Lenovo Group Limited 聯想集團有限公司

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

FY2018/19 ANNUAL RESULTS ANNOUNCEMENT

ANNUAL RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") announces the audited results of the Company and its subsidiaries (the "Group") for the year ended March 31, 2019 together with comparative figures of last year, as follows:

FINANCIAL HIGHLIGHTS

- Record breaking Group revenue in FY19 of US$51B; pre-tax profit is 5.6 times of previous FY.
- PC and Smart Device business and Data Center Group set new revenue records in FY19; Mobile Business Group turned profitable on pre-tax profit level in the second half of the fiscal year.
- Operating cash flow improved US$2.2B YTY in FY19, driven by operational improvements in the three business groups, along with better working capital management.
- In FY19, the Group strengthened its end-to-end solution capabilities, leading to double-digit year-on-year revenue growth in Software & Services.
- Looking forward, Lenovo has a vision to become the leader and the enabler in the age of intelligent transformation, by capturing opportunities in Smart IoT, Smart Infrastructure and Smart Verticals.

	3 months ended March 31, 2019 *US$ million*	Year ended March 31, 2019 *US$ million*	3 months ended March 31, 2018 *US$ million*	Year ended March 31, 2018 *US$ million*	Year-on-year change 3 months ended March 31	Year-on-year change Full-year
Revenue	11,710	51,038	10,638	45,350	10%	13%
Gross profit	1,895	7,371	1,544	6,272	23%	18%
Gross profit margin	16.2%	14.4%	14.5%	13.8%	1.7 pts	0.6 pts
Operating expenses	(1,622)	(6,193)	(1,443)	(5,885)	12%	5%
Operating profit	273	1,178	101	387	172%	205%
Other non-operating expenses - net	(93)	(322)	(64)	(234)	46%	38%
Profit before taxation	180	856	37	153	389%	459%
Profit/(loss) for the period/year	134	657	49	(127)	176%	N/A
Profit/(loss) attributable to equity holders of the Company	118	597	33	(189)	261%	N/A
Earnings/(loss) per share attributable to equity holders of the Company						
Basic	US 1.00 cents	US 5.01 cents	US 0.28 cents	US (1.67) cents	US 0.72 cents	N/A
Diluted	US 0.96 cents	US 4.96 cents	US 0.28 cents	US (1.67) cents	US 0.68 cents	N/A

PROPOSED DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK21.8 cents per share for the year ended March 31, 2019 (2018: HK20.5 cents). Subject to shareholders' approval at the forthcoming annual general meeting to be held on July 9, 2019 ("AGM"), the proposed final dividend will be payable on July 24, 2019 to the shareholders whose names appear on the register of members of the Company on July 15, 2019.

CLOSURE OF REGISTER OF MEMBERS

For the purposes of determining shareholders' eligibility to attend and vote at the AGM, and entitlement to the proposed final dividend, the register of members of the Company will be closed. Details of such closures are set out below:

(i) For determining shareholders' eligibility to attend and vote at the AGM:

Latest time to lodge transfer documents for registration	4:30 p.m. on July 2, 2019
Closure of register of members	From July 3 to July 9, 2019
Record date	July 3, 2019

(ii) For determining shareholders' entitlement to the proposed final dividend:

Latest time to lodge transfer documents for registration	4:30 p.m. on July 12, 2019
Closure of register of members	July 15, 2019
Record date	July 15, 2019

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the AGM, and to qualify for the proposed final dividend, all properly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than the aforementioned latest times.

BUSINESS REVIEW AND OUTLOOK

Highlights

During the fiscal year ended March 31, 2019, Lenovo (the Group) achieved a record-breaking revenue of US$51 billion and its pre-tax profit is 5.6 times of last fiscal year through strong execution of its Intelligent Transformation strategy. Lenovo has entered a new phase of growth, as it successfully transformed from a single-business to a multi-business company. Product innovation remains critical to long-term growth and the Group is forging a customer-centric business model to further accelerate growth.

During the fiscal year, despite a more challenging macro environment, Lenovo succeeded in many ways in creating significant values for its stakeholders on all fronts, including the return of consistent dividends to its shareholders, and the more recent naming by Fortune as one of the "Most Admired Companies" in 2019. The Group also made it to the 2019 Q1 "Carbon Clean 200" list and "Working Mother 100 Best Companies" in 2018 respectively for its efforts in clean energy and promoting social equality to all its employees.

Financial Performance

For the fiscal year, the Group's total revenue grew by 12.5 percent year-on-year to US$51,038 million as both PC and Smart Device (PCSD) business and Data Center Group (DCG) scored record revenue. The Group's gross profit jumped by 18 percent year-on-year to US$7,371 million. Gross margin advanced by 0.6 percentage points year-on-year to 14.4 percent, largely attributable to margin expansion of its PCSD business and Mobile Business Group (MBG). The expense-to-revenue ratio dropped 0.9 percentage points to 12.1 percent on the back of disciplined cost control across all business groups.

The Group's pre-tax profit was US$856 million for the fiscal year, a significant improvement from US$153 million pre-tax profit in the previous fiscal year. Profit attributable to equity holders reached US$597 million, reversing a loss of US$189 million in the previous fiscal year, when a one-time non-cash write-off of US$400 million on deferred income tax assets weighed on earnings.

All of the three business groups achieved stellar results during the fiscal year. In the PCSD business, Lenovo regained the world's number one spot in PC in the fiscal year with record revenue and maintained its industry-leading profitability. The MBG business staged a successful turnaround and became profitable on pre-tax profit level in the second half of the fiscal year while revenue growth resumed in the fourth fiscal quarter. In DCG, the strategy in place to win in high-growth segments enabled DCG to grow 37 percent in revenue year-on-year. The greater economy of scale and improvement in in-house design/manufacturing and efficiency resulted in a significant loss reduction in the fiscal year.

The enhanced operational performances in the three business groups, along with better working capital management, led to a US$2.2 billion year-on-year improvement in operating cash flow during the fiscal year. The Group ended the fiscal year with US$1.5 billion operating cash flow and net debt was down to US$1.6 billion, representing a 13 percent year-on-year reduction.

On January 24, 2019, the Group issued US$675 million 3.375% convertible bonds due 2024, listed on The Stock Exchange of Hong Kong Limited, which were mainly used for the repayment of the Group's 4.700% Senior Unsecured Note due in May 2019. For details of the convertible bond, please refer to Note 12 under Financial Information.

Performance by Product Business Groups

Intelligent Devices Group (IDG)

IDG, consisting of PCSD and MBG businesses, has reaped much benefit from operational synergies including the shared use of common global supply chain and services. IDG's revenue grew 10 percent year-on-year to US$45,013 million and its pre-tax profit more than doubled the year before to reach US$1,843 million. The key growth driver for IDG's top-line is the strong performance of PCSD, with the highest growth seen among the global top-5 vendors. The growth strategy of PCSD focusing on commercial, high-growth and premium segments has paid off in delivering record revenue for the fiscal year. Meanwhile, IDG's solid expansion of pre-tax profit was supported by enhanced profitability of PCSD and MBG's success in turning profitable in the second half of the fiscal year.

Intelligent Devices Group - PC and Smart Device (PCSD) Business

Lenovo regained the world's number one spot in PC during the fiscal year while maintaining its industry-leading margin, with record revenue and pre-tax profit. Despite an industry-wide processor supply shortage in the second half of the fiscal year, the PCSD business was up 14 percent year-on-year to a record revenue of US$38,475 million for the fiscal year, representing approximately 75 percent of the Group's total revenue. Performances even exclude the Fujitsu contribution, which became operational in May 2018, outperformed the market both in revenue and shipment. Pre-tax profit of the PCSD business also reached a record of US$1,982 million, up 34 percent year-on-year, owing to a well-executed strategy in driving product mix improvement. Pre-tax profit margin edged up 0.8 percentage points year-on-year to 5.2 percent in the fiscal year.

With record market share of 23.4%, Lenovo was the fastest growing PC player among the global top-5 OEMs, according to industry data. The stellar market share gain was a testament to the well-orchestrated strategy to drive growth in the premium and high-growth segments. With the success in shifting the product segment mix, Lenovo has been able to expand its average selling price to outpace industry growth not only in unit shipment but also in revenue. Lenovo took the top spot in the US$800 and above price segments in commercial notebook for the fiscal year.

The Group also achieved premium-to-market revenue growth in each of the following market segments: Workstation, Thin & Light, Visuals, and Gaming PC. The market share gain was consistent across all major geographical markets, a strong evidence of the Group's strength in global sales channel, supply chain management and product innovation.

From the geographic perspective, the stellar market share gain and revenue growth were mainly driven by Asia Pacific (AP) and North America (NA). China and Europe-Middle East-Africa (EMEA) both grew premium to market in revenue but the Group was more focused in margin protection in these regions.

Intelligent Devices Group - Mobile Business Group (MBG)

At the start of the fiscal year, MBG initiated a set of strategic shifts to reduce expenses, simplify its product portfolio, and focus on core markets in Latin and North America. The annual expense for MBG was reduced from roughly US$1.5 billion to US$1 billion, resetting the baseline of the business group to pursue a sustainable growth path. In the second half of the fiscal year, the Mobile business delivered pre-tax profit for the first time since the Group's acquisition of Motorola Mobility. In the fourth quarter of the fiscal year, MBG saw its top-line advancing annually, as it entered the next growth phase.

The strategic focus on core markets required a shift in resource allocation of the business unit's global operation to selected regions and countries where the Mobile business has substantial competitive advantages to capture market share. The change in strategy temporarily caused the business's revenue – accounting for approximately 13 percent of the Group's total revenue - to skid by 11 percent year-on-year to US$6,460 million in the fiscal year. Nevertheless, in the fourth quarter, MBG delivered 15 percent year-on-year growth in revenue, a clear evidence that the market share gain in its core markets, together with the successful launch of 7^{th} Gen Moto G and strong momentum of its Motorola One Franchise, are now more than enough to offset the negative impact from the readjusted business model.

The Group also took actions to simplify its product portfolio and improve scale on per model basis by more than 60%. All of these initiatives led to an improved expense-to-revenue ratio while maintaining efficiency and competitiveness in marketing, research and development spending. MBG registered US$139 million loss before taxation in the fiscal year, a significant improvement from a loss of US$603 million in the previous fiscal year. The lower expense structure, coupled with reviving revenue growth, has established an important milestone for MBG to realize profitable long-term growth.

In MBG's core markets, the business in Latin America has been profitable with continued share gains in the fiscal year. Shipments in North America also saw remarkable growth of 48 percent year-on-year in the fiscal year, thanks to successful channel expansion and launch of new products. The Mobile business in North America turned profitable on pre-tax profit level in the second half of the fiscal year. In China, the Group further capitalized on its established brand equity and new model launches, resulting in revenue and bottom line improvements.

Data Center Group (DCG)

DCG further strengthened its business model, product leadership, and sales and marketing, and concluded the fiscal year with a record revenue of US$6,025 million, representing approximately 12 percent of the Group's total revenue. The annual revenue growth of 37.1 percent was the highest in last three years, driven by strong momentum in hyperscale, software-defined infrastructure and high performance computing. Loss from DCG also considerably narrowed year-on-year to US$231 million in the fiscal year, compared to US$425 million loss in the previous fiscal year, as the Group aims to build a more sustainable and profitable business model.

Market share gain in the high-growth segments is a key driver to DCG's fast growth. The hyperscale business yielded triple-digit growth in revenue and margin improvement. DCG's investments continued to bear fruit with improvements seen in in-house design, manufacturing capabilities and customer mix. Software-defined infrastructure business almost doubled its revenue and margin improved in the fiscal year. The Group also further solidified its global leading position on the High Performance Computing Top 500 List. Together, these high-growth segments now contributed nearly half of DCG's top-line.

DCG ratcheted up its efforts to expand in other growing segments. In storage, Lenovo's global strategic partnership with NetApp, including a new joint venture in China that operationalized in the fourth fiscal quarter, has enabled the Group to address demand of nearly the entire storage and data management market. The Group now boasts the most compelling ThinkSystem and ThinkAgile product line along with its largest storage portfolio in history.

The strong revenue growth was evident across all geographies, especially in NA and EMEA in the high-growth segments, including hyperscale, software-defined infrastructure and high performance computing.

Outlook

Some of the global economies are starting to see the negative impact arising from geopolitical uncertainties. Operating in this complex global environment, management of Lenovo will leverage its extensive experience in managing a multitude of macro risks including policy changes and exercise sound judgement in evaluating options to further improve its worldwide manufacturing capabilities and supply chain flexibility. The Group also strives to be the industry leader in cost competitiveness leveraging its strength in in-house manufacturing and outsourcing. The Group is well poised to navigate the turbulence in the geopolitical and macro-economic environment.

The Group targets to secure its premium-to-market revenue growth with industry-leading profitability in its PCSD business, while channeling investments to build capabilities in smart devices and drive software & service revenue. Lenovo will promptly act on industry consolidation opportunities, particularly in the premium and high-growth segments. For its Mobile business, the Group will continue to strengthen its competitiveness in its target markets to sustain profitable growth.

In fiscal quarter four, despite customers await for the new x86 server platform, DCG revenue still managed to grow moderately in fiscal quarter four and margin improved year-on-year. Lenovo will continue to drive premium-to-market growth, especially in high-growth segments. In hyperscale, the Group will continue to strengthen its in-house design and manufacturing capabilities, bring superior solutions to global hyperscalers, and build a profitable business model for this segment. In storage and networking, its strategic partnerships, including that with NetApp, are paving the road towards building a global franchise. Lenovo will also further enhance capabilities in professional services and solution-based expertise.

Strategic Highlights

The Group strives to be the leader and the enabler of the global trend towards intelligent transformation. During the fiscal year, Lenovo accelerated its strategic transformation and further sharpened its investment focus in five key areas: smart internet of things (IoT), edge computing, cloud, big data and artificial intelligence (AI) in vertical industries. These investments aim to strengthen Lenovo's capability as a competitive end-to-end solution provider in the era of Intelligent Transformation. This strategic direction, coupled with its customer-centric strategy, contributed to a higher software & services attach rate. During the fiscal year, the software & services revenue grew double-digit year-on-year to make up almost 5 percent of total Group revenue.

Looking forward, Lenovo has a vision to bring smarter technology to all – through Smart IoT, Smart Infrastructure and Smart Verticals – where the Group sees greatest opportunity for future growth and industry leadership.

Smart IoT is the network of touchpoints for the connected world we live in. Under its Smart IoT strategy, Lenovo will build intelligence in its PC and smart devices offerings, especially for commercial use. As such, the Group is investing substantially to make its existing devices including PC and tablet smarter, more adaptive to customer's needs, and with seamless connection to the cloud and other devices. The Group has also embraced new technologies to create award-winning smart solutions, including Lenovo's Smart Clock, Smart Camera and Smart Lock, which together brought home 75 awards at the Consumer Electronics Show (CES) in January 2019.

Smart Infrastructure provides the computing, storage and networking power to support smart devices, which will more than double in number in 2020 from 2017 creating enormous amount of data. It is the development of smart infrastructure that powers public cloud companies, high-performance computing for scientific computation and AI companies. Smart Infrastructure is gradually becoming the backbone of every organization today. Lenovo has been investing to become a world-class, next-generation data center solutions provider, specifically in the area of software-defined infrastructure, hyperscale, storage and high-performance computing.

Smart Verticals combines big data harnessed from smart devices and the computing power of smart infrastructure to provide more insights and improve processes for customers. Lenovo is creating vertical solutions that equip customers with unparalleled insights, ones that can dramatically improve business processes, facilitate decision-making, enhance financial return, and ultimately solve tangible business problems. Lenovo's big data solutions are already helping its customers make a difference in business processes in manufacturing, healthcare, and retail industries. During the fiscal year, the Group saw big data & vertical solution business triple year-on-year.

FINANCIAL REVIEW

Results for the year ended March 31, 2019

	2019 *US$ million*	2018 *US$ million*	Year-on-year change
Revenue	**51,038**	45,350	13%
Gross profit	**7,371**	6,272	18%
Gross profit margin	**14.4%**	13.8%	0.6 pts
Operating expenses	**(6,193)**	(5,885)	5%
Operating profit	**1,178**	387	205%
Other non-operating expenses – net	**(322)**	(234)	38%
Profit before taxation	**856**	153	459%
Profit/(loss) for the year	**657**	(127)	N/A
Profit/(loss) attributable to equity holders of the Company	**597**	(189)	N/A
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	**US 5.01 cents**	US (1.67) cents	N/A
Diluted	**US 4.96 cents**	US (1.67) cents	N/A

For the year ended March 31, 2019, the Group achieved total sales of approximately US$51,038 million. Profit attributable to equity holders for the year was approximately US$597 million, as compared with loss attributable to equity holders of US$189 million reported last year. The loss attributable to equity holders reported 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 year was 0.6 points up from 13.8 percent reported last year. Basic and diluted earnings per share were US5.01 cents and US4.96 cents respectively, as compared with basic and diluted loss per share of US1.67 cents reported last year.

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

Operating expenses analyzed by function for the years ended March 31, 2019 and 2018 are as follows:

	2019 *US$'000*	2018 *US$'000*
Other income – net	**-**	301
Selling and distribution expenses	**(2,657,965)**	(2,833,253)
Administrative expenses	**(2,209,340)**	(1,757,319)
Research and development expenses	**(1,266,341)**	(1,273,729)
Other operating expenses – net	**(59,181)**	(21,408)
	(6,192,827)	(5,885,408)

Operating expenses for the year increased by 5 percent as compared with last year, of which US$151 million was related to Fujitsu PC across all functions since the completion of the acquisition on May 2, 2018. During the year, employee benefit costs increased by US$239 million mainly due to the higher bonus accrual as a result of the outperformance this year as opposed to the less satisfactory results under the challenging market conditions last year. The Group has reduced the advertising and promotional expenses by US$135 million by simplifying portfolio and focusing on core markets of the mobile business, and recorded gains on fair valuation of certain financial assets of US$126 million. The impact of currency fluctuations during the year presented a challenge, and the Group recorded a net exchange loss of US$112 million (2018: US$56 million). In last year, the Group announced resource actions and incurred US$101 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. Key expenses by nature comprise:

	2019	2018
	US$'000	*US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(171,961)**	(148,177)
Amortization of intangible assets	**(479,118)**	(443,809)
Employee benefit costs, including	**(3,460,520)**	(3,222,012)
-long-term incentive awards	***(214,822)***	*(199,779)*
-severance and related costs	**-**	*(100,775)*
Rental expenses under operating leases	**(114,538)**	(131,858)
Net foreign exchange loss	**(111,529)**	(55,735)
Advertising and promotional expenses	**(707,706)**	(842,365)
Impairment of property, plant and equipment	**-**	(4,608)
(Loss)/gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**(4,970)**	50,937
Fair value gain on financial assets at fair value through profit or loss	**125,550**	-
Dilution gain on interest in associates and a joint venture	**24,189**	2,499
Gain on deemed disposal of a subsidiary	**22,811**	-
Others	**(1,315,035)**	(1,090,280)
	(6,192,827)	(5,885,408)

Other non-operating expenses (net) for the years ended March 31, 2019 and 2018 comprise:

	2019	2018
	US$'000	*US$'000*
Finance income	**27,399**	32,145
Finance costs	**(337,027)**	(263,160)
Share of losses of associates and joint ventures	**(11,525)**	(2,506)
	(321,153)	(233,521)

Finance income mainly represents interest on bank deposits.

Finance costs for the year increased by 28 percent as compared with last year. The change is a combined effect of the increase in interest expense on bank loans of US$48 million, factoring costs of US$25 million and interest on contingent considerations and written put option liabilities of US$14 million, partly offset by the decrease in interest on the promissory note issued to Google Inc. of US$12 million that was fully repaid last year.

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 pre-tax income/(loss) for reportable segments are as follows:

	2019		2018	
	Revenue from external customers *US$'000*	**Pre-tax income/ (loss)** *US$'000*	Revenue from external customers *US$'000*	Pre-tax income/ (loss) *US$'000*
IDG	**45,013,362**	**1,842,840**	40,955,583	880,406
DCG	**6,024,581**	**(230,600)**	4,394,360	(424,866)
Segment total	**51,037,943**	**1,612,240**	45,349,943	455,540
Unallocated:				
Headquarters and corporate (expenses)/income - net		**(640,312)**		(204,540)
Depreciation and amortization		**(136,263)**		(100,654)
Finance income		**4,121**		5,349
Finance costs		**(142,496)**		(65,236)
Share of losses of associates and joint ventures		**(11,525)**		(2,506)
(Loss)/gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress		**(1,651)**		62,750
Fair value gain on financial assets at fair value through profit or loss		**125,550**		-
Dilution gain on interest in associates and a joint venture		**24,189**		2,499
Gain on deemed disposal of a subsidiary		**22,811**		-
Consolidated profit before taxation		**856,664**		153,202

Headquarters and corporate (expenses)/income for the year comprise various expenses, after appropriate allocation to business groups, attributable to headquarters and corporate of US$527 million (2018: US$208 million) such as employee benefit costs, legal and professional fees, and research and technology expenses. Employee benefit costs increased by US$90 million which is mainly due to higher bonus accrual of US$110 million (comprising breakthrough bonus accrual in anticipation of outperformance) made as a result of the outperformance this year as opposed to the less satisfactory results under the challenging market conditions last year. The Group also recorded a net exchange loss of US$86 million (2018: US$53 million) as a result of balance sheet hedges, and central research and technology expenses of US$68 million which were not allocated to a business group (2018: nil).

Moreover, the Group recognized fair value loss on bonus warrants of US$19 million during the year (2018: fair value gain of US$3 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$67 million, and onerous lease contracts and claims of US$27 million.

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

	3 months ended March 31, 2019 ***US$ million***	3 months ended March 31, 2018 *US$ million*	Year-on-year change
Revenue	**11,710**	10,638	10%
Gross profit	**1,895**	1,544	23%
Gross profit margin	**16.2%**	14.5%	1.7 pts
Operating expenses	**(1,622)**	(1,443)	12%
Operating profit	**273**	101	172%
Other non-operating expenses – net	**(93)**	(64)	46%
Profit before taxation	**180**	37	389%
Profit for the period	**134**	49	176%
Profit attributable to equity holders of the Company	**118**	33	261%
Earnings per share attributable to equity holders of the Company			
Basic	**US 1.00 cents**	US 0.28 cents	US 0.72 cents
Diluted	**US 0.96 cents**	US 0.28 cents	US 0.68 cents

For the three months ended March 31, 2019, the Group achieved total sales of approximately US$11,710 million. Profit attributable to equity holders for the period was approximately US$118 million, representing an increase of US$85 million as compared with the corresponding period of last year. Gross profit margin for the period was 1.7 points up from 14.5 percent reported in the corresponding period of last year. Basic and diluted earnings per share were US1.00 cents and US0.96 cents respectively, representing an increase of US0.72 cents and US0.68 cents as compared with 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 March 31, 2019 and 2018 are as follows:

	3 months ended March 31, 2019 ***US$'000***	3 months ended March 31, 2018 *US$'000*
Selling and distribution expenses	**(646,847)**	(631,612)
Administrative expenses	**(593,616)**	(456,515)
Research and development expenses	**(371,285)**	(326,829)
Other operating expenses – net	**(9,952)**	(28,318)
	(1,621,700)	(1,443,274)

Operating expenses for the period increased by 12 percent as compared with the corresponding period of last year, of which US$56 million was related to Fujitsu PC across all functions since the completion of the acquisition on May 2, 2018. During the period, employee benefit costs increased by US$54 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. The Group has increased the advertising and promotional expenses by US$37 million, and recorded gain on fair valuation of certain financial assets of US$26 million. The impact of currency fluctuations during the period presented a challenge, and the Group recorded a net exchange loss of US$20 million (2018: US$17 million). In the corresponding period of last year, the Group announced resource actions and incurred US$39 million severance costs to further enhance efficiency and competitiveness in view of industrial challenges. Key expenses by nature comprise:

	3 months ended March 31, 2019 ***US$'000***	3 months ended March 31, 2018 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(41,061)**	(37,089)
Amortization of intangible assets	**(129,195)**	(118,754)
Employee benefit costs, including	**(903,291)**	(849,690)
-long-term incentive awards	***(59,181)***	*(52,198)*
-severance and related costs	**-**	*(39,278)*
Rental expenses under operating leases	**(25,599)**	(33,452)
Net foreign exchange loss	**(19,665)**	(16,873)
Advertising and promotional expenses	**(158,833)**	(121,499)
Loss on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**(1,850)**	(2,259)
Fair value gain on financial assets at fair value through profit or loss	**26,413**	-
Dilution gain on interest in associates and a joint venture	**6,068**	1,337
Others	**(374,687)**	(264,995)
	(1,621,700)	(1,443,274)

Other non-operating expenses (net) for the three months ended March 31, 2019 and 2018 comprise:

	3 months ended March 31, 2019 ***US$'000***	3 months ended March 31, 2018 *US$'000*
Finance income	**9,924**	7,577
Finance costs	**(97,542)**	(71,821)
Share of (losses)/profits of associates and joint ventures	**(5,639)**	390
	(93,257)	(63,854)

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 36 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$9 million, factoring costs of US$8 million and interest on contingent considerations and written put option liabilities of US$7 million.

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

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

	3 months ended March 31, 2019		3 months ended March 31, 2018	
	Revenue from external customers	**Pre-tax income/ (loss)**	Revenue from external customers	Pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
IDG	**10,458,866**	**462,535**	9,415,563	247,630
DCG	**1,251,413**	**(52,549)**	1,222,746	(63,782)
Segment total	**11,710,279**	**409,986**	10,638,309	183,848
Unallocated:				
Headquarters and corporate (expenses)/income- net		**(170,330)**		(90,567)
Depreciation and amortization		**(37,268)**		(30,826)
Finance income		**2,836**		1,042
Finance costs		**(50,986)**		(27,894)
Share of (losses)/profits of associates and joint ventures		**(5,639)**		390
Loss on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress		**(834)**		(492)
Fair value gain on financial assets at fair value through profit or loss		**26,413**		-
Dilution gain on interest in associates and a joint venture		**6,068**		1,337
Consolidated profit before taxation		**180,246**		36,838

Headquarters and corporate (expenses)/income for the period comprise various expenses, after appropriate allocation to business groups, attributable to headquarters and corporate of US$149 million (2018: US$93 million) such as employee benefit costs, legal and professional fees, and research and technology expenses. Employee benefit costs increased by US$14 million which is mainly due to higher bonus accrual of US$24 million, and legal and professional fees increased by US$5 million. The Group also recorded central research and technology expenses of US$15 million which were not allocated to a business group (2018: nil).

Moreover, the Group recognized fair value loss on bonus warrants of US$15 million during the period (2018: fair value gain of US$2 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$5 million, and onerous lease contracts of US$1 million.

Capital Expenditure

The Group incurred capital expenditure of US$701 million (2018: US$671 million) during the year ended March 31, 2019, 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 March 31, 2019, total assets of the Group amounted to US$29,988 million (2018: US$28,494 million), which were financed by equity attributable to owners of the Company of US$3,396 million (2018: US$3,519 million), perpetual securities of US$994 million (2018: US$994 million) and negative balance of other non-controlling interests (net of put option written on non-controlling interests) of US$293 million (2018: positive balance of US$33 million), and total liabilities of US$25,891 million (2018: US$23,948 million). At March 31, 2019, the current ratio of the Group was 0.82 (2018: 0.80).

At March 31, 2019, bank deposits and cash and cash equivalents totaled US$2,733 million (2018: US$1,932 million) analyzed by major currency as follows:

	2019	**2018**
	%	%
US dollar	**41.1**	28.8
Renminbi	**32.0**	45.6
Japanese Yen	**6.8**	7.4
Euro	**5.4**	6.1
Other currencies	**14.7**	12.1
Total	**100.0**	100.0

The Group adopts a conservative policy to invest the surplus cash generated from operations. At March 31, 2019, 78.6 (2018: 99.6) percent of cash are bank deposits, and 21.4 (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 the following banking facilities:

				Utilization	
Type	**Date of agreement**	**Principal amount**	**Term**	**March 31, 2019**	**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	**825**	-

Notes, perpetual securities and convertible bonds issued by the Group and outstanding as at March 31, 2019 are as follows:

	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
2020 Note	June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	purposes including working capital and acquisition activities
2022 Note	March 16, 2017	US$500 million	5 years	3.875%	March 2022	For repayment of the
Perpetual securities	March 16, 2017	US$850 million	N/A	5.375%	N/A	outstanding amount under
	April 6, 2017	US$150 million	N/A	5.375%	N/A	the promissory note issued to Google Inc. and for general corporate purposes including working capital
2023 Note	March 29, 2018	US$750 million	5 years	4.75%	March 2023	For repayment of the principal amount of US$714 million of the 2019 Note, and for general corporate purpose including working capital
Convertible bonds	January 24, 2019	US$675 million	5 years	3.375%	January 2024	For repayment of the 2019 Note and general corporate purposes

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

	Available amount at March 31		Drawn down amount at March 31	
Credit facilities	**2019**	**2018**	**2019**	**2018**
	US$ million	US$ million	**US$ million**	US$ million
Trade lines	**2,195**	1,730	**1,637**	1,090
Short-term and revolving money market facilities	**701**	796	**56**	70
Forward foreign exchange contracts	**9,525**	8,706	**9,525**	8,645

Net debt position and gearing ratio of the Group as at March 31, 2019 and 2018 are as follows:

	2019	**2018**
	US$ million	US$ million
Bank deposits and cash and cash equivalents	**2,733**	1,932
Borrowings		
- Short-term bank loans	**1,167**	1,166
- Notes	**2,622**	2,649
- Convertible bonds	**591**	-
Net debt position	**(1,647)**	(1,883)
Total equity	**4,097**	4,546
Gearing ratio (Borrowings divided by Total equity)	**1.07**	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 March 31, 2019, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$9,525 million (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.

Human Resources

At March 31, 2019, the Group had a headcount of more than 57,000 worldwide.

The Group implements remuneration policy, bonus, employee share purchase plan and long-term incentive scheme with reference to the performance of the Group and individual employees. The Group also provides benefits such as insurance, medical and retirement funds to employees to sustain competitiveness of the Group.

CONSOLIDATED INCOME STATEMENT

	Note	2019 US$'000	2018 US$'000
Revenue	2	**51,037,943**	45,349,943
Cost of sales		**(43,667,299)**	(39,077,812)
Gross profit		**7,370,644**	6,272,131
Other income - net		**-**	301
Selling and distribution expenses		**(2,657,965)**	(2,833,253)
Administrative expenses		**(2,209,340)**	(1,757,319)
Research and development expenses		**(1,266,341)**	(1,273,729)
Other operating expenses - net		**(59,181)**	(21,408)
Operating profit	3	**1,177,817**	386,723
Finance income	4(a)	**27,399**	32,145
Finance costs	4(b)	**(337,027)**	(263,160)
Share of losses of associates and joint ventures		**(11,525)**	(2,506)
Profit before taxation		**856,664**	153,202
Taxation	5	**(199,460)**	(279,977)
Profit/(loss) for the year		**657,204**	(126,775)
Profit/(loss) attributable to:			
Equity holders of the Company		**596,343**	(189,323)
Perpetual securities holders		**53,760**	53,680
Other non-controlling interests		**7,101**	8,868
		657,204	(126,775)
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	6(a)	**US 5.01 cents**	US (1.67) cents
Diluted	6(b)	**US 4.96 cents**	US (1.67) cents
Dividends	7	**425,764**	399,284

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2019	2018
	US$'000	*US$'000*
Profit/(loss) for the year	**657,204**	(126,775)
Other comprehensive (loss)/income:		
Item that will not be reclassified to profit or loss		
Remeasurements of post-employment benefit obligations, net of taxes	**(25,641)**	(19,797)
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	**-**	224
Fair value change on financial assets at fair value through other comprehensive income, net of taxes	**(15,978)**	-
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes		
- Fair value gain/(loss), net of taxes	**284,542**	(233,651)
- Reclassified to consolidated income statement	**(244,396)**	222,073
Currency translation differences	**(434,816)**	288,711
Other comprehensive (loss)/income for the year	**(436,289)**	257,560
Total comprehensive income for the year	**220,915**	130,785
Total comprehensive income attributable to:		
Equity holders of the Company	**160,845**	68,237
Perpetual securities holders	**53,760**	53,680
Other non-controlling interests	**6,310**	8,868
	220,915	130,785

CONSOLIDATED BALANCE SHEET

	Note	2019	2018
		US$'000	*US$'000*
Non-current assets			
Property, plant and equipment		**1,430,817**	1,304,751
Prepaid lease payments		**463,996**	507,628
Construction-in-progress		**232,097**	382,845
Intangible assets		**8,324,575**	8,514,504
Interests in associates and joint ventures		**79,061**	35,666
Deferred income tax assets		**1,862,902**	1,530,623
Available-for-sale financial assets		**-**	373,077
Financial assets at fair value through profit or loss		**449,363**	-
Financial assets at fair value through other comprehensive income		**71,486**	-
Other non-current assets		**187,985**	181,759
		13,102,282	12,830,853
Current assets			
Inventories		**3,434,660**	3,791,691
Trade receivables	*8(a)*	**6,661,484**	4,972,722
Notes receivable		**46,454**	11,154
Derivative financial assets		**70,972**	24,890
Deposits, prepayments and other receivables	*9*	**3,753,926**	4,703,335
Income tax recoverable		**185,643**	227,203
Bank deposits		**70,210**	84,306
Cash and cash equivalents		**2,662,854**	1,848,017
		16,886,203	15,663,318
Total assets		**29,988,485**	28,494,171

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**2019** *US$'000*	2018 *US$'000*
Share capital	*13*	**3,185,923**	3,185,923
Reserves		**210,530**	332,697
Equity attributable to owners of the Company		**3,396,453**	3,518,620
Perpetual securities		**993,670**	993,670
Other non-controlling interests		**473,178**	246,598
Put option written on non-controlling interests	*10(a)(ii), 11(b)*	**(766,238)**	(212,900)
Total equity		**4,097,063**	4,545,988
Non-current liabilities			
Borrowings	*12*	**2,426,770**	2,648,725
Warranty provision	*10(b)*	**254,601**	278,908
Deferred revenue		**678,137**	583,405
Retirement benefit obligations		**434,246**	413,482
Deferred income tax liabilities		**359,679**	230,609
Other non-current liabilities	*11*	**1,247,646**	333,332
		5,401,079	4,488,461
Current liabilities			
Trade payables	*8(b)*	**6,429,835**	6,450,792
Notes payable		**1,272,840**	801,974
Derivative financial liabilities		**74,426**	62,694
Other payables and accruals	*10(a)*	**8,942,336**	9,217,764
Provisions	*10(b)*	**738,688**	858,475
Deferred revenue		**780,951**	732,552
Income tax payable		**298,224**	168,779
Borrowings	*12*	**1,953,043**	1,166,692
		20,490,343	19,459,722
Total liabilities		**25,891,422**	23,948,183
Total equity and liabilities		**29,988,485**	28,494,171

CONSOLIDATED CASH FLOW STATEMENT

	Note	**2019**	2018
		US$'000	*US$'000*
Cash flows from operating activities			
Net cash generated from/(used in) operations	*15*	**2,115,996**	(61,991)
Interest paid		**(324,427)**	(243,584)
Tax paid		**(318,996)**	(450,718)
Net cash generated from/(used in) operating activities		**1,472,573**	(756,293)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(234,682)**	(217,849)
Purchase of prepaid lease payments		**-**	(10,908)
Sale of property, plant and equipment, prepaid lease payments and construction-in-progress		**129,683**	40,525
Interest acquired in associates and a joint venture		**(5,349)**	(2,205)
Acquisition of subsidiaries, net of cash acquired	*16*	**(99,298)**	-
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		**(303,045)**	(285,447)
Payment for intangible assets		**(163,094)**	(156,390)
Purchase of available-for-sale financial assets		**-**	(100,466)
Purchase of financial assets at fair value through profit or loss		**(73,836)**	-
Purchase of financial assets at fair value through other comprehensive income		**(4,739)**	-
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)
Decrease in bank deposits		**14,096**	112,414
Dividends received		**230**	286
Interest received		**27,399**	32,145
Net cash used in investing activities		**(699,745)**	(1,113,467)
Cash flows from financing activities			
Net proceeds from issue of ordinary shares		**-**	496,041
Capital contribution from other non-controlling interests		**77,769**	1,823
Contribution to employee share trusts		**(157,343)**	(61,211)
Issue of perpetual securities		**-**	149,625
Dividends paid		**(404,350)**	(380,750)
Dividends paid to other non-controlling interests		**(4,758)**	(4,937)
Distribution to perpetual securities holders		**(53,760)**	(53,312)
Issue of convertible bonds		**675,000**	-
Issuing costs of convertible bonds		**(10,107)**	-
Proceeds from borrowings		**5,700,215**	7,425,740
Repayments of borrowings		**(5,700,000)**	(6,724,406)
Issue of notes		**-**	749,119
Repayment of notes		**-**	(723,389)
Net cash generated from financing activities		**122,666**	874,343
Increase/(decrease) in cash and cash equivalents		**895,494**	(995,417)
Effect of foreign exchange rate changes		**(80,657)**	88,835
Cash and cash equivalents at the beginning of the year		**1,848,017**	2,754,599
Cash and cash equivalents at the end of the year		**2,662,854**	1,848,017

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											
	Share capital US$'000	Investment revaluation reserve US$'000	Employee share trusts US$'000	Share-based compensation reserve US$'000	Hedging reserve US$'000	Exchange reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Perpetual securities US$'000	Other non-controlling interests US$'000	Put option written on non-controlling interests US$'000	Total US$'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 year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**596,343**	**53,760**	**7,101**	**–**	**657,204**
Other comprehensive (loss)/income	**–**	**(15,978)**	**–**	**–**	**40,146**	**(434,025)**	**–**	**(25,641)**	**–**	**(791)**	**–**	**(436,289)**
Total comprehensive (loss)/income for the year	**–**	**(15,978)**	**–**	**–**	**40,146**	**(434,025)**	**–**	**570,702**	**53,760**	**6,310**	**–**	**220,915**
Acquisition of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**151,167**	**–**	**151,167**
Vesting of shares under long-term incentive program	**–**	**–**	**118,836**	**(137,317)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(18,481)**
Deferred tax credit in relation to long-term incentive program	**–**	**–**	**–**	**2,178**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**2,178**
Deemed disposal of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,371)**	**–**	**(1,371)**
Share-based compensation	**–**	**–**	**–**	**214,822**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**214,822**
Termination of put option written on non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**11,913**	**–**	**–**	**–**	**212,900**	**224,813**
Put option written on non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(766,238)**	**(766,238)**
Contribution to employee share trusts	**–**	**–**	**(157,343)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(157,343)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(404,350)**	**–**	**–**	**–**	**(404,350)**
Capital contribution from other non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**77,769**	**–**	**77,769**
Change of ownership of subsidiaries without loss of control	**–**	**–**	**–**	**–**	**–**	**–**	**2,537**	**–**	**–**	**(2,537)**	**–**	**–**
Dividends paid to other non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,758)**	**–**	**(4,758)**
Distribution to perpetual securities holders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(53,760)**	**–**	**–**	**(53,760)**
Issue of convertible bonds	**–**	**–**	**–**	**–**	**–**	**–**	**77,342**	**–**	**–**	**–**	**–**	**77,342**
At March 31, 2019	**3,185,923**	**(36,095)**	**(140,209)**	**311,540**	**23,240**	**(1,371,932)**	**163,241**	**1,260,745**	**993,670**	**473,178**	**(766,238)**	**4,097,063**
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 year	–	–	–	–	–	–	–	(189,323)	53,680	8,868	–	(126,775)
Other comprehensive income/(loss)	–	224	–	–	(11,578)	288,711	–	(19,797)	–	–	–	257,560
Total comprehensive income/(loss) for the year	–	224	–	–	(11,578)	288,711	–	(209,120)	53,680	8,868	–	130,785
Transfer to statutory reserve	–	–	–	–	–	–	15,097	(15,097)	–	–	–	–
Vesting of shares under long-term incentive program	–	–	70,737	(91,528)	–	–	–	–	–	–	–	(20,791)
Deferred tax charge in relation to long-term incentive program	–	–	–	(2,196)	–	–	–	–	–	–	–	(2,196)
Share-based compensation	–	–	–	202,088	–	–	–	–	–	–	–	202,088
Contribution to employee share trusts	–	–	(61,211)	–	–	–	–	–	–	–	–	(61,211)
Dividends paid	–	–	–	–	–	–	–	(380,750)	–	–	–	(380,750)
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 contribution from other non-controlling interests	–	–	–	–	–	–	–	–	–	1,823	–	1,823
Dividends paid to other non-controlling interests	–	–	–	–	–	–	–	–	–	(4,937)	–	(4,937)
Distribution to perpetual securities holders	–	–	–	–	–	–	–	–	(53,312)	–	–	(53,312)
At March 31, 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

Notes

1 General information and basis of preparation

The financial information relating to the years ended March 31, 2019 and 2018 included in the FY2018/19 annual results announcement 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 and will deliver the financial statements for the year ended March 31, 2019 in due course.

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 ended 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 year, net fair value gains of US$125,550,000 relating to financial assets at FVPL were recognized in profit or loss.

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

The Group elected to present in other comprehensive income the changes in fair value of certain of its equity investments previously classified as available-for-sale financial assets, 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 standard, interpretation and amendments to existing standards not yet effective

The following new standard, 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 ended March 31, 2019 and have not been early adopted:

	Effective for annual periods beginning on or after
HKFRS 16, Leases	January 1, 2019
HK (IFRIC) – Int 23, Uncertainty over income tax treatments	January 1, 2019
Amendments to HKFRS 9, Prepayment features with negative compensation	January 1, 2019
Amendments to HKAS 28, Long-term interests in associates and joint ventures	January 1, 2019
Amendments to HKAS 19, Plan amendment, curtailment or settlement	January 1, 2019
Annual improvements to HKFRS Standards 2015–2017 Cycle – various standards	January 1, 2019
Amendments to HKFRS 3, Definition of a business	January 1, 2020
Amendments to HKAS 1 and HKAS 8, Definition of material	January 1, 2020
Amendments to HKFRS 10 and HKAS 28, Consolidated financial statements and investments in associates	Date to be determined

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 obligation 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.

At March 31, 2019, the Group had operating lease commitments of US$473 million. 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 over 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.

Other than the impacts discussed above, the Group is in the opinion that the adoption of the other 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 ended 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 pre-tax income/(loss). This measurement basis excludes the effects of non-recurring expenses such as restructuring costs from the operating segments. The measurement basis also excludes the effects of certain income and expenses such as fair value change of financial instruments and disposal gain/(loss) of fixed assets that are from activities driven by headquarters and centralized functions. Certain finance income and costs are not allocated to segments when these types of activities are 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 pre-tax income/(loss) for reportable segments

	2019 Revenue from external customers *US$'000*	**2019** Pre-tax income/ (loss) *US$'000*	2018 Revenue from external customers *US$'000*	2018 Pre-tax income/ (loss) *US$'000*
IDG	**45,013,362**	**1,842,840**	40,955,583	880,406
DCG	**6,024,581**	**(230,600)**	4,394,360	(424,866)
Segment total	**51,037,943**	**1,612,240**	45,349,943	455,540

	2019 *US$'000*	2018 *US$'000*
Unallocated:		
Headquarters and corporate (expenses)/income - net	**(640,312)**	(204,540)
Depreciation and amortization	**(136,263)**	(100,654)
Finance income	**4,121**	5,349
Finance costs	**(142,496)**	(65,236)
Share of losses of associates and joint ventures	**(11,525)**	(2,506)
(Loss)/gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**(1,651)**	62,750
Fair value gain on financial assets at FVPL	**125,550**	-
Dilution gain on interest in associates and a joint venture	**24,189**	2,499
Gain on deemed disposal of a subsidiary	**22,811**	-
Consolidated profit before taxation	**856,664**	153,202

(b) Segment assets for reportable segments

	2019 *US$'000*	2018 *US$'000*
IDG	**19,797,625**	18,955,347
DCG	**4,094,194**	4,729,617
Segment assets for reportable segments	**23,891,819**	23,684,964
Unallocated:		
Deferred income tax assets	**1,862,902**	1,530,623
Financial assets at FVPL	**449,363**	-
Financial assets at FVOCI	**71,486**	-
Derivative financial assets	**70,972**	24,890
Available-for-sale financial assets	**-**	373,077
Interests in associates and joint ventures	**79,061**	35,666
Bank deposits and cash and cash equivalents	**2,733,064**	1,932,323
Unallocated deposits, prepayments and other receivables	**166,874**	242,899
Income tax recoverable	**185,643**	227,203
Other unallocated assets	**477,301**	442,526
Total assets per consolidated balance sheet	**29,988,485**	28,494,171

(c) Segment liabilities for reportable segments

	2019 *US$'000*	2018 *US$'000*
IDG	**19,045,230**	17,287,630
DCG	**1,456,268**	1,809,529
Segment liabilities for reportable segments	**20,501,498**	19,097,159
Unallocated:		
Deferred income tax liabilities	**359,679**	230,609
Derivative financial liabilities	**74,426**	62,694
Borrowings	**4,379,813**	3,815,417
Unallocated other payables and accruals	**246,467**	538,972
Unallocated provisions	**1,336**	1,399
Unallocated other non-current liabilities	**29,979**	33,154
Income tax payable	**298,224**	168,779
Total liabilities per consolidated balance sheet	**25,891,422**	23,948,183

(d) Analysis of revenue by geography

	2019 *US$'000*	2018 *US$'000*
China	**12,357,527**	11,525,321
AP	**9,764,456**	7,156,293
EMEA	**12,502,510**	12,481,897
AG	**16,413,450**	14,186,432
	51,037,943	45,349,943

(e) Other segment information

	IDG		DCG		Total	
	2019 ***US$'000***	2018 *US$'000*	**2019** ***US$'000***	2018 *US$'000*	**2019** ***US$'000***	2018 *US$'000*
Depreciation and amortization	**452,511**	422,590	**209,846**	215,278	**662,357**	637,868
Finance income	**23,058**	26,791	**220**	5	**23,278**	26,796
Finance costs	**174,245**	183,655	**20,286**	14,269	**194,531**	197,924
Additions to non-current assets (Note)	**976,339**	587,710	**102,449**	82,883	**1,078,788**	670,593

Note: Excluding other non-current assets and including non-current assets acquired through acquisition of subsidiaries (Note 16).

(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$6,212 million (2018: US$6,362 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At March 31, 2019

	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	**1,051**	**679**	**221**	**320**	**-**	**-**	**2,271**
- MBG	**-**	**-**	**-**	**-**	**679**	**905**	**1,584**
- DCG	**490**	**158**	**88**	**351**	**-**	**-**	**1,087**
Trademarks and trade names							
- PCSD	**209**	**59**	**104**	**67**	**-**	**-**	**439**
- 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 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.

The directors are of the view that there was no impairment of goodwill and trademarks and trade names based on impairment tests performed as at March 31, 2019 (2018: Nil).

3 Operating profit

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

	2019	2018
	US$'000	*US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**291,760**	259,121
Amortization of intangible assets	**506,860**	479,401
Employee benefit costs, including	**4,006,967**	3,663,301
- long-term incentive awards	***214,822***	*199,779*
- severance and related costs	-	*100,775*
Rental expenses under operating leases	**131,918**	147,133
Impairment of property, plant and equipment	**-**	4,608
Loss/(gain) on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**4,970**	(50,937)
Fair value gain on financial assets at FVPL	**(125,550)**	-
Dilution gain on interest in associates and a joint venture	**(24,189)**	(2,499)
Gain on deemed disposal of a subsidiary	**(22,811)**	-

4 Finance income and costs

(a) Finance income

	2019	2018
	US$'000	*US$'000*
Interest on bank deposits	**21,927**	27,672
Interest on money market funds	**5,472**	4,473
	27,399	32,145

(b) Finance costs

	2019	2018
	US$'000	*US$'000*
Interest on bank loans and overdrafts	**92,103**	44,376
Interest on convertible bonds	**7,109**	-
Interest on notes	**123,428**	130,229
Interest on promissory note	-	11,589
Factoring costs	**96,730**	71,897
Commitment fee	**868**	779
Interest on contingent considerations and written put option liabilities	**14,758**	1,110
Others	**2,031**	3,180
	337,027	263,160

5 Taxation

The amount of taxation in the consolidated income statement represents:

	2019	2018
	US$'000	*US$'000*
Current tax		
Hong Kong profits tax	**37,162**	16,997
Taxation outside Hong Kong	**432,094**	332,795
Deferred tax		
Credit for the year	**(269,796)**	(469,815)
Effect of change in tax rate	**-**	400,000
	199,460	279,977

Hong Kong profits tax has been provided for at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the year. 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 year ended March 31, 2018.

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 year after adjusting shares held by employee share trusts for the purposes of awarding shares to eligible employees under the long term incentive program.

	2019	2018
Weighted average number of ordinary shares in issue	**12,014,791,614**	11,441,318,678
Adjustment for shares held by employee share trusts	**(121,750,794)**	(130,726,638)
Weighted average number of ordinary shares in issue for calculation of basic earnings/(loss) per share	**11,893,040,820**	11,310,592,040
	US$'000	*US$'000*
Profit/(loss) attributable to equity holders of the Company	**596,343**	(189,323)

(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 three categories of dilutive potential ordinary shares, namely long-term incentive awards, bonus warrants and convertible bonds. Long-term incentive awards were dilutive for the year ended March 31, 2019 and anti-dilutive for the year ended March 31, 2018. Bonus warrants were anti-dilutive for the years ended March 31, 2019 and 2018. Convertible bonds were anti-dilutive for the year ended March 31, 2019.

	2019	2018
Weighted average number of ordinary shares in issue for calculation of basic earnings/(loss) per share	**11,893,040,820**	11,310,592,040
Adjustment for long-term incentive awards	**136,193,366**	-
Weighted average number of ordinary shares in issue for calculation of diluted earnings/(loss) per share	**12,029,234,186**	11,310,592,040
	US$'000	US$'000
Profit/(loss) attributable to equity holders of the Company used to determine diluted earnings/(loss) per share	**596,343**	(189,323)

The calculation of the diluted earnings/(loss) per share amount is based on the profit/(loss) attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

7 Dividends

	2019	2018
	US$'000	*US$'000*
Interim dividend of HK6.0 cents (2018: HK6.0 cents) per ordinary share, paid on November 30, 2018	**92,071**	85,434
Proposed final dividend – HK21.8 cents (2018: HK20.5 cents) per ordinary share	**333,693**	313,850
	425,764	399,284

8 Ageing analysis

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

	2019	2018
	US$'000	*US$'000*
0 – 30 days	**4,560,771**	3,046,240
31 – 60 days	**1,332,471**	1,169,286
61 – 90 days	**430,207**	320,183
Over 90 days	**438,377**	545,629
	6,761,826	5,081,338
Less: loss allowance	**(100,342)**	(108,616)
Trade receivables – net	**6,661,484**	4,972,722

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

	2019	2018
	US$'000	*US$'000*
0 – 30 days	**4,279,000**	3,694,507
31 – 60 days	**1,046,525**	1,793,380
61 – 90 days	**757,718**	727,029
Over 90 days	**346,592**	235,876
	6,429,835	6,450,792

9 Deposits, prepayments and other receivables

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

	2019	2018
	US$'000	*US$'000*
Deposits	**14,632**	15,818
Other receivables	**2,587,439**	3,346,475
Prepayments	**1,151,855**	1,341,042
	3,753,926	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.

10 Provisions, other payables and accruals

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

	2019	2018
	US$'000	*US$'000*
Accruals	**1,969,914**	1,865,507
Allowance for billing adjustments (i)	**1,650,226**	1,634,287
Written put option liability (ii)	**-**	224,813
Other payables (iii)	**5,322,196**	5,493,157
	8,942,336	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 year, 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 11(b)(ii) for details of the put option granted.

The financial liability that may become payable under the put option is initially recognized at present value of redemption amount 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 *US$'000*	Environmental restoration *US$'000*	Restructuring *US$'000*	Total *US$'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
Year ended March 31, 2019				
At the beginning of the year	**1,081,218**	**8,919**	**54,053**	**1,144,190**
Exchange adjustment	**(37,163)**	**(274)**	**(1,991)**	**(39,428)**
Provisions made	**807,636**	**14,545**	**-**	**822,181**
Amounts utilized	**(875,413)**	**(14,403)**	**(36,576)**	**(926,392)**
Acquisition of subsidiaries	**-**	**24,510**	**-**	**24,510**
	976,278	**33,297**	**15,486**	**1,025,061**
Long-term portion classified as non-current liabilities	**(254,601)**	**(31,772)**	**-**	**(286,373)**
At the end of the year	**721,677**	**1,525**	**15,486**	**738,688**

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

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

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

11 Other non-current liabilities

Details of other non-current liabilities are as follows:

	2019	2018
	US$'000	*US$'000*
Contingent consideration (a)	**113,283**	-
Deferred consideration (a)	**25,072**	25,072
Written put option liabilities (b)	**783,505**	-
Environmental restoration (Note 10(b))	**31,772**	6,807
Government incentives and grants received in advance (c)	**50,087**	58,988
Deferred rent liabilities	**83,977**	94,377
Others	**159,950**	148,088
	1,247,646	333,332

(a) Pursuant to the completion of business combinations, 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 liabilities in respect of the fair value of contingent consideration and present value of deferred consideration have been recognized. The contingent consideration is 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 March 31, 2019, 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 10(a)(ii), during the year, 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$343 million).

The financial liability that may become payable under the put option and dividend requirement is initially recognized at present value of redemption amount 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.

12 Borrowings

	2019 *US$'000*	2018 *US$'000*
Current liabilities		
Short-term loans (i)	**1,166,907**	1,166,692
Note (ii)	**786,136**	-
	1,953,043	1,166,692
Non-current liabilities		
Notes (ii)	**1,836,264**	2,648,725
Convertible bonds (iii)	**590,506**	-
	2,426,770	2,648,725
	4,379,813	3,815,417

(i) The majority of the short-term bank loans are denominated in United States dollar. As at March 31, 2019, the Group has total revolving and short-term loan facilities of US$2,501 million (2018: US$1,896 million) which has been utilized to the extent of US$1,181 million (2018: US$1,170 million).

(ii)

Issue date	Principal amount	Term	Interest rate per annum	Due date	2019 *US$'000*	2018 *US$'000*
May 8, 2014	US$786 million	5 years	4.7%	May 2019	**786,136**	774,341
June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	**594,747**	635,015
March 16, 2017	US$500 million	5 years	3.875%	March 2022	**497,391**	496,590
March 29, 2018	US$750 million	5 years	4.75%	March 2023	**744,126**	742,779
					2,622,400	2,648,725

(iii) 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. The proceeds would be used to repay the outstanding 2019 notes and for the Company's working capital and general corporate purposes. 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. The Group has sufficient unutilized bank facility to meet its redemption obligations of the Bonds.

The initial fair value of the liability portion of the bond was determined using a market interest rate for an equivalent non-convertible bond at the issue date. The liability is subsequently recognized on an amortized cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option and recognized in shareholders' equity, net of income tax, and not subsequently remeasured.

The convertible bonds are presented in the balance sheet as follows:

	2019 ***US$'000***
Face value of the convertible bonds on the issue date	**675,000**
Less: transaction costs	**(10,107)**
Net proceeds	**664,893**
Less: equity component	**(77,342)**
Liability component on initial recognition	**587,551**

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at March 31, 2019 and 2018 are as follows:

	2019 ***US$'000***	2018 *US$'000*
Within 1 year	**1,953,043**	1,166,692
Over 1 to 3 years	**1,092,138**	1,409,356
Over 3 to 5 years	**1,334,632**	1,239,369
	4,379,813	3,815,417

13 Share capital

	2019		2018	
	Number of shares	***US$'000***	*Number of shares*	*US$'000*
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the 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 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.

14 Perpetual securities

In March 2017, the Group issued a total of US$850 million perpetual securities through its wholly owned subsidiary, Lenovo Perpetual Securities Limited ("the issuer"). The net 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.

15 Reconciliation of profit before taxation to net cash generated from/(used in) operations

	2019	2018
	US$'000	*US$'000*
Profit before taxation	**856,664**	153,202
Share of losses of associates and joint ventures	**11,525**	2,506
Finance income	**(27,399)**	(32,145)
Finance costs	**337,027**	263,160
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**291,760**	259,121
Amortization of intangible assets	**506,860**	479,401
Share-based compensation	**214,822**	199,779
Impairment of property, plant and equipment	**-**	4,608
Loss/(gain) on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**4,970**	(50,937)
Loss on disposal of intangible assets	**743**	710
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	**(24,189)**	(2,499)
Fair value change on bonus warrants	**18,598**	(3,003)
Fair value change on financial instruments	**(12,802)**	12,749
Fair value change on financial assets at FVPL	**(125,550)**	-
Dividend income	**(230)**	(286)
Decrease/(increase) in inventories	**496,706**	(997,656)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(326,932)**	(1,012,749)
(Decrease)/increase in trade payables, notes payable, provisions, other payables and accruals	**(163,698)**	919,996
Effect of foreign exchange rate changes	**79,932**	(257,933)
Net cash generated from/(used in) operations	**2,115,996**	(61,991)

Reconciliation of financing liabilities

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

Financing liabilities	**2019** *US$'000*	2018 *US$'000*
Short-term loans – current	**1,166,907**	1,166,692
Note – current	**786,136**	-
Notes – non-current	**1,836,264**	2,648,725
Convertible bonds – non-current	**590,506**	-
Financing liabilities	**4,379,813**	3,815,417
Short-term loans – variable interest rates	**1,166,907**	1,166,692
Notes – fixed interest rates	**2,622,400**	2,648,725
Convertible bonds – fixed interest rates	**590,506**	-
Financing liabilities	**4,379,813**	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*	**Convertible bonds 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	**5,700,215**	**-**	**-**	**-**	**-**	**5,700,215**
Repayments of borrowings	**(5,700,000)**	**-**	**-**	**-**	**-**	**(5,700,000)**
Transfer	**-**	**-**	**774,341**	**(774,341)**	**-**	**-**
Issue of convertible bonds	**-**	**-**	**-**	**-**	**675,000**	**675,000**
Issuing cost of convertible bonds	**-**	**-**	**-**	**-**	**(10,107)**	**(10,107)**
Foreign exchange adjustments	**-**	**-**	**-**	**(41,014)**	**-**	**(41,014)**
Other non-cash movements	**-**	**-**	**11,795**	**2,894**	**(74,387)**	**(59,698)**
Financing liabilities as at March 31, 2019	**1,166,907**	**-**	**786,136**	**1,836,264**	**590,506**	**4,379,813**

16 Business combinations

During the year, the Group completed two business combination activities aiming at expanding the Group's existing scale of operations and to enlarge the Group's market share.

On May 2, 2018, the Group acquired 51% interest of FCCL. FCCL is principally engaged in manufacturing and distribution of PC products. Immediately following completion, the Company, Fujitsu Limited and Development Bank of Japan respectively own 51%, 44%, and 5% of the interest in FCCL. The acquisition of FCCL 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.

During the year, the Group has set up a non-wholly owned subsidiary, Lenovo NetApp Technology Limited ("LNTL"), with Solidfire BV ("NetApp") for the purpose of business acquisition of storage business in China from NetApp. Such business acquisition was completed on February 18, 2019. Immediately following the completion, the Group and NetApp respectively own 51% and 49% of the interest in LNTL. LNTL is principally engaged in the business of developing and distributing storage solutions and products in China. The acquisition provides the Group with exclusive right in distributing NetApp branded storage products in China and enlarges the Group's market share of storage business in China.

The estimated total consideration for the business combination activities completed during the year is approximately US$287 million, including initial and contingent consideration.

Set forth below is the preliminary calculation of goodwill:

	FCCL *US$'000*	LNTL *US$'000*	Total *US$'000*
Purchase consideration:			
- Cash paid (a)	**127,104**	**48,600**	**175,704**
- Fair value of contingent consideration (b)	**111,047**	**-**	**111,047**
Total purchase consideration	**238,151**	**48,600**	**286,751**
Less: fair value of net assets acquired	**(114,267)**	**(43,069)**	**(157,336)**
Goodwill	**123,884**	**5,531**	**129,415**

(a) For the acquisition of FCCL, cash payment comprising cash consideration of JPY17,680,280,000 (US$161.0 million) net of a downward adjustment of JPY3,722,999,906 (US$33.9 million) calculated based on the actual working capital amount and the actual net debt as at the completion date was paid to Fujitsu Limited.

For the acquisition of LNTL, cash payment of US$48.6 million was made to LNTL.

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

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

	FCCL *US$'000*	LNTL *US$'000*	Total *US$'000*
Cash and cash equivalents	**22,906**	**53,500**	**76,406**
Property, plant and equipment	**33,564**	**700**	**34,264**
Deferred tax assets less liabilities	**(23,743)**	**(12,150)**	**(35,893)**
Intangible assets	**164,907**	**48,600**	**213,507**
Other non-current assets	**9,455**	**-**	**9,455**
Net working capital except cash and cash equivalents	**56,249**	**(6,200)**	**50,049**
Non-current liabilities	**(39,285)**	**-**	**(39,285)**
Fair value of net assets acquired	**224,053**	**84,450**	**308,503**
Less: share of other non-controlling interests	**(109,786)**	**(41,381)**	**(151,167)**
Fair value of net assets attributable to the interest acquired	**114,267**	**43,069**	**157,336**

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

At March 31, 2019, the Group has not finalized the fair value assessments for net assets acquired (including intangible assets) from the business combination activities. The relevant fair values of net assets stated above are on a provisional basis.

CONVERTIBLE BONDS

The Company issued US$675,000,000 3.375% convertible bonds ("Bonds") due 2024 to third party professional investors only and the Bonds were listed on the Stock Exchange on January 25, 2019.

The Bonds are convertible into a maximum of 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"), which represents (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).

The Conversion Shares issued upon conversion of the Bonds will be fully paid and in all respects rank *pari passu* with the Company's shares in issue on the relevant registration date. The Conversion Shares (if and when issued) will be issued under the general mandate granted to the directors of the Company pursuant to an ordinary resolution of the Company passed at the annual general meeting held on July 5, 2018.

There had not been any exercise of the Bonds during the financial year ended March 31, 2019, and no redemption right had been exercised by the bondholders or the Company during the year ended March 31, 2019.

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

During the year ended March 31, 2019, 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 226,487,041 shares from the market for award to employees upon vesting. Details of these program and plan will be set out in the 2018/19 Annual Report of the Company.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the annual results of the Group for the year ended March 31, 2019. 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

Throughout the year ended March 31, 2019, the Company has complied 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, and where appropriate, met the recommended best practices in the CG Code, 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.

Apart from the foregoing, the Company met the recommended best practices in the CG Code as to be disclosed in the respective sections of the 2018/19 Annual Report. Particularly, the Company published quarterly financial results and business reviews in addition to interim and annual results. Quarterly financial results enhanced the shareholders' ability to assess the performance, financial position and prospects of the Company. The quarterly financial results were prepared using the accounting standards consistent with the policies applied to the interim and annual financial statements.

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

May 23, 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, Mr. Gordon Robert Halyburton Orr and Mr. Woo Chin Wan Raymond.