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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 THIRD QUARTER RESULTS ANNOUNCEMENT

QUARTERLY RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") announces the unaudited results of the Company and its subsidiaries (the "Group") for the three and nine months ended December 31, 2017 together with comparative figures for the corresponding period of last year, as follows:

THIRD QUARTER FINANCIAL HIGHLIGHTS

- Group revenue of US$12.9B, up 6% YTY
- Group profit before taxation of US$150M and Group loss attributable to equity holders of the Company of US$289M
- Well executed 3-wave strategy led to pre-tax profitability growth and highest revenue in 3 years
- 1st wave in PC continued to remain strong with leading profitability and premium to market revenue growth
- Data Center achieved year-on-year double-digit revenue growth, while transformation continued in Mobile business with strength in targeted markets
- Delivering category-defining innovation as part of 3rd wave strategy
- Completed an issuance of ordinary shares with net cash proceeds of US$496M to strengthen capital structure

	3 months ended December 31, 2017 (unaudited) *US$'million*	9 months ended December 31, 2017 (unaudited) *US$'million*	3 months ended December 31, 2016 (unaudited) *US$'million*	9 months ended December 31, 2016 (unaudited) *US$'million*	Year-on-year change 3 months ended December 31	Year-on-year change 9 months ended December 31
Revenue	12,939	34,712	12,169	33,456	6%	4%
Gross profit	1,751	4,728	1,595	4,737	10%	(0)%
Gross profit margin	13.5%	13.6%	13.1%	14.2%	0.4pts	(0.6)pts
Operating expenses	(1,547)	(4,442)	(1,457)	(4,139)	6%	7%
Operating profit	204	286	138	598	48%	(52)%
Other non-operating expenses - net	(54)	(170)	(37)	(123)	48%	37%
Profit before taxation	150	116	101	475	48%	(75)%
(Loss)/profit for the period	(275)	(175)	107	427	N/A	N/A
(Loss)/profit attributable to equity holders of the Company	(289)	(222)	98	428	N/A	N/A
(Loss)/earnings per share attributable to equity holders of the Company						
Basic	US (2.53) cents	US (1.99) cents	US 0.90 cents	US 3.88 cents	N/A	N/A
Diluted	US (2.53) cents	US (1.99) cents	US 0.90 cents	US 3.88 cents	N/A	N/A

BUSINESS REVIEW AND OUTLOOK

Business Review

During the three months ended December 31, 2017, the Group delivered solid results with both revenue and profit improvement guided by its 3-wave strategy. The strong revenue growth from its first wave PC and second wave Data Center led to Group revenue returning to the highest level since 3QFY15 while also delivering operational profit improvement both year-on-year and quarter-on-quarter. The first wave PC business continued to deliver solid profitability and cash flow to the Group, which in turn fueled the growth needs of the second wave in Data Center and Mobile businesses. The second wave Data Center business has also demonstrated an encouraging improvement in its transformation during the quarter under review, while its Mobile business continued to maintain its strong position in Latin America and its progress in channel expansion in selective mature markets. The Group's Capital and Incubator Group continued to invest in AI (Artificial Intelligence), internet of things, big data, and VR/AR (virtual reality/augmented reality) to support its Device + Cloud strategy, through which these added capabilities will both develop new businesses and strengthen existing ones.

During the period under review, Lenovo delivered solid revenue performance in its PC and Smart Device business while improving its profitability quarter-on-quarter, balancing between growth and profitability. Furthermore, the Group has launched its first Augmented Reality device – "Star Wars: Jedi Challenge" – during the quarter and received initial success. This demonstrated the value of the Group's previous investment in the third wave of "Device + Cloud" and "Infrastructure + Cloud" strategy to capture next generation opportunities offered by new technologies. For the Data Center business, the Group delivered strong revenue growth with profitability improvement during the quarter which demonstrated its solid execution of its transformation strategy. However, the higher costs from component price increases and the Group's brand transition in emerging areas in EMEA has limited its Mobile business' improvement in fiscal quarter three.

For the three months ended December 31, 2017, the Group's consolidated revenue grew 6 percent year-on-year to US$12,939 million. Revenue of the Group's PC and Smart Device business was US$9,250 million, representing a year-on-year increase of 8 percent. Revenue of the Data Center business increased 17 percent year-on-year to US$1,225 million. Revenue of the Mobile business decreased 5 percent year-on-year to US$2,076 million. Meanwhile, revenue of other goods and services was US$387 million.

For the three months ended December 31, 2017, the Group's gross profit was US$1,751 million, an increase of 10 percent year-on-year, while gross margin increased by 0.4 percentage point year-on-year to 13.5 percent, thanks to the product mix improvement from both PCSD and Data Center businesses. Operating expenses increased by 6 percent year-on-year to US$1,547 million, and the expense-to-revenue ratio was 12.0 percent, flat year-on-year. The increase in expenses was along with the improved business momentum year-on-year. Group's profit before taxation was US$150 million. Excluding the disposal gains from its properties in Wuhan of US$61 million, severance expenses of US$61 million, and non-cash M&A accounting charges of US$62 million, the Group's operational profit before taxation was US$212 million, representing 22 percent improved from US$174 million a year ago and 116 percent from US$98 million a quarter ago. With the US Tax reform legislation announced during the quarter by the US government, the Group has recorded a one-time non-cash write-off of US$400 million of deferred income tax assets during the quarter and hence it resulted a loss attributable to equity holders of US$289 million against a US$98 million profit recorded in the same period the previous year. The Group views however that the lower tax rate in the US will benefit its operations there over time.

Performance of Product Business Groups

During the three months ended December 31, 2017, Lenovo continued to balance between growth and profitability in its PC and Smart Device business, while transforming its Data Center and Mobile businesses to develop a solid foundation for long-term sustainable growth and developing its AI capabilities.

PC and Smart Device Business Group (PCSD)

During the three months under review, the PC market continued to show signs of stabilization thanks to continued commercial refresh and improved consumer demand in selective regions. The Group has continued its strategy to prioritize its profit and drive premium-to-market revenue growth in its PC business, thereby focusing on driving its product mix and average selling price improvement. As a result, the Group achieved solid revenue growth in PCSD while improved its profitability quarter-on-quarter during the period under review. Meanwhile, the Group continued to record another strong, double-digit growth in Workstation and Gaming PC segments in the period under review. The Group has also had good initial progress in shipping its new Smart Device, the AR product "Star Wars: Jedi Challenge," after its release during the quarter.

During the three months under review, Lenovo continued its strategy of focusing on driving the product mix and increasing the average selling price to mitigate challenges from higher component prices, resulting in flat shipment growth and market share dropping 0.2 percentage point year-on-year to 22.2 percent.

For the three months ended December 31, 2017, revenue of the Group's PCSD business was US$9,250 million, representing approximately 72 percent of the Group's total revenue, an increase of 8 percent year-on-year. PCSD revenue growth exceeded shipments growth on better average selling price driven by innovative products and better product mix. The business group recorded a pre-tax profit of US$416 million, up 13 percent quarter-on-quarter thanks to stronger revenue momentum, but down 3 percent year-on-year mainly due to the higher costs from the increased component prices during the year. Pre-tax profit margin was 4.5 percent, up 0.1 percentage point quarter-on-quarter, but down 0.5 percentage point year-on-year.

Data Center Business Group (DCG)

The Group's previous investments and implementation of its transformation plan, including investments in building sales capability, strengthening the channel and product solution capabilities, started to bring momentum to the business during the quarter under review. As a result of these efforts, the Group started to deliver stronger revenue growth and improve its profitability across the board. It has recorded its highest quarterly revenue level in the last two years' time during the quarter under review.

In the Enterprise segment, the Group attained 88 new world record workload benchmarks on its ThinkSystems and ThinkAgile portfolio, the most in the industry. The Group also continued to maintain its worldwide number one ranking in x86 server reliability and customer satisfaction according to the latest industry surveys from ITIC and TBR Study. In the High Performance Computing (HPC) segment, the Group continues its success and delivered project wins across different regions and remained as number 2 on the HPC Top 500 List, and number 1 in China. Shortly after Intel Purley launch, the Group showed its fast time-to-market ability as it has already begun volume shipping its next generation Intel Xeon products. Lenovo also installed the largest supercomputer in Europe with Lenovo's 3rd generation water-cooling technology and Intel platform at Leibniz Supercomputer Center in Germany. In the Hyperscale segment, the Group won 6 of the top 10 worldwide Hyperscalers thanks to its recent design wins supported by its unique in-house design and manufacturing capabilities. In the Software-defined segment, the Group continued to leverage different strategic partnerships bringing next-generation IT solutions to customers in growing its business rapidly.

For the three months ended December 31, 2017, revenue of the Data Center business was US$1,225 million, increasing 17 percent year-on-year and 26 percent quarter-on-quarter, and representing approximately 9 percent of the Group's total revenue. Thanks to the strong revenue performance, the Group's Data Center business hence reduced its losses and recorded an operational loss before taxation of US$56 million, if excluding the non-cash M&A related accounting charges during the three months, which narrowed from a US$100 million loss in previous quarter and a US$94 million loss a year ago.

Mobile Business Group (MBG)

The Group's Mobile business continued its solid performance in Latin America, which achieved a 24 percent year-on-year shipments growth with 3.3 percentage points market share gained to a market share of 15.9 percent, according to industry estimates, while further reduced its losses quarter-on-quarter. Shipments in North America grew 85 percent year-on-year driven by initial success in mainstream models with carrier expansion during the quarter under review, though more work is needed to sharpen competitiveness in the high-end segment. However, profitability only showed limited improvement, impacted mainly by higher component costs.

A slower brand transition in emerging areas in EMEA and the severe competition in Asia Pacific emerging markets had impacted its overall shipments performance for the period under review. Thus the Group's worldwide smartphone shipments for the period declined by 18 percent year-on-year. In China, the Group continued to refine its product strategy to fit the local market for future growth.

Mobile business revenue was US$2,076 million, representing approximately 16 percent of the Group's total revenue, decreasing 5 percent year-on-year for the three months ended December 31, 2017. Owing to better expenses control, the Group profitability level slightly improved quarter-to-quarter while increased key component costs continued to exert operational pressure year-on-year during the period under review. Operational loss before taxation for the period under review was US$92 million if excluding non-cash M&A related accounting charges.

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 made progress in expanding its ecosystem with LenovoID users reaching 293 million cumulative users as of the period end, up from 265 million at the end of fiscal quarter two. Non-device revenue also reached US$426 million as of the period end.

During the period under review, 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 established an AI Lab in March 2017, and quickly ramped up the staff to build AI ecosystem capabilities, and has since set up core AI technologies in voice recognition, language understanding, machine learning, computer vision and data analytics.

Revenue from the LCIG, and other products such as consumer electronic businesses from previous acquisitions was US$388 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 period under review.

China

China accounted for 27 percent of the Group's total revenue. The Group continued its focuses on improving the product mix and average selling price performance to protect profitability, in light of a moderately declining market during the quarter under review. The Group's innovative products including ultra slim design and gaming products also drove growth in the consumer business. Therefore the Group's revenue performance showed solid improvement quarter-on-quarter and held up year-on year. The Group's China PC volume continued to rank as the strong number 1 with 40.1 percent market share in the period.

In Data Center business, the Group's transformation actions in the previous quarters, including investing in sales capabilities, strengthening the channel and product solution capabilities to improve the product mix, showed encouraging signs of improvement during the quarter under review. It resumed revenue growth in both quarter-to-quarter and year-on-year while improving profitability.

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 year-on-year while focusing on refining its strategy.

With the PCSD business regaining momentum and the encouraging progress from the transformation of the Data Center business quarter-on-quarter, the Group recorded a pre-tax profit of US$204 million and a pre-tax profit margin of 5.7 percent, showing both quarter-on-quarter and year-on-year improvement.

Americas (AG)

Americas accounted for 31 percent of the Group's total revenue. The Group focuses on balancing between growth and profitability in its PCSD business in which its revenue grew faster than its shipment volume in AG during the period, driven by improvement in the product mix to protect profitability. The Group's PC market share decreased by 1.6 percentage points year-on-year to 13.6 percent for the period. However the Group continued to see strength in Latin American with a record high market share of 20.0 percent.

The Group's Data Center business continued to show positive momentum and its revenue grew by double digits year-on-year for the three months under review, demonstrating the effectiveness of its previous transformation efforts. The Group has also continued to build its strength across different segments including the High Performance Computing, Software Defined, and Hyperscale segments.

The Group's Moto brand smartphones continued to show strong growth in Latin America and enjoyed premium brand image during the period. In North America, the Group continues its efforts on expanding its carrier channel to major U.S. telco partners in fiscal quarter three, and saw strong growth in shipments. Its mainstream products such as Moto G and Moto E continued to deliver strong volume across the region. As a result, the Group's smartphone shipments grew 36 percent year on-year, outpacing the market growth. Nevertheless, the planned breakthrough in the high-end smartphone segment has yet to come, hence limiting the contribution to the profit to the North America market in the period under review.

The Group recorded a profit before taxation of US$26 million in the region and its pre-tax profit margin was 0.7 percent, against 1.1 percent same period a year ago, mainly due to the slower progress in its breakthrough in mid-high end smartphone market.

Asia Pacific (AP)

Asia Pacific accounted for 14 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 period, driven by targeted growth in certain growth areas. The Group maintained its double-digit growth in the PC market for the second consecutive quarter with market share of 17.6 percent in the period.

The Group's transformation of its Data Center business started to bring stronger revenue performance while also improving profitability during the period under review thanks to its previous investments in enhancing capabilities in sales, channel, and product solutions.

The Group's smartphone business in the region faced fierce competition during the period, hence the Group continues its focuses on protecting margin performance. As such, the Group saw smartphone shipments decline and share loss in fiscal quarter three.

Loss before taxation was US$60 million and pre-tax profit margin was negative 3.3 percent, against from negative 2.4 percent in the same period previous year, mainly due to the transformation of both Data Center and smartphone businesses.

Europe-Middle East-Africa (EMEA)

EMEA accounted for 28 percent of the Group's total revenue. During the period under review, the Group saw its PC business in EMEA gaining positive momentum with margin expansion owing to its continued solid performance in Western Europe. Its PC unit shipments grew 2 percent year-on-year, and reached a record market share at 21.2 percent.

The Group's Data Center business continued its strong momentum, growing revenue while further improving profitability during the quarter under review. The Group had its largest Supercomputer project wins in Europe in Germany and further expands its High Performance Computer business footprint to several other mature countries in the region.

The Group's smartphone business continued to successfully breakthrough in the Western Europe market during the period. Its smartphone shipments from Moto brand continue to grow quarter-on-quarter in Western Europe, outpacing the market growth during the three months period. However, shipments for the entire EMEA region were down year-on-year largely due to its slower branding transition in the emerging areas of the region.

The Group incurred US$11 million loss before taxation in EMEA during the three months under review, leading to a pre-tax profit margin of negative 0.3 percent, improved from negative 3.0 percent during the same period in the previous financial year thanks to the improvement from both PCSD and Data Center businesses.

Outlook

The Group's transformation continued to show positive results during the period, and it now has a clear vision from the 3-wave strategy to drive sustainable, profitable growth going forward. Although the markets the Group participates in are fiercely competitive, management is confident in its ability to successfully execute our strategy and weather the competition. Management will accomplish this by leveraging its excellence in branding, operation efficiency and supply chain management.

In the PCSD business, the Group will continue to prioritize its profitability and drive premium-to-market revenue growth in its core PC business. Lenovo will leverage industry consolidation opportunities, and drive growth in different segments such as convertibles, gaming PCs, and workstations. At the same time, the Group's iconic commercial brand, ThinkPad, that just celebrated its 25th anniversary with 125 million units shipped since its launch, will continue to drive growth during the ongoing commercial PC refresh. In the Smart Device segment, Lenovo has been investing in improving user experiences and building capabilities in Device + Cloud, and its product development is now entering the go-to-market phase to bring more innovative ideas and products including AR devices and smart devices to the market, helping ensure its sustainable, profitable growth for the Group.

At the recent CES event in Las Vegas, Lenovo announced a series of innovative products across PC, Smart Home devices, and AR/VR products to demonstrate our innovation capability. Overall, Lenovo won a record 80 awards. In PC, the always on, always connected Miix 630 2-in-1 detachable gives you the mobility of a smartphone with LTE and up to 20 hours of battery local video playback with the full performance and the productivity. In AR/VR, the Mirage Solo with Google's Daydream technology headset, Mirage Camera VR180 with Daydream allowing VR-curious crowds to consume and create VR content seamlessly. The Lenovo Smart Display that has the Google Assistant built-in can bring users a more personalized, convenient and shared technology experience at home. The Group will continue to launch more AI enabled device in the coming several quarters to grow its ecosystem of smart devices.

In the Data Center business, the Group has executed its transformation strategy, and as a result the business is starting to see positive momentum across the board. And most recently in China, the Group has seen signs of stabilization in fiscal quarter three, after its actions to enhance the end-to-end organizational structure and refine the overall strategy to balance between growth and profitability. The Group expects its China business to continue to improve as it leverages its operational excellence in the cloud business. The Group will continue to build on its solid foundation with its strong organizational structure and product portfolio, while also enhancing its sales capabilities, strengthening channel management, and driving 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 its history under the ThinkSystem and ThinkAgile brands to drive profitable growth in the future, coupled with the fast time-to-market product rollout, industry-leading product reliability and the increasingly capable sales force.

In the Mobile business, the Group will leverage the "Different is Better" brand ethos to highlight the different value proposition of its higher value product portfolio. 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 fine tune its product strategy to fit local market demand and focus on profitability; while continuing to leverage the strong brand image in Latin America and protect its solid position there. In the mid to high price smartphone segment, Lenovo needs to continue to build competitiveness to enable a breakthrough and to fully execute its strategy for profitable growth. The Group will continue to adopt a more nimble strategy to promote its products and drive future growth for the Group.

The Group is committed to investing 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 to strengthen its supercomputer, edge computing, and cloud computing capabilities. Just recently, Thomson Reuters has named Lenovo a Top 100 Global Tech Leader in 2018 for its outstanding performance in the areas of innovation, environmental impact and corporate social responsibility, demonstrating Lenovo's innovation capabilities and focus on sustainability.

Looking forward, 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 nine months ended December 31, 2017

	9 months ended December 31, 2017 (unaudited) ***US$'million***	9 months ended December 31, 2016 (unaudited) *US$'million*	Year-on-year change
Revenue	**34,712**	33,456	4%
Gross profit	**4,728**	4,737	(0)%
Gross profit margin	**13.6%**	14.2%	(0.6)pts
Operating expenses	**(4,442)**	(4,139)	7%
Operating profit	**286**	598	(52)%
Other non-operating expenses – net	**(170)**	(123)	37%
Profit before taxation	**116**	475	(75)%
(Loss)/profit for the period	**(175)**	427	N/A
(Loss)/profit attributable to equity holders of the Company	**(222)**	428	N/A
(Loss)/earnings per share attributable to equity holders of the Company			
Basic	**US (1.99) cents**	US 3.88 cents	N/A
Diluted	**US (1.99) cents**	US 3.88 cents	N/A

For the nine months ended December 31, 2017, the Group achieved total sales of approximately US$34,712 million. Loss attributable to equity holders for the period was approximately US$222 million, as compared with profit attributable to equity holders of US$428 million reported in the corresponding period of last year. This is mainly attributable to the write off of deferred income tax assets of US$400 million, pursuant to the Tax Cuts and Jobs Act enacted by the government of the United States ("US") on December 22, 2017, with the US corporate tax rate reduced for tax years beginning after December 31, 2017. Gross profit margin for the period was 0.6 points down from 14.2 percent reported in the corresponding period of last year. Basic and diluted loss per share were US1.99 cents, as compared with basic and diluted earnings per share of US3.88 cents reported in 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:

	9 months ended December 31, 2017 ***US$'000***	9 months ended December 31, 2016 *US$'000*
China	**9,083,649**	9,514,093
AP	**5,416,097**	5,278,216
EMEA	**9,434,617**	8,563,349
AG	**10,777,271**	10,100,374
	34,711,634	33,456,032

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

Operating expenses analyzed by function for the nine months ended December 31, 2017 and 2016 are as follows:

	9 months ended December 31, 2017 *US$'000*	9 months ended December 31, 2016 *US$'000*
Other income – net	**301**	10,616
Selling and distribution expenses	**(2,201,641)**	(2,022,356)
Administrative expenses	**(1,300,804)**	(1,342,544)
Research and development expenses	**(946,900)**	(1,023,019)
Other operating income – net	**6,910**	238,780
	(4,442,134)	(4,138,523)

Operating expenses for the period increased by 7 percent as compared with the corresponding period of last year. During the period, the Group announced resource actions and incurred US$61 million severance costs to further enhance efficiency and competitiveness in view of industrial challenges; and recorded gain of US$61 million on monetizing the Wuhan R&D property. During the corresponding period of last year, the Group incurred US$136 million severance costs; and recorded gain of US$335 million on monetizing certain non-core assets. The Group has increased the advertising and promotional expenses by US$31 million during the period. 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$39 million (2016/17: US$73 million) for the period. Key expenses by nature comprise:

	9 months ended December 31, 2017 *US$'000*	9 months ended December 31, 2016 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(111,088)**	(118,099)
Amortization of intangible assets	**(327,055)**	(328,332)
Employee benefit costs, including	**(2,372,322)**	(2,375,789)
-long-term incentive awards	***(147,580)***	*(135,389)*
-severance and related costs	***(61,497)***	*(135,977)*
Rental expenses under operating leases	**(98,406)**	(90,737)
Net foreign exchange loss	**(38,861)**	(72,666)
Advertising and promotional expenses	**(720,867)**	(689,536)
Gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**53,196**	334,393
Others	**(826,731)**	(797,757)
	(4,442,134)	(4,138,523)

Other non-operating expenses (net) for the nine months ended December 31, 2017 and 2016 comprise:

	9 months ended December 31, 2017 *US$'000*	9 months ended December 31, 2016 *US$'000*
Finance income	**24,568**	17,725
Finance costs	**(191,339)**	(164,239)
Share of (losses)/profits of associates and joint ventures	**(2,896)**	22,766
	(169,667)	(123,748)

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 17 percent as compared with the corresponding period of last year. This is mainly attributable to the interest expense of US$15 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$29 million, partly offset by the decrease in interest on promissory note issued to Google Inc. of US$19 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.

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

	3 months ended December 31, 2017 (unaudited) ***US$'million***	3 months ended December 31, 2016 (unaudited) *US$'million*	Year-on-year change
Revenue	**12,939**	12,169	6%
Gross profit	**1,751**	1,595	10%
Gross profit margin	**13.5%**	13.1%	0.4pts
Operating expenses	**(1,547)**	(1,457)	6%
Operating profit	**204**	138	48%
Other non-operating expenses – net	**(54)**	(37)	48%
Profit before taxation	**150**	101	48%
(Loss)/profit for the period	**(275)**	107	N/A
(Loss)/profit attributable to equity holders of the Company	**(289)**	98	N/A
(Loss)/earnings per share attributable to equity holders of the Company			
Basic	**US (2.53) cents**	US 0.90 cents	N/A
Diluted	**US (2.53) cents**	US 0.90 cents	N/A

For the three months ended December 31, 2017, the Group achieved total sales of approximately US$12,939 million. Loss attributable to equity holders for the period was approximately US$289 million, as compared with profit attributable to equity holders of US$98 million reported in the corresponding period of last year. This is mainly attributable to the write off of deferred income tax assets of US$400 million, pursuant to the Tax Cuts and Jobs Act enacted by the government of the US on December 22, 2017, with the US corporate tax rate reduced for tax years beginning after December 31, 2017. Gross profit margin for the period was 0.4 points increase from 13.1 percent reported in the corresponding period of last year. Basic and diluted loss per share were US2.53 cents, as compared with basic and diluted earnings per share of US0.90 cents reported in the corresponding period of last year.

Sales by geographical segment are as follows:

	3 months ended December 31, 2017 ***US$'000***	3 months ended December 31, 2016 *US$'000*
China	**3,550,124**	3,463,960
AP	**1,815,548**	1,701,710
EMEA	**3,580,001**	3,358,904
AG	**3,992,859**	3,644,171
	12,938,532	12,168,745

Operating expenses analyzed by function for the three months ended December 31, 2017 and 2016 are as follows:

	3 months ended December 31, 2017 *US$'000*	3 months ended December 31, 2016 *US$'000*
Other income/(loss) – net	**286**	(1,005)
Selling and distribution expenses	**(740,970)**	(726,669)
Administrative expenses	**(452,967)**	(445,775)
Research and development expenses	**(344,402)**	(318,445)
Other operating (expenses)/income – net	**(8,517)**	34,610
	(1,546,570)	(1,457,284)

Operating expenses for the period increased by 6 percent as compared with the corresponding period of last year. During the period, the Group announced resource actions and incurred US$61 million severance costs to further enhance efficiency and competitiveness in view of industrial challenges; and recorded gain of US$61 million on monetizing the Wuhan R&D property. The increase in operating expenses is mainly attributable to the increase in employee benefit costs (excluding severance and related costs) of US$42 million and other expenses. The Group recorded a net exchange loss of US$26 million (2016/17: US$30 million) for the period. Key expenses by nature comprise:

	3 months ended December 31, 2017 *US$'000*	3 months ended December 31, 2016 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(37,370)**	(38,443)
Amortization of intangible assets	**(115,544)**	(104,419)
Employee benefit costs, including	**(851,767)**	(747,951)
-long-term incentive awards	***(49,241)***	*(55,026)*
-severance and related costs	***(61,497)***	-
Rental expenses under operating leases	**(31,322)**	(38,945)
Net foreign exchange loss	**(25,514)**	(29,691)
Advertising and promotional expenses	**(242,525)**	(267,134)
Gain/(loss) on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**57,756**	(1,085)
Others	**(300,284)**	(229,616)
	(1,546,570)	(1,457,284)

Other non-operating expenses (net) for the three months ended December 31, 2017 and 2016 comprise:

	3 months ended December 31, 2017 *US$'000*	3 months ended December 31, 2016 *US$'000*
Finance income	**6,909**	6,122
Finance costs	**(59,765)**	(53,031)
Share of (losses)/profits of associates and joint ventures	**(1,326)**	10,247
	(54,182)	(36,662)

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 13 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$11 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$490 million (2016/17: US$452 million) during the nine months ended December 31, 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 December 31, 2017, total assets of the Group amounted to US$29,499 million (March 31, 2017: US$27,186 million), which were financed by equity attributable to owners of the Company of US$3,338 million (March 31, 2017: US$3,223 million), perpetual securities of US$1,007 million (March 31, 2017: US$844 million) and other non-controlling interests (net of put option written on non-controlling interest) of US$31 million (March 31, 2017: US$28 million), and total liabilities of US$25,123 million (March 31, 2017: US$23,091 million). At December 31, 2017, the current ratio of the Group was 0.82 (March 31, 2017: 0.81).

The Group had a solid financial position. At December 31, 2017, bank deposits, cash and cash equivalents totaled US$1,747 million (March 31, 2017: US$2,951 million), of which 31.8 (March 31, 2017: 45.1) percent was denominated in US dollar, 37.7 (March 31, 2017: 29.0) percent in Renminbi, 10.0 (March 31, 2017: 6.6) percent in Euro, 4.1 (March 31, 2017: 5.2) percent in Japanese Yen, and 16.4 (March 31, 2017: 14.1) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At December 31, 2017, 93.9 (March 31, 2017: 78.5) percent of cash are bank deposits, and 6.1 (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 December 31, 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 December 31, 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 December 31, 2017, the Group's other total available credit facilities amounted to US$10,832 million (March 31, 2017: US$10,710 million), of which US$1,778 million (March 31, 2017: US$1,584 million) was in trade lines, US$782 million (March 31, 2017: US$293 million) in short-term and revolving money market facilities and US$8,272 million (March 31, 2017: US$8,833 million) in forward foreign exchange contracts. At December 31, 2017, the amounts drawn down were US$1,207 million (March 31, 2017: US$1,086 million) in trade lines, US$7,619 million (March 31, 2017: US$8,216 million) being used for the forward foreign exchange contracts, and US$57 million (March 31, 2017: US$70 million) in short-term bank loans.

At December 31, 2017, the Group did not have any term bank loan (March 31, 2017: US$398 million), and the Group's outstanding borrowings represented by long-term bank loans of US$12 million (March 31, 2017: Nil), short-term bank loans of US$57 million (March 31, 2017: US$70 million) and notes of US$2,606 million (March 31, 2017: US$2,569 million). When compared with total equity of US$4,376 million (March 31, 2017: US$4,095 million), the Group's gearing ratio was 0.61 (March 31, 2017: 0.74). The net debt position of the Group at December 31, 2017 is US$928 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 December 31, 2017, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$7,619 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.

CONSOLIDATED INCOME STATEMENT

	Note	3 months ended December 31, 2017 (unaudited) *US$'000*	9 months ended December 31, 2017 (unaudited) *US$'000*	3 months ended December 31, 2016 (unaudited) *US$'000*	9 months ended December 31, 2016 (unaudited) *US$'000*
Revenue	*2*	**12,938,532**	**34,711,634**	12,168,745	33,456,032
Cost of sales		**(11,187,501)**	**(29,983,469)**	(10,573,453)	(28,719,011)
Gross profit		**1,751,031**	**4,728,165**	1,595,292	4,737,021
Other income/(loss) - net	*3*	**286**	**301**	(1,005)	10,616
Selling and distribution expenses		**(740,970)**	**(2,201,641)**	(726,669)	(2,022,356)
Administrative expenses		**(452,967)**	**(1,300,804)**	(445,775)	(1,342,544)
Research and development expenses		**(344,402)**	**(946,900)**	(318,445)	(1,023,019)
Other operating (expenses)/income - net		**(8,517)**	**6,910**	34,610	238,780
Operating profit	*4*	**204,461**	**286,031**	138,008	598,498
Finance income	*5(a)*	**6,909**	**24,568**	6,122	17,725
Finance costs	*5(b)*	**(59,765)**	**(191,339)**	(53,031)	(164,239)
Share of (losses)/profits of associates and joint ventures		**(1,326)**	**(2,896)**	10,247	22,766
Profit before taxation		**150,279**	**116,364**	101,346	474,750
Taxation	*6*	**(424,803)**	**(291,579)**	5,730	(48,030)
(Loss)/profit for the period		**(274,524)**	**(175,215)**	107,076	426,720
(Loss)/profit attributable to:					
Equity holders of the Company		**(288,768)**	**(222,016)**	98,435	428,217
Perpetual securities holders		**13,440**	**40,240**	-	-
Other non-controlling interests		**804**	**6,561**	8,641	(1,497)
		(274,524)	**(175,215)**	107,076	426,720
(Loss)/earnings per share attributable to equity holders of the Company					
Basic	*7(a)*	**US (2.53) cents**	**US (1.99) cents**	US 0.90 cents	US 3.88 cents
Diluted	*7(b)*	**US (2.53) cents**	**US (1.99) cents**	US 0.90 cents	US 3.88 cents
Dividend			**85,434**		85,948

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended December 31, 2017 (unaudited) ***US$'000***	**9 months ended December 31, 2017 (unaudited)** ***US$'000***	3 months ended December 31, 2016 (unaudited) *US$'000*	9 months ended December 31, 2016 (unaudited) *US$'000*
(Loss)/profit for the period	**(274,524)**	**(175,215)**	107,076	426,720
Other comprehensive income/(loss):				
Item that will not be reclassified to profit or loss				
Remeasurements of post-employment benefit obligations, net of taxes	**-**	**-**	3,493	3,493
Items that have been reclassified or may be subsequently reclassified to profit or loss				
Fair value change on available-for-sale financial assets, net of taxes	**632**	**3,231**	1,106	(1,416)
Investment revaluation reserve reclassified to consolidated income statement on disposal of an available-for-sale financial asset	**-**	**-**	-	(11,259)
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes				
- Fair value gain/(loss), net of taxes	**4,609**	**(166,922)**	144,541	143,136
- Reclassified to consolidated income statement	**(9,398)**	**155,508**	(77,828)	2,344
Currency translation differences	**28,213**	**140,203**	(238,618)	(194,087)
Other comprehensive income/(loss) for the period	**24,056**	**132,020**	(167,306)	(57,789)
Total comprehensive (loss)/income for the period	**(250,468)**	**(43,195)**	(60,230)	368,931
Total comprehensive (loss)/income attributable to:				
Equity holders of the Company	**(264,712)**	**(89,996)**	(68,871)	370,428
Perpetual securities holders	**13,440**	**40,240**	-	-
Other non-controlling interests	**804**	**6,561**	8,641	(1,497)
	(250,468)	**(43,195)**	(60,230)	368,931

CONSOLIDATED BALANCE SHEET

	Note	**December 31, 2017 (unaudited)**	March 31, 2017 (audited)
		US$'000	*US$'000*
Non-current assets			
Property, plant and equipment		**1,279,343**	1,236,250
Prepaid lease payments		**493,460**	473,090
Construction-in-progress		**384,184**	413,160
Intangible assets		**8,416,254**	8,349,145
Interests in associates and joint ventures		**33,939**	32,567
Deferred income tax assets		**1,425,540**	1,435,256
Available-for-sale financial assets		**358,958**	255,898
Other non-current assets		**162,511**	122,221
		12,554,189	12,317,587
Current assets			
Inventories		**3,983,309**	2,794,035
Trade receivables	*8(a)*	**5,759,829**	4,468,392
Notes receivable		**37,959**	68,333
Derivative financial assets		**19,971**	53,808
Deposits, prepayments and other receivables	*9*	**5,193,934**	4,333,351
Income tax recoverable		**203,359**	199,149
Bank deposits		**86,517**	196,720
Cash and cash equivalents		**1,660,348**	2,754,599
		16,945,226	14,868,387
Total assets		**29,499,415**	27,185,974

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**December 31, 2017 (unaudited)** *US$'000*	March 31, 2017 (audited) *US$'000*
Share capital	*13*	**3,185,923**	2,689,882
Reserves		**152,408**	533,719
Equity attributable to owners of the Company		**3,338,331**	3,223,601
Perpetual securities		**1,007,110**	843,677
Other non-controlling interests		**243,471**	240,844
Put option written on non-controlling interest	*10(a)(iii)*	**(212,900)**	(212,900)
Total equity		**4,376,012**	4,095,222
Non-current liabilities			
Borrowings	*12*	**2,617,685**	2,966,692
Warranty provision	*10(b)*	**284,033**	280,421
Deferred revenue		**637,476**	537,428
Retirement benefit obligations		**393,907**	370,207
Deferred income tax liabilities		**248,259**	221,601
Other non-current liabilities	*11*	**353,043**	380,557
		4,534,403	4,756,906
Current liabilities			
Trade payables	*8(b)*	**7,498,216**	5,649,925
Notes payable		**947,353**	835,613
Derivative financial liabilities		**56,791**	67,285
Other payables and accruals	*10(a)*	**10,278,455**	10,004,614
Provisions	*10(b)*	**872,328**	873,405
Deferred revenue		**641,518**	586,536
Income tax payable		**237,539**	246,465
Borrowings	*12*	**56,800**	70,003
		20,589,000	18,333,846
Total liabilities		**25,123,403**	23,090,752
Total equity and liabilities		**29,499,415**	27,185,974

CONSOLIDATED CASH FLOW STATEMENT

	Note	**9 months ended December 31, 2017 (unaudited)** *US$'000*	9 months ended December 31, 2016 (unaudited) *US$'000*
Cash flows from operating activities			
Net cash generated from operations	*15*	**438,639**	2,263,050
Interest paid		**(181,495)**	(133,639)
Tax paid		**(259,982)**	(217,225)
Net cash (used in)/generated from operating activities		**(2,838)**	1,912,186
Cash flows from investing activities			
Purchase of property, plant and equipment		**(156,591)**	(93,131)
Purchase of prepaid lease payments		**(10,908)**	(1,663)
Sale of property, plant and equipment, prepaid lease payments and construction-in-progress		**33,622**	409,526
Interest acquired in an associate		**(2,205)**	(6,518)
Net proceeds from disposal of a joint venture		**160,564**	-
Payment for construction-in-progress		**(217,989)**	(246,286)
Payment for intangible assets		**(104,482)**	(111,195)
Purchase of available-for-sale financial assets		**(90,928)**	(44,091)
Net proceeds from disposal of available-for-sale financial assets		**165**	11,812
Repayment of deferred consideration		**(686,301)**	-
Decrease/(increase) in bank deposits		**110,203**	(9,873)
Dividends received		**286**	46
Interest received		**24,568**	17,725
Net cash used in investing activities		**(939,996)**	(73,648)
Cash flows from financing activities			
Net proceeds from issue of ordinary shares		**496,041**	-
Capital contribution from other non-controlling interests		**1,003**	5,466
Acquisition of additional interest in a subsidiary		**-**	(20,439)
Contribution to employee share trusts		**(28,634)**	(99,363)
Issue of perpetual securities		**149,625**	-
Dividends paid		**(384,009)**	(376,898)
Dividends paid to other non-controlling interests		**(4,937)**	-
Distribution to perpetual securities holders		**(26,432)**	-
Proceeds from borrowings		**5,374,540**	2,110,388
Repayments of borrowings		**(5,774,406)**	(2,792,564)
Net cash used in financing activities		**(197,209)**	(1,173,410)
(Decrease)/increase in cash and cash equivalents		**(1,140,043)**	665,128
Effect of foreign exchange rate changes		**45,792**	(68,976)
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		**1,660,348**	2,523,032

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											
	Share capital *(unaudited)* *US$'000*	Investment revaluation reserve *(unaudited)* *US$'000*	Employee share trusts *(unaudited)* *US$'000*	Share-based compensation reserve *(unaudited)* *US$'000*	Hedging reserve *(unaudited)* *US$'000*	Exchange reserve *(unaudited)* *US$'000*	Other reserve *(unaudited)* *US$'000*	Retained earnings *(unaudited)* *US$'000*	Perpetual securities *(unaudited)* *US$'000*	Other non-controlling interests *(unaudited)* *US$'000*	Put option written on non-controlling interest *(unaudited)* *US$'000*	Total *(unaudited)* *US$'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**
(Loss)/profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(222,016)**	**40,240**	**6,561**	**–**	**(175,215)**
Other comprehensive income/(loss)	**–**	**3,231**	**–**	**–**	**(11,414)**	**140,203**	**–**	**–**	**–**	**–**	**–**	**132,020**
Total comprehensive income/(loss) for the period	**–**	**3,231**	**–**	**–**	**(11,414)**	**140,203**	**–**	**(222,016)**	**40,240**	**6,561**	**–**	**(43,195)**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**–**	**15,097**	**(15,097)**	**–**	**–**	**–**	**–**
Vesting of shares under long-term incentive program	**–**	**–**	**63,074**	**(83,040)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(19,966)**
Share-based compensation	**–**	**–**	**–**	**147,693**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**147,693**
Contribution to employee share trusts	**–**	**–**	**(28,634)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(28,634)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(384,009)**	**–**	**–**	**–**	**(384,009)**
Issue of perpetual securities (Note 14)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**149,625**	**–**	**–**	**149,625**
Issue of ordinary shares	**496,041**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**496,041**
Issue of bonus warrants	**–**	**–**	**–**	**–**	**–**	**–**	**(6,399)**	**–**	**–**	**–**	**–**	**(6,399)**
Capital contribution from other non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,003**	**–**	**1,003**
Dividends paid to other non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,937)**	**–**	**(4,937)**
Distribution to perpetual securities holders (Note 14)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(26,432)**	**–**	**–**	**(26,432)**
At December 31, 2017	**3,185,923**	**266**	**(76,788)**	**188,146**	**(16,742)**	**(1,086,415)**	**71,449**	**1,072,492**	**1,007,110**	**243,471**	**(212,900)**	**4,376,012**
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	–	–	–	–	–	–	–	428,217	–	(1,497)	–	426,720
Other comprehensive (loss)/income	–	(12,675)	–	–	145,480	(194,087)	–	3,493	–	–	–	(57,789)
Total comprehensive (loss)/income for the period	–	(12,675)	–	–	145,480	(194,087)	–	431,710	–	(1,497)	–	368,931
Transfer to statutory reserve	–	–	–	–	–	–	2,214	(2,214)	–	–	–	–
Vesting of shares under long-term incentive program	–	–	49,304	(57,927)	–	–	–	–	–	–	–	(8,623)
Share-based compensation	–	–	–	139,286	–	–	–	–	–	–	–	139,286
Contribution to employee share trusts	–	–	(99,363)	–	–	–	–	–	–	–	–	(99,363)
Dividends paid	–	–	–	–	–	–	–	(376,898)	–	–	–	(376,898)
Change in ownership interest in a subsidiary	–	–	–	–	–	–	(22,826)	–	–	2,387	–	(20,439)
Capital contribution from other non-controlling interests	–	–	–	–	–	–	–	–	–	5,466	–	5,466
At December 31, 2016	2,689,882	(11,713)	(102,956)	94,520	57,152	(1,335,282)	62,751	1,547,850	–	245,305	(212,900)	3,034,609

Notes

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 third quarter results announcement as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the 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

	9 months ended December 31, 2017		9 months ended December 31, 2016	
	Revenue from external customers	**Adjusted pre-tax income/ (loss)**	Revenue from external customers	Adjusted pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
China	**9,083,649**	**402,103**	9,514,093	475,262
AP	**5,416,097**	**(114,014)**	5,278,216	(22,588)
EMEA	**9,434,617**	**(53,845)**	8,563,349	(216,558)
AG	**10,777,271**	**8,810**	10,100,374	97,272
Segment total	**34,711,634**	**243,054**	33,456,032	333,388
Unallocated:				
Headquarters and corporate income		**93,284**		377,525
Restructuring costs		**(61,497)**		(135,977)
Finance income		**12,002**		13,605
Finance costs		**(167,884)**		(147,173)
Impairment of an available-for-sale financial asset		**-**		(1,005)
Net gain on disposal of available-for-sale financial assets		**15**		11,575
Dividend income from available-for-sale financial assets		**286**		46
Share of (losses)/profits of associates and joint ventures		**(2,896)**		22,766
Consolidated profit before taxation		**116,364**		474,750

(b) Segment assets for reportable segments

	December 31, 2017	March 31, 2017
	US$'000	*US$'000*
China	**8,738,352**	7,754,296
AP	**3,943,224**	3,497,366
EMEA	**3,442,023**	3,282,761
AG	**7,593,941**	6,633,117
Segment assets for reportable segments	**23,717,540**	21,167,540
Unallocated:		
Deferred income tax assets	**1,425,540**	1,435,256
Derivative financial assets	**19,971**	53,808
Available-for-sale financial assets	**358,958**	255,898
Interests in associates and joint ventures	**33,939**	32,567
Unallocated bank deposits and cash and cash equivalents	**369,245**	1,075,639
Unallocated inventories	**1,011,290**	823,619
Unallocated deposits, prepayments and other receivables	**2,047,500**	1,829,387
Income tax recoverable	**203,359**	199,149
Other unallocated assets	**312,073**	313,111
Total assets per consolidated balance sheet	**29,499,415**	27,185,974

(c) Segment liabilities for reportable segments

	December 31, 2017	March 31, 2017
	US$'000	*US$'000*
China	**5,767,465**	4,884,148
AP	**1,841,948**	1,631,624
EMEA	**1,722,471**	1,569,619
AG	**3,344,082**	3,375,555
Segment liabilities for reportable segments	**12,675,966**	11,460,946
Unallocated:		
Income tax payable	**237,539**	246,465
Deferred income tax liabilities	**248,259**	221,601
Derivative financial liabilities	**56,791**	67,285
Unallocated borrowings	**2,605,685**	2,966,692
Unallocated trade and notes payables	**5,414,997**	4,249,522
Unallocated other payables and accruals	**3,465,848**	3,570,065
Unallocated provisions	**359,503**	237,907
Unallocated other non-current liabilities	**25,072**	25,072
Other unallocated liabilities	**33,743**	45,197
Total liabilities per consolidated balance sheet	**25,123,403**	23,090,752

(d) Analysis of revenue by significant category

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

	9 months ended December 31, 2017	9 months ended December 31, 2016
	US$'000	*US$'000*
PC and Smart Device Business Group ("PCSD")	**24,637,553**	23,394,016
Mobile Business Group ("MBG")	**5,898,673**	5,935,656
Data Center Group ("DCG")	**3,171,614**	3,218,675
Others	**1,003,794**	907,685
	34,711,634	33,456,032

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	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	US$'000	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*
For the nine months ended December 31										
Depreciation and amortization	**109,058**	164,421	**104,536**	96,024	**122,873**	137,805	**208,794**	167,487	**545,261**	565,737
Finance income	**33**	133	**585**	570	**197**	146	**11,751**	3,271	**12,566**	4,120
Finance costs	**2,133**	2,378	**5,555**	4,831	**5,174**	3,802	**10,593**	6,055	**23,455**	17,066
Additions to non-current assets (Note)	**130,151**	95,074	**22,751**	15,672	**15,385**	12,898	**52,892**	47,663	**221,179**	171,307

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$6,270 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 December 31, 2017

	China	**AP**	**EMEA**	**AG**	**Total**
	US$ million	***US$ million***	***US$ million***	***US$ million***	***US$ million***
Goodwill					
- PCSD	**1,081**	**552**	**238**	**334**	**2,205**
- MBG	**-**	**328**	**378**	**971**	**1,677**
- DCG	**488**	**164**	**93**	**370**	**1,115**
Trademarks and trade names					
- PCSD	**209**	**59**	**108**	**67**	**443**
- MBG	**-**	**90**	**104**	**266**	**460**
- DCG	**162**	**54**	**31**	**123**	**370**

At March 31, 2017

	China	AP	EMEA	AG	Total
	US$ million	*US$ million*	*US$ million*	*US$ million*	*US$ million*
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 December 31, 2017 (March 31, 2017: Nil).

3 Other income/(loss) – net

	3 months ended December 31, 2017	**9 months ended December 31, 2017**	3 months ended December 31, 2016	9 months ended December 31, 2016
	US$'000	***US$'000***	*US$'000*	*US$'000*
Impairment of an available-for-sale financial asset	-	-	(1,005)	(1,005)
Net gain on disposal of available-for-sale financial assets	**-**	**15**	-	11,575
Dividend income from available-for-sale financial assets	**286**	**286**	-	46
	286	**301**	(1,005)	10,616

4 Operating profit

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

	3 months ended December 31, 2017 *US$'000*	**9 months ended December 31, 2017** *US$'000*	3 months ended December 31, 2016 *US$'000*	9 months ended December 31, 2016 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**67,178**	**192,082**	66,870	206,090
Amortization of intangible assets	**122,954**	**353,179**	114,561	359,647
Employee benefit costs, including	**969,269**	**2,695,716**	843,190	2,685,535
- long-term incentive awards	***49,241***	***147,580***	*55,026*	*135,389*
- severance and related costs	***61,497***	***61,497***	-	*135,977*
Rental expenses under operating leases	**35,183**	**109,682**	42,597	102,275
(Gain)/loss on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**(57,756)**	**(53,196)**	1,085	(334,393)

During the three and nine months ended December 31, 2017, the Group announced resource actions to further enhance efficiency and competitiveness in view of industrial challenges. Severance costs of approximately US$61 million (2016/17: US$136 million) were recognized in "other operating (expenses)/income – net".

5 Finance income and costs

(a) Finance income

	3 months ended December 31, 2017 *US$'000*	**9 months ended December 31, 2017** *US$'000*	3 months ended December 31, 2016 *US$'000*	9 months ended December 31, 2016 *US$'000*
Interest on bank deposits	**5,545**	**21,233**	5,182	15,150
Interest on money market funds	**1,364**	**3,335**	940	2,575
	6,909	**24,568**	6,122	17,725

(b) Finance costs

	3 months ended December 31, 2017 *US$'000*	**9 months ended December 31, 2017** *US$'000*	3 months ended December 31, 2016 *US$'000*	9 months ended December 31, 2016 *US$'000*
Interest on bank loans and overdrafts	**11,176**	**31,789**	9,023	29,285
Interest on notes	**30,431**	**93,121**	26,281	77,857
Interest on promissory note	**-**	**11,589**	10,109	30,110
Factoring costs	**16,420**	**50,112**	5,636	20,906
Commitment fee	**267**	**671**	235	283
Interest on contingent/deferred considerations and put option liability	**-**	**1,110**	1,535	4,833
Others	**1,471**	**2,947**	212	965
	59,765	**191,339**	53,031	164,239

6 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended December 31, 2017 *US$'000*	**9 months ended December 31, 2017** *US$'000*	3 months ended December 31, 2016 *US$'000*	9 months ended December 31, 2016 *US$'000*
Current tax				
Hong Kong profits tax	**12,297**	**20,785**	(3,724)	(1,678)
Taxation outside Hong Kong	**77,076**	**229,303**	97,759	299,233
Deferred tax				
Credit for the period	**(64,570)**	**(358,509)**	(99,765)	(249,525)
Effect of change in tax rate	**400,000**	**400,000**	-	-
	424,803	**291,579**	(5,730)	48,030

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.

Pursuant to the Tax Cuts and Jobs Act enacted by the government of the United States ("US") on December 22, 2017, the US corporate tax rate is reduced for tax years beginning after December 31, 2017. This rate change leads to a write-off of US deferred income tax assets of approximately US$400 million for the three months and nine months ended December 31, 2017.

7 (Loss)/earnings per share

(a) Basic

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

	3 months ended December 31, 2017	**9 months ended December 31, 2017**	3 months ended December 31, 2016	9 months ended December 31, 2016
Weighted average number of ordinary shares in issue	**11,542,024,541**	**11,253,636,626**	11,108,654,724	11,108,654,724
Adjustment for shares held by employee share trusts	**(121,393,127)**	**(123,797,116)**	(111,820,393)	(84,099,213)
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share	**11,420,631,414**	**11,129,839,510**	10,996,834,331	11,024,555,511
	US$'000	***US$'000***	*US$'000*	*US$'000*
(Loss)/profit attributable to equity holders of the Company	**(288,768)**	**(222,016)**	98,435	428,217

(b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares. The Company has two categories of potential ordinary shares, namely long-term incentive awards and bonus warrants. They were anti-dilutive for the three months and nine months ended December 31, 2017 and dilutive for the three months and nine months ended December 31, 2016.

	3 months ended December 31, 2017	**9 months ended December 31, 2017**	3 months ended December 31, 2016	9 months ended December 31, 2016
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share	**11,420,631,414**	**11,129,839,510**	10,996,834,331	11,024,555,511
Adjustment for long-term incentive awards and bonus warrants	**-**	**-**	302,221	14,579,653
Weighted average number of ordinary shares in issue for calculation of diluted (loss)/earnings per share	**11,420,631,414**	**11,129,839,510**	10,997,136,552	11,039,135,164
	US$'000	***US$'000***	*US$'000*	*US$'000*
(Loss)/profit attributable to equity holders of the Company used to determine diluted (loss)/earnings per share	**(288,768)**	**(222,016)**	98,435	428,217

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.

For the bonus warrants, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average periodic market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding bonus warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise in full of the bonus warrants.

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

8 Ageing analysis

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

	December 31, 2017	March 31, 2017
	US$'000	*US$'000*
0 – 30 days	**3,277,412**	2,923,083
31 – 60 days	**1,348,806**	985,251
61 – 90 days	**586,833**	283,050
Over 90 days	**662,038**	381,387
	5,875,089	4,572,771
Less: provision for impairment	**(115,260)**	(104,379)
Trade receivables – net	**5,759,829**	4,468,392

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

	December 31, 2017	March 31, 2017
	US$'000	*US$'000*
0 – 30 days	**4,419,121**	3,497,382
31 – 60 days	**1,749,926**	1,098,575
61 – 90 days	**1,076,241**	846,804
Over 90 days	**252,928**	207,164
	7,498,216	5,649,925

9 Deposits, prepayments and other receivables

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

	December 31, 2017	March 31, 2017
	US$'000	*US$'000*
Deposits	**18,319**	19,018
Other receivables	**3,711,700**	3,326,928
Prepayments	**1,463,915**	987,405
	5,193,934	4,333,351

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

10 Provisions, other payables and accruals

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

	December 31, 2017	March 31, 2017
	US$'000	*US$'000*
Accruals	**2,020,606**	2,066,687
Allowance for billing adjustments (i)	**1,838,723**	1,611,495
Deferred consideration (ii)	**-**	686,301
Written put option liability (iii)	**224,813**	223,703
Other payables (iv)	**6,194,313**	5,416,428
	10,278,455	10,004,614

Notes:

(i) Allowance for billing adjustments relates primarily to allowances for future volume discounts, price protection, rebates, and customer sales returns.

(ii) Pursuant to the completion of business combination, the Group is required to pay in cash to Google Inc. deferred consideration. Accordingly, current 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 *US$'000*	Environmental restoration *US$'000*	Restructuring *US$'000*	Total *US$'000*
Year ended March 31, 2017				
At the beginning of the year	1,322,267	8,817	123,103	1,454,187
Exchange adjustment	(16,316)	308	154	(15,854)
Provisions made	736,693	9,442	150,470	896,605
Amounts utilized	(980,738)	(10,177)	(184,075)	(1,174,990)
	1,061,906	8,390	89,652	1,159,948
Long-term portion classified as non-current liabilities	(280,421)	(6,122)	-	(286,543)
At the end of the year	781,485	2,268	89,652	873,405
Period ended December 31, 2017				
At the beginning of the period	**1,061,906**	**8,390**	**89,652**	**1,159,948**
Exchange adjustment	**14,534**	**215**	**2,271**	**17,020**
Provisions made	**690,817**	**7,074**	**61,497**	**759,388**
Amounts utilized	**(681,472)**	**(6,438)**	**(85,424)**	**(773,334)**
	1,085,785	**9,241**	**67,996**	**1,163,022**
Long-term portion classified as non-current liabilities	**(284,033)**	**(6,661)**	**-**	**(290,694)**
At the end of the period	**801,752**	**2,580**	**67,996**	**872,328**

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.

11 Other non-current liabilities

Details of other non-current liabilities are as follows:

	December 31, 2017 *US$'000*	March 31, 2017 *US$'000*
Deferred consideration (a)	**25,072**	25,072
Environmental restoration (Note 10(b))	**6,661**	6,122
Government incentives and grants received in advance (b)	**73,493**	95,774
Deferred rent liabilities	**96,497**	102,756
Others	**151,320**	150,833
	353,043	380,557

(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 December 31, 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.

12 Borrowings

	December 31, 2017	March 31, 2017
	US$'000	*US$'000*
Current liabilities		
Short-term loans (i)	**56,800**	70,003
Non-current liabilities		
Long-term loans (ii)	**12,000**	397,687
Notes (iii)	**2,605,685**	2,569,005
	2,617,685	2,966,692
	2,674,485	3,036,695

(i) The majority of the short-term bank loans are denominated in United States dollar. As at December 31, 2017, the Group has total revolving and short-term loan facilities of US$1,882 million (March 31, 2017: US$1,393 million) which has been utilized to the extent of US$57 million (March 31, 2017: US$70 million).

(ii) As at March 31, 2017, long-term loans mainly 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 December 31, 2017 (March 31, 2017: US$400 million).

(iii)

Issue date	**Principal amount**	**Term**	**Interest rate per annum**	**Due date**	**December 31, 2017** ***US$'000***	**March 31, 2017** ***US$'000***
May 8, 2014	US$1.5 billion	5 years	4.7%	May 2019	**1,496,795**	1,495,081
June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	**612,495**	578,103
March 16, 2017	US$500 million	5 years	3.875%	March 2022	**496,395**	495,821
					2,605,685	2,569,005

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

	December 31, 2017	March 31, 2017
	US$'000	*US$'000*
Within 1 year	**56,800**	70,003
Over 1 to 3 years	**2,121,290**	1,892,768
Over 3 to 5 years	**496,395**	1,073,924
	2,674,485	3,036,695

13 Share capital

	December 31, 2017		March 31, 2017	
	Number of shares	***US$'000***	*Number of shares*	*US$'000*
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the period/year	**11,108,654,724**	**2,689,882**	11,108,654,724	2,689,882
Issue of ordinary shares	**906,136,890**	**496,041**	-	-
At the end of the period/year	**12,014,791,614**	**3,185,923**	11,108,654,724	2,689,882

On November 17, 2017, the Company has issued 906,136,890 shares at price of HK$4.31 through a subscription agreement entered into by the Company and Union Star Limited.

14 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.

15 Reconciliation of profit before taxation to net cash generated from operations

	9 months ended December 31, 2017 US$'000	9 months ended December 31, 2016 US$'000
Profit before taxation	**116,364**	474,750
Share of losses/(profits) of associates and joint ventures	**2,896**	(22,766)
Finance income	**(24,568)**	(17,725)
Finance costs	**191,339**	164,239
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**192,082**	206,090
Amortization of intangible assets	**353,179**	359,647
Share-based compensation	**147,580**	135,389
Impairment of an available-for-sale financial asset	**-**	1,005
Impairment of property, plant and equipment	**4,608**	-
Gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**(53,196)**	(334,393)
Net gain on disposal of available-for-sale financial assets	**(15)**	(11,575)
Loss on disposal of intangible assets	**711**	417
Dilution gain on interest in a joint venture	**(1,162)**	-
Dividend income	**(286)**	(46)
Fair value change on bonus warrants	**(695)**	-
Fair value change on financial instruments	**11,929**	(60,409)
Increase in inventories	**(1,189,274)**	(196,296)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(2,301,668)**	(1,495,170)
Increase in trade payables, notes payable, provisions, other payables and accruals	**3,169,686**	2,943,865
Effect of foreign exchange rate changes	**(180,871)**	116,028
Net cash generated from operations	**438,639**	2,263,050

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

During the nine months ended December 31, 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 85,817,074 shares from the market for award to employees upon vesting. Details of these program and plan are set out in the 2017/18 interim report of the Company.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company has been established since 1999 with the responsibility to assist the Board in providing an independent review of the financial statements, risk management and internal control systems. It acts in accordance with its terms of reference which clearly deal with its membership, authority, duties and frequency of meetings. Currently, the Audit Committee is chaired by an independent non-executive director, Mr. Nicholas C. Allen, and comprises four members including Mr. 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 financial results of the Group for the nine months ended December 31, 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 nine months ended December 31, 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

January 31, 2018

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.