Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

FY2018/19 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, 2018 together with comparative figures for the corresponding period of last year, as follows:

THIRD QUARTER FINANCIAL HIGHLIGHTS

- Group revenue in 3QFY19 was the highest in the last 4 years, the 6th consecutive quarter of YTY growth
- Strong operational performance with record quarterly profit before taxation of US$350M during the quarter, the 5th consecutive quarter of YTY improvement
- Third quarter since Intelligent Devices Group's formation: delivered solid revenue growth and profit improvement
  - Record PC and Smart Device revenue of US$10.7B with double-digit YTY growth for 4 consecutive quarters, while its pre-tax margin further improved to 5.4%
  - Mobile business recorded a pre-tax profit for the first time since the Motorola acquisition
- Data Center business saw strong YTY revenue growth of 31 percent driven by stellar performance in the Hyperconverged and Software Defined Infrastructure segments
- Software and Services and Big Data & Vertical Solutions revenue grew double-digit YTY

	3 months ended December 31, 2018 (unaudited) *US$ million*	9 months ended December 31, 2018 (unaudited) *US$ million*	3 months ended December 31, 2017 (unaudited) *US$ million*	9 months ended December 31, 2017 (unaudited) *US$ million*	Year-on-year change 3 months ended December 31	Year-on-year change 9 months ended December 31
Revenue	14,035	39,328	12,939	34,712	8%	13%
Gross profit	2,050	5,475	1,751	4,728	17%	16%
Gross profit margin	14.6%	13.9%	13.5%	13.6%	1.1 pts	0.3 pts
Operating expenses	(1,616)	(4,571)	(1,547)	(4,442)	4%	3%
Operating profit	434	904	204	286	112%	216%
Other non-operating expenses - net	(84)	(228)	(54)	(170)	55%	34%
Profit before taxation	350	676	150	116	133%	481%
Profit/(loss) for the period	265	523	(275)	(175)	N/A	N/A
Profit/(loss) attributable to equity holders of the Company	233	478	(289)	(222)	N/A	N/A
Earnings/(loss) per share attributable to equity holders of the Company						
Basic	US 1.96 cents	US 4.02 cents	US (2.53) cents	US (1.99) cents	N/A	N/A
Diluted	US 1.92 cents	US 4.01 cents	US (2.53) cents	US (1.99) cents	N/A	N/A

BUSINESS REVIEW AND OUTLOOK

Business Review

During the three months ended December 31, 2018, Lenovo (the Group) delivered a strong quarter with many parts of the business setting new records through robust execution of its Intelligent Transformation strategy. The strong quarterly performance featured robust revenue and profitability across major business groups including record-breaking revenue and pre-tax profit in its PC and Smart Device (PCSD) business while a strong revenue growth momentum continued in its Data Center (DCG) business. In addition, its Mobile Business Group (MBG) recorded a pre-tax profit for the first time since the Motorola acquisition. These strong results help the Group achieve record quarterly pre-tax profit during the quarter.

For the fiscal quarter under review, the Group's consolidated revenue grew 8 percent year-on-year to US$14,035 million, the sixth consecutive quarter of annual growth. The Group's gross profit was US$2,050 million, an increase of 17 percent year-on-year. Gross margin increased by 1.1 percentage points year-on-year to 14.6 percent, attributed largely to the solid margin expansion in its PCSD business and better product mix in its Mobile business. Operating expenses increased 4 percent year-on-year to US$1,616 million, and the expense-to-revenue ratio decreased 0.4 percentage point to 11.5 percent. The key changes to operating expenses included higher administrative expense since the acquisition of Fujitsu PC in May 2018, being offset by savings on other operating expenses from the shift of Mobile business's strategy to focus on core regions and simplify product portfolio. The Group's profit before taxation was US$350 million for this fiscal quarter, compared to a US$150 million profit before taxation recorded in the same quarter of previous year. The Group recorded profit attributable to equity holders of US$233 million, a significant improvement from a loss of US$289 million in the year-ago fiscal quarter when a one-time non-cash write-off of US$400 million of deferred income tax assets negatively impacted the earnings.

Performance of Product Business Groups

During the three months ended December 31, 2018, Lenovo's IDG achieved solid revenue growth year-on-year while improving profitability, due mainly to the strength of its PCSD business and the MBG business reaching profitability. In addition, the on-going positive momentum from the DCG business remained a strong contributor to the Group's overall growth.

Intelligent Devices Group (IDG)

For the fiscal quarter under review, IDG's revenue was US$12,435 million, representing 89 percent of the Group's total revenue and an increase of 6 percent year-on-year. Within IDG, PCSD business was the key driver to revenue growth thanks to strong market share gains across premium and high growth segments and the commercial market. IDG recorded a pre-tax profit of US$586 million, up 92 percent year-on-year, thanks to strong profit improvement from PCSD and the first pre-tax profit from MBG. The pre-tax profit margin of IDG was 4.7 percent, up 2.1 percentage points year-on-year.

Intelligent Devices Group - PC and Smart Device Business

The PCSD business achieved record revenue of US$10,729 million, representing approximately 77 percent of the Group's total revenue and an increase of 12 percent year-on-year for the three months ended December 31, 2018. The pre-tax profit of the PCSD business reached US$584 million, up 36 percent year-on-year, owing to its strong execution and improvement in mix of products. Pre-tax profit margin was 5.4 percent, up 0.9 percentage points year-on-year in this fiscal quarter three.

During the three months under review, global PC market shipments had a single-digit annual decline largely due to an industry-wide supply shortage of processors. Despite the difficulty in securing enough processors to meet customer demand, the Group continued its strategy of prioritizing profitability and driving premium-to-market revenue growth in its PC business. As a result, it is important to note the Group's successful gain of market share in premium and high-growth and commercial segments. Through strong execution, the Group achieved record high market share of 24.6 percent in global PC market and was the fastest growing PC vendor among top-5, according to the preliminary industry data. When viewed by product segment, the Group continued to gain share in the following market segments: Workstation (43 percent year-on-year growth), Thin & Light, Visuals, and Gaming PC.

As part of its Intelligent Transformation strategy, the Group showcased several new smart devices including Smart Tab, AI-enabled Yoga S940 with Smart assistant, and consumer-oriented Smart Home products like Smart Alarm Clock at the Consumer Electronics Show, winning 75 awards in total. In fiscal quarter three, the Device-as-a-Service (DaaS) business continued to gain traction across all geographies with strong growth in booking revenue.

Intelligent Devices Group - Mobile Business

In fiscal quarter three, the Mobile business achieved a pre-tax profit for the first time since the Group's Motorola acquisition, a result stemming from strong execution of the strategy focused on reducing expenses, simplifying the portfolio, and core markets in Latin and North America. The business in Latin America remained profitable while achieving a more balanced country portfolio with substantial share gains in Argentina and Mexico. Shipments in North America also saw significant growth of 30 percent year-on-year, driven by increasing consumer demand for the mainstream models and expanded relationships with carriers. The Mobile business in North America also turned profitable during the quarter under review. In China, the Group continued to build its brand equity and saw positive momentum returning its business to breakeven.

Mobile business revenue was US$1,669 million in fiscal quarter three, representing approximately 12 percent of the Group's total revenue and a decline of 20 percent year-on-year due to its strategy of focusing on core geographies. Nevertheless, the Group's actions in simplifying portfolio and reducing expenses resulted in an improved expense to revenue ratio without compromising its efficiency and competitiveness in its marketing and research and development spending. With its margin improvement from stronger performance in the key regions and countries it focused, the Group recorded US$3 million profit before taxation for the three months under review, a significant improvement from a loss of US$124 million in the same quarter of the previous year.

Data Center Business Group

The Data Center Group delivered another quarter of solid growth and profitability improvement, after the business further strengthened its long-term capabilities in business model, product leadership, and sales and marketing. This fiscal quarter three marked the fifth consecutive quarter of double-digit revenue growth for DCG, along with year-on-year pre-tax margin improvement. Among all product segments under DCG, the Hyperconverged and Software Defined Infrastructure segments continued to deliver stellar growth. In the High Performance Computing (HPC) segment, the business remained the worldwide number one player in the HPC TOP500 List.

The Hyperscale business delivered triple-digit growth thanks to its investments in improving its in-house design, manufacturing capabilities and customer mix. In Flash Arrays Storage, Lenovo remained a growth leader with a triple-digit year-on-year growth in fiscal quarter three, nearly double the market growth rate over the same period. Lenovo has started to leverage its global strategic partnership with NetApp, including a new joint venture in China launched in February 2019, enabling Lenovo to address nearly the entire storage and data management market in China. The Group now has the most compelling ThinkSystem and ThinkAgile product, the largest storage portfolio in its history and delivers the industry's leading product reliability.

For the three months ended December 31, 2018, revenue of the Data Center business was US$1,600 million, up 31 percent year-on-year and representing approximately 11 percent of the Group's total revenue. Data Center Group losses narrowed year-on-year. The business recorded a loss before taxation of US$55 million in the fiscal quarter three, improvement from the US$86 million loss in the same quarter of last fiscal year.

Globally Balanced Business

As a global company, Lenovo continues to operate in more than 160 countries.

China

China accounted for 26 percent of the Group's total revenue in the quarter. Under IDG, the PCSD business further improved its product mix and drove premium revenue growth while protecting profitability. The Group continued its efforts to enhance its smartphone brand in China and launched new models while turning its business breakeven during the quarter under review.

In the DCG business, the Group's transformation actions to improve its profitability year-on-year were on track during the quarter under review.

Americas (AG)

Americas accounted for 31 percent of the Group's total revenue in the quarter. The PCSD business leveraged its strength in the commercial segment and outperformed the regional market while improving its profitability on a better product mix. For MBG, the Group's Moto brand smartphones remained profitable and gained shares in several Latin America countries during the three-month period. In North America, the Group saw strong smartphone shipment growth of 30 percent. Larger scale helped the Mobile business turning profitable during the quarter.

The Group's Data Center business continued to show strong momentum as a result of its transformation actions. The North America region achieved year-on-year revenue growth for the seventh consecutive quarter.

Asia Pacific (AP)

Asia Pacific contributed 18 percent of the Group's total revenue in the quarter. Within IDG, the revenue of PCSD grew high double-digits year-on-year thanks to its strong PC business. Smartphone business in the region faced fierce competition and the Group fine-tuned its strategy to focus on margin protection. The Group's smartphone shipments declined in the quarter.

Data Center business grew at double-digit while reducing losses year-on-year during the quarter.

Europe-Middle East-Africa (EMEA)

The Group generated 25 percent of its total revenue from EMEA in the quarter. Driving a better product mix is the focus of the PCSD business in order to improve its margin performance. In its smartphone business, the Group shifted its strategic focus to mature markets of EMEA in order to protect margin. Smartphone shipments in the region experienced a decline during the quarter.

Similar to other regions, the Group's Data Center business saw double-digit revenue growth (the seventh consecutive quarter of year-on-year revenue growth) and year-on-year loss reduction during the quarter.

Strategic Highlights

Building stronger vertical solutions and services businesses is a key element of the Group's Intelligent Transformation strategy. The Group achieved double-digit revenue growth year-on-year in Software & Services, Big Data, and Vertical Solutions. E-commerce business also grew revenue by double-digits for the third consecutive quarter. In China, the Smart IoT User Devices and Services (UDS) platform, connecting users, devices and cloud services, grew its monthly average users (MAU) at 22 percent quarter-to-quarter.

The Group will accelerate its Intelligent Transformation and expansion of its Smart IoT and Smart Infrastructure businesses. It will make PC smarter, introducing innovative devices, and capturing embedded Smart IOT business opportunities. The Group is committed to further investment in AI, IoT, Big Data and VR/AR.

Outlook

Lenovo is well prepared for geographic political and macroeconomic volatility leveraging its strength as a global company with worldwide manufacturing capabilities, leading supply chain flexibility and extensive experience in managing the impact of past policy changes.

The Group aims to be the leader in and enabler of the intelligent transformation. It is confident that it can continue to execute its Intelligent Transformation strategy to build leading positions in every business the Group enters. This industry leadership should drive long-term, sustainable, and profitable growth that, in turn, creates better value for shareholders. The strong performance of IDG during the past quarters is a testament to its capabilities in branding, operations and supply chain. It will leverage strengths and AI capabilities to develop future Smart Internet of Things (IoT) offerings. Moreover, the Group will offer customers increasing options in services and software that are recurring in nature and deliver higher-margins.

IDG will strengthen the ecosystem around its devices generating a healthy business model of hardware, software and services revenues. The Group targets core PC business revenue growth at a premium to the market while maintaining stable profitability. Lenovo will leverage industry consolidation opportunities, and focus on premium and high-growth segments such as gaming PCs, Thin & Light, Visuals, and workstations. For its Mobile business, the transition to a healthy business model is on-track and the Group will continue to strengthen its competitiveness in core markets to resume growth.

In the Data Center business, the Group will continue its transformation into a world-class, next-generation IT solutions provider with premium to market growth and technology leadership in the Software Defined segment. In Hyperscale, the Group will leverage its in-house design and manufacturing capabilities, bring compelling offerings to global hyperscalers. In storage and networking, its strategic partnerships, including with NetApp, are building a global franchise.

FINANCIAL REVIEW

Results for the nine months ended December 31, 2018

	9 months ended December 31, 2018 (unaudited) ***US$ million***	9 months ended December 31, 2017 (unaudited) *US$ million*	Year-on-year change
Revenue	**39,328**	34,712	13%
Gross profit	**5,475**	4,728	16%
Gross profit margin	**13.9%**	13.6%	0.3 pts
Operating expenses	**(4,571)**	(4,442)	3%
Operating profit	**904**	286	216%
Other non-operating expenses – net	**(228)**	(170)	34%
Profit before taxation	**676**	116	481%
Profit/(loss) for the period	**523**	(175)	N/A
Profit/(loss) attributable to equity holders of the Company	**478**	(222)	N/A
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	**US 4.02 cents**	US (1.99) cents	N/A
Diluted	**US 4.01 cents**	US (1.99) cents	N/A

For the nine months ended December 31, 2018, the Group achieved total sales of approximately US$39,328 million. Profit attributable to equity holders for the period was approximately US$478 million, as compared with loss attributable to equity holders of US$222 million reported in the corresponding period of last year. The loss attributable to equity holders reported in the corresponding period of last year was 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 0.3 point up from 13.6 percent reported in the corresponding period of last year. Basic and diluted earnings per share were US4.02 cents and US4.01 cents respectively, as compared with basic and diluted loss per share of US1.99 cents reported in the corresponding period of last year.

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, 2018 and 2017 are as follows:

	9 months ended December 31, 2018 ***US$'000***	9 months ended December 31, 2017 *US$'000*
Other income – net	**-**	301
Selling and distribution expenses	**(2,011,118)**	(2,201,641)
Administrative expenses	**(1,615,724)**	(1,300,804)
Research and development expenses	**(895,056)**	(946,900)
Other operating (expenses)/income – net	**(49,229)**	6,910
	(4,571,127)	(4,442,134)

Operating expenses for the period increased by 3 percent as compared with the corresponding period of last year. During the period, employee benefit costs increased by US$185 million mainly due to the higher bonus accrual as a result of the outperformance this period as opposed to the less satisfactory results under the challenging market conditions in the corresponding period of last year. During the corresponding period of last year, 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 Group has reduced the advertising and promotional expenses by US$172 million compared with the corresponding period of last year as a result of simplifying portfolio and focusing on core markets of the mobile business, and recorded gains on fair valuation and disposal of certain financial assets of US$66 million and US$33 million respectively. The impact of currency fluctuations during the period presented a challenge, the Group recorded a net exchange loss of US$92 million (2017/18: US$39 million) for the period. Key expenses by nature comprise:

	9 months ended December 31, 2018 *US$'000*	9 months ended December 31, 2017 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(130,900)**	(111,088)
Amortization of intangible assets	**(349,923)**	(327,055)
Employee benefit costs, including	**(2,557,229)**	(2,372,322)
-long-term incentive awards	***(155,643)***	*(147,580)*
-severance and related costs	-	*(61,497)*
Rental expenses under operating leases	**(88,939)**	(98,406)
Net foreign exchange loss	**(91,864)**	(38,861)
Advertising and promotional expenses	**(548,873)**	(720,867)
(Loss)/gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**(3,124)**	53,196
Fair value gain on financial assets at fair value through profit or loss	**66,241**	-
Gain on disposal of financial assets at fair value through profit or loss	**32,896**	-
Dilution gain on interest in associates and a joint venture	**18,121**	1,162
Gain on deemed disposal of a subsidiary	**22,811**	-
Others	**(940,344)**	(827,893)
	(4,571,127)	(4,442,134)

Other non-operating expenses (net) for the nine months ended December 31, 2018 and 2017 comprise:

	9 months ended December 31, 2018 *US$'000*	9 months ended December 31, 2017 *US$'000*
Finance income	**17,475**	24,568
Finance costs	**(239,485)**	(191,339)
Share of losses of associates and joint ventures	**(5,886)**	(2,896)
	(227,896)	(169,667)

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 25 percent as compared with the corresponding period of last year. The change is a combined effect of the increase in interest expense on bank loans of US$39 million and factoring costs of US$17 million, partly offset by the decrease in interest on the promissory note issued to Google Inc. of US$12 million.

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

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

	9 months ended December 31, 2018		9 months ended December 31, 2017	
	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*
IDG	**34,554,496**	**1,380,305**	31,540,020	632,776
DCG	**4,773,168**	**(178,051)**	3,171,614	(361,084)
Segment total	**39,327,664**	**1,202,254**	34,711,634	271,692
Unallocated:				
Headquarters and corporate (expenses)/income - net		**(469,982)**		(113,973)
Depreciation and amortization		**(98,995)**		(69,828)
Finance income		**1,285**		4,307
Finance costs		**(91,510)**		(37,342)
Share of losses of associates and joint ventures		**(5,886)**		(2,896)
(Loss)/gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress		**(817)**		63,242
Fair value gain on financial assets at fair value through profit or loss		**66,241**		-
Gain on disposal of financial assets at fair value through profit or loss		**32,896**		-
Dilution gain on interest in associates and a joint venture		**18,121**		1,162
Gain on deemed disposal of a subsidiary		**22,811**		-
Consolidated profit before taxation		**676,418**		116,364

Headquarters and corporate (expenses)/income in the current period comprise various expenses, after appropriate allocation to business groups, attributable to headquarters and corporate of US$364 million (2017/18: US$115 million) such as employee benefit costs, legal and professional fees, and research and technology expenses. Employee benefit costs increased by US$75 million which is mainly due to higher bonus accrual of US$86 million (comprising breakthrough bonus accrual in anticipation of outperformance) made as a result of the outperformance for this period as opposed to the less satisfactory results under the challenging market conditions in the corresponding period of last year, netting off with the decrease of severance and related costs by US$29 million. The Group also recorded a net exchange loss of US$67 million (2017/18: US$22 million) as a result of the balance sheet hedges, and central research and technology expenses of US$53 million which were not allocated to a business group (2017/2018: nil).

Moreover, the Group recognized fair value loss on bonus warrants of US$4 million during the current period (2017/18: fair value gain of US$1 million), and certain additional one-time charges, in connection with the execution of the resource actions announced in last year, at the corporate level including the disposal of certain inventories as a result of product portfolio simplification of US$77 million, and onerous lease contracts and claims of US$26 million.

Third Quarter 2018/19 compared to Third Quarter 2017/18

	3 months ended December 31, 2018 (unaudited) ***US$ million***	3 months ended December 31, 2017 (unaudited) *US$ million*	Year-on-year change
Revenue	**14,035**	12,939	8%
Gross profit	**2,050**	1,751	17%
Gross profit margin	**14.6%**	13.5%	1.1 pts
Operating expenses	**(1,616)**	(1,547)	4%
Operating profit	**434**	204	112%
Other non-operating expenses – net	**(84)**	(54)	55%
Profit before taxation	**350**	150	133%
Profit/(loss) for the period	**265**	(275)	N/A
Profit/(loss) attributable to equity holders of the Company	**233**	(289)	N/A
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	**US 1.96 cents**	US (2.53) cents	N/A
Diluted	**US 1.92 cents**	US (2.53) cents	N/A

For the three months ended December 31, 2018, the Group achieved total sales of approximately US$14,035 million. Profit attributable to equity holders for the period was approximately US$233 million, as compared with loss attributable to equity holders of US$289 million reported in the corresponding period of last year. The loss attributable to equity holders reported in the corresponding period of last year was 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 1.1 points up from 13.5 percent reported in the corresponding period of last year. Basic and diluted earnings per share were US1.96 cents and US1.92 cents respectively, as compared with basic and diluted loss per share of US2.53 cents reported in the corresponding period of last year.

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

Operating expenses analyzed by function for the three months ended December 31, 2018 and 2017 are as follows:

	3 months ended December 31, 2018 ***US$'000***	3 months ended December 31, 2017 *US$'000*
Other income – net	**-**	286
Selling and distribution expenses	**(702,175)**	(740,970)
Administrative expenses	**(615,590)**	(452,967)
Research and development expenses	**(272,820)**	(344,402)
Other operating expenses – net	**(24,686)**	(8,517)
	(1,615,271)	(1,546,570)

Operating expenses for the period increased by 4 percent as compared with the corresponding period of last year. During the period, employee benefit costs increased by US$24 million mainly due to the higher bonus accrual as a result of the outperformance this period as opposed to the less satisfactory results under the challenging market conditions in the corresponding period of last year. During the corresponding period of last year, 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 Group has reduced the advertising and promotional expenses by US$52 million compared with the corresponding period of last year as a result of simplifying portfolio and focusing on core markets of the mobile business, and recorded loss on fair valuation of certain financial assets of US$5 million. The impact of currency fluctuations during the period presented a challenge, the Group recorded a net exchange loss of US$33 million (2017/18: US$26 million) for the period. Key expenses by nature comprise:

	3 months ended December 31, 2018 *US$'000*	3 months ended December 31, 2017 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(45,268)**	(37,370)
Amortization of intangible assets	**(121,378)**	(115,544)
Employee benefit costs, including	**(875,500)**	(851,767)
-long-term incentive awards	***(56,017)***	*(49,241)*
-severance and related costs	**-**	*(61,497)*
Rental expenses under operating leases	**(25,628)**	(31,322)
Net foreign exchange loss	**(32,544)**	(25,514)
Advertising and promotional expenses	**(190,256)**	(242,525)
(Loss)/gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**(668)**	57,756
Fair value loss on financial assets at fair value through profit or loss	**(5,270)**	-
Dilution gain on interest in a joint venture	**-**	1,162
Gain on deemed disposal of a subsidiary	**22,811**	-
Others	**(341,570)**	(301,446)
	(1,615,271)	(1,546,570)

Other non-operating expenses (net) for the three months ended December 31, 2018 and 2017 comprise:

	3 months ended December 31, 2018 *US$'000*	3 months ended December 31, 2017 *US$'000*
Finance income	**6,001**	6,909
Finance costs	**(85,905)**	(59,765)
Share of losses of associates and joint ventures	**(4,165)**	(1,326)
	(84,069)	(54,182)

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 44 percent as compared with the corresponding period of last year. This is mainly attributable to the increase in interest expense on bank loans of US$13 million and factoring costs of US$8 million.

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

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

	3 months ended December 31, 2018		3 months ended December 31, 2017	
	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*
IDG	**12,434,761**	**586,313**	11,713,447	306,022
DCG	**1,600,369**	**(54,594)**	1,225,085	(85,749)
Segment total	**14,035,130**	**531,719**	12,938,532	220,273
Unallocated:				
Headquarters and corporate (expenses)/income - net		**(127,879)**		(96,545)
Depreciation and amortization		**(36,023)**		(24,636)
Finance income		**-**		1,061
Finance costs		**(30,718)**		(10,966)
Share of losses of associates and joint ventures		**(4,165)**		(1,326)
(Loss)/gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress		**(150)**		61,256
Fair value loss on financial assets at fair value through profit or loss		**(5,270)**		-
Dilution gain on interest in a joint venture		**-**		1,162
Gain on deemed disposal of a subsidiary		**22,811**		-
Consolidated profit before taxation		**350,325**		150,279

Headquarters and corporate (expenses)/income in the current period comprise various expenses, after appropriate allocation to business groups, attributable to headquarters and corporate of US$99 million (2017/18: US$98 million) such as employee benefit costs, legal and professional fees, and research and technology expenses. Employee benefit costs decreased by US$42 million which is mainly due to decrease in severance and related costs by US$50 million. The Group also recorded central research and technology expenses of US$19 million which were not allocated to a business group (2017/2018: nil).

Moreover, the Group recognized fair value gain on bonus warrants of US$3 million during the current period (2017/18: US$1 million), and certain additional one-time charges, in connection with the execution of the resource actions announced in last year, at the corporate level including the disposal of certain inventories as a result of product portfolio simplification of US$30 million, and onerous lease contracts of US$2 million.

Capital Expenditure

The Group incurred capital expenditure of US$468 million (2017/18: US$490 million) during the nine months ended December 31, 2018, 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, 2018, total assets of the Group amounted to US$31,279 million (March 31, 2018: US$28,494 million), which were financed by equity attributable to owners of the Company of US$3,172 million (March 31, 2018: US$3,519 million), perpetual securities of US$1,007 million (March 31, 2018: US$994 million) and other non-controlling interests (net of put option written on non-controlling interests) of -US$309 million (March 31, 2018: US$33 million), and total liabilities of US$27,409 million (March 31, 2018: US$23,948 million). At December 31, 2018, the current ratio of the Group was 0.81 (March 31, 2018: 0.80).

At December 31, 2018, bank deposits and cash and cash equivalents totaled US$3,508 million (March 31, 2018: US$1,932 million) analyzed by the major currency as follows:

	December 31, 2018	**March 31, 2018**
	%	%
US dollar	**46.4**	28.8
Renminbi	**31.3**	45.6
Japanese Yen	**5.0**	7.4
Euro	**2.2**	6.1
Other currencies	**15.1**	12.1
Total	**100.0**	100.0

The Group adopts a conservative policy to invest the surplus cash generated from operations. At December 31, 2018, 78.0 (March 31, 2018: 99.6) percent of cash are bank deposits, and 22.0 (March 31, 2018: 0.4) percent are investments in liquid money market funds of investment grade.

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

The Group has entered into the following banking facilities:

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

Notes / perpetual securities issued by the Group and outstanding as at December 31, 2018 are as follows:

Notes / perpetual securities	Issue date	Principal amount	Term	Interest rate / dividend per annum	Due date	Use of proceeds
2019 Note	May 8, 2014	US$786 million	5 years	4.70%	May 2019	For general corporate purposes including working capital and acquisition activities
2020 Note	June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	
2022 Note	March 16, 2017	US$500 million	5 years	3.875%	March 2022	For repayment of the outstanding amount under the promissory note issued to Google Inc. and for general corporate purposes including working capital
Perpetual securities	March 16, 2017	US$850 million	N/A	5.375%	N/A	
	April 6, 2017	US$150 million	N/A	5.375%	N/A	
2023 Note	March 29, 2018	US$750 million	5 years	4.75%	March 2023	For repurchase of the principal amount of US$714 million of the 2019 Note, and for general corporate purpose including working capital

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

	Available amount		Drawn down amount	
Credit facilities	**December 31, 2018**	**March 31, 2018**	**December 31, 2018**	**March 31, 2018**
	US$ million	US$ million	**US$ million**	US$ million
Trade lines	**1,922**	1,730	**1,352**	1,090
Short-term and revolving money market facilities	**796**	796	**70**	70
Forward foreign exchange contracts	**9,888**	8,706	**9,847**	8,645

Net debt position and gearing ratio of the Group:

	December 31, 2018	**March 31, 2018**
	US$ million	US$ million
Bank deposits and cash and cash equivalents	**3,508**	1,932
Borrowings		
- Short-term bank loans	**1,855**	1,166
- Notes	**2,607**	2,649
Net debt position	**(954)**	(1,883)
Total equity	**3,870**	4,546
Gearing ratio (Borrowings divided by Total equity)	**1.15**	0.84

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, 2018, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$9,847 million (March 31, 2018: US$8,645 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, 2018 (unaudited) US$'000	9 months ended December 31, 2018 (unaudited) US$'000	3 months ended December 31, 2017 (unaudited) US$'000	9 months ended December 31, 2017 (unaudited) US$'000
Revenue	2	**14,035,130**	**39,327,664**	12,938,532	34,711,634
Cost of sales		**(11,985,465)**	**(33,852,223)**	(11,187,501)	(29,983,469)
Gross profit		**2,049,665**	**5,475,441**	1,751,031	4,728,165
Other income - net		**-**	**-**	286	301
Selling and distribution expenses		**(702,175)**	**(2,011,118)**	(740,970)	(2,201,641)
Administrative expenses		**(615,590)**	**(1,615,724)**	(452,967)	(1,300,804)
Research and development expenses		**(272,820)**	**(895,056)**	(344,402)	(946,900)
Other operating (expenses)/income - net		**(24,686)**	**(49,229)**	(8,517)	6,910
Operating profit	3	**434,394**	**904,314**	204,461	286,031
Finance income	4(a)	**6,001**	**17,475**	6,909	24,568
Finance costs	4(b)	**(85,905)**	**(239,485)**	(59,765)	(191,339)
Share of losses of associates and joint ventures		**(4,165)**	**(5,886)**	(1,326)	(2,896)
Profit before taxation		**350,325**	**676,418**	150,279	116,364
Taxation	5	**(85,488)**	**(152,779)**	(424,803)	(291,579)
Profit/(loss) for the period		**264,837**	**523,639**	(274,524)	(175,215)
Profit/(loss) attributable to:					
Equity holders of the Company		**232,771**	**478,218**	(288,768)	(222,016)
Perpetual securities holders		**13,440**	**40,320**	13,440	40,240
Other non-controlling interests		**18,626**	**5,101**	804	6,561
		264,837	**523,639**	(274,524)	(175,215)
Earnings/(loss) per share attributable to equity holders of the Company					
Basic	6(a)	**US 1.96 cents**	**US 4.02 cents**	US (2.53) cents	US (1.99) cents
Diluted	6(b)	**US 1.92 cents**	**US 4.01 cents**	US (2.53) cents	US (1.99) cents
Dividend			**92,071**		85,434

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended December 31, 2018 (unaudited) ***US$'000***	**9 months ended December 31, 2018 (unaudited)** ***US$'000***	3 months ended December 31, 2017 (unaudited) *US$'000*	9 months ended December 31, 2017 (unaudited) *US$'000*
Profit/(loss) for the period	**264,837**	**523,639**	(274,524)	(175,215)
Other comprehensive income/(loss):				
Item that will not be reclassified to profit or loss				
Remeasurements of post-employment benefit obligations, net of taxes	**(2,322)**	**(2,322)**	-	-
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
Fair value change on financial assets at fair value through other comprehensive income, net of taxes	**(2,290)**	**(6,074)**	-	-
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes				
- Fair value gain/(loss), net of taxes	**35,330**	**259,488**	4,609	(166,922)
- Reclassified to consolidated income statement	**(65,755)**	**(237,210)**	(9,398)	155,508
Currency translation differences	**60,022**	**(490,951)**	28,213	140,203
Other comprehensive income/(loss) for the period	**24,985**	**(477,069)**	24,056	132,020
Total comprehensive income/(loss) for the period	**289,822**	**46,570**	(250,468)	(43,195)
Total comprehensive income/(loss) attributable to:				
Equity holders of the Company	**257,756**	**1,149**	(264,712)	(89,996)
Perpetual securities holders	**13,440**	**40,320**	13,440	40,240
Other non-controlling interests	**18,626**	**5,101**	804	6,561
	289,822	**46,570**	(250,468)	(43,195)

CONSOLIDATED BALANCE SHEET

	Note	**December 31, 2018 (unaudited)** *US$'000*	March 31, 2018 (audited) *US$'000*
Non-current assets			
Property, plant and equipment		**1,410,876**	1,304,751
Prepaid lease payments		**456,134**	507,628
Construction-in-progress		**158,026**	382,845
Intangible assets		**8,296,671**	8,514,504
Interests in associates and joint ventures		**73,281**	35,666
Deferred income tax assets		**1,759,889**	1,530,623
Available-for-sale financial assets		**-**	373,077
Financial assets at fair value through profit or loss		**406,340**	-
Financial assets at fair value through other comprehensive income		**80,071**	-
Other non-current assets		**157,523**	181,759
		12,798,811	12,830,853
Current assets			
Inventories		**3,792,336**	3,791,691
Trade receivables	*7(a)*	**6,555,272**	4,972,722
Notes receivable		**13,871**	11,154
Derivative financial assets		**45,243**	24,890
Deposits, prepayments and other receivables	*8*	**4,379,050**	4,703,335
Income tax recoverable		**185,532**	227,203
Bank deposits		**108,631**	84,306
Cash and cash equivalents		**3,399,860**	1,848,017
		18,479,795	15,663,318
Total assets		**31,278,606**	28,494,171

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**December 31, 2018 (unaudited)** ***US$'000***	March 31, 2018 (audited) *US$'000*
Share capital	*12*	**3,185,923**	3,185,923
Reserves		**(14,241)**	332,697
Equity attributable to owners of the Company		**3,171,682**	3,518,620
Perpetual securities		**1,007,110**	993,670
Other non-controlling interests		**394,524**	246,598
Put option written on non-controlling interests	*9(a)(ii), 10(b)*	**(703,341)**	(212,900)
Total equity		**3,869,975**	4,545,988
Non-current liabilities			
Borrowings	*11*	**1,821,205**	2,648,725
Warranty provision	*9(b)*	**261,896**	278,908
Deferred revenue		**680,113**	583,405
Retirement benefit obligations		**419,514**	413,482
Deferred income tax liabilities		**355,322**	230,609
Other non-current liabilities	*10*	**1,086,527**	333,332
		4,624,577	4,488,461
Current liabilities			
Trade payables	*7(b)*	**7,339,844**	6,450,792
Notes payable		**1,034,310**	801,974
Derivative financial liabilities		**70,569**	62,694
Other payables and accruals	*9(a)*	**9,892,898**	9,217,764
Provisions	*9(b)*	**788,003**	858,475
Deferred revenue		**734,916**	732,552
Income tax payable		**282,509**	168,779
Borrowings	*11*	**2,641,005**	1,166,692
		22,784,054	19,459,722
Total liabilities		**27,408,631**	23,948,183
Total equity and liabilities		**31,278,606**	28,494,171

CONSOLIDATED CASH FLOW STATEMENT

	Note	**9 months ended December 31, 2018 (unaudited)** *US$'000*	9 months ended December 31, 2017 (unaudited) *US$'000*
Cash flows from operating activities			
Net cash generated from operations	*14*	**2,370,597**	438,639
Interest paid		**(235,895)**	(181,495)
Tax paid		**(184,071)**	(259,982)
Net cash generated from/(used in) operating activities		**1,950,631**	(2,838)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(158,500)**	(156,591)
Purchase of prepaid lease payments		**-**	(10,908)
Sale of property, plant and equipment, prepaid lease payments and construction-in-progress		**114,366**	33,622
Interest acquired in an associate		**-**	(2,205)
Acquisition of subsidiaries, net of cash acquired	*15*	**(104,198)**	-
Deemed disposal of a subsidiary, net of cash disposed		**(21,106)**	-
Net proceeds from disposal of a joint venture		**-**	160,564
Payment for construction-in-progress		**(192,091)**	(217,989)
Payment for intangible assets		**(117,739)**	(104,482)
Purchase of available-for-sale financial assets		**-**	(90,928)
Purchase of financial assets at fair value through profit or loss		**(62,552)**	-
Purchase of financial assets at fair value through other comprehensive income		**(3,802)**	-
Net proceeds from sale of financial assets at fair value through profit or loss		**33,996**	-
Net proceeds from disposal of available-for-sale financial assets		**-**	165
Repayment of deferred consideration		**-**	(686,301)
(Increase)/decrease in bank deposits		**(24,325)**	110,203
Dividends received		**230**	286
Interest received		**17,475**	24,568
Net cash used in investing activities		**(518,246)**	(939,996)
Cash flows from financing activities			
Net proceeds from issue of ordinary shares		**-**	496,041
Capital contribution from other non-controlling interests		**33,521**	1,003
Contribution to employee share trusts		**(88,878)**	(28,634)
Issue of perpetual securities		**-**	149,625
Dividends paid		**(404,350)**	(384,009)
Dividends paid to other non-controlling interests		**(4,758)**	(4,937)
Distribution to perpetual securities holders		**(26,880)**	(26,432)
Proceeds from borrowings		**4,378,800**	5,374,540
Repayments of borrowings		**(3,678,800)**	(5,774,406)
Net cash generated from/(used in) financing activities		**208,655**	(197,209)
Increase/(decrease) in cash and cash equivalents		**1,641,040**	(1,140,043)
Effect of foreign exchange rate changes		**(89,197)**	45,792
Cash and cash equivalents at the beginning of the period		**1,848,017**	2,754,599
Cash and cash equivalents at the end of the period		**3,399,860**	1,660,348

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											
	Share capital *(unaudited)* *US$'000*	Investment revaluation reserve *(unaudited)* *US$'000*	Employee share trusts *(unaudited)* *US$'000*	Share-based compensation reserve *(unaudited)* *US$'000*	Hedging reserve *(unaudited)* *US$'000*	Exchange reserve *(unaudited)* *US$'000*	Other reserve *(unaudited)* *US$'000*	Retained earnings *(unaudited)* *US$'000*	Perpetual securities *(unaudited)* *US$'000*	Other non-controlling interests *(unaudited)* *US$'000*	Put option written on non-controlling interests *(unaudited)* *US$'000*	Total *(unaudited)* *US$'000*
At April 1, 2018	**3,185,923**	**(2,741)**	**(101,702)**	**231,857**	**(16,906)**	**(937,907)**	**71,449**	**1,088,647**	**993,670**	**246,598**	**(212,900)**	**4,545,988**
Change in accounting policy	**–**	**(17,376)**	**–**	**–**	**–**	**–**	**–**	**5,746**	**–**	**–**	**–**	**(11,630)**
Restated total equity	**3,185,923**	**(20,117)**	**(101,702)**	**231,857**	**(16,906)**	**(937,907)**	**71,449**	**1,094,393**	**993,670**	**246,598**	**(212,900)**	**4,534,358**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**478,218**	**40,320**	**5,101**	**–**	**523,639**
Other comprehensive (loss)/income	**–**	**(6,074)**	**–**	**–**	**22,278**	**(490,951)**	**–**	**(2,322)**	**–**	**–**	**–**	**(477,069)**
Total comprehensive (loss)/income for the period	**–**	**(6,074)**	**–**	**–**	**22,278**	**(490,951)**	**–**	**475,896**	**40,320**	**5,101**	**–**	**46,570**
Acquisition of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**115,433**	**–**	**115,433**
Vesting of shares under long-term incentive program	**–**	**–**	**94,909**	**(105,694)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10,785)**
Deemed disposal of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,371)**	**–**	**(1,371)**
Share-based compensation	**–**	**–**	**–**	**155,643**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**155,643**
Termination of put option written on non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**11,913**	**–**	**–**	**–**	**212,900**	**224,813**
Put option written on non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(703,341)**	**(703,341)**
Contribution to employee share trusts	**–**	**–**	**(88,878)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(88,878)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(404,350)**	**–**	**–**	**–**	**(404,350)**
Capital contribution from other non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**33,521**	**–**	**33,521**
Dividends paid to other non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,758)**	**–**	**(4,758)**
Distribution to perpetual securities holders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(26,880)**	**–**	**–**	**(26,880)**
At December 31, 2018	**3,185,923**	**(26,191)**	**(95,671)**	**281,806**	**5,372**	**(1,428,858)**	**83,362**	**1,165,939**	**1,007,110**	**394,524**	**(703,341)**	**3,869,975**
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	–	–	–	–	–	–	–	–	149,625	–	–	149,625
Issue of ordinary shares	496,041	–	–	–	–	–	–	–	–	–	–	496,041
Issue of bonus warrants	–	–	–	–	–	–	(6,399)	–	–	–	–	(6,399)
Capital contribu tion 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	–	–	–	–	–	–	–	–	(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

Notes

1 General information and basis of preparation

The financial information relating to the year ended March 31, 2018 that is included in the FY2018/19 third quarter results announcement as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the consolidated financial statements for the year ended March 31, 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

Basis of preparation

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

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

The Group has adopted the following new standards, interpretation and amendments to an existing standard that are mandatory for the year ending March 31, 2019 which the Group considers is appropriate and relevant to its operations:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers
- HK (IFRIC) – Int 22, Foreign currency transactions and advance consideration
- Amendments to HKFRS 2, Share-based payment

Except for the two new standards, the adoption of the newly effective interpretation and the amendments to an existing standard did not result in substantial changes to the Group's accounting policies or financial results. The following describes the key changes arising from the adoption of the two new standards that 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 ("FVPL"). 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 FVPL 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 FVPL. 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 to be classified as FVOCI instruments with earlier recognition of loss expected, and the amount of any 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. Gains or losses realized on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead will be reclassified below the line from the investments revaluation reserve to retained earnings.

Impact of adoption

The adoption of HKFRS 9 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

The total impact on the Group's retained earnings as at April 1, 2018 is as follows:

	US$'000
Closing retained earnings at March 31, 2018	1,088,647
Reclassify investments from available-for-sale financial assets to financial assets at FVPL	17,376
Bond refinancing	(11,630)
Opening retained earnings at April 1, 2018	1,094,393

(i) Classification and measurement

On April 1, 2018, the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories. The main effects resulting from this reclassification are as follows:

(a) Reclassification from available-for-sale financial assets to financial assets at FVPL

Certain investments were reclassified from available-for-sale financial assets to financial assets at FVPL (US$294,601,000 as at April 1, 2018). They do not meet the HKFRS 9 criteria for classification at amortized cost, because their cash flows do not represent solely payments of principal and interest. Related fair value gains of US$17,376,000 were transferred from the investment revaluation reserve to retained earnings on April 1, 2018. During the nine months ended December 31, 2018, net fair value gains of US$66,241,000 relating to these investments were recognized in profit or loss.

(b) Equity investments previously classified as available-for-sale financial assets

The Group elected to present in OCI the changes in fair value of certain of its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of US$78,476,000 as of April 1, 2018 were reclassified from available-for-sale financial assets to financial assets at FVOCI.

(c) Bond refinancing

Following the adoption of HKFRS 9, the Group could no longer defer the recognition of a loss from the refinancing of a borrowing. Under the Group's previous accounting policies, this loss would have been recognized over the remaining life of the borrowing by adjusting the effective interest rate, on the basis that the terms and conditions of the facility remained largely unchanged. A related loss of US$11,630,000 was adjusted to retained earnings on April 1, 2018.

(d) Impairment of financial assets

The Group applies the HKFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. The Group has concluded that there is no material variance between the ECL and the allowance recorded as at April 1, 2018.

HKFRS 15, Revenue from contracts with customers
This standard replaced 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 be subject to a different timing of recognition, which may impact the amount of revenue recognized by the Group for a given period.

The Group has assessed the effects of applying the new standard on the consolidated financial statements and has not identified any significant impact to the Group.

New standards, interpretation and amendments to existing standards not yet effective

The following new standards, interpretation 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, 2019 and have not been early adopted:

	Effective for annual periods beginning on or after
HKFRS 16, Leases	January 1, 2019
HKFRS 17, Insurance contracts	January 1, 2021
HK (IFRIC) – Int 23, Uncertainty over income tax treatments	January 1, 2019
Amendments to HKFRS 9, Financial instruments	January 1, 2019
Amendments to HKFRS 10 and HKAS 28, Consolidated financial statements and investments in associates	To be determined
Amendments to HKAS 19, Employee benefits	January 1, 2019
Amendments to HKAS 28, Investments in associates and joint ventures	January 1, 2019

Among the above, HKFRS 16 is 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 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.

Upon adoption of HKFRS 16 the majority of operating lease commitments will be recognized in the consolidated balance sheet as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortized cost and the right-of-use asset will be depreciated on a straight-line basis during the lease term.

The Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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

2 Segment information

The Group has formed the Intelligent Devices Group ("IDG"), combining PC and Smart Device Business Group ("PCSD") and Mobile Business Group ("MBG") together. The new business group structure, namely IDG and Data Center Group ("DCG"), replaces the Group's original segment by geography and is designed to align the Group more closely with its strategic direction and market dynamics to better serve customers.

The Group has adopted the new business group structure as the reporting format effective for the year ending March 31, 2019 and the comparative segment information has been presented to reflect the current organizational structure. 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 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 business group of the entities or operations which carry the assets and liabilities, except for entities performing centralized functions for the Group the assets and liabilities of which are not allocated to any segment.

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

	9 months ended December 31, 2018		9 months ended December 31, 2017	
	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*
IDG	**34,554,496**	**1,380,305**	31,540,020	632,776
DCG	**4,773,168**	**(178,051)**	3,171,614	(361,084)
Segment total	**39,327,664**	**1,202,254**	34,711,634	271,692
Unallocated:				
Headquarters and corporate (expenses)/income - net		**(469,982)**		(113,973)
Depreciation and amortization		**(98,995)**		(69,828)
Finance income		**1,285**		4,307
Finance costs		**(91,510)**		(37,342)
Share of losses of associates and joint ventures		**(5,886)**		(2,896)
(Loss)/gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress		**(817)**		63,242
Fair value gain on financial assets at fair value through profit or loss		**66,241**		-
Gain on disposal of financial assets at fair value through profit or loss		**32,896**		-
Dilution gain on interest in associates and a joint venture		**18,121**		1,162
Gain on deemed disposal of a subsidiary		**22,811**		-
Consolidated profit before taxation		**676,418**		116,364

(b) Segment assets for reportable segments

	December 31, 2018	March 31, 2018
	US$'000	*US$'000*
IDG	**20,443,667**	18,955,347
DCG	**4,167,265**	4,729,617
Segment assets for reportable segments	**24,610,932**	23,684,964
Unallocated:		
Deferred income tax assets	**1,759,889**	1,530,623
Financial assets at fair value through profit or loss	**406,340**	-
Financial assets at fair value through other comprehensive income	**80,071**	-
Derivative financial assets	**45,243**	24,890
Available-for-sale financial assets	**-**	373,077
Interests in associates and joint ventures	**73,281**	35,666
Unallocated bank deposits and cash and cash equivalents	**3,508,491**	1,932,323
Unallocated deposits, prepayments and other receivables	**162,829**	242,899
Income tax recoverable	**185,532**	227,203
Other unallocated assets	**445,998**	442,526
Total assets per consolidated balance sheet	**31,278,606**	28,494,171

(c) Segment liabilities for reportable segments

	December 31, 2018 *US$'000*	March 31, 2018 *US$'000*
IDG	**20,479,512**	17,287,630
DCG	**1,503,429**	1,809,529
Segment liabilities for reportable segments	**21,982,941**	19,097,159
Unallocated:		
Deferred income tax liabilities	**355,322**	230,609
Derivative financial liabilities	**70,569**	62,694
Unallocated borrowings	**4,462,210**	3,815,417
Unallocated other payables and accruals	**224,631**	538,972
Unallocated provisions	**1,337**	1,399
Unallocated other non-current liabilities	**29,112**	33,154
Income tax payable	**282,509**	168,779
Total liabilities per consolidated balance sheet	**27,408,631**	23,948,183

(d) Analysis of revenue by geography

	9 months ended December 31, 2018 *US$'000*	9 months ended December 31, 2017 *US$'000*
China	**9,929,812**	9,083,649
AP	**7,231,652**	5,416,097
EMEA	**9,567,406**	9,434,617
AG	**12,598,794**	10,777,271
	39,327,664	34,711,634

(e) Other segment information

	IDG		**DCG**		**Total**	
	2018 *US$'000*	2017 *US$'000*	**2018** *US$'000*	2017 *US$'000*	**2018** *US$'000*	2017 *US$'000*
For the nine months ended December 31						
Depreciation and amortization	**340,321**	319,075	**155,226**	156,358	**495,547**	475,433
Finance income	**16,088**	20,261	**102**	-	**16,190**	20,261
Finance costs	**133,067**	143,789	**14,908**	10,208	**147,975**	153,997
Additions to non-current assets (Note)	**703,115**	411,364	**71,779**	78,606	**774,894**	489,970

Note: Other than financial instruments and deferred income tax assets; excluding other non-current assets and including non-current assets acquired through acquisition of subsidiaries (Note 15).

(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$6,180 million (March 31, 2018: US$6,362 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At December 31, 2018

	China *US$ million*	AP *US$ million*	EMEA *US$ million*	AG *US$ million*	Mature Market *US$ million*	Emerging Market *US$ million*	Total *US$ million*
Goodwill							
- PCSD	**1,031**	**677**	**225**	**319**	**-**	**-**	**2,252**
- MBG	**-**	**-**	**-**	**-**	**679**	**906**	**1,585**
- DCG	**475**	**158**	**89**	**351**	**-**	**-**	**1,073**
Trademarks and trade names							
- PCSD	**209**	**59**	**105**	**67**	**-**	**-**	**440**
- MBG	**-**	**-**	**-**	**-**	**197**	**263**	**460**
- DCG	**162**	**54**	**31**	**123**	**-**	**-**	**370**

At March 31, 2018

	China *US$ million*	AP *US$ million*	EMEA *US$ million*	AG *US$ million*	Mature Market *US$ million*	Emerging Market *US$ million*	Total *US$ million*
Goodwill							
- PCSD	1,117	574	247	334	-	-	2,272
- MBG	-	-	-	-	717	959	1,676
- DCG	503	161	123	353	-	-	1,140
Trademarks and trade names							
- PCSD	209	59	109	67	-	-	444
- MBG	-	-	-	-	197	263	460
- DCG	162	54	31	123	-	-	370

Prior to the announcement of a new organizational structure in May 2018 by combining PCSD and MBG under IDG, MBG has adopted new reporting business units based upon a market structure, namely MBG Mature Market and MBG Emerging Market. MBG's goodwill and trademarks and trade names with indefinite useful lives have been reallocated to the CGU affected using a relative value approach in accordance with HKAS 36 “Impairment of assets”.

The directors are of the view that there was no indication of impairment of goodwill and trademarks and trade names as at December 31, 2018 (March 31, 2018: Nil).

3 Operating profit

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

	3 months ended December 31, 2018 *US$'000*	**9 months ended December 31, 2018** *US$'000*	3 months ended December 31, 2017 *US$'000*	9 months ended December 31, 2017 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**75,248**	**219,504**	67,178	192,082
Amortization of intangible assets	**124,571**	**375,038**	122,954	353,179
Employee benefit costs, including	**1,015,040**	**2,961,493**	969,269	2,695,716
- long-term incentive awards	***56,017***	***155,643***	*49,241*	*147,580*
- severance and related costs	-	-	*61,497*	*61,497*
Rental expenses under operating leases	**30,109**	**101,883**	35,183	109,682
Loss/(gain) on property, plant and equipment, prepaid lease payments and construction-in-progress	**668**	**3,124**	(57,756)	(53,196)
Fair value loss/(gain) on financial assets at fair value through profit or loss	**5,270**	**(66,241)**	-	-
Gain on disposal of financial assets at fair value through profit or loss	**-**	**(32,896)**	-	-
Dilution gain on interest in associates and a joint venture	**-**	**(18,121)**	(1,162)	(1,162)
Gain on deemed disposal of a subsidiary	**(22,811)**	**(22,811)**	-	-

4 Finance income and costs

(a) Finance income

	3 months ended December 31, 2018 *US$'000*	**9 months ended December 31, 2018** *US$'000*	3 months ended December 31, 2017 *US$'000*	9 months ended December 31, 2017 *US$'000*
Interest on bank deposits	**4,527**	**15,279**	5,545	21,233
Interest on money market funds	**1,474**	**2,196**	1,364	3,335
	6,001	**17,475**	6,909	24,568

(b) Finance costs

	3 months ended December 31, 2018	**9 months ended December 31, 2018**	3 months ended December 31, 2017	9 months ended December 31, 2017
	US$'000	***US$'000***	*US$'000*	*US$'000*
Interest on bank loans and overdrafts	**23,760**	**70,644**	11,176	31,789
Interest on notes	**32,464**	**92,262**	30,431	93,121
Interest on promissory note	**-**	**-**	-	11,589
Factoring costs	**24,623**	**67,250**	16,420	50,112
Commitment fee	**33**	**393**	267	671
Interest on contingent/deferred considerations and put option liabilities	**4,355**	**7,379**	-	1,110
Others	**670**	**1,557**	1,471	2,947
	85,905	**239,485**	59,765	191,339

5 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended December 31, 2018	**9 months ended December 31, 2018**	3 months ended December 31, 2017	9 months ended December 31, 2017
	US$'000	***US$'000***	*US$'000*	*US$'000*
Current tax				
Hong Kong profits tax	**8,995**	**17,760**	12,297	20,785
Taxation outside Hong Kong	**128,379**	**304,156**	77,076	229,303
Deferred tax				
Credit for the period	**(51,886)**	**(169,137)**	(64,570)	(358,509)
Effect of change in tax rate	**-**	**-**	400,000	400,000
	85,488	**152,779**	424,803	291,579

Hong Kong profits tax has been provided for at the rate of 16.5% (2017/18: 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 US on December 22, 2017, the US corporate tax rate is reduced for tax years beginning after December 31, 2017. This rate change led 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.

6 Earnings/(loss) per share

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) 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, 2018	**9 months ended December 31, 2018**	3 months ended December 31, 2017	9 months ended December 31, 2017
Weighted average number of ordinary shares in issue	**12,014,791,614**	**12,014,791,614**	11,542,024,541	11,253,636,626
Adjustment for shares held by employee share trusts	**(116,286,458)**	**(121,645,000)**	(121,393,127)	(123,797,116)
Weighted average number of ordinary shares in issue for calculation of basic earnings/(loss) per share	**11,898,505,156**	**11,893,146,614**	11,420,631,414	11,129,839,510
	US$'000	***US$'000***	*US$'000*	*US$'000*
Profit/(loss) attributable to equity holders of the Company	**232,771**	**478,218**	(288,768)	(222,016)

(b) Diluted

Diluted earnings/(loss) 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 dilutive potential ordinary shares, namely long-term incentive awards and bonus warrants. Long-term incentive awards were dilutive for the three months and nine months ended December 31, 2018 and anti-dilutive for the three months and nine months ended December 31, 2017. Bonus warrants were dilutive for the three months ended December 31, 2018 and anti-dilutive for the nine months ended December 31, 2018 and three and nine months ended December 31, 2017.

	3 months ended December 31, 2018	**9 months ended December 31, 2018**	3 months ended December 31, 2017	9 months ended December 31, 2017
Weighted average number of ordinary shares in issue for calculation of basic earnings/(loss) per share	**11,898,505,156**	**11,893,146,614**	11,420,631,414	11,129,839,510
Adjustment for long-term incentive awards and bonus warrants	**253,804,385**	**38,371,004**	-	-
Weighted average number of ordinary shares in issue for calculation of diluted earnings/(loss) per share	**12,152,309,541**	**11,931,517,618**	11,420,631,414	11,129,839,510
	US$'000	**US$'000**	US$'000	US$'000
Profit/(loss) attributable to equity holders of the Company used to determine diluted earnings/(loss) per share	**232,771**	**478,218**	(288,768)	(222,016)

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 profit/(loss) attributable to equity holders of the Company used for the calculation of diluted earnings/(loss) per share.

7 Ageing analysis

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

	December 31, 2018	March 31, 2018
	US$'000	*US$'000*
0 – 30 days	**3,739,233**	3,046,240
31 – 60 days	**1,798,257**	1,169,286
61 – 90 days	**510,373**	320,183
Over 90 days	**608,760**	545,629
	6,656,623	5,081,338
Less: provision for impairment	**(101,351)**	(108,616)
Trade receivables – net	**6,555,272**	4,972,722

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

	December 31, 2018	March 31, 2018
	US$'000	*US$'000*
0 – 30 days	**4,170,727**	3,694,507
31 – 60 days	**1,780,857**	1,793,380
61 – 90 days	**1,007,283**	727,029
Over 90 days	**380,977**	235,876
	7,339,844	6,450,792

8 Deposits, prepayments and other receivables

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

	December 31, 2018	March 31, 2018
	US$'000	*US$'000*
Deposits	**18,578**	15,818
Other receivables	**3,255,873**	3,346,475
Prepayments	**1,104,599**	1,341,042
	4,379,050	4,703,335

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

9 Provisions, other payables and accruals

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

	December 31, 2018	March 31, 2018
	US$'000	*US$'000*
Accruals	**1,784,351**	1,865,507
Allowance for billing adjustments (i)	**1,733,070**	1,634,287
Written put option liability (ii)	**-**	224,813
Other payables (iii)	**6,375,477**	5,493,157
	9,892,898	9,217,764

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 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.

During the period, the Company entered into a put option termination agreement with Compal, while Compal signed a share purchase agreement with Hefei Zhi Ju Sheng Bao Equity Investment Co., Ltd. ("ZJSB") to dispose the 49% interest in JV Co to ZJSB. Please refer to note 10(b) for details of the put option granted.

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 as a result of 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.

(iii) Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors.

(iv) The carrying amounts of other payables and accruals approximate their fair values.

(b) The components of provisions are as follows:

	Warranty	**Environmental restoration**	**Restructuring**	**Total**
	US$'000	***US$'000***	***US$'000***	***US$'000***
Year ended March 31, 2018				
At the beginning of the year	1,061,906	8,390	89,652	1,159,948
Exchange adjustment	24,577	638	3,794	29,009
Provisions made	895,939	9,662	100,775	1,006,376
Amounts utilized	(901,204)	(9,771)	(140,168)	(1,051,143)
	1,081,218	8,919	54,053	1,144,190
Long-term portion classified as non-current liabilities	(278,908)	(6,807)	-	(285,715)
At the end of the year	802,310	2,112	54,053	858,475
Period ended December 31, 2018				
At the beginning of the period	**1,081,218**	**8,919**	**54,053**	**1,144,190**
Exchange adjustment	**(38,463)**	**(46)**	**(1,988)**	**(40,497)**
Provisions made	**631,477**	**10,406**	**-**	**641,883**
Amounts utilized	**(656,624)**	**(7,092)**	**(22,730)**	**(686,446)**
Acquisition of subsidiaries	**-**	**24,510**	**-**	**24,510**
	1,017,608	**36,697**	**29,335**	**1,083,640**
Long-term portion classified as non-current liabilities	**(261,896)**	**(33,741)**	**-**	**(295,637)**
At the end of the period	**755,712**	**2,956**	**29,335**	**788,003**

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

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

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

10 Other non-current liabilities

Details of other non-current liabilities are as follows:

	December 31, 2018 *US$'000*	March 31, 2018 *US$'000*
Contingent consideration (a)	**111,713**	-
Deferred consideration (a)	**25,072**	25,072
Written put option liabilities (b)	**714,141**	-
Environmental restoration (Note 9(b))	**33,741**	6,807
Government incentives and grants received in advance (c)	**51,722**	58,988
Deferred rent liabilities	**86,698**	94,377
Others	**63,440**	148,088
	1,086,527	333,332

(a) Pursuant to the completion of a business combination, the Group is required to pay in cash to the then respective sellers contingent consideration with reference to certain performance indicators as written in the respective agreements with the sellers; and deferred consideration. Accordingly, non-current liability in respect of the present value of contingent and deferred considerations have been recognized. The contingent considerations are subsequently re-measured at their fair values as a result of change in the expected performance at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. Deferred consideration is subsequently carried at amortized cost.

As at December 31, 2018, the potential undiscounted amounts of future payments in respect of the contingent and deferred considerations that the Group could be required to make to the then respective sellers under such arrangements are as follows:

Joint venture with NEC Corporation	US$25 million
Fujitsu Limited ("Fujitsu")	JPY2.55 billion to JPY12.75 billion

(b) (i) Pursuant to the joint venture agreement entered into between the Company and Fujitsu, the Company and Fujitsu are respectively granted call and put options which entitle the Company to purchase from Fujitsu and Development Bank of Japan ("DBJ"), or Fujitsu and DBJ to sell to the Company, the 49% interest in Fujitsu Client Computing Limited and its subsidiary, Shimane Fujitsu Limited (together "FCCL"). Both options will be exercisable following the fifth anniversary of the date of completion. The exercise price for the call and put options will be determined based on the fair value of the 49% interest as of the day of exercising the option. FCCL will pay to its shareholders by way of dividends in their respective shareholding proportion in a range of FCCL's profits available for distribution under applicable law in respect of each financial year during the term of the joint venture agreement, after making transfers to reserves and provisions.

(ii) With reference to note 9(a)(ii), during the period, ZJSB acquired the 49% interest in JV Co from Compal. Pursuant to the option agreement entered into between a wholly-owned subsidiary of the Group and Hefei Yuan Jia Start-up Investment LLP ("Yuan Jia"), which holds 99.31% interest in ZJSB, the Group and Yuan Jia are respectively granted call and put options which entitle the Group to purchase from Yuan Jia, or Yuan Jia to sell to the Group, the 99.31% interest in ZJSB. The call and put options will be exercisable at any time after August 31, 2022 and August 31, 2021 respectively. The exercise price for the call and put options will be determined in accordance with the joint venture agreement, and up to a maximum of RMB2,300 million (approximately US$334 million).

The financial liability that may become payable under the put option and dividend requirement 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 as a result of the change in the expected performance at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. In the event that the put option lapses unexercised, the liability will be derecognized with a corresponding adjustment to equity.

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

11 Borrowings

	December 31, 2018	March 31, 2018
	US$'000	*US$'000*
Current liabilities		
Short-term loans (i)	**1,855,191**	1,166,692
Note (ii)	**785,814**	-
Non-current liabilities	**2,641,005**	1,166,692
Notes (ii)	**1,821,205**	2,648,725
	4,462,210	3,815,417

(i) The majority of the short-term bank loans are denominated in United States dollar. As at December 31, 2018, the Group has total revolving and short-term loan facilities of US$2,596 million (March 31, 2018: US$1,896 million) which has been utilized to the extent of US$1,870 million (March 31, 2018: US$1,170 million).

(ii)

Issue date	Principal amount	Term	Interest rate per annum	Due date	December 31, 2018 US$'000	March 31, 2018 US$'000
May 8, 2014	US$786 million	5 years	4.7%	May 2019	**785,814**	774,341
June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	**580,221**	635,015
March 16, 2017	US$500 million	5 years	3.875%	March 2022	**497,188**	496,590
March 29, 2018	US$750 million	5 years	4.75%	March 2023	**743,796**	742,779
					2,607,019	2,648,725

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at December 31, 2018 and March 31, 2018 are as follows:

	December 31, 2018	March 31, 2018
	US$'000	*US$'000*
Within 1 year	**2,641,005**	1,166,692
Over 1 to 3 years	**580,221**	1,409,356
Over 3 to 5 years	**1,240,984**	1,239,369
	4,462,210	3,815,417

12 Share capital

	December 31, 2018		March 31, 2018	
	Number of shares	***US$'000***	*Number of shares*	*US$'000*
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the period/year	**12,014,791,614**	**3,185,923**	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**	12,014,791,614	3,185,923

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

13 Perpetual securities

In March 2017, the Group issued a total of US$850 million perpetual securities through its wholly owned subsidiary, Lenovo Perpetual Securities Limited ("the issuer"). The net proceeds amounted to approximately US$842 million. The securities are perpetual, non-callable in the first 5 years and entitle the holders to receive distributions at a distribution rate of 5.375% per annum in the first 5 years, floating thereafter and with a fixed step up margin, payable semi-annually in arrears, cumulative and compounding. As the perpetual securities do not contain any contractual obligation to pay cash or other financial assets pursuant to the terms and conditions of the issue; in accordance with HKAS 32, they are classified as equity and for accounting purpose regarded as part of non-controlling interests.

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

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

	9 months ended December 31, 2018 US$'000	9 months ended December 31, 2017 US$'000
Profit before taxation	**676,418**	116,364
Share of losses of associates and joint ventures	**5,886**	2,896
Finance income	**(17,475)**	(24,568)
Finance costs	**239,486**	191,339
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**219,504**	192,082
Amortization of intangible assets	**375,038**	353,179
Share-based compensation	**155,643**	147,580
Impairment of property, plant and equipment	**-**	4,608
Loss/(gain) on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**3,124**	(53,196)
Loss on disposal of intangible assets	**694**	711
Gain on disposal of financial assets at fair value through profit or loss	**(32,896)**	-
Net gain on disposal of available-for-sale financial assets	**-**	(15)
Gain on deemed disposal of a subsidiary	**(22,811)**	-
Dilution gain on interest in associates and a joint venture	**(18,121)**	(1,162)
Fair value change on bonus warrants	**3,541**	(695)
Fair value change on financial instruments	**6,259**	11,929
Fair value change on financial assets at fair value through profit or loss	**(66,241)**	-
Dividend income	**(230)**	(286)
Decrease/(increase) in inventories	**139,030**	(1,189,274)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(785,491)**	(2,301,668)
Increase in trade payables, notes payable, provisions, other payables and accruals	**1,410,171**	3,169,686
Effect of foreign exchange rate changes	**79,068**	(180,871)
Net cash generated from operations	**2,370,597**	438,639

Reconciliation of financing liabilities

This section sets out an analysis of financing liabilities and the movements in financing liabilities for the period presented.

Financing liabilities	**December 31, 2018** ***US$'000***	March 31, 2018 *US$'000*
Short-term loans – current	**1,855,191**	1,166,692
Note – current	**785,814**	-
Notes – non-current	**1,821,205**	2,648,725
Financing liabilities	**4,462,210**	3,815,417
Short-term loans – variable interest rates	**1,855,191**	1,166,692
Notes – fixed interest rates	**2,607,019**	2,648,725
Financing liabilities	**4,462,210**	3,815,417

	Short-term loans current US$'000	Long-term loans non-current US$'000	Note current US$'000	Notes non-current US$'000	Total US$'000
Financing liabilities as at April 1, 2017	70,003	397,687	-	2,569,005	3,036,695
Proceeds from borrowings	7,413,740	12,000	-	-	7,425,740
Repayments of borrowings	(6,324,406)	(400,000)	-	-	(6,724,406)
Issue of notes	-	-	-	749,119	749,119
Repayment of notes	-	-	-	(723,389)	(723,389)
Foreign exchange adjustments	-	-	-	56,175	56,175
Other non-cash movements	7,355	(9,687)	-	(2,185)	(4,517)
Financing liabilities as at March 31, 2018	1,166,692	-	-	2,648,725	3,815,417
Financing liabilities as at April 1, 2018	**1,166,692**	**-**	**-**	**2,648,725**	**3,815,417**
Proceeds from borrowings	**4,378,800**	**-**	**-**	**-**	**4,378,800**
Repayments of borrowings	**(3,678,800)**	**-**	**-**	**-**	**(3,678,800)**
Transfer	**-**	**-**	**774,341**	**(774,341)**	**-**
Foreign exchange adjustments	**-**	**-**	**-**	**(55,350)**	**(55,350)**
Other non-cash movements	**(11,501)**	**-**	**11,473**	**2,171**	**2,143**
Financing liabilities as at December 31, 2018	**1,855,191**	**-**	**785,814**	**1,821,205**	**4,462,210**

15 Business combination

On May 2, 2018, the Group acquired 51% of FCCL. FCCL is principally engaged in manufacturing and distribution of PC products.

Immediately following completion, the Company, Fujitsu Corporation (“Fujitsu”), and Development Bank of Japan (“DBJ”) respectively own 51%, 44%, and 5% of the interest in FCCL.

The acquisition provides the Group with efficiencies and economies of scale to benefit the development, manufacture and distribution of Fujitsu-branded personal computer products, while enabling improved global penetration of the Fujitsu personal computer brand for the benefit of both consumer and enterprise market customers.

The estimated total consideration for the business combination activity completed during the period is approximately US$238 million, including initial and contingent consideration.

Set forth below is the preliminary calculation of goodwill:

(a) At completion date, cash payment comprising cash consideration of JPY17,680,280,000 (US$161,008,130) net of a downward adjustment of JPY3,722,999,906 (US$33,904,016) calculated based on the actual working capital amount and the actual net debt as at the completion date was paid to Fujitsu Limited.

(b) The contingent consideration is to be payable in cash after March 31, 2020. The present value of contingent consideration is included in other non-current liabilities in the balance sheet.

	US$'000
Purchase consideration:	
- Cash paid (a)	**127,104**
- Present value of contingent consideration (b)	**111,047**
Total purchase consideration	**238,151**
Less: Fair value of net assets acquired	**(120,145)**
Goodwill	**118,006**

The major components of assets and liabilities arising from the business combination activity are as follows:

	US$'000
Cash and cash equivalents	**22,906**
Property, plant and equipment	**34,345**
Deferred tax assets less liabilities	**(20,059)**
Intangible assets	**152,868**
Other non-current assets	**8,674**
Net working capital except cash and cash equivalents	**76,129**
Non-current liabilities	**(39,285)**
Fair value of net assets of FCCL	**235,578**
Less: share of other non-controlling interest	**(115,433)**
Fair value of net assets attributable to 51% interest acquired	**120,145**

Intangible assets arising from the business combination activity mainly represent customer relationships. The Group has engaged an external valuer to perform fair value assessments on these intangible assets in accordance with HKAS 38 "Intangible Assets" and HKFRS 3 (Revised) "Business Combination".

At December 31, 2018, the Group has not finalized the fair value assessments for net assets acquired (including intangible assets) from the business combination activity. The relevant fair values of net assets stated above are on a provisional basis.

16 Non-adjusting post balance sheet event

On January 24, 2019, the Company completed the issuance of 5-Year US$675 million convertible bonds bearing annual interest at 3.375% due in January 2024 ("the Bonds") to third party professional investors ("the bondholders"). The bondholders have the right, at any time on or after 41 days after the date of issue up to the 10th day prior to the maturity date, to convert part or all of the outstanding principal amount of the Bonds into ordinary shares of the Company at a conversion price of HK$7.99 per share, subject to adjustments. The outstanding principal amount of the Bonds is repayable by the Company upon the maturity of the Bonds on January 24, 2024, if not previously redeemed, converted or purchased and cancelled.

Assuming full conversion of the Bonds at the initial conversion price of HK$7.99 per share, the Bonds will be convertible into 662,539,112 shares, representing (i) approximately 5.51% of the existing issued share capital of the Company as at the date of issue; and (ii) approximately 5.23% of the issued share capital of the Company, as enlarged by full conversion of the Bonds (assuming there will be no other changes in the Company's shares).

DEBENTURES ISSUED

The Company issued US$675,000,000 3.375% convertible bonds due 2024 on January 24, 2019 which were listed on The Stock Exchange of Hong Kong Limited. The bonds, assuming full conversion, will be convertible into 662,539,112 shares at the conversion price of HK$7.99 per share in accordance with the subscription agreement dated January 15, 2019 ("Conversion Shares").

The proceeds of the issues amounting to about US$675,000,000 would be used for the repayment of the Company's 4.700% Senior Unsecured Notes due 2019 and general corporate purposes. The Conversion Shares (if and when issued) will be issued under the general mandate granted to the directors pursuant to an ordinary resolution of the Company passed at the annual general meeting held on July 5, 2018.

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

During the nine months ended December 31, 2018, 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 140,624,581 shares from the market for award to employees upon vesting. Details of these program and plan are set out in the 2018/19 interim report of the Company.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company has been established since 1999 with the responsibility to assist the Board in providing an independent review of the financial statements, risk management and internal control systems. It acts in accordance with its terms of reference which clearly deal with its membership, authority, duties and frequency of meetings. Currently, the Audit Committee is chaired by an independent non-executive director, Mr. Nicholas C. Allen, and comprises four members including Mr. Nicholas C. Allen and the other three independent non-executive directors, 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, 2018. 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, 2018, 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 also calls and chairs meeting(s) with all independent non-executive directors without management and executive director present at least once a year on such matters as are deemed appropriate. Accordingly, the Board believes that the current Board structure with combined roles of Chairman and CEO, the appointment of Lead Independent Director and a vast majority of independent non-executive directors 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

February 21, 2019

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.