales of commercial, high-growth and higher margin products. The lower MBG revenue was primarily due to a shortfall in supply of products in the fourth quarter, as our primary smartphone manufacturing site in Wuhan, China, was shut down from late-January to late-February 2020 following the outbreak of COVID-19 and only returned to full operation in early April 2020.

- DCG revenue decreased by 8.7% to US$5,500 million for the year ended March 31, 2020, from US$6,025 million for the prior year, primarily due to a lower demand in the global cloud service market, which was driven by inventory issues experienced by customers for these services, as well as lower product prices due to lower cost of inventories sold.

Cost of Sales

Our cost of sales decreased by 3.0% to US$42,359 million for the year ended March 31, 2020, from US$43,667 million for the prior year, primarily due to lower cost of sales in MBG, as we consolidated product portfolios.

Gross Profit and Gross Profit Margin

Our gross profit increased by 13.4% to US$8,357 million for the year ended March 31, 2020, from US$7,371 million for the prior year. Our gross profit margin increased to 16.5% for the year ended March 31, 2020, from 14.4% for the prior year, primarily due to changes in our PCSD product mix toward products with higher margins.

Operating Expenses

Our total operating expenses increased by 11.7% to US$6,919 million for the year ended March 31, 2020, from US$6,193 million for the prior year. This increase was primarily due to higher selling and distribution expenses and administrative expenses. Our total operating expenses as a percentage of revenue increased to 13.6% for the year ended March 31, 2020, from 12.1% for the prior year, primarily due to lower revenue growth following the outbreak of COVID-19, while we had increased investments in sales, marketing, and promotion, as well as higher employee costs including incentive awards to reward better operational performance.

Selling and Distribution Expenses

Our selling and distribution expenses increased by 11.8% to US$2,972 million for the year ended March 31, 2020, from US$2,658 million for the prior year, primarily due to increased investments in sales, marketing, and promotion, as well as higher wages and salaries, bonuses, and long-term incentive awards for our sales and marketing staff.

Administrative Expenses

Our administrative expenses increased by 14.3% to US$2,525 million for the year ended March 31, 2020, from US$2,209 million for the prior year, primarily due to increased administrative staff headcount and higher compensation levels, including bonuses and long-term incentive awards.

Research and Development Expenses

Our research and development expenses increased by 5.5% to US$1,336 million for the year ended March 31, 2020, from US$1,266 million for the prior year, primarily due to an increase in amortization of intangible assets associated with additional investments in patent and technology (particularly on cloud technology and new product development) and internal-use software.

Other Operating Expenses—Net

Our other operating expenses—net increased by 45.1% to US$86 million for the year ended March 31, 2020, from US$59 million for the prior year, primarily due to lower net gain on fair valuation of certain financial assets and financial liabilities, partially offset by lower net foreign exchange loss.

Operating Profit

As a result of the factors discussed above, our operating profit increased by 22.1% to US$1,439 million for the year ended March 31, 2020, from US$1,178 million for the prior year.

Finance Income

Our finance income increased by 74.6% to US$48 million for the year ended March 31, 2020 from US$27 million for the prior year, primarily due to higher interest earnings on higher bank deposits.

Finance Costs

Our finance costs increased by 34.8% to US$454 million for the year ended March 31, 2020 from US$337 million for the prior year. This increase was primarily due to higher factoring costs, as we incurred additional costs in transitioning to a new factoring partner and ramped up the new factoring operations.

Share of Losses of Associates and Joint Ventures

Our share of losses of associates and joint ventures increased by 26.2% to US$15 million for the year ended March 31, 2020, from US$12 million for the prior year.

Profit Before Taxation

As a result of the factors discussed above, our profit before taxation increased to US$1,018 million for the year ended March 31, 2020, from US$857 million for the prior year.

Our pre-tax income for reportable segments increased by 28.8% to US$2,076 million for the year ended March 31, 2020, from US$1,612 million for the prior year, primarily due to a US$459 million increase in IDG pre-tax income, and to a lesser extent, a US$5 million decrease in DCG pre-tax loss.

- IDG pre-tax income increased by 24.9% to US$2,302 million for the year ended March 31, 2020, from US$1,843 million for the prior year, primarily due to higher PCSD pre-tax income, and to a lesser extent, lower MBG pre-tax loss.

- DCG pre-tax loss decreased by 2.2% to US$225 million for the year ended March 31, 2020, from US$231 million for the prior year.

For details of our segment pre-tax income/(loss), see note 5 to our audited consolidated financial statements for the year ended March 31, 2020 included in our 2019/20 annual report published on June 5, 2020.

Taxation

Taxation increased by 6.9% to US$213 million for the year ended March 31, 2020, from US$199 million for the prior year, primarily due to an under-provision of Hong Kong profits tax and an over-provision of taxation outside Hong Kong, partially offset by the decrease in deferred tax credit recognized in relation to temporary differences.

Profit for the Year

As a result of the factors discussed above, our profit for the year increased by 22.4% to US$805 million for the year ended March 31, 2020, from US$657 million for the prior year.

Year Ended March 31, 2019 Compared to Year Ended March 31, 2018

Revenue

The table below presents our revenue by segment for the years indicated and the year-on-year change, in absolute amount and by percentage.

	Year ended March 31,					
	2018		**2019**		**Change**	
	US$	**%**	**US$**	**%**	**US$**	**%**
	(in thousands, except %)					
IDG						
—PCSD	33,655,025	74.2	38,475,179	75.4	4,820,154	14.3
—MBG	7,240,927	16.0	6,460,460	12.6	(780,467)	(10.8)
—Others	59,631	0.1	77,723	0.2	18,092	30.3
—Sub-total	**40,955,583**	**90.3**	**45,013,362**	**88.2**	**4,057,779**	**9.9**
DCG	**4,394,360**	**9.7**	**6,024,581**	**11.8**	**1,630,221**	**37.1**
Total	**45,349,943**	**100.0**	**51,037,943**	**100.0**	**5,688,000**	**12.5**

Our revenue increased by 12.5% to US$51,038 million for the year ended March 31, 2019, from US$45,350 million for the prior year, primarily due to a US$4,058 million increase in IDG revenue, and to a lesser extent, a US$1,630 million increase in DCG revenue.

- IDG revenue increased by 9.9% to US$45,013 million for the year ended March 31, 2019, from US$40,956 million for the prior year, primarily due to a 14.3% increase in PCSD revenue, partially offset by a 10.8% decrease in MBG revenue. The higher PCSD revenue was primarily due to higher sales of commercial, high-growth and premium products. MBG revenue was adversely affected by a reallocation of operating resources, as we shifted our strategic focus on core markets, which are regions and countries where we believe we have substantial competitive advantages.

- DCG revenue increased by 37.1% to US$6,025 million for the year ended March 31, 2019, from US$4,394 million for the prior year, primarily due to higher market share in high-growth product segments, including in our cloud service provider, software-defined infrastructure and high performance computing businesses.

Cost of Sales

Our cost of sales increased by 11.7% to US$43,667 million for the year ended March 31, 2019, from US$39,078 million for the prior year. The increase was primarily as a result of higher sales of our PCSD products.

Gross Profit and Gross Profit Margin

Our gross profit increased by 17.5% to US$7,371 million for the year ended March 31, 2019, from US$6,272 million for the prior year. Our gross profit margin increased to 14.4% for the year ended March 31, 2019 from 13.8% for the prior year, primarily due to changes in our product mix toward higher margin products in both PCSD and MBG.

Other Income—Net

We did not record other income—net for the year ended March 31, 2019, while we recorded other income—net of US$301 thousand for the prior year.

Operating Expenses

Our total operating expenses increased by 5.2% to US$6,193 million for the year ended March 31, 2019, from US$5,885 million for the prior year. This increase was primarily due to higher administrative expenses, partially offset by lower selling and distribution expenses. Our total operating expenses as a percentage of revenue decreased to 12.1% for the year ended March 31, 2019, from 13.0% for the prior year, as we improved our operational efficiency by controlling operating expenses across all of our business groups.

Selling and Distribution Expenses

Our selling and distribution expenses decreased by 6.2% to US$2,658 million for the year ended March 31, 2019, from US$2,833 million for the prior year. This decrease was primarily due to lower promotional and advertising expenses, as we consolidated our MBG product portfolios and shifted our strategic focus on core markets. This decrease was partially offset by higher bonuses to our sales and marketing staff.

Administrative Expenses

Our administrative expenses increased by 25.7% to US$2,209 million for the year ended March 31, 2019, from US$1,757 million for the prior year, primarily due to higher bonuses for our administrative staff and higher IT expenses.

Research and Development Expenses

Our research and development expenses remained relatively stable, decreasing by 0.6% to US$1,266 million for the year ended March 31, 2019, from US$1,274 million for the prior year.

Other Operating Expenses—Net

Our other operating expenses—net significantly increased to US$59 million for the year ended March 31, 2019, from US$21 million for the prior year, primarily due to higher net foreign exchange loss and lower government subsidies, partially offset by a fair value gain on financial assets at fair value through profit or loss reflecting the change in value of our strategic investment portfolio.

Operating Profit

As a result of the factors discussed above, our operating profit increased significantly to US$1,178 million for the year ended March 31, 2019, from US$387 million for the prior year.

Finance Income

Our finance income decreased by 14.8% to US$27 million for the year ended March 31, 2019, from US$32 million for the prior year, primarily due to lower interest earnings on bank deposits.

Finance Costs

Our finance costs increased by 28.1% to US$337 million for the year ended March 31, 2019, from US$263 million for the prior year. This increase was primarily due to a US$48 million increase in interest payments on bank loans and overdrafts, a US$25 million increase in factoring costs, and a US$14 million increase in interest on contingent considerations and written put option liabilities, which were partially offset by US$12 million decrease in interest on the promissory note issued to Google Inc., which was fully repaid in the prior year.

Share of Losses of Associates and Joint Ventures

Our share of losses of associates and joint ventures increased to US$12 million for the year ended March 31, 2019, from US$3 million for the prior year.

Profit Before Taxation

As a result of the foregoing, our profit before taxation increased significantly to US$857 million for the year ended March 31, 2019, from US$153 million for the prior year.

Our pre-tax income for reportable segments increased significantly to US$1,612 million for the year ended March 31, 2019, from US$456 million for the prior year, primarily due to a US$962 million increase in IDG pre-tax income, and to a lesser extent, a US$194 million decrease in DCG pre-tax loss.

- IDG pre-tax income increased to US$1,843 million for the year ended March 31, 2019, from US$880 million for the prior year, primarily due to higher PCSD pre-tax income, and to a lesser extent, lower MBG pre-tax loss.

- DCG pre-tax loss decreased by 45.7% to US$231 million for the year ended March 31, 2019, from US$425 million for the prior year.

For details of our segment pre-tax income/(loss), see note 5 to our audited consolidated financial statements for the year ended March 31, 2019 included in our 2018/19 annual report published on June 5, 2019.

Taxation

Taxation was US$200 million for the year ended March 31, 2019, compared to US$280 million for the prior year. This decrease was primarily because we wrote off deferred income tax assets of US$400 million, pursuant to the U.S. Tax Cuts and Jobs Act, which reduced our US corporate tax rate for tax years beginning after December 31, 2017.

Profit/(Loss) for the Year

As a result of the factors discussed above, we recorded profit for the year of US$657 million for the year ended March 31, 2019, compared to loss for the year of US$127 million for the prior year.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows and Working Capital

Our principal sources of liquidity have been cash and cash equivalents, cash generated from operations, proceeds from debt offerings, bank borrowings and other financing arrangements. As at June 30, 2020, we had cash and cash equivalents of US$3,496 million. Our cash and cash equivalents represent cash at bank and in hand, and investments in investment grade liquid money market funds.

The following table sets forth selected cash flow statement information for the years/periods indicated:

	Year ended March 31,			Three months ended June 30,	
	2018	2019	2020	2019	2020
	(in US$ thousands)			(unaudited)	(unaudited)
Net cash (used in)/generated from operations	(61,991)	2,115,996	3,006,556	117,986	624,511
Interest paid	(243,584)	(324,427)	(404,691)	(115,471)	(71,242)
Tax paid	(450,718)	(318,996)	(391,942)	(144,065)	(236,152)
Net cash (used in)/generated from operating activities	(756,293)	1,472,573	2,209,923	(141,550)	317,117
Net cash used in investing activities	(1,113,467)	(699,745)	(956,953)	(303,370)	(285,053)
Net cash generated from/(used in) financing activities	874,343	122,666	(238,485)	512,268	(91,090)
(Decrease)/increase in cash and cash equivalents	(995,417)	895,494	1,014,485	67,348	(59,026)
Effects of exchange rate changes on cash and cash equivalents	88,835	(80,657)	(126,349)	(12,797)	3,668
Cash and cash equivalents at the beginning of the year/period	2,754,599	1,848,017	2,662,854	2,662,854	3,550,990
Cash and cash equivalents at the end of year/period	**1,848,017**	**2,662,854**	**3,550,990**	**2,717,405**	**3,495,632**

Operating Activities

Net cash generated from operations for the three months ended June 30, 2020 was US$625 million, as compared to profit before taxation of US$332 million for the same period. The difference was primarily due to net cash inflows of US$57 million relating to changes in working capital, and adjustments for non-cash and non-operating items. Our net cash inflows relating to changes in working capital were primarily due to a US$1,545 million increase in trade payables, notes payable, provisions, other payables and accruals, which was offset in part by a US$1,260 million increase in trade receivables, notes receivable, deposits, prepayments and other receivables and a US$228 million increase in inventories. The principal non-cash and non-operating items affecting the difference between our profit before taxation and our net cash generated from operations for the three months ended June 30, 2020 primarily consisted of amortization of intangible assets of US$155 million and finance costs of US$107 million.

Net cash generated from operations for the year ended March 31, 2020 was US$3,007 million, as compared to profit before taxation of US$1,018 million for the same year. The difference was primarily due to net cash inflows of US$276 million relating to changes in working capital, and adjustments for non-cash and non-operating items. Our net cash inflows relating to changes in working capital were primarily due to a US$1,129 million increase in trade payables, notes payable, provisions, other payables and accruals, and a US$674 million decrease in trade receivables, notes receivable, deposits, prepayments and other receivables, which were offset in part by a US$1,526 million increase in inventories. The principal non-cash and non-operating items affecting the difference between our profit before taxation and our net cash generated from operations for the year ended March 31, 2020 primarily consisted of amortization of intangible assets of US$590 million and finance costs of US$454 million.

Net cash generated from operations for the year ended March 31, 2019 was US$2,116 million, as compared to profit before taxation of US$857 million for the same year. The difference was primarily due to net cash inflows of US$6 million relating to changes in working capital, and adjustments for non-cash and non-operating items. Our net cash inflows relating to changes in working capital were primarily due to a US$497 million decrease in inventories, which was offset in part by a US$327 million increase in trade receivables, notes receivable, deposits, prepayments and other receivables and a US$164 million decrease in trade payables, notes payable, provision, other payables and accruals. The principal non-cash and non-operating items affecting the difference between our profit before taxation and our net cash generated from operations for the year ended March 31, 2019 primarily consisted of amortization of intangible assets of US$507 million, and finance costs of US$337 million.

Net cash used in operations for the year ended March 31, 2018 was US$62 million, as compared to profit before taxation of US$153 million in the same year. The difference was primarily due to net cash outflows of US$1,090 million relating to changes in working capital and adjustments for non-cash and non-operating items. Our net cash outflows relating to changes in working capital were primarily due to a US$1,013 million increase in trade receivables, notes receivable, deposits, prepayments and other receivables, and a US$998 million increase in inventories, which were offset in part by a US$920 million increase in trade payables, notes payable, provisions, other payables and accruals. The principal non-cash and non-operating items affecting the difference between our profit before taxation and our net cash generated from operations for the year ended March 31, 2018 primarily consisted of amortization of intangible assets of US$479 million, and finance costs of US$263 million.

Investing Activities

Net cash used in investing activities for the three months ended June 30, 2020 was US$285 million primarily due to our payment of contingent consideration of US$117 million to sellers in our business combinations, which was made with reference to performance indicators described in relevant agreements our payments for construction-in-progress of US$73 million, which related to our investments in headquarters facilities in China, internal-use software and research and development laboratories, and purchase of property, plant and equipment of US$50 million, which were partially offset by sale of property, plant and equipment of US$18 million and net proceeds from sale of financial assets at fair value through profit or loss of US$16 million.

Net cash used in investing activities for the year ended March 31, 2020 was US$957 million primarily due to our payments for construction-in-progress of US$418 million, which related to our additional investments in headquarters facilities in China, internal-use software and research and development laboratories, payment for intangible assets of US$273 million, primarily due to increased investments in cloud technology, internal-use software and other patents and technologies, and purchase of property, plant and equipment of US$247 million, which were partially offset by net proceeds from sale of financial assets at fair value through profit or loss of US$99 million.

Net cash used in investing activities for the year ended March 31, 2019 was US$700 million primarily due to our payments for construction-in-progress of US$303 million, which related to our investments in headquarters facilities in China, internal-use software and research and development laboratories, and purchase of property, plant and equipment of US$235 million, which were partially offset by sale of property, plant and equipment of US$130 million and net proceeds from sale of financial assets at fair value through profit or loss of US$34 million.

Net cash used in investing activities for the year ended March 31, 2018 was US$1,114 million primarily due to our repayment of deferred consideration of US$686 million to sellers in our business combinations, which was made in accordance with relevant agreements, our payments for construction-in-progress of US$285 million, which related to our investments in headquarters facilities in China, internal-use software and research and development laboratories, and purchase of property, plant and equipment of US$218 million, which were partially offset by net proceeds from disposal of a joint venture of US$161 million and decrease in bank deposits of US$112 million.

Financing Activities

Net cash used in financing activities for the three months ended June 30, 2020 was US$91 million, primarily due to repayments of borrowings of US$1,870 million and repayment of notes of US$566 million, which were partially offset by proceeds from borrowings of US$1,429 million and issue of notes of US$1,004 million.

Net cash used in financing activities for the year ended March 31, 2020 was US$238 million, primarily due to repayments of borrowings of US$3,136 million and repayment of notes of US$786 million, which were partially offset by proceeds from borrowings of US$4,093 million and issue of convertible preferred shares of US$300 million.

Net cash generated from financing activities for the year ended March 31, 2019 was US$123 million, primarily due to proceeds from borrowings of US$5,700 million and issue of convertible bonds of US$675 million, which were partially offset by repayments of borrowings of US$5,700 million.

Net cash generated from financing activities for the year ended March 31, 2018 was US$874 million, primarily due to proceeds from borrowings of US$7,426 million and issue of notes of US$749 million, which were partially offset by repayments of borrowings of US$6,724 million and repayment of notes of US$723 million.

Indebtedness and Other Financing Arrangements

As at June 30, 2020, we had total borrowings of US$4,826 million, comprising notes of US$2,243 million, short-term loans of US$1,677 million, convertible bonds of US$612 million, convertible preferred shares of US$291 million and a long-term loan of US$3 million.

Indebtedness and Other Obligations

The material terms and conditions of our outstanding notes and convertible preferred shares as at June 30, 2020 are summarized below.

Notes and Bonds

On March 16, 2017, we issued US$500 million principal amount of senior unsecured notes due 2022 (the "2022 Notes") under our US$3,000 million medium term note program pursuant to a trust deed dated November 30, 2016. The 2022 Notes bear interest from and including the issue date of the 2022 Notes at the rate of 3.875% per annum, payable semi-annually in arrears. The maturity date of the 2022 Notes is March 16, 2022.

On March 29, 2018, we issued US$750 million principal amount of senior unsecured notes due 2023 (the "2023 Notes") under our US$3,000 million medium term note program pursuant to a trust deed dated February 15, 2018. The 2023 Notes bear interest from and including the issue date of the 2023 Notes at the rate of 4.75% per annum, payable semi-annually in arrears. The maturity date of the 2023 Notes is March 29, 2023.

On January 24, 2019, we issued US$675 million principal amount of bonds due January 24, 2024 convertible into our ordinary shares ("Shares") (the "Convertible Bonds") pursuant to a trust deed dated January 24, 2019. The Convertible Bonds may be converted during the conversion period into Shares at an initial conversion price of HK$7.99 per share, subject to adjustments upon the occurrence of specified dilutive events. The conversion price was adjusted from HK$7.99 per Share to HK$7.71 per Share effective July 16, 2019, then adjusted to HK$7.62 per Share effective November 30, 2019, and further adjusted to HK$7.23 per Share effective July 16, 2020. The Convertible Bonds bear interest from and including the issue date of the Convertible Bonds at the rate of 3.375% per annum, payable semi-annually in arrears. Unless previously redeemed, converted or purchased and cancelled, we will redeem each Convertible Bonds at their principal amount on the maturity date of January 24, 2024.

On June 21, 2019, we issued 2,054,791 convertible preferred shares for a total consideration of approximately US$300 million through our wholly owned subsidiary, 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 the convertible preferred shares will have the right to require LETCL to redeem or us to purchase all of their convertible preferred shares at a predetermined consideration. Accordingly, the convertible preferred shares are classified as a financial liability.

On April 24, 2020, we issued US$650 million principal amount of senior unsecured notes due 2025 (the "2025 Notes") under our US$3,000 million medium term note program pursuant to an amended and restated trust deed dated March 8, 2020. On May 12, 2020, we issued an additional US$350 million notes under the same terms, which have been consolidated and form a single series with the US$650 million notes described above. The 2025 Notes bear interest from and including the issue date of the 2025 Notes at the rate of 5.875% per annum, payable semi-annually in arrears. The maturity date of the 2025 Notes is April 24, 2025.

Credit Facilities

Although we have consistently maintained a very liquid position, banking facilities have nevertheless been put in place to meet inter-quarter funding requirements. As at June 30, 2020, we had total revolving and short-term loan facilities of US$3,068 million, which has been utilized to the extent of US$1,693 million. We summarized the following material terms and conditions of our available banking facilities (other than our short-term money market facilities) as at June 30, 2020:

On March 28, 2018, we entered into a facility agreement with respect to a revolving credit facility of US$1,500 million. The term of this credit facility is five years. This credit facility bears interest at the rate of LIBOR plus 1.35% to 1.95% per annum, depending on our ratio of "total net borrowings" to "EBITDA," both as defined in the facility agreement. We may select an interest period of one, two, three or six months or any other period agreed between the agent and us for loans drawn under this facility.

On May 12, 2020, we entered into a facility agreement with respect to a revolving credit facility of US$300 million. The term of this credit facility is five years. This credit facility bears interest at the rate of LIBOR plus 1.35% to 1.95% per annum, depending on our ratio of "total net borrowings" to "EBITDA," both as defined in the facility agreement. We may select an interest period of one, two, three or six months or any other period agreed between the agent and us for loans drawn under this facility.

On May 14, 2020, we entered into a facility agreement with respect to a revolving credit facility of up to US$300 million (including a US$200 million initial revolving credit facility and a US$100 million additional revolving credit facility). The term of this credit facility is five years. The credit facility bears interest at the rate of LIBOR plus 1.35% to 1.95% per annum, depending on our ratio of "total net borrowings" to "EBITDA," both as defined in the facility agreement. We may select an interest period of one, two, three or six months or any other period agreed between the agent and us for loans drawn under this facility.

These facility agreements provide for certain customary events of default, including nonpayment, misrepresentation, non-compliance with any financial covenants, material adverse change, certain cross-defaults under any financial indebtedness of any member of our group, insolvency and the commencement of any insolvency proceedings. The respective agents under these agreements are entitled to cancel the commitments under the respective credit facility and/or demand immediate repayment of all or parts of the outstanding loans under the respective credit facility any time upon or after the occurrence of an event of default which is continuing.

As at June 30, 2020, we had the following other available credit facilities:

	Total facilities amount	**Drawn down amount**
Other credit facilities:	**(in US$ millions)**	
Trade lines……………………………	2,827	2,057
Short-term money market facilities…..	1,068	143
Forward foreign exchange contracts….	11,424	11,342

Other Financing Arrangements

In March 2017, we issued a total of US$850 million perpetual securities through Lenovo Perpetual Securities Limited. 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. In April 2017, we issued an additional US$150 million perpetual securities under the same terms, which are fungible with and form a single series with the US$850 million perpetual securities described above.

CAPITAL EXPENDITURES

Our capital expenditures were US$671 million, US$701 million, US$953 million, and US$167 million for the years ended March 31, 2018, 2019 and 2020, and the three months ended June 30, 2020, respectively. These capital expenditures primarily comprised expenditures for the acquisition of property, plant and equipment, prepaid lease payments, and additions to construction-in-progress and intangible assets. We will continue to make capital expenditures to meet the needs of the expected growth of our business.

We believe that our current cash and cash equivalents, cash generated from operations and the available credit under our existing credit facilities will be sufficient to meet the anticipated cash needs for our operating activities and capital expenditures for at least the next 12 months.

Contractual Obligations

The table below sets forth our contractual obligations as at March 31, 2020:

	Total	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**More than 5 years**
	(US$ in thousands)				
Borrowings..	5,196,799	3,482,939	1,713,860	—	—
Deferred consideration..	25,072	—	25,072	—	—
Contingent consideration.......................................	117,387	117,387	—	—	—
Written put option liabilities	865,298	—	312,365	552,933	—
Operating lease obligations...................................	495,856	110,035	158,823	226,998	—
Purchase obligations..	2,433,864	2,319,864	76,000	38,000	—
Property, plant and equipment	66,182	61,884	4,291	7	—
Intangible assets	2,749	2,749	—	—	—

Investment in financial assets	14,799	14,799	—	—	—
Total	9,218,006	6,109,657	2,290,411	817,938	—

Other than those shown above, we did not have any significant capital or other commitments, long-term obligations or guarantees as at March 31, 2020.

OFF-BALANCE SHEET ARRANGEMENTS

We entered into factoring arrangements in the ordinary course of business. Our factoring arrangements are on a non-reliance, non-recourse basis. Our utilization of these facilities varies, depending on several factors, including the liquidity, management of our credit exposure and cash-conversion cycle targets.

As of June 30, 2020, except for factoring arrangements described above, we have not entered into any material financial guarantees or other commitments to guarantee the payment obligations of any third parties and do not assume credit risk in loans facilitated through our platform. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign currency risk

We operate internationally and we are exposed to foreign currency risk arising from various currency exposures, primarily with respect to the United States dollar, Renminbi and Euro. Foreign currency risk arises from future commercial transactions, recognized assets and liabilities and net investment in foreign operations denominated in a currency that is not our group companies' functional currency.

We have set up a policy to require our group companies to manage their foreign currency risk against their functional currency. Our forward foreign currency contracts are either used to hedge a percentage of anticipated cash flows (mainly export sales and purchase of inventories) which are highly probable, or used as fair value hedges for the identified assets and liabilities. See note 3(a)(i) to the audited consolidated financial statements as at and for the year ended March 31, 2020 included in our 2019/20 annual report published on June 5, 2020 for more details.

If the United States dollar had weakened or strengthened by one percent against the major currencies, with all other variables held constant, our pre-tax profit for the years ended March 31, 2018, 2019 and 2020 would have been US$2 million, US$2 million, and US$1 million, higher or lower, respectively, mainly as a result of foreign exchange gains/losses on translation of the unhedged portion of receivable and payable balances. The analysis above is illustrative only and based on the assumption that the United States dollar weakened or strengthened against all other currencies in the same direction and magnitude, which may not be necessarily true in the case of actual changes.

Cash flow interest rate risk

Our interest rate risk mainly arises from short-term and long-term borrowings denominated in the United States dollar. It is our policy to mitigate interest rate risk through the use of appropriate interest rate hedging instruments. Generally, we manages our cash flow interest rate risk by using floating-to-fixed interest rate swaps. These interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under these interest rate swaps, we agree with other parties to settle the difference between cash flow arising from fixed contract rates and floating-rate interest of the notional amounts at specified intervals (primarily quarterly).

We operate various trade financing programs. We are exposed to fluctuation of interest rates for all the currencies covered by those programs.

If the interest rate on our borrowings had been 25 basis points higher or lower, with all other variables held constant, pre-tax profit for the years ended March 31, 2018, 2019 and 2020 would have been US$4 million, US$6 million and US$6 million, lower or higher, respectively. If interest rates on trade financing programs had been 25 basis points higher or lower, with all other variables held constant, pre-tax profit for the years ended March 31, 2018, 2019 and 2020 would have been US$6 million, US$7 million and US$10 million, lower or higher, respectively. This analysis is illustrative only and based on the assumption that the interest rates of all the currencies covered by the trade financing programs go up and down at the same time and with the same magnitude; however, such assumptions may not be necessarily true in the case of actual changes.

Credit risk

For banks and other financial institutions, we control our credit risk by monitoring their credit rating and setting approved counterparty credit limits that we review regularly. We have no significant concentration of customer credit risk. We have a credit policy in place and exposures to these credit risks, and we monitor them on an ongoing basis. No credit limits were exceeded by any customers during the year ended March 31, 2018, 2019 and 2020, and we do not expect any significant losses from non-performance by these counterparties. See note 3(a)(iii) to the audited consolidated financial statements as at and for the year ended March 31, 2020 included in our 2019/20 annual report published on June 5, 2020 for more details.

Financial Presentation

Our consolidated financial statements are prepared and presented in accordance with HKFRSs. HKFRSs differs in certain significant respects from International Financial Reporting Standards as issued by the International Accounting Standards Board, or IFRS.

CRITICAL ACCOUNTING POLICES, JUDGMENTS AND ESTIMATES

For a description of our critical accounting policies, judgments and estimates, see note 1 and note 4 to the audited consolidated financial statements as at and for the years ended March 31, 2019 and 2020, which are included in our 2019/20 annual report and 2018/19 annual report.

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

A list of recently issued accounting pronouncements that are relevant to us is included in note 1 to the audited consolidated financial statements as at and for the year ended March 31, 2020, and note 1 to the unaudited consolidated financial statements as at and for the three months ended June 30, 2020, which are included in our 2019/20 annual report published on June 5, 2020 and 2020/21 first quarter results announcement published on August 13, 2020, respectively.