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Lenovo Group Limited 聯想集團有限公司

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

FY2017/18 INTERIM RESULTS ANNOUNCEMENT

INTERIM RESULTS

The board of directors (the “Board”) of Lenovo Group Limited (the “Company”) announces the unaudited results of the Company and its subsidiaries (the “Group”) for the three and six months ended September 30, 2017 together with comparative figures for the corresponding period of last year, as follows:

SECOND QUARTER FINANCIAL HIGHLIGHTS

- Group revenue of US\$11.8B, up 5% YTY
- Group profit before taxation of US\$35M and Group profit attributable to equity holders of the Company of US\$139M
- Lenovo continued to deliver quarter-on-quarter pre-tax profit improvement under the 3-wave strategy, and continues to invest for long-term growth
- Transformation on track with solid PC profitability fueling the growth needs of Mobile and Data Center businesses
- Improved PC profitability quarter-on-quarter; Mobile and Data Center businesses continued to see strength in targeted markets

	3 months ended	6 months ended	3 months ended	6 months ended	Year-on-year change	
	September 30, 2017 (unaudited) US\$'million	September 30, 2017 (unaudited) US\$'million	September 30, 2016 (unaudited) US\$'million	September 30, 2016 (unaudited) US\$'million	3 months ended September 30	6 months ended September 30
Revenue	11,761	21,773	11,231	21,287	5%	2%
Gross profit	1,613	2,977	1,607	3,142	0%	(5)%
Gross profit margin	13.7%	13.7%	14.3%	14.8%	(0.6) pts	(1.1) pts
Operating expenses	(1,525)	(2,896)	(1,392)	(2,682)	10%	8%
Operating profit	88	81	215	460	(59)%	(82)%
Other non-operating expenses - net	(53)	(115)	(47)	(87)	13%	33%
Profit/(loss) before taxation	35	(34)	168	373	(79)%	N/A
Profit for the period	153	99	152	320	1%	(69)%
Profit attributable to equity holders of the Company	139	67	157	330	(11)%	(80)%
Earnings per share attributable to equity holders of the Company						
Basic	US 1.26 cents	US 0.61 cents	US 1.42 cents	US 2.99 cents	US (0.16) cents	US (2.38) cents
Diluted	US 1.26 cents	US 0.61 cents	US 1.42 cents	US 2.98 cents	US (0.16) cents	US (2.37) cents

INTERIM DIVIDEND

The Board has declared an interim dividend of HK6.0 cents (2016/17: HK6.0 cents) per share for the six months ended September 30, 2017, absorbing an aggregate amount of approximately HK\$666.5 million (approximately US\$85.4 million) (2016/17: approximately HK\$666.5 million (approximately US\$85.9 million)), to shareholders whose names appear on the register of members of the Company on Thursday, November 23, 2017. The interim dividend will be paid on Thursday, November 30, 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Thursday, November 23, 2017, during which no transfer of shares will be registered. In order to qualify for the interim dividend, all properly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Wednesday, November 22, 2017. Shares of the Company will be traded ex-dividend as from Tuesday, November 21, 2017.

BUSINESS REVIEW AND OUTLOOK

Business Review

During the six months ended September 30, 2017, the Group continued to deliver solid progress guided by its 3-wave strategy, and saw operational profit improve quarter-to-quarter in both fiscal quarters one and two. The first wave PC and Smart Device business continued to deliver solid profitability and cash flow to the Group, which in turn fueled the growth needs of the second wave in Mobile and Data Center businesses. At the same time, the Group invested in the third wave of "Device + Cloud" and "Infrastructure + Cloud" to capture next generation opportunities offered by new technologies like AI for long term success.

During the interim period under review, market conditions remained challenging, such as the impact of supply constraints in memory which resulted in higher costs that continued to impact the Group's performance. Despite this, Lenovo delivered solid revenue performance in its PC and Smart Device business while maintaining its profitability quarter-on-quarter in fiscal quarter two, balancing between growth and profitability. The Group's Mobile business saw strong growth from attacking mature markets with progress in channel expansions and continued success in protecting Latin America, while growing in selective emerging markets with controlled investments. For the Data Center business, the Group's transformation strategy started to show positive momentum, especially in mature markets and China, while it continued to transform its business model to balance between growth and profitability. The Group also continued to build its capabilities in "Device + Cloud" and "Infrastructure + Cloud". At the Lenovo Tech World event in Shanghai on July 20, 2017, the Group showcased several concept smart devices and artificial intelligence solutions that demonstrate Lenovo's growing capabilities in these emerging segments. Moreover, the Group's Capital and Incubator Group continued to actively invest in AI, internet of things, big data, and VR/AR (virtual reality/augmented reality) to support its Device + Cloud strategy, in which these added capabilities will both develop new businesses and strengthen existing ones.

For the six months ended September 30, 2017, the Group's consolidated revenue grew 2 percent year-on-year to US\$21,773 million. Revenue of the Group's PC and Smart Device business was US\$15,387 million, representing a year-on-year increase of 4 percent. Revenue of the Mobile business increased 2 percent year-on-year to US\$3,823 million. Revenue of the Data Center business decreased 10 percent year-on-year to US\$1,947 million. Meanwhile, revenue of other goods and services was US\$617 million.

For the six months ended September 30, 2017, the Group's gross profit was US\$2,977 million, a decrease of 5 percent year-on-year, while gross margin decreased by 1.1 percentage point year-on-year to 13.7 percent, impacted largely by component cost increases arising from supply constraints across various products. Operating expenses were up by 8 percent year-on-year to US\$2,896 million, and the expense-to-revenue ratio was 13.3 percent, against 12.6 percent for the same period last year. The increase in expenses and expense-to-revenue ratio was mainly attributable to increased advertising and promotion expenses for new smartphone launches during the interim period and the disposal gain on non-core properties recorded in the same interim period of the previous year that resulted in lower expenses. The Group recorded a pre-tax profit before the non-cash M&A related accounting charges of US\$103 million against US\$313 million pre-tax profit that excluded the non-cash M&A related accounting charges, property disposal gain and restructuring charges recorded in the same period during the previous year. However, in fiscal quarter two, the Group saw its pre-tax profit before the non-cash M&A related accounting charges improved by US\$93 million quarter-on-quarter to US\$98 million. The Group recorded a net tax credit of US\$133 million during the interim period as it takes into consideration of the losses incurred in its Mobile and Data Center businesses. The Group's profit attributable to equity holders was US\$67 million against US\$330 million of profit recorded in the same period previous year.

Performance of Product Business Groups

During the six months ended September 30, 2017, Lenovo continued to balance between growth and profitability in its PC and Smart Device business, while transforming its Mobile and Data Center businesses to develop a solid foundation for long-term sustainable growth.

PC and Smart Device Business Group (PCSD)

During the six months under review, the PC market continued to decline although at a slower pace. In addition, the market created operational challenges dealing with currency volatility and key components cost increases. Despite these challenges, the Group saw solid revenue growth in PCSD during the interim period while improved its profitability quarter-on-quarter in fiscal quarter two, as it executed its strategy to capture market consolidation opportunities, and to drive innovation in the fast-growing product segments. As such, the Group recorded another strong double-digit growth in Workstation, Gaming, Convertible and Millennial PC segments in the interim period under review. The Group has also received positive market feedbacks in its new Smart Device, the AR product "Star Wars: Jedi Challenge", after its release at end of fiscal quarter two.

During the six months under review, Lenovo's PC market share dropped 0.2 percentage point year-on-year to 21 percent, according to preliminary industry estimates. However, the Group had a strong fiscal quarter two, its global PC unit shipment grew 17 percent quarter-on-quarter, and market share gained 0.1 percentage point year-on-year to 21.6 percent, according to preliminary industry estimates.

For the six months ended September 30, 2017, revenue of the Group's PCSD business was US\$15,387 million, representing approximately 71 percent of the Group's total revenue, and increased 4 percent year-on-year. The PCSD revenue growth exceeded the shipment growth on better average selling price driven by innovative products and better product mix. All geographies were profitable in the interim period under review. The business group recorded a pre-tax profit of US\$659 million, down 15 percent year-on-year. Pre-tax profit margin was 4.3 percent, down 0.9 percentage point year-on-year, mainly due to impact from component cost hikes. However, in fiscal quarter two, the pre-tax profit margin was up 0.2 percentage points quarter-on-quarter to 4.4 percent, and revenue grew 7 percent and 20 percent year-on-year and quarter-on-quarter, respectively.

Mobile Business Group (MBG)

The Group's Mobile business in the six months under review started to rebound year-on-year in revenue showing transformation is on track, in particular the continued strong performance in Latin America and mature markets. The Group continued to execute its strategy to drive profitable growth, i.e. protecting the Group's solid performance in Latin America, attacking mature markets such as North America and Western Europe, while growing in selective key emerging markets with controlled investments.

The Group continued to record strong shipments growth in Latin America and Western Europe of 63 percent and 96 percent year-on-year, respectively, during the interim period under review. Moreover, the Group successfully expanded its carrier channels to all major North America telco partners in fiscal quarter two, and saw strong shipment growth. In the high-end smartphone segment we need to continue to build competitiveness to enable breakthrough and fully execute our strategy for profitable growth. The Group's worldwide smartphone shipments for the interim period grew by 6 percent year-on-year with share gain, according to the preliminary industry estimates. The Group leveraged the success of previous Moto models and launched new versions of Moto Z, Moto X, Moto G and Moto E, as well as new Moto Mods during the interim period. The Group's innovative, differentiated premium products continued to receive encouraging customer response with increased activation rates, as well as strong industry reviews. In China, the Group is refining its strategy to build a solid foundation for future growth.

Mobile business revenue was US\$3,823 million, representing approximately 18 percent of the Group's total revenue, increased 2 percent year-on-year for the six months ended September 30, 2017. In fiscal quarter two, the Group saw 19 percent quarter-on-quarter growth in revenue driven by successful new product launches and channel expansions.

Owing to the new product launches, the Group saw an increase in branding and marketing expenses, while increased key component costs continued to exert pressure operationally. Despite that, China's operation improved and rest of the world (outside China) saw a more focused product mix, leading the business group to record an improved operational pre-tax profit margin by 0.6 percentage point year-on-year. Operational loss before taxation for the interim period under review was US\$261 million if excluding non-cash M&A related accounting charges.

Data Center Business Group (DCG)

The Group continued to execute its transformation plan during the interim period with investments in building sales capability, strengthening the channel and product solution capabilities to drive future sustainable profitable growth. However, the highly competitive market and increased component costs continued to pressure the Group's performance in the six months under review. The business's new leader has been on board since last November and is driving the transformation. As a result of these efforts, the Group started to show positive momentum in its operations in ROW. For the first time since the acquisition of System X, North America and Western Europe saw revenue growth year-on-year. And in fiscal quarter two, China business started to show signs of stabilization as the Group refines its strategy there to balance between growth and profitability.

In the High Performance Computing (HPC) business, the Group was ranked number 2 on the HPC Top 500 List, and number 1 in China. Lenovo was named the fastest growing HPC provider in the world by IDC. The Group in the interim period launched the largest product portfolio in history under two brands: ThinkSystem and ThinkAgile. At the same time, the Group continued to leverage strategic partnerships in bringing next-generation IT solutions to customers. The Group attained 43 world record benchmarks on its new ThinkSystems, the most in the industry. The Group also maintained its worldwide number one ranking in x86 server reliability and customer satisfaction according to the latest industry surveys from ITIC and TBR Study.

For the six months ended September 30, 2017, revenue of the data center business was US\$1,947 million, representing approximately 9 percent of the Group's total revenue, a decrease of 10 percent year-on-year as it was still undergoing its business transformation. As such, the Group's Data Center business recorded an operational loss before taxation of US\$214 million, if excluding the non-cash M&A related accounting charges during the six months. However, the operational pre-tax profit margin has improved quarter-on-quarter in both fiscal quarter one and two, as the transformation efforts start to show results.

Lenovo Capital and Incubator Group (LCIG) and Others

The Group's Capital and Incubator Group began at the start of the previous fiscal year with a mission to invest and build the Group's capability in AI (artificial intelligence), Internet of Things, Big Data and VR/AR (virtual reality/augmented reality) across various sectors such as manufacturing, healthcare and transportation. The Group also made progress in expanding its ecosystem with LenovoID users reaching 265 million cumulative users as of the interim period end, up from 225 million at the end of fiscal quarter one. Non-device revenue also reached more than US\$700 million as of the interim period end.

During the interim period, the Group closed several investment deals to ramp up the above-mentioned capabilities, and continued to gain traction as a big data solution provider, winning orders from key customers, as well as an Internet of Things connectivity solution provider winning new partners and customers. The Group also established an AI Lab in March 2017, and has quickly ramped up talents to build AI ecosystem capabilities, and has since set up core AI technologies in voice recognition, language understanding, machine learning, computer vision and robotics.

Revenue from the LCIG, and other products such as consumer electronic businesses from previous acquisitions was US\$617 million, representing approximately 3 percent of the Group's total revenue.

Performance of Geographies

Performance of each geography includes a combination of PCSD, DCG and MBG businesses. The profitability figures of geographies disclosed in the following paragraphs have excluded the impact of non-cash M&A related accounting charges for the interim period under review.

China

China accounted for 25 percent of the Group's total revenue. The China PC market in the six months under review saw a 7 percent decline in unit year-on-year. To mitigate the overall market weakness that occurred alongside component cost hikes, the Group focused on improving product mix and average selling price performance to protect profitability, therefore the Group's revenue performance was better than its shipment performance in the interim period. The Group's China PC market share dropped 1 percentage point year-on-year to 36 percent in the interim period, according to preliminary industry estimates, but remained the strong number one in the market. However, the Group saw a strong rebound in fiscal quarter two of double-digit PC shipment growth quarter-on-quarter with share gain, driven mostly by commercial and premium consumer models.

Competition in the China smartphone market remained very keen amidst the Group's transition process, so the Group continued to record a decline in both revenue and shipments while focusing on refining its strategy.

In Data Center business, the Group continued to transition its business model to strike a balance between growth and profitability, and started to show signs of stabilization in fiscal quarter two with quarter-on-quarter revenue improvement. The Group continues to invest in sales capabilities, and strengthening the channel and product solution capabilities to improve product mix in driving long term growth.

The weakness in China's PC market, the ongoing transformation in the Data Center business and the impact of key component cost increases resulted in the year-on-year decline of profit before taxation. The pre-tax profit was US\$198 million and pre-tax profit margin was 3.6 percent, declining 1.3 percentage points year-on-year.

Americas (AG)

Americas accounted for 31 percent of the Group's total revenue. The Group sought a balance between growth and profitability, so PC revenue performed better than its shipment performance in AG during the interim period, driven by improvement in product mix to protect profitability. The Group's PC market share decreased by 0.8 percentage points year-on-year to 14 percent for the interim period, according to the preliminary industry estimates. However the Group continued to see strength in Latin American with a PC market share gain of 1.5 percentage points year-on-year.

The Group's Moto brand smartphones continued to show strong growth in Latin America and enjoyed premium brand image during the interim period. In North America, the Group successfully expanded its carrier channel network to all major U.S. telco partners in fiscal quarter two, and saw strong growth in shipments. In the high-end smartphone segment we need to continue to build competitiveness to enable breakthrough and fully execute our strategy for profitable growth. Moto G products continued to bring strong momentum across the region, while the innovative Moto Z and Moto Mod products created a differentiated premium category. As a result, the Group's smartphone shipments grew 58 percent year on-year, significantly outpacing the market growth. The Group invested in marketing and promotion for new product launches during the interim period, which impacted the profitability in the period under review.

The Group's Data Center business started to show positive momentum. For the first time since the acquisition of System X, revenue grew year-on-year for the six months under review, indicating the transformation efforts are beginning to come to fruition. The Group continued to invest in enhancing its sales capabilities, strengthening the channel and product solution capabilities.

The Group recorded a loss before taxation of US\$18 million in the region and its pre-tax profit margin was negative 0.3 percent, compared to positive 0.9 percent same interim period a year ago, mainly due to the transition in its smartphone business.

Asia Pacific (AP)

Asia Pacific accounted for 17 percent of the Group's total revenue. The Group gained 1.4 percentage points of market share in PCs in the Asia Pacific region during the interim period, driven by targeted growth in certain growth areas. The Group maintained its number two position in the PC market with market share of 17 percent in the interim period.

The Group's smartphone business in the region faced fierce competition during the interim period, however the Moto brand continued to show strong momentum with strong activation rates from new products launched. The Group also continued to invest in channel expansion during the period under review. As such, the Group saw solid smartphone shipment growth year-on-year in fiscal quarter two.

The Group continued to transform its Data Center business in the interim period under review with investments in enhancing capabilities in sales, channel, and product solutions.

Loss before taxation was US\$54 million and pre-tax profit margin was negative 1.5 percent, against a positive 0.5 percent in the same interim period previous year, mainly due to the transitions in its smartphone and Data Center businesses.

Europe-Middle East-Africa (EMEA)

EMEA accounted for 27 percent of the Group's total revenue. During the interim period under review, the Group saw its PC business in EMEA gaining back momentum with margin expansion owing to solid performance in Western Europe. Its PC unit shipments grew 5 percent year-on-year, against a market decline of 1 percent year-on-year; market share reached 21 percent, an increase of 1.1 percentage point year-on-year.

The Group's smartphone business continued to successfully breakthrough in the Western Europe market during the interim period. Its smartphone shipments grew 96 percent year-on-year in Western Europe, significantly outpacing the market growth during the six months period. However, shipments for the entire EMEA region were down year-on-year largely due to its strategy to balance growth and profitability in the emerging part of the region, with the goal of driving better product mix in the region.

The Group's Data Center business started to show positive momentum with revenue growing year-on-year for the first time since acquisition of System X, indicating the transformation efforts are beginning to come to fruition. The Group continued to invest in enhancing its sales capabilities, strengthening the channel and product solution capabilities.

The Group incurred US\$42 million loss before taxation in EMEA during the six months under review, leading to a pre-tax profit margin of negative 0.7 percent, improved 1.5 percentage point year-on-year owing to its strong PC business.

Outlook

The Group's transformation started to show positive results during the interim period, and it now has a clear vision under the 3-wave strategy to drive sustainable profitable growth going forward. Although the markets the Group participates in are fiercely competitive, the management is confident in its execution to weather through the competition, leveraging its excellence in branding, operation efficiency and supply chain management. Just recently, Forbes announced that Lenovo made 27th place on the Top Regarded Companies List, proving that the Group's constant drive to transform itself has a positive impact to company's brand reputation. The Group also made the Interbrand's Best Global Brands award for the third consecutive year. In addition, the Group is aware of the social and environmental impact from its global operations, and continues to make conscious efforts to improve all stakeholders' welfare. As such, the Group was named the only Chinese company in "The World's Most Sustainable Companies 2017" by Forbes, as well as in the Working Mother magazine's "100 Best Companies 2017". The Group will continue to execute its strategy diligently to drive sustainable profitable growth for all its stakeholders over time.

In the PCSD business, the Group will continue to strike a balance between growth and profitability in its core PC business. Lenovo will leverage industry consolidation opportunities, and drive growth in fast-growing segments such as convertibles, gaming PCs, millennial PCs, and workstations. The Group's iconic commercial brand ThinkPad celebrated its 25th anniversary with 125 million units shipped since its launch, continuing to demonstrate the Group's innovation excellence. In addition, investing in sustainable, profitable growth is crucial for the Group, as such Lenovo has been investing to build capabilities in Device + Cloud. The Group also has seen initial success in the AR market with its latest AR product, Star Wars: Jedi Challenges, receiving positive feedback after its release in fiscal quarter two.

Additionally, the Group has finalized a joint venture agreement with Fujitsu, wherein the two companies will combine resources - leveraging Fujitsu's capabilities in global sales, customer support, R&D and manufacturing, together with the Group's operational excellence, purchasing and supply-chain capabilities and global business footprint. As the Group continues to pursue high-growth opportunities and new partnerships, particularly in key markets, this new joint venture will strengthen the Group's PC leadership worldwide, and help support continued profitable growth.

In the Mobile business, the Group will continue to build and expand the Moto brand across more markets. Lenovo will leverage the “Different is Better” brand ethos to highlight the different value proposition that Moto Z and Moto Mods bring to the market. In mature markets, the Group will continue to expand in the carrier channel with the Moto brand to drive profitable growth. In emerging markets such as key markets in Asia Pacific and China, the Group will focus on driving healthy growth with controlled investments; while continue to leverage the premium brand image in Latin America and protect its solid position there. The Group will continue to invest marketing dollars to promote its products and drive future growth for the Group.

In the Data Center business, the Group has been executing its transformation strategy since last November, and as a result the business started to see positive momentum, particularly in North America and Western Europe. And most recently in China, the Group has seen signs of stabilization in fiscal quarter two, after its actions to enhance the end-to-end organization structure and refine the overall strategy to balance between growth and profitability. The Group expects its China business continue to improve going forward as it leverages its operational excellence in the cloud business. Shortly after Intel Purley’s launch, the Group showed its fast time-to-market as it has already begun volume shipping its next generation Intel Xeon products and installed the largest supercomputer in the world on this new Intel platform at Barcelona Supercomputer Center. The Group will continue to invest to enhance its sales capabilities, strengthen channel management, and drive new business segments like software defined solutions and high performance computing with AI capabilities. The Group believes it now has the most compelling products in history under the two brands ThinkSystem and ThinkAgile to drive profitable growth in the future, coupled with the fast time-to-market product rollout, the industry-leading product reliability and the increasingly capable sales force.

The Group is committed to invest in AI, IoT, Big Data and VR/AR with sizable investment over time. With that, the Group wants to build capabilities in “Device + Cloud” and “Infrastructure + Cloud” in order to capture the growth in the Personalized Computing era. The Group has plans to incorporate its AI core capabilities, such as voice recognition, language understanding and machine learning, into its products across each of the three business groups.

Market conditions remain challenging in the short term, however, the Group now has a stronger organization with sharper customer focus and more compelling product portfolio across all its businesses. Coupled with strong execution, the Group remains confident it can build leading positions in every business the Group enters and drive profitable growth that, in turn, creates better value for shareholders.

FINANCIAL REVIEW

Results for the six months ended September 30, 2017

	6 months ended September 30, 2017 (unaudited) US\$'million	6 months ended September 30, 2016 (unaudited) US\$'million	Year-on-year change
Revenue	21,773	21,287	2%
Gross profit	2,977	3,142	(5)%
Gross profit margin	13.7%	14.8%	(1.1) pts
Operating expenses	(2,896)	(2,682)	8%
Operating profit	81	460	(82)%
Other non-operating expenses – net	(115)	(87)	33%
(Loss)/profit before taxation	(34)	373	N/A
Profit for the period	99	320	(69)%
Profit attributable to equity holders of the Company	67	330	(80)%
Earnings per share attributable to equity holders of the Company			
Basic	US 0.61 cents	US 2.99 cents	US (2.38) cents
Diluted	US 0.61 cents	US 2.98 cents	US (2.37) cents

For the six months ended September 30, 2017, the Group achieved total sales of approximately US\$21,773 million. Profit attributable to equity holders for the period was approximately US\$67 million, representing a decrease of US\$263 million as compared with the corresponding period of last year. Gross profit margin for the period was 1.1 points down from 14.8 percent reported in the corresponding period of last year. Basic earnings per share and diluted earnings per share were US0.61 cents, representing a decrease of US2.38 cents and US2.37 cents respectively as compared with the corresponding period of last year.

The Group adopts geographical segments as the reporting format. Geographical segments comprise China, AP, EMEA and AG. Sales by segment are as follows:

	6 months ended September 30, 2017 US\$'000	6 months ended September 30, 2016 US\$'000
China	5,533,525	6,050,133
AP	3,600,549	3,576,506
EMEA	5,854,616	5,204,445
AG	6,784,412	6,456,203
	21,773,102	21,287,287

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

Operating expenses analyzed by function for the six months ended September 30, 2017 and 2016 are as follows:

	6 months ended September 30, 2017 US\$'000	6 months ended September 30, 2016 US\$'000
Other income – net	15	11,621
Selling and distribution expenses	(1,460,671)	(1,295,687)
Administrative expenses	(847,837)	(896,769)
Research and development expenses	(602,498)	(704,574)
Other operating income – net	15,427	204,170
	<u>(2,895,564)</u>	<u>(2,681,239)</u>

Operating expenses for the period increased by 8 percent as compared with the corresponding period of last year. This is mainly attributable to the gain on monetizing certain non-core assets of US\$335 million, partly offset by severance costs of US\$136 million in the corresponding period of last year. During the period, the Group has also increased the advertising and promotional expenses by US\$56 million. Other income in the corresponding period of last year mainly represented net gain on disposal of an available-for-sale financial asset of US\$12 million. The Group recorded a net exchange loss of US\$13 million (2016/17: US\$43 million) for the period. Key expenses by nature comprise:

	6 months ended September 30, 2017 US\$'000	6 months ended September 30, 2016 US\$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	(73,718)	(79,656)
Amortization of intangible assets	(211,511)	(223,913)
Employee benefit costs, including	(1,520,555)	(1,627,838)
-long-term incentive awards	(98,340)	(80,363)
-severance and related costs	-	(135,977)
Rental expenses under operating leases	(67,084)	(51,792)
Net foreign exchange loss	(13,348)	(42,975)
Advertising and promotional expenses	(478,342)	(422,402)
(Loss)/gain on disposal of property, plant and equipment and prepaid lease payments	(4,560)	335,478
Others	(526,446)	(568,141)
	<u>(2,895,564)</u>	<u>(2,681,239)</u>

Other non-operating expenses (net) for the six months ended September 30, 2017 and 2016 comprise:

	6 months ended September 30, 2017 US\$'000	6 months ended September 30, 2016 US\$'000
Finance income	17,659	11,603
Finance costs	(131,574)	(111,208)
Share of (losses)/profits of associates and joint ventures	(1,570)	12,519
	<u>(115,485)</u>	<u>(87,086)</u>

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 18 percent as compared with the corresponding period of last year. This is mainly attributable to the interest expense of US\$10 million in relation to the 5-Year US\$500 million notes, issued in March 2017, bearing annual interest at 3.875%, and the increase in factoring costs of US\$18 million, partly offset by the decrease in interest on promissory note issued to Google Inc. of US\$8 million.

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

Second Quarter 2017/18 compared to Second Quarter 2016/17

	3 months ended September 30, 2017 (unaudited) US\$'million	3 months ended September 30, 2016 (unaudited) US\$'million	Year-on-year change
Revenue	11,761	11,231	5%
Gross profit	1,613	1,607	0%
Gross profit margin	13.7%	14.3%	(0.6) pts
Operating expenses	(1,525)	(1,392)	10%
Operating profit	88	215	(59)%
Other non-operating expenses – net	(53)	(47)	13%
Profit before taxation	35	168	(79)%
Profit for the period	153	152	1%
Profit attributable to equity holders of the Company	139	157	(11)%
Earnings per share attributable to equity holders of the Company			
Basic	US 1.26 cents	US 1.42 cents	US (0.16) cents
Diluted	US 1.26 cents	US 1.42 cents	US (0.16) cents

For the three months ended September 30, 2017, the Group achieved total sales of approximately US\$11,761 million. Profit attributable to equity holders for the period was approximately US\$139 million, representing a decrease of US\$18 million as compared with the corresponding period of last year. Gross profit margin for the period was 0.6 points down from 14.3 percent reported in the corresponding period of last year. Basic earnings per share and diluted earnings per share were US1.26 cents, representing a decrease of US0.16 cents as compared with the corresponding period of last year.

Sales by geographical segment are as follows:

	3 months ended September 30, 2017 US\$'000	3 months ended September 30, 2016 US\$'000
China	3,018,308	3,195,345
AP	2,027,557	1,896,616
EMEA	3,152,006	2,737,870
AG	3,563,017	3,401,370
	11,760,888	11,231,201

Operating expenses analyzed by function for the three months ended September 30, 2017 and 2016 are as follows:

	3 months ended September 30, 2017 US\$'000	3 months ended September 30, 2016 US\$'000
Other income – net	15	11,621
Selling and distribution expenses	(795,644)	(706,666)
Administrative expenses	(387,309)	(438,178)
Research and development expenses	(310,933)	(348,831)
Other operating (expenses)/income – net	(30,968)	90,197
	<u>(1,524,839)</u>	<u>(1,391,857)</u>

Operating expenses for the period increased by 10 percent as compared with the corresponding period of last year. This is mainly attributable to the gain on monetizing certain non-core assets of US\$206 million, partly offset by severance costs of US\$136 million in the corresponding period of last year. During the period, the Group has also increased the advertising and promotional expenses by US\$25 million. Other income in the corresponding period of last year mainly represented net gain on disposal of an available-for-sale financial asset of US\$12 million. The Group recorded a net exchange loss of US\$16 million (2016/17: US\$20 million) for the period. Key expenses by nature comprise:

	3 months ended September 30, 2017 US\$'000	3 months ended September 30, 2016 US\$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	(35,496)	(39,676)
Amortization of intangible assets	(107,503)	(111,826)
Employee benefit costs, including	(762,034)	(883,480)
-long-term incentive awards	(51,099)	(47,293)
-severance and related costs	-	(135,977)
Rental expenses under operating leases	(32,472)	(25,394)
Net foreign exchange loss	(16,341)	(20,153)
Advertising and promotional expenses	(265,448)	(240,222)
(Loss)/gain on disposal of property, plant and equipment and prepaid lease payments	(472)	203,766
Others	(305,073)	(274,872)
	<u>(1,524,839)</u>	<u>(1,391,857)</u>

Other non-operating expenses (net) for the three months ended September 30, 2017 and 2016 comprise:

	3 months ended September 30, 2017 US\$'000	3 months ended September 30, 2016 US\$'000
Finance income	8,471	5,463
Finance costs	(59,530)	(55,731)
Share of (losses)/profits of associates and joint ventures	(1,277)	2,682
	<u>(52,336)</u>	<u>(47,586)</u>

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 7 percent as compared with the corresponding period of last year. This is mainly attributable to the interest expense of US\$5 million in relation to the 5-Year US\$500 million notes, issued in March 2017, bearing annual interest at 3.875%, and the increase in factoring costs of US\$7 million, partly offset by the decrease in interest on promissory note issued to Google Inc. of US\$10 million.

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

Capital Expenditure

The Group incurred capital expenditure of US\$341 million (2016/17: US\$271 million) during the six months ended September 30, 2017, mainly for the acquisition of property, plant and equipment, prepaid lease payments, additions in construction-in-progress and intangible assets.

Liquidity and Financial Resources

At September 30, 2017, total assets of the Group amounted to US\$28,924 million (March 31, 2017: US\$27,186 million), which were financed by equity attributable to owners of the Company of US\$3,160 million (March 31, 2017: US\$3,223 million), perpetual securities of US\$994 million (March 31, 2017: US\$844 million) and other non-controlling interests (net of put option written on non-controlling interest) of US\$35 million (March 31, 2017: US\$28 million), and total liabilities of US\$24,735 million (March 31, 2017: US\$23,091 million). At September 30, 2017, the current ratio of the Group was 0.79 (March 31, 2017: 0.81).

The Group had a solid financial position. At September 30, 2017, bank deposits, cash and cash equivalents totaled US\$1,262 million (March 31, 2017: US\$2,951 million), of which 23.2 (March 31, 2017: 45.1) percent was denominated in US dollar, 35.7 (March 31, 2017: 29.0) percent in Renminbi, 12.1 (March 31, 2017: 6.6) percent in Euro, 6.4 (March 31, 2017: 5.2) percent in Japanese Yen, and 22.6 (March 31, 2017: 14.1) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At September 30, 2017, 97.9 (March 31, 2017: 78.5) percent of cash are bank deposits, and 2.1 (March 31, 2017: 21.5) percent of cash are investments in liquid money market funds of investment grade.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes.

The Group entered into a 5-Year loan facility agreement with syndicated banks for US\$1,200 million, comprising US\$800 million as revolving loan facility and US\$400 million as term loan facility, on December 18, 2013. The term loan facility has been prepaid. As at September 30, 2017, the revolving loan facility was not utilized (March 31, 2017: not utilized).

In addition, on May 26, 2015, the Group entered into a 5-Year loan facility agreement with a bank for US\$300 million. The facility was not utilized as at September 30, 2017 (March 31, 2017: not utilized).

On May 8, 2014, the Group completed the issuance of 5-Year US\$1.5 billion notes bearing annual interest at 4.7% due in May 2019; and on June 10, 2015, the Group completed the issuance of 5-Year RMB4 billion notes bearing annual interest at 4.95% due in June 2020. The proceeds have been used for general corporate purposes including working capital and acquisition activities.

On March 16, 2017, the Group completed the issuance of 5-Year US\$500 million notes bearing annual interest at 3.875% due in March 2022; and completed the issuance of US\$850 million perpetual securities in the form of cumulative preferred shares bearing annual dividend at 5.375%, with a performance guarantee from the Company. Moreover, on April 6, 2017, the Group completed the issuance of an additional US\$150 million perpetual securities under the same terms. The proceeds have been used for repayment of the outstanding amount under the promissory note issued to Google Inc. and for general corporate purposes including working capital.

The Group has also arranged other short-term credit facilities. At September 30, 2017, the Group's other total available credit facilities amounted to US\$10,926 million (March 31, 2017: US\$10,710 million), of which US\$1,806 million (March 31, 2017: US\$1,584 million) was in trade lines, US\$696 million (March 31, 2017: US\$293 million) in short-term and revolving money market facilities and US\$8,424

million (March 31, 2017: US\$8,833 million) in forward foreign exchange contracts. At September 30, 2017, the amounts drawn down were US\$1,171 million (March 31, 2017: US\$1,086 million) in trade lines, US\$8,380 million (March 31, 2017: US\$8,216 million) being used for the forward foreign exchange contracts, and US\$70 million (March 31, 2017: US\$70 million) in short-term bank loans.

At September 30, 2017, the Group did not have any term bank loan (March 31, 2017: US\$398 million), and the Group's outstanding borrowings represented by short-term bank loans of US\$70 million (March 31, 2017: US\$70 million) and notes of US\$2,591 million (March 31, 2017: US\$2,569 million). When compared with total equity of US\$4,188 million (March 31, 2017: US\$4,095 million), the Group's gearing ratio was 0.64 (March 31, 2017: 0.74). The net debt position of the Group at September 30, 2017 is US\$1,399 million (March 31, 2017: US\$86 million).

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At September 30, 2017, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US\$8,380 million (March 31, 2017: US\$8,216 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

Contingent Liabilities

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

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

		3 months ended September 30, 2017 (unaudited) US\$'000	6 months ended September 30, 2017 (unaudited) US\$'000	3 months ended September 30, 2016 (unaudited) US\$'000	6 months ended September 30, 2016 (unaudited) US\$'000
Revenue	2	11,760,888	21,773,102	11,231,201	21,287,287
Cost of sales		<u>(10,148,366)</u>	<u>(18,795,968)</u>	<u>(9,623,955)</u>	<u>(18,145,558)</u>
Gross profit		1,612,522	2,977,134	1,607,246	3,141,729
Other income - net	3	15	15	11,621	11,621
Selling and distribution expenses		(795,644)	(1,460,671)	(706,666)	(1,295,687)
Administrative expenses		(387,309)	(847,837)	(438,178)	(896,769)
Research and development expenses		(310,933)	(602,498)	(348,831)	(704,574)
Other operating (expenses)/income - net		<u>(30,968)</u>	<u>15,427</u>	<u>90,197</u>	<u>204,170</u>
Operating profit	4	87,683	81,570	215,389	460,490
Finance income	5(a)	8,471	17,659	5,463	11,603
Finance costs	5(b)	(59,530)	(131,574)	(55,731)	(111,208)
Share of (losses)/profits of associates and joint ventures		<u>(1,277)</u>	<u>(1,570)</u>	<u>2,682</u>	<u>12,519</u>
Profit/(loss) before taxation		35,347	(33,915)	167,803	373,404
Taxation	6	<u>117,827</u>	<u>133,224</u>	<u>(15,794)</u>	<u>(53,760)</u>
Profit for the period		<u>153,174</u>	<u>99,309</u>	<u>152,009</u>	<u>319,644</u>
Profit/(loss) attributable to:					
Equity holders of the Company		139,042	66,752	156,835	329,782
Perpetual securities holders		13,553	26,800	-	-
Other non-controlling interests		<u>579</u>	<u>5,757</u>	<u>(4,826)</u>	<u>(10,138)</u>
		<u>153,174</u>	<u>99,309</u>	<u>152,009</u>	<u>319,644</u>
Earnings per share attributable to equity holders of the Company					
Basic	7(a)	<u>US 1.26 cents</u>	<u>US 0.61 cents</u>	US 1.42 cents	US 2.99 cents
Diluted	7(b)	<u>US 1.26 cents</u>	<u>US 0.61 cents</u>	US 1.42 cents	US 2.98 cents
Dividend	8		<u>85,434</u>		<u>85,948</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended September 30, 2017 (unaudited) US\$'000	6 months ended September 30, 2017 (unaudited) US\$'000	3 months ended September 30, 2016 (unaudited) US\$'000	6 months ended September 30, 2016 (unaudited) US\$'000
Profit for the period	153,174	99,309	152,009	319,644
<hr style="border-top: 1px dashed black;"/>				
Other comprehensive income/(loss):				
<u>Items that have been reclassified or may be subsequently reclassified to profit or loss</u>				
Fair value change on available-for-sale financial assets, net of taxes	2,787	2,599	(356)	(2,522)
Investment revaluation reserve reclassified to consolidated income statement on disposal of an available-for-sale financial asset	-	-	(11,259)	(11,259)
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes				
- Fair value loss, net of taxes	(73,811)	(171,531)	(7,417)	(1,405)
- Reclassified to consolidated income statement	116,938	164,906	11,719	80,172
Currency translation differences	92,216	111,990	(8,507)	44,531
Other comprehensive income/(loss) for the period	<hr style="border-top: 1px solid black;"/> 138,130	<hr style="border-top: 1px solid black;"/> 107,964	<hr style="border-top: 1px solid black;"/> 15,820	<hr style="border-top: 1px solid black;"/> 109,517
Total comprehensive income for the period	<hr style="border-top: 1px solid black;"/> 291,304	<hr style="border-top: 1px solid black;"/> 207,273	<hr style="border-top: 1px solid black;"/> 136,189	<hr style="border-top: 1px solid black;"/> 429,161
Total comprehensive income/(loss) attributable to:				
Equity holders of the Company	277,172	174,716	141,015	439,299
Perpetual securities holders	13,553	26,800	-	-
Other non-controlling interests	579	5,757	(4,826)	(10,138)
	<hr style="border-top: 1px solid black;"/> 291,304	<hr style="border-top: 1px solid black;"/> 207,273	<hr style="border-top: 1px solid black;"/> 136,189	<hr style="border-top: 1px solid black;"/> 429,161

CONSOLIDATED BALANCE SHEET

		September 30, 2017 (unaudited) US\$'000	March 31, 2017 (audited) US\$'000
Non-current assets			
Property, plant and equipment		1,283,887	1,236,250
Prepaid lease payments		493,313	473,090
Construction-in-progress		422,759	413,160
Intangible assets		8,448,410	8,349,145
Interests in associates and joint ventures		34,103	32,567
Deferred income tax assets		1,739,107	1,435,256
Available-for-sale financial assets		332,481	255,898
Other non-current assets		136,820	122,221
		<u>12,890,880</u>	<u>12,317,587</u>
Current assets			
Inventories		3,599,990	2,794,035
Trade receivables	9(a)	5,284,067	4,468,392
Notes receivable		29,692	68,333
Derivative financial assets		67,344	53,808
Deposits, prepayments and other receivables	10	5,605,794	4,333,351
Income tax recoverable		183,758	199,149
Bank deposits		118,215	196,720
Cash and cash equivalents		1,143,834	2,754,599
		<u>16,032,694</u>	<u>14,868,387</u>
Total assets		<u><u>28,923,574</u></u>	<u><u>27,185,974</u></u>

CONSOLIDATED BALANCE SHEET (CONTINUED)

		September 30, 2017 (unaudited) US\$'000	March 31, 2017 (audited) US\$'000
Share capital	14	2,689,882	2,689,882
Reserves		470,151	533,719
Equity attributable to owners of the Company		3,160,033	3,223,601
Perpetual securities		993,670	843,677
Other non-controlling interests		247,604	240,844
Put option written on non-controlling interest	11(a)(iii)	(212,900)	(212,900)
Total equity		4,188,407	4,095,222
Non-current liabilities			
Borrowings	13	2,591,264	2,966,692
Warranty provision	11(b)	264,612	280,421
Deferred revenue		605,227	537,428
Retirement benefit obligations		397,471	370,207
Deferred income tax liabilities		228,144	221,601
Other non-current liabilities	12	353,462	380,557
		4,440,180	4,756,906
Current liabilities			
Trade payables	9(b)	7,240,072	5,649,925
Notes payable		975,116	835,613
Derivative financial liabilities		84,914	67,285
Other payables and accruals	11(a)	10,227,406	10,004,614
Provisions	11(b)	829,000	873,405
Deferred revenue		668,652	586,536
Income tax payable		199,786	246,465
Borrowings	13	70,041	70,003
		20,294,987	18,333,846
Total liabilities		24,735,167	23,090,752
Total equity and liabilities		28,923,574	27,185,974

CONSOLIDATED CASH FLOW STATEMENT

	<i>Note</i>	6 months ended September 30, 2017 (unaudited) US\$'000	6 months ended September 30, 2016 (unaudited) US\$'000
Cash flows from operating activities			
Net cash generated from operations	16	92,153	1,812,811
Interest paid		(116,911)	(88,978)
Tax paid		(189,013)	(157,132)
		(213,771)	1,566,701
Net cash (used in)/generated from operating activities			
Cash flows from investing activities			
Purchase of property, plant and equipment		(101,307)	(65,472)
Purchase of prepaid lease payments		(10,908)	(1,663)
Sale of property, plant and equipment and prepaid lease payments		5,335	160,728
Interest acquired in an associate		(2,205)	-
Net proceeds from disposal of a joint venture		160,564	-
Payment for construction-in-progress		(155,826)	(134,900)
Payment for intangible assets		(73,124)	(68,527)
Purchase of available-for-sale financial assets		(69,355)	(36,216)
Net proceeds from disposal of an available-for-sale financial asset		165	11,860
Repayment of deferred consideration		(686,301)	-
Decrease/(increase) in bank deposits		78,505	(44,252)
Dividends received		-	46
Interest received		17,659	11,603
		(836,798)	(166,793)
Net cash used in investing activities			
Cash flows from financing activities			
Capital contribution from other non-controlling interests		1,003	5,466
Contribution to employee share trusts		(26,154)	(62,749)
Issue of perpetual securities		149,625	-
Dividends paid		(291,673)	(291,826)
Distribution to perpetual securities holders		(26,432)	-
Proceeds from borrowings		3,364,540	953,388
Repayments of borrowings		(3,763,166)	(1,659,877)
		(592,257)	(1,055,598)
Net cash used in financing activities			
(Decrease)/increase in cash and cash equivalents		(1,642,826)	344,310
Effect of foreign exchange rate changes		32,061	(18,135)
Cash and cash equivalents at the beginning of the period		2,754,599	1,926,880
Cash and cash equivalents at the end of the period		1,143,834	2,253,055

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											
	Share capital	Investment revaluation reserve	Employee share trusts	Share-based compensation reserve	Hedging reserve	Exchange reserve	Other reserve	Retained earnings	Perpetual securities	Other non-controlling interests	Put option written on non-controlling interest	Total
	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000	(unaudited) US\$'000
At April 1, 2017	2,689,882	(2,965)	(111,228)	123,493	(5,328)	(1,226,618)	62,751	1,693,614	843,677	240,844	(212,900)	4,095,222
Profit for the period	-	-	-	-	-	-	-	66,752	26,800	5,757	-	99,309
Other comprehensive income/(loss)	-	2,599	-	-	(6,625)	111,990	-	-	-	-	-	107,964
Total comprehensive income/(loss) for the period	-	2,599	-	-	(6,625)	111,990	-	66,752	26,800	5,757	-	207,273
Transfer to statutory reserve	-	-	-	-	-	-	15,097	(15,097)	-	-	-	-
Vesting of shares under long-term incentive program	-	-	60,956	(79,864)	-	-	-	-	-	-	-	(18,908)
Share-based compensation	-	-	-	98,451	-	-	-	-	-	-	-	98,451
Contribution to employee share trusts	-	-	(26,154)	-	-	-	-	-	-	-	-	(26,154)
Dividends paid	-	-	-	-	-	-	-	(291,673)	-	-	-	(291,673)
Issue of perpetual securities (Note 15)	-	-	-	-	-	-	-	-	149,625	-	-	149,625
Capital contribution from other non-controlling interests	-	-	-	-	-	-	-	-	-	1,003	-	1,003
Distribution to perpetual securities holders (Note 15)	-	-	-	-	-	-	-	-	(26,432)	-	-	(26,432)
At September 30, 2017	2,689,882	(366)	(76,426)	142,080	(11,953)	(1,114,628)	77,848	1,453,596	993,670	247,604	(212,900)	4,188,407
At April 1, 2016	2,689,882	962	(52,897)	13,161	(88,328)	(1,141,195)	83,363	1,495,252	-	238,949	(212,900)	3,026,249
Profit/(loss) for the period	-	-	-	-	-	-	-	329,782	-	(10,138)	-	319,644
Other comprehensive (loss)/income	-	(13,781)	-	-	78,767	44,531	-	-	-	-	-	109,517
Total comprehensive (loss)/income for the period	-	(13,781)	-	-	78,767	44,531	-	329,782	-	(10,138)	-	429,161
Transfer to statutory reserve	-	-	-	-	-	-	2,019	(2,019)	-	-	-	-
Vesting of shares under long-term incentive program	-	-	44,981	(52,097)	-	-	-	-	-	-	-	(7,116)
Share-based compensation	-	-	-	83,575	-	-	-	-	-	-	-	83,575
Contribution to employee share trusts	-	-	(62,749)	-	-	-	-	-	-	-	-	(62,749)
Dividends paid	-	-	-	-	-	-	-	(291,826)	-	-	-	(291,826)
Capital contribution from other non-controlling interests	-	-	-	-	-	-	-	-	-	5,466	-	5,466
At September 30, 2016	2,689,882	(12,819)	(70,665)	44,639	(9,561)	(1,096,664)	85,382	1,531,189	-	234,277	(212,900)	3,182,760

1 General information and basis of preparation

The financial information relating to the year ended March 31, 2017 that is included in the FY2017/18 interim results announcement as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended March 31, 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements of the Group. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

Basis of preparation

The financial information presented above and notes thereto are extracted from the Group's consolidated financial statements and presented in accordance with Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Board is responsible for the preparation of the Group's financial statements. The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards. The financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are stated at fair values.

The Group has adopted the following new amendments to existing standards that are mandatory for the year ending March 31, 2018 which the Group considers is appropriate and relevant to its operations:

- Amendments to HKAS 7, Disclosure initiatives
- Amendments to HKAS 12, Recognition of deferred tax assets for unrealized losses

The adoption of these newly effective amendments to existing standards does not result in substantial changes to the Group's accounting policies or financial results.

The following new standards, interpretations and amendments to existing standards, which are considered appropriate and relevant to the Group's operations, have been issued but are not effective for the year ending March 31, 2018 and have not been early adopted:

	Effective for annual periods beginning on or after
HKFRS 9, Financial instruments	January 1, 2018
HKFRS 15, Revenue from contracts with customers	January 1, 2018
HKFRS 16, Leases	January 1, 2019
HK (IFRIC) – Int 22, Foreign currency transactions and advance consideration	January 1, 2018
HK (IFRIC) – Int 23, Uncertainty over income tax treatments	January 1, 2019
Amendments to HKFRS 2, Share-based payment	January 1, 2018
Amendments to HKFRS 10 and HKAS 28, Consolidated financial statements and investments in associates	Date to be determined

Among the above, the three new standards are of higher relevancy to the Group's operations. The following describes the key changes that may impact the consolidated financial statements of the Group.

HKFRS 9, Financial instruments

The new standard addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to the profit or loss in the future. For financial liabilities there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. Under the new hedge accounting rules, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

Under HKFRS 9, trade receivables of the Group are likely to be classified as FVOCI instruments, and the timing of recognition and amount of relevant impairment provision may be revised when ECL is referenced. The Group currently holds certain investments in equity instruments which are classified as FVOCI instruments. The relevant fair value changes will not be recycled to the profit or loss upon disposal of the investments.

HKFRS 15, Revenue from contracts with customers

This standard will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Under HKFRS 15, revenue arising from channel sales of the Group may subject to a different timing of recognition, which may impact the amount of revenue recognized by the Group for a given period.

HKFRS 16, Leases

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

Based on the assessment performed, the Group is in the opinion that the adoption of above new standards and amendments to standards will not result in a significant effect on its consolidated financial statements.

2 Segment information

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

The LEC considers business from a geographical perspective. The Group has four geographical segments, China, AP, EMEA and AG, which are also the Group’s reportable operating segments.

The LEC assesses the performance of the operating segments based on a measure of adjusted pre-tax income/(loss). This measurement basis excludes the effects of non-recurring expenditure such as restructuring costs from the operating segments. The measurement basis also excludes

the effects of unrealized gains/(losses) on financial instruments. Certain interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

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

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

	6 months ended September 30, 2017		6 months ended September 30, 2016	
	Revenue from external customers <i>US\$'000</i>	Adjusted pre-tax income/ (loss) <i>US\$'000</i>	Revenue from external customers <i>US\$'000</i>	Adjusted pre-tax income/ (loss) <i>US\$'000</i>
China	5,533,525	198,186	6,050,133	295,603
AP	3,600,549	(54,152)	3,576,506	18,186
EMEA	5,854,616	(42,388)	5,204,445	(114,573)
AG	6,784,412	(17,672)	6,456,203	58,212
Segment total	<u>21,773,102</u>	<u>83,974</u>	<u>21,287,287</u>	<u>257,428</u>
Unallocated:				
Headquarters and corporate (expenses)/income		(14,677)		315,423
Restructuring costs		-		(135,977)
Finance income		8,238		9,190
Finance costs		(109,895)		(96,800)
Net gain on disposal of available-for-sale financial assets		15		11,575
Dividend income from available-for-sale financial assets		-		46
Share of (losses)/profits of associates and joint ventures		(1,570)		12,519
Consolidated (loss)/profit before taxation		<u>(33,915)</u>		<u>373,404</u>

(b) Segment assets for reportable segments

	September 30, 2017 <i>US\$'000</i>	March 31, 2017 <i>US\$'000</i>
China	8,287,370	7,754,296
AP	3,689,181	3,497,366
EMEA	3,366,832	3,282,761
AG	7,704,159	6,633,117
Segment assets for reportable segments	<u>23,047,542</u>	<u>21,167,540</u>
Unallocated:		
Deferred income tax assets	1,739,107	1,435,256
Derivative financial assets	67,344	53,808
Available-for-sale financial assets	332,481	255,898
Interests in associates and joint ventures	34,103	32,567
Unallocated bank deposits and cash and cash equivalents	266,282	1,075,639
Unallocated inventories	915,453	823,619
Unallocated deposits, prepayments and other receivables	2,034,484	1,829,387
Income tax recoverable	183,758	199,149
Other unallocated assets	303,020	313,111
Total assets per consolidated balance sheet	<u>28,923,574</u>	<u>27,185,974</u>

(c) Segment liabilities for reportable segments

	September 30, 2017 US\$'000	March 31, 2017 US\$'000
China	6,461,839	4,884,148
AP	1,648,223	1,631,624
EMEA	1,416,857	1,569,619
AG	3,156,842	3,375,555
Segment liabilities for reportable segments	<u>12,683,761</u>	<u>11,460,946</u>
Unallocated:		
Income tax payable	199,786	246,465
Deferred income tax liabilities	228,144	221,601
Derivative financial liabilities	84,914	67,285
Unallocated borrowings	2,591,264	2,966,692
Unallocated trade and notes payables	5,070,417	4,249,522
Unallocated other payables and accruals	3,335,212	3,570,065
Unallocated provisions	481,456	237,907
Unallocated other non-current liabilities	25,070	25,070
Other unallocated liabilities	35,143	45,199
Total liabilities per consolidated balance sheet	<u>24,735,167</u>	<u>23,090,752</u>

(d) Analysis of revenue by significant category

Revenue from external customers are mainly derived from the sale of personal technology products and services. Breakdown of revenue by business group is as follows:

	6 months ended September 30, 2017 US\$'000	6 months ended September 30, 2016 US\$'000
PC and Smart Device Business Group (“PCSD”)	15,387,077	14,795,735
Mobile Business Group (“MBG”)	3,822,533	3,750,758
Data Center Group (“DCG”)	1,946,529	2,168,595
Others	616,963	572,199
	<u>21,773,102</u>	<u>21,287,287</u>

Note: PCSD consists of core PC business as well as slate tablets, detachables, gaming and other smart devices.

(e) Other segment information

	China		AP		EMEA		AG		Total	
	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000	2017 US\$'000	2016 US\$'000
For the six months ended September 30										
Depreciation and amortization	68,837	123,547	68,576	62,370	79,459	92,733	138,258	105,656	355,130	384,306
Finance income	71	82	399	430	106	112	8,845	1,789	9,421	2,413
Finance costs	1,425	1,107	5,796	3,849	6,517	2,572	7,941	6,880	21,679	14,408
Additions to non-current assets (Note)	<u>95,019</u>	<u>62,477</u>	<u>13,216</u>	<u>9,118</u>	<u>9,158</u>	<u>7,876</u>	<u>32,005</u>	<u>32,704</u>	<u>149,398</u>	<u>112,175</u>

Note: Other than financial instruments and deferred income tax assets; and excluding other non-current assets.

- (f) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US\$6,248 million (March 31, 2017: US\$6,122 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At September 30, 2017

	China <i>US\$ million</i>	AP <i>US\$ million</i>	EMEA <i>US\$ million</i>	AG <i>US\$ million</i>	Total <i>US\$ million</i>
Goodwill					
- PCSD	1,062	551	234	339	2,186
- MBG	-	331	382	979	1,692
- DCG	483	163	92	366	1,104
Trademarks and trade names					
- PCSD	209	59	101	67	436
- MBG	-	90	104	266	460
- DCG	162	54	31	123	370

At March 31, 2017

	China <i>US\$ million</i>	AP <i>US\$ million</i>	EMEA <i>US\$ million</i>	AG <i>US\$ million</i>	Total <i>US\$ million</i>
Goodwill					
- PCSD	1,032	552	208	336	2,128
- MBG	-	314	362	984	1,660
- DCG	468	157	89	354	1,068
Trademarks and trade names					
- PCSD	209	59	101	67	436
- MBG	-	90	104	266	460
- DCG	162	54	31	123	370

The directors are of the view that there was no indication of impairment of goodwill and trademarks and trade names as at September 30, 2017 (March 31, 2017: Nil).

3 Other income – net

	3 months ended September 30, 2017 <i>US\$'000</i>	6 months ended September 30, 2017 <i>US\$'000</i>	3 months ended September 30, 2016 <i>US\$'000</i>	6 months ended September 30, 2016 <i>US\$'000</i>
Net gain on disposal of available-for-sale financial assets	15	15	11,575	11,575
Dividend income from available-for-sale financial assets	-	-	46	46
	<u>15</u>	<u>15</u>	<u>11,621</u>	<u>11,621</u>

4 Operating profit

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

	3 months ended September 30, 2017 US\$'000	6 months ended September 30, 2017 US\$'000	3 months ended September 30, 2016 US\$'000	6 months ended September 30, 2016 US\$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	62,521	124,905	69,859	139,220
Amortization of intangible assets	117,744	230,225	121,442	245,086
Employee benefit costs, including	870,101	1,726,447	992,581	1,842,345
- long-term incentive awards	51,099	98,340	47,293	80,363
- severance and related costs	-	-	135,977	135,977
Rental expenses under operating leases	35,898	74,500	29,145	59,678
Loss/(gain) on disposal of property, plant and equipment and prepaid lease payments	472	4,560	(203,766)	(335,478)

During the three months and six months ended September 30, 2016, the Group announced resource actions to further enhance efficiency and competitiveness in view of industrial challenges. Severance costs of approximately US\$136 million were recognized in “other operating (expenses)/income – net”.

5 Finance income and costs

(a) Finance income

	3 months ended September 30, 2017 US\$'000	6 months ended September 30, 2017 US\$'000	3 months ended September 30, 2016 US\$'000	6 months ended September 30, 2016 US\$'000
Interest on bank deposits	7,733	15,688	4,656	9,968
Interest on money market funds	738	1,971	807	1,635
	8,471	17,659	5,463	11,603

(b) Finance costs

	3 months ended September 30, 2017 US\$'000	6 months ended September 30, 2017 US\$'000	3 months ended September 30, 2016 US\$'000	6 months ended September 30, 2016 US\$'000
Interest on bank loans and overdrafts	10,668	20,613	9,991	20,262
Interest on notes	31,869	62,690	25,824	51,576
Interest on promissory note	-	11,589	10,036	20,001
Factoring costs	15,591	33,692	8,198	15,270
Commitment fee	83	404	24	48
Interest on contingent/deferred considerations and put option liability	556	1,110	1,527	3,298
Others	763	1,476	131	753
	59,530	131,574	55,731	111,208

6 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended September 30, 2017 <i>US\$'000</i>	6 months ended September 30, 2017 <i>US\$'000</i>	3 months ended September 30, 2016 <i>US\$'000</i>	6 months ended September 30, 2016 <i>US\$'000</i>
Current tax				
Hong Kong profits tax	1,378	8,488	380	2,046
Taxation outside Hong Kong	87,267	152,227	112,095	201,474
Deferred tax	(206,472)	(293,939)	(96,681)	(149,760)
	<u>(117,827)</u>	<u>(133,224)</u>	<u>15,794</u>	<u>53,760</u>

Hong Kong profits tax has been provided for at the rate of 16.5% (2016/17: 16.5%) on the estimated assessable profit for the period. Taxation outside Hong Kong represents income and irrecoverable withholding taxes of subsidiaries operating in the Chinese Mainland and overseas, calculated at rates applicable in the respective jurisdictions.

7 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period after adjusting shares held by employee share trusts for the purposes of awarding shares to eligible employees under the long term incentive program.

	3 months ended September 30, 2017	6 months ended September 30, 2017	3 months ended September 30, 2016	6 months ended September 30, 2016
Weighted average number of ordinary shares in issue	11,108,654,724	11,108,654,724	11,108,654,724	11,108,654,724
Adjustment for shares held by employee share trusts	(91,162,587)	(125,135,304)	(82,380,009)	(70,209,201)
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	<u>11,017,492,137</u>	<u>10,983,519,420</u>	<u>11,026,274,715</u>	<u>11,038,445,523</u>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit attributable to equity holders of the Company	<u>139,042</u>	<u>66,752</u>	<u>156,835</u>	<u>329,782</u>

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, namely long-term incentive awards. They were dilutive for the three months and six months ended September 30, 2017 and September 30, 2016.

	3 months ended September 30, 2017	6 months ended September 30, 2017	3 months ended September 30, 2016	6 months ended September 30, 2016
Weighted average number of ordinary shares in issue for calculation of basic earnings per share	11,017,492,137	10,983,519,420	11,026,274,715	11,038,445,523
Adjustment for long-term incentive awards	32,228	357,590	21,506,890	29,300,678
	<hr/>	<hr/>	<hr/>	<hr/>
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	11,017,524,365	10,983,877,010	11,047,781,605	11,067,746,201
	<hr/>	<hr/>	<hr/>	<hr/>
	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>	<i>US\$'000</i>
Profit attributable to equity holders of the Company used to determine diluted earnings per share	139,042	66,752	156,835	329,782
	<hr/>	<hr/>	<hr/>	<hr/>

For the adjustment for dilutive potential ordinary shares of long-term incentive awards, a calculation is performed to determine whether the long-term incentive awards are dilutive, and the number of shares that are deemed to be issued.

There is no adjustment to profit attributable to equity holders of the Company used for the calculation of diluted earnings per share.

8 Dividend

	6 months ended September 30, 2017 US\$'000	6 months ended September 30, 2016 US\$'000
Interim dividend, declared after period end – HK6.0 cents (2016/17: HK6.0 cents) per ordinary share	85,434	85,948
	<hr/>	<hr/>

9 Ageing analysis

- (a) Customers are generally granted credit term ranging from 0 to 120 days. Ageing analysis of trade receivables of the Group at the balance sheet date, based on invoice date, is as follows:

	September 30, 2017 <i>US\$'000</i>	March 31, 2017 <i>US\$'000</i>
0 – 30 days	3,363,995	2,923,083
31 – 60 days	1,226,439	985,251
61 – 90 days	394,362	283,050
Over 90 days	417,041	381,387
	<hr/>	<hr/>
	5,401,837	4,572,771
Less: provision for impairment	(117,770)	(104,379)
	<hr/>	<hr/>
Trade receivables – net	<u>5,284,067</u>	<u>4,468,392</u>

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

	September 30, 2017 <i>US\$'000</i>	March 31, 2017 <i>US\$'000</i>
0 – 30 days	4,203,576	3,497,382
31 – 60 days	1,774,166	1,098,575
61 – 90 days	939,920	846,804
Over 90 days	322,410	207,164
	<hr/>	<hr/>
	7,240,072	5,649,925
	<hr/>	<hr/>

10 Deposits, prepayments and other receivables

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

	September 30, 2017 <i>US\$'000</i>	March 31, 2017 <i>US\$'000</i>
Deposits	17,971	19,018
Other receivables	4,253,456	3,326,928
Prepayments	1,334,367	987,405
	<hr/>	<hr/>
	<u>5,605,794</u>	<u>4,333,351</u>

Majority of other receivables of the Group are amounts due from subcontractors for parts components sold in the ordinary course of business.

11 Provisions, other payables and accruals

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

	September 30, 2017 <i>US\$'000</i>	March 31, 2017 <i>US\$'000</i>
Accruals	1,945,143	2,066,687
Allowance for billing adjustments (i)	1,670,709	1,611,495
Deferred consideration (ii)	-	686,301
Written put option liability (iii)	224,813	223,703
Other payables (iv)	6,386,741	5,416,428
	<u>10,227,406</u>	<u>10,004,614</u>

Notes:

- (i) Allowance for billing adjustments relates primarily to allowances for future volume discounts, price protection, rebates, and customer sales returns.
- (ii) Pursuant to the completion of business combination, the Group is required to pay in cash to Google Inc. deferred consideration. Accordingly, current and non-current liabilities in respect of the present value of deferred consideration has been recognized. Deferred consideration is subsequently measured at amortized cost. The remaining deferred consideration to Google Inc. has been settled during the period.
- (iii) Pursuant to the joint venture agreement entered into between the Company and Compal Electronics, Inc. ("Compal") to establish a joint venture company ("JV Co") to manufacture notebook computer products and related parts, the Company and Compal are respectively granted call and put options which entitle the Company to purchase from Compal and Compal to sell to the Company the 49% Compal's interests in the JV Co. The call and put options will be exercisable at any time after October 1, 2019 and October 1, 2017 respectively. The exercise price for the call and put options will be determined in accordance with the joint venture agreement, and up to a maximum of US\$750 million.

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

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

- (iv) Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors.
- (v) The carrying amounts of other payables and accruals approximate their fair values.

(b) The components of provisions are as follows:

	Warranty <i>US\$'000</i>	Environmental restoration <i>US\$'000</i>	Restructuring <i>US\$'000</i>	Total <i>US\$'000</i>
Year ended March 31, 2017				
At the beginning of the year	1,322,267	8,817	123,103	1,454,187
Exchange adjustment	(16,316)	308	154	(15,854)
Provisions made	736,693	9,442	150,470	896,605
Amounts utilized	(980,738)	(10,177)	(184,075)	(1,174,990)
	<u>1,061,906</u>	<u>8,390</u>	<u>89,652</u>	<u>1,159,948</u>
Long-term portion classified as non-current liabilities	(280,421)	(6,122)	-	(286,543)
At the end of the year	<u><u>781,485</u></u>	<u><u>2,268</u></u>	<u><u>89,652</u></u>	<u><u>873,405</u></u>
Period ended September 30, 2017				
At the beginning of the period	1,061,906	8,390	89,652	1,159,948
Exchange adjustment	10,396	156	2,028	12,580
Provisions made	431,189	4,416	-	435,605
Amounts utilized	(459,948)	(3,347)	(44,712)	(508,007)
	<u>1,043,543</u>	<u>9,615</u>	<u>46,968</u>	<u>1,100,126</u>
Long-term portion classified as non-current liabilities	(264,612)	(6,514)	-	(271,126)
At the end of the period	<u><u>778,931</u></u>	<u><u>3,101</u></u>	<u><u>46,968</u></u>	<u><u>829,000</u></u>

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

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

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

12 Other non-current liabilities

Details of other non-current liabilities are as follows:

	September 30, 2017 <i>US\$'000</i>	March 31, 2017 <i>US\$'000</i>
Deferred consideration (a)	25,072	25,072
Environmental restoration (Note 11(b))	6,514	6,122
Government incentives and grants received in advance (b)	69,361	95,774
Deferred rent liabilities	98,593	102,756
Others	153,922	150,833
	<u>353,462</u>	<u>380,557</u>

- (a) Pursuant to the completion of business combination, the Group is required to pay in cash to NEC Corporation deferred consideration. Accordingly, current and non-current liabilities in respect of the present value of deferred consideration has been recognized. Deferred consideration is subsequently measured at amortized cost.

As at September 30, 2017, the potential undiscounted amounts of future payments in respect of the deferred consideration that the Group could be required to make to NEC Corporation under the arrangements is US\$25 million.

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

13 Borrowings

	September 30, 2017 US\$'000	March 31, 2017 US\$'000
Current liabilities		
Short-term loans (i)	<u>70,041</u>	<u>70,003</u>
Non-current liabilities		
Term loan (ii)	-	397,687
Notes (iii)	<u>2,591,264</u>	<u>2,569,005</u>
	<u>2,591,264</u>	<u>2,966,692</u>
	<u>2,661,305</u>	<u>3,036,695</u>

- (i) The majority of the short-term bank loans are denominated in United States dollar. As at September 30, 2017, the Group has total revolving and short-term loan facilities of US\$1,796 million (March 31, 2017: US\$1,393 million) which has been utilized to the extent of US\$70 million (March 31, 2017: US\$70 million).
- (ii) As at March 31, 2017, term loan comprised a US\$1,200 million 5-year loan facility (comprising US\$800 million short term) entered into in December 2013. The term loan was prepaid as at September 30, 2017 (March 31, 2017: US\$400 million).

(iii) Issue date	Principal amount	Term	Interest rate per annum	Due date	September 30, 2017	March 31, 2017
					US\$'000	US\$'000
May 8, 2014	US\$1.5 billion	5 years	4.7%	May 2019	1,496,217	1,495,081
June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	598,845	578,103
March 16, 2017	US\$500 million	5 years	3.875%	March 2022	496,202	495,821
					<u>2,591,264</u>	<u>2,569,005</u>

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at September 30, 2017 and March 31, 2017 are as follows:

	September 30, 2017 <i>US\$'000</i>	March 31, 2017 <i>US\$'000</i>
Within 1 year	70,041	70,003
Over 1 to 3 years	2,095,062	1,892,768
Over 3 to 5 years	496,202	1,073,924
	<u>2,661,305</u>	<u>3,036,695</u>

14 Share capital

	September 30, 2017		March 31, 2017	
	<i>Number of shares</i>	<i>US\$'000</i>	<i>Number of shares</i>	<i>US\$'000</i>
<i>Issued and fully paid:</i>				
Voting ordinary shares:				
At the beginning and end of the period/year	<u>11,108,654,724</u>	<u>2,689,882</u>	<u>11,108,654,724</u>	<u>2,689,882</u>

15 Perpetual securities

In March 2017, the Group issued a total of US\$850 million perpetual securities through its wholly owned subsidiary, Lenovo Perpetual Securities Limited (“the issuer”). The net proceed amounted to approximately US\$842 million. The securities are perpetual, non-callable in the first 5 years and entitle the holders to receive distributions at a distribution rate of 5.375% per annum in the first 5 years, floating thereafter and with a fixed step up margin, payable semi-annually in arrears, cumulative and compounding. The distributions are at the Group’s discretion, if the issuer and the Company, as guarantor of the securities, do not (a) declare or pay dividends to their shareholders or (b) cancel or reduce their share capital within each distribution payment period. As the perpetual securities do not contain any contractual obligation to pay cash or other financial assets, in accordance with HKAS 32, they are classified as equity and for accounting purpose regarded as part of non-controlling interests.

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

16 Reconciliation of (loss)/profit before taxation to net cash generated from operations

	6 months ended September 30, 2017 US\$'000	6 months ended September 30, 2016 US\$'000
(Loss)/profit before taxation	(33,915)	373,404
Share of losses/(profits) of associates and joint ventures	1,570	(12,519)
Finance income	(17,659)	(11,603)
Finance costs	131,574	111,208
Depreciation of property, plant and equipment and amortization of prepaid lease payments	124,905	139,220
Amortization of intangible assets	230,225	245,086
Share-based compensation	98,340	80,363
Impairment of property, plant and equipment	4,608	-
Loss/(gain) on disposal of property, plant and equipment and prepaid lease payments	4,560	(335,478)
Net gain on disposal of available-for-sale financial assets	(15)	(11,575)
Loss on disposal of intangible assets	33	417
Dividend income	-	(46)
Fair value change on financial instruments	(2,532)	(30,417)
Increase in inventories	(805,955)	(245,458)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	(2,218,962)	(1,236,075)
Increase in trade payables, notes payable, provisions, other payables and accruals	2,718,388	2,713,816
Effect of foreign exchange rate changes	(143,012)	32,468
Net cash generated from operations	<u>92,153</u>	<u>1,812,811</u>

17 Non-adjusting post balance sheet event

On September 29, 2017, pursuant to the subscription agreement entered into by the Company and Union Star Limited (“the Subscriber”), the Company has conditionally agreed to allot and issue 906,136,890 shares at price of HK\$4.31 (“the subscription”) and issue 90,613,689 units of bonus warrants at exercise price of HK\$5.17, to the Subscriber. The gross proceeds from the share subscription are expected to be HK\$3,905,450,000. Upon certain changes in the shareholding of the Subscriber immediately before or after the subscription, 32% of the Subscriber will be indirectly held by Legend Holdings Corporation (through Legion Elite Limited) and 68% of the Subscriber will be indirectly held by senior management of the Group.

The subscription and issuance of bonus warrants are expected to increase the total number of shares in issue of the Company (“the Company’s shares”). Shares from the subscription represent (i) approximately 8.16% of the Company’s shares and (ii) approximately 7.54% of the Company’s shares as enlarged by the subscription (assuming that there will not be any other changes in the total number of Shares in issue of the Company between the date of this announcement and the Completion Date). The exercise in full of the subscription rights attaching to the bonus warrants will result in the issue of 90,613,689 shares which represent (i) approximately 0.75% of the Company’s shares as enlarged by the subscription and (ii) approximately 0.75% of the Company’s shares as enlarged by the subscription and the full exercise of the bonus warrants (assuming there will be no other changes in the Company’s shares).

The subscription and issuance of bonus warrants are conditional upon fulfillment of certain conditions, including the approvals from the independent shareholders to be obtained in the forthcoming general meeting of the Company on November 10, 2017 and the listing committee of the Stock Exchange.

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

During the six months ended September 30, 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the respective trustee of the long-term incentive program and the employee share purchase plan of the Company purchased a total of 31,788,925 shares from the market for award to employees upon vesting. Details of these program and plan are set out in the 2016/17 annual report of the Company.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the unaudited interim results of the Group for the six months ended September 30, 2017. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended September 30, 2017, in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with the exception that the roles of the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "CEO") have not been segregated as required by code provision A.2.1 of the CG Code.

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

The Board also appointed Mr. William O. Grabe as the lead independent director (the "Lead Independent Director") with broad authority and responsibility. Among other responsibilities, the Lead Independent Director will chair the Nomination and Governance Committee meeting and/or the Board meeting when considering (i) the combined roles of Chairman and CEO; and (ii) assessment of the performance of

Chairman and/or CEO. The Lead Independent Director will also call and chair meeting(s) with all independent non-executive directors without management and executive director present at least once a year on such matters as are deemed appropriate. Accordingly, the Board believes that the current Board structure with combined roles of Chairman and CEO, the appointment of Lead Independent Director and a vast majority of independent non-executive directors will provide an effective balance on power and authorizations between the Board and the management of the Company.

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

November 2, 2017

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 Dr. Tian Suning, Mr. Nicholas C. Allen, Mr. Nobuyuki Idei, Mr. William O. Grabe, Mr. William Tudor Brown, Ms. Ma Xuezheng, Mr. Yang Chih-Yuan Jerry and Mr. Gordon Robert Halyburton Orr.