Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

FY2018/19 FIRST QUARTER RESULTS ANNOUNCEMENT

QUARTERLY RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") announces the unaudited results of the Company and its subsidiaries (the "Group") for the three months ended June 30, 2018 together with comparative figures for the corresponding period of last year, as follows:

FINANCIAL HIGHLIGHTS

- Transformation efforts showing consistent and accelerated results improvement: Group revenue of US$12B, up 19% YTY achieved a record high fiscal quarter one revenue while continued its growth momentum for 4th consecutive quarters
- Strong operational performance with profit before taxation of US$113M during the quarter, the 3rd consecutive quarter of YTY improvement
- First quarter of Intelligent Devices Group: Synergy from shared platform and infrastructure to expand the ecosystem delivered double-digit revenue growth and profit improvement
  - PCSD continued to remain strong with revenue growth and profit before taxation keeps at 5% level during the quarter
  - Mobile business loss-cutting on track while continued to do well in Latin America and North America
- The transformation execution in Data Center led to a strong 68% revenue YTY growth during the quarter – the 3rd consecutive quarter of double-digit YTY growth
- Wave 3 transformation showed solid drive to grow services and software business

	3 months ended June 30, 2018 (unaudited) *US$'million*	3 months ended June 30, 2017 (unaudited) *US$'million*	Year-on-year change
Revenue	11,913	10,012	19%
Gross profit	1,632	1,365	20%
Gross profit margin	13.7%	13.6%	0.1 pts
Operating expenses	(1,452)	(1,371)	6%
Operating profit/(loss)	180	(6)	N/A
Other non-operating expenses - net	(67)	(63)	7%
Profit/(loss) before taxation	113	(69)	N/A
Profit/(loss) for the period	85	(54)	N/A
Profit/(loss) attributable to equity holders of the Company	77	(72)	N/A
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	US 0.65 cents	US (0.66) cents	N/A
Diluted	US 0.65 cents	US (0.66) cents	N/A

BUSINESS REVIEW AND OUTLOOK

Business Review

During the fiscal quarter one ended June 30, 2018, the Group achieved a record high fiscal quarter one revenue and the fourth consecutive quarter of revenue growth, led by continued strength in its Personal Computing and Smart Device (PCSD) business and Data Center Group (DCG). PCSD continued to deliver industry leading profitability and healthy cash flow to the Group, which provided a solid base to fuel the growth needs of the Mobile Business Group (MBG), DCG, and strategic investment needs to transform the company into a leader in the Device + Cloud field. The Group's efforts in transformation have so far shown consistent and accelerated results over the past several quarters.

The Group combined its PCSD and MBG business into the new "Intelligent Devices Group (IDG)" at the end of last year with an objective to refine its business model to be more customer centric, offering customers one-stop solutions to their computing needs right at the edge of the network. In the first quarter after its formation, the IDG has been able to drive synergy from shared platform and infrastructure, and achieve healthy revenue growth with profit improvement both year-on-year and quarter-to-quarter on a pro forma basis. Its PC and Smart Device business continued to outperform the market and achieved double-digit revenue growth with improved margin year-on-year. The Mobile business was on track in reducing its losses significantly from both a quarter and a year ago. Data Center Group also continued its strong momentum in revenue growth in fiscal quarter one, the strongest growth since the System x acquisition, with profitability improvement.

The Group's Third Wave transformation also showed solid growth in fiscal quarter one in ramping up services and e-commerce channel. It recorded strong momentum in services bookings on Intelligent Devices with strong double-digit revenue growth. In particular it saw breakthrough in Device-as-a-Service (DaaS) with a key win in a global financial organization. E-commerce also grew by double-digits in revenue, showing its strength in Lenovo's direct reach to users. In addition, the Group also made several launches in new Smart Devices in Consumer Smart IoT including Mirage Solo, Mirage Camera with Daydream, Smart Display with Google, and in Commercial IoT including Smart Office (Hub 500), smart enterprise solutions with Lenovo Big Data and Lenovo Connect. These smart device launches demonstrated the Group's innovation and leadership in technology. The Group also continued to realize its synergies across platforms through its Software and Services business to enhance customer experience and provide total intelligent solutions, which saw double-digit revenue growth year-on-year during the fiscal quarter under review.

For the fiscal quarter ended June 30, 2018, the Group's consolidated revenue grew 19 percent year-on-year to US$11,913 million. Revenue of IDG was US$9,954 million, representing a year-on-year increase of 14 percent. Within IDG, revenue of PCSD grew 19 percent year-on-year to US$8,308 million, while revenue of the MBG decreased 6 percent year-on-year to US$1,646 million as it repositioned its focus in only selected core markets. Revenue of the Data Center Group increased 68 percent year-on-year to US$1,629 million. Meanwhile, revenue of other goods and services was US$330 million.

For the fiscal quarter ended June 30, 2018, the Group's gross profit was US$1,632 million, an increase of 20 percent year-on-year, while gross margin increased by 0.1 percentage point year-on-year to 13.7 percent, thanks to continued product mix improvement from both IDG-PCSD and DCG. Operating expenses increased by 6 percent year-on-year to US$1,452 million, while the expense-to-revenue ratio was 12.2 percent, an improvement of 1.5 percentage points year-on-year, thanks to the expense savings from MBG through its repositioning strategy to create a more competitive cost structure and the Group's revenue growth. The Group's profit before taxation was US$113 million for the fiscal quarter under review, against a US$69 million loss recorded in the previous year. The Group recorded profit attributable to equity holders of US$77 million against US$72 million loss recorded in the previous year.

Performance of Product Business Groups

During the fiscal quarter ended June 30, 2018, Lenovo's IDG achieved healthy revenue growth while improving its margin performance thanks to strong revenue growth from PCSD business and the losses narrowing in MBG. The transformation in DCG continued to show positive momentum.

Intelligent Devices Group

The first quarter results of the IDG business demonstrated that this organizational change has integrated synergies from the hardware platform, which in turn helped the Group expand its ecosystem and drive business growth. For the fiscal quarter ended June 30, 2018, revenue of the IDG was US$9,954 million, an increase of 14 percent year-on-year on a pro forma basis, thanks to strong revenue performance from the PCSD business. The IDG recorded a pre-tax profit of US$321 million, up 170 percent year-on-year, thanks to strong profit improvement from PCSD during the quarter under review. Pre-tax profit margin of IDG was 3.2 percent, up 1.9 percentage points year-on-year, driven by its PCSD industry leading margin and efforts in reducing its loss in MBG.

Intelligent Devices Group - PC and Smart Device Business

During the fiscal quarter one, the global PC market continued to show signs of stabilization thanks to the continued commercial refresh and stabilizing consumer demand. The Group continued its strategy to prioritize profitability and to drive premium-to-market revenue growth in its PC business, which led to product mix improvements. As a result of its strong execution, the Group was ranked number one in worldwide PC market according to Gartner, and achieved solid revenue growth of 19 percent year-on-year while delivering industry leading 5 percent pre-tax profit margin in fiscal quarter one. While these results have included contribution from its joint venture with Fujitsu, the Group's core PC business has remained strong. The Group continued to gain share in shipments and revenue during the fiscal quarter one in commercial PC, which accounted for 63 percent of its PC unit mix, surpassing the industry average of 57 percent, according to industry estimates. The Group continued to gain share in the Workstation segment, growing at 24 percent year-on-year in revenue. In consumer PC, the Group continued to focus on premium segments, in particular the Thin & Light, Visuals, and Gaming PC, and all achieved strong double-digit revenue growth year-on-year during the quarter under review.

In driving towards a more customer-centric business, the PCSD team collaborated with companies in which the Lenovo Capital and Incubator Group (LCIG) has invested to make devices smarter and provide convenience to customers. In the commercial segment, the launch of Smart Office and the dedicated sales team has started gaining traction with the Device-as-a-Service business thus continuing the strong growth with global account customers. In the Lenovo new retail stores opened in China in the beginning of 2018, the Group has partnered with several of its portfolio companies to provide over 400 different IoT smart products. The new retail stores use AI technologies to provide retail efficiency and prompt service delivery which would guarantee customer satisfaction.

For the fiscal quarter ended June 30, 2018, revenue of the Group's PCSD business was US$8,308 million, an increase of 19 percent year-on-year. The business group recorded a pre-tax profit of US$418 million, up 43 percent year-on-year, thanks to products mix improvement. Pre-tax profit margin was 5.0 percent, up 0.8 percentage point year-on-year.

Intelligent Devices Group - Mobile Business

During the quarter under review, the Group's Mobile business continued to execute its strategy to re-position its business focus on growing its core markets like in Latin and North America. Latin America maintained its strong market position with record share during the quarter under review. Shipments in North America continued to see significant growth of 92 percent year-on-year driven by mainstream models including Moto G6 and E5, which were launched successfully along with carrier expansion during the quarter under review. In the meantime, the Group continue to focus on streamlining its product portfolio to focus on mainstream products and reduce its business complexity, thereby significantly reducing its expenses during the quarter under review.

In fiscal quarter one, overall shipments showed strong quarter-to-quarter growth of 12 percent despite declining 8 percent year-on-year mainly due to repositioning the strategy and continued competition in emerging markets. In China, the Group continued to refine its strategy to focus on user experience improvement with a few new models launched during the quarter to seek more healthy growth over time.

Mobile business revenue was US$1,646 million, representing approximately 14 percent of the Group's total revenue, decreasing 6 percent year-on-year for the fiscal quarter ended June 30, 2018. The Group's actions in reducing expenses and inventory from emerging markets were on track and operating expenses were down 28 percent year-on-year, resulting in an improved expense to revenue ratio. Operational loss before taxation, excluding non-cash M&A related accounting charges for the period under review was US$65 million, which was an improvement from the US$129 million loss a year ago.

Intelligent Devices Group - Others

Revenue from other products such as consumer electronic businesses from previous acquisitions was US$330 million, representing approximately 3 percent of the Group's total revenue.

Data Center Business Group (DCG)

Data Center Group continues on track to become a sustainable growth and profit engine for the Group and continue its 3rd consecutive quarter of double-digit revenue growth year-on-year and 5th consecutive quarter of pre-tax margin improvement during the quarter under review. The Group's previous transformation investments in building sales capability, strengthening the channel and product solution capabilities, together with the right business models, continued to bring strong positive momentum to the business during the quarter under review. As a result of these efforts, the Group recorded a 68 percent increase in revenue year-on-year in fiscal quarter one. Quarterly revenue has now reached the highest level since the System x acquisition. Lenovo ranked the 4th largest worldwide as well as the fastest growing server OEM company during the quarter under review, according to preliminary industry estimates.

The Group continued its triple-digit growth in its Hyperscale business thanks to its previous business model transformation to improve in-house design and manufacturing capabilities, as well as improving the customer mix to more overseas exposure. As such the margin of this business has also continued to improve since three quarters ago. In its Software Defined Infrastructure segment, the Group also saw more than triple-digit revenue growth with margin improvement during the quarter under review as the Group's strategic partnership with leading hyperconverged software providers continued to thrive. In the High Performance Computing (HPC) segment, the Group became the worldwide number 1 player in the HPC TOP500 List during the quarter, with 117 systems across 15 countries and five continents. The Group has also announced its Neptune ThinkAgile CP branding for the next generation composable cloud infrastructurewater-cooled suite of technology offerings. In the traditional infrastructure, the Group has also continue a positive trend to grow its business, while held its strong momentum with flash based storage solutions.

For the fiscal quarter ended June 30, 2018, revenue of the Data Center business was US$1,629 million, increasing 68 percent year-on-year and representing approximately 14 percent of the Group's total revenue. The loss from the Data Center business further narrowed year-on-year, owing to the strong execution of the transformation strategy to lead in the transition to cloud enterprise solutions. Hence, the Group recorded an operational loss before taxation of US$33 million, excluding the non-cash M&A related accounting charges during the year, which was an improvement from the US$114 million loss last fiscal year.

Performance of Geographies

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

China

China accounted for 25 percent of the Group's total revenue. Under the IDG, its PCSD business continued to improve the product mix and drive premium revenue growth to protect profitability, efforts that also included revamping its channel structure across different customer segments during the quarter under review. As such, the Group's PCSD business revenue increased more than 10 percent and the Group remained as the number one player with 36.0 percent market share during the quarter. The smartphone market in China remained slow during the quarter under review, while competition remained intense. The Group is refining its business, with some new models launched during the quarter.

In Data Center business, the Group's transformation actions, including investing in sales capabilities, strengthening the channel and product solution capabilities to improve the product mix, continued to show encouraging signs of improvement during the quarter under review. Its revenue continued to grow at double-digit rates year-on-year while further improving profitability.

Americas (AG)

Americas accounted for 33 percent of the Group's total revenue. Under the IDG, its PCSD business delivered strong performance thanks to its PC business delivering double-digit shipments growth while improving its margin performance year-on-year during the quarter under review. The Group's Moto brand smartphones continued to show strong momentum in Latin America with 23 percent shipment growth year-on-year, which enabled the Group to mitigate the currency fluctuations during the quarter under review. In North America, the Group continued to see strong shipments growth of 92 percent year-on-year during the fiscal quarter. Its mainstream products such as Moto G and Moto E delivered strong volume across the region.

The Group's Data Center business continued to show positive momentum as a result of its transformation actions. Revenue achieved record high triple-digit growth year-on-year in North America while continuing its double-digit revenue growth in Latin America year-on-year during the quarter under review. Notably, North America DCG saw revenue year-on-year growth for the fifth consecutive quarter. The Group continued to see strength across different segments including Hyperscale, Software Defined, and High Performance Computing segments.

Asia Pacific (AP)

Asia Pacific accounted for 19 percent of the Group's total revenue. Under the IDG, its PCSD business revenue continued its strong momentum. Market share grew strongly, gaining 4.1 percentage points of shipment market share year-on-year in Asia Pacific to reach 20.5 percent during the fiscal quarter according to industry estimates. Its smartphone business in the region continued to face fierce competition during the quarter under review, hence the Group adjusted its strategy to focus on margin protection. As such, the Group saw smartphone shipments decline and share loss in the fiscal quarter under review.

The Group's transformation of its Data Center business continued to bring revenue growth while further improving its margin performance year-on-year during the quarter under review.

Europe-Middle East-Africa (EMEA)

EMEA accounted for 23 percent of the Group's total revenue. Under IDG, PC business in EMEA delivered moderate revenue growth to protect its margin performance in view of building long-term growth over time. Its PC unit shipments grew 12 percent year-on-year, and reached a market share of 22.6 percent. In its smartphone business, the Group adjusted its strategy to focus on the mature markets of EMEA in order to focus on profit protection. As such, smartphone shipments in the region saw a decline during the fiscal quarter under review.

The Group's Data Center business saw strong momentum in the region with strong revenue growth and profitability improvement year-on-year during the quarter under review. The Group continued its success in Hyperscale and further expanded its High Performance Computing business footprint to several other mature countries in the region.

Lenovo Capital and Incubator Group (LCIG)

Lenovo Capital and Incubator Group's mission is to invest and build the Group's next-generation IT capabilities in AI, IoT, Big Data and VR/AR across various sectors such as manufacturing, healthcare and transportation. During the fiscal quarter under review, the Group's portfolio companies continued to support the core business to bring intelligence, content and services to devices, thus bring more commercial business opportunities to the Group. For example, its Big Data team has made some progress to integrate the ecosystem of the value chain in the automobile industry to support research, development and production activities during the quarter under review.

Outlook

Recognizing that the market has moved into the smart IoT era, the Group has formed the Intelligent Devices Group, combining PCSD and MBG together, to speed up the convergence of computing and communication technologies in products, to optimize shared platforms such as global supply chain and global service, and to accelerate the smart Device + Cloud services platform in providing intelligent services to users since beginning of this fiscal year.

Under the new Intelligent Devices Group, Lenovo's organizational structure and business model have shifted to be more customer centric, offering customers one-stop solutions to their computing needs right at the edge of the network. The Group will continue to leverage its excellence in branding, operational efficiency and supply chain management to bring best-in-class devices to customers. Moreover, the Group aims to expand business through service or subscription models, offering customers a total solution when purchasing devices and increasing attach options in services and software that are recurring and high-margin. The Group remains confident in its core PC business, and aims to grow at a premium to the market in revenue without compromising on profitability. Lenovo will leverage industry consolidation opportunities, and drive growth in high-growth segments such as gaming PCs, Thin & Light, Visuals, and workstations. The Group's iconic commercial brand, ThinkPad, will continue to drive growth in the ongoing commercial PC refresh. With Smart Devices, Lenovo continues to invest in and develop next-generation smart capabilities, and has now entered the go-to-market phase to bring more innovative products to the market. With smartphone, Lenovo has also announced the first 5G-upgradable phone with its 5G moto mod to its new moto z3 phone in August 2018 to showcase its innovation. The Group will continue to strengthen its core markets in Latin America and North America, focus on profitable markets, and continue to fine tune its strategy in selective key emerging markets like India and China. The Group's long-term vision for the IDG is to build an ecosystem around its devices and generate a healthy business model that comprises of a mixture of hardware, software and services revenues and further grow its business from both emerging commercial and consumer smart IoT opportunities.

In the Data Center business, the Group's transformation has been well executed and started seeing positive results in steering the business into a world-class, next-generation IT solutions provider. In Hyperscale, the Group continues to leverage its world-class in-house design and manufacturing capabilities, and bring compelling offerings to global hyperscalers. And in software defined data center, the Group will continue to partner with the best-in-class software vendors to give customers flexibility. In high-performance computing, Lenovo aims to continue its leading position in the global TOP500 HPC List. And in the customer-centric model, the Group will also strengthen its attach rates invest further in storage, networking, and services to improve its portfolio breadth, grow its software define business and move aggressively into growth markets like NFV, IoT and Edge Computing; so as to offer a more compelling total solution and build a long-term business relationship with customers. The Group now has the most compelling products in its history under the ThinkSystem and ThinkAgile brands to drive profitable growth in the future, coupled with the fast time-to-market product rollout, industry-leading product reliability and the increasingly capable sales force.

The Group will also continue its third wave strategy in driving Software & Services revenue, customer engagement and accelerating Device + Cloud and Infrastructure + Cloud expansion. It will continue to invest in AI, IoT, Big Data and VR/AR with sizable investments over time. With that, the Group is building capabilities in Device + Cloud and Infrastructure + Cloud in order to capture the growth in the smart IoT era. The Group has expanded its ecosystem across large enterprises as well as small and medium business customers with its Big Data and Lenovo Connect services, while also penetrating into consumer segments with its smart IoT platform to capture more opportunities in the IoT era.

The Group's strong execution in its transformation continued to show positive results with revenue and profit before taxation resumed growth during the quarter under review. Looking forward, Lenovo has a clear vision to drive sustainable, profitable growth. The Group now has a stronger organization with sharper customer focus and more compelling business model across all its businesses. Coupled with strong execution, the Group remains confident it can build leading positions in every business the Group enters and drive profitable growth that, in turn, creates better value for shareholders.

FINANCIAL REVIEW

Results for the three months ended June 30, 2018

	3 months ended June 30, 2018 (unaudited) ***US$'million***	3 months ended June 30, 2017 (unaudited) *US$'million*	Year-on-year change
Revenue	**11,913**	10,012	19%
Gross profit	**1,632**	1,365	20%
Gross profit margin	**13.7%**	13.6%	0.1 pts
Operating expenses	**(1,452)**	(1,371)	6%
Operating profit/(loss)	**180**	(6)	N/A
Other non-operating expenses – net	**(67)**	(63)	7%
Profit/(loss) before taxation	**113**	(69)	N/A
Profit/(loss) for the period	**85**	(54)	N/A
Profit/(loss) attributable to equity holders of the Company	**77**	(72)	N/A
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	**US 0.65 cents**	US (0.66) cents	N/A
Diluted	**US 0.65 cents**	US (0.66) cents	N/A

For the three months ended June 30, 2018, the Group achieved total sales of approximately US$11,913 million. Profit attributable to equity holders for the period was approximately US$77 million, as compared with loss attributable to equity holders of US$72 million reported in the corresponding period of last year. Gross profit margin for the period was 0.1 percentage points up from 13.6 percent reported in the corresponding period of last year. Basic and diluted earnings per share were US0.65 cents, as compared with basic and diluted loss per share of US0.66 cents reported in the corresponding period of last year.

Operating expenses analyzed by function for the three months ended June 30, 2018 and 2017 are as follows:

	3 months ended June 30, 2018 ***US$'000***	3 months ended June 30, 2017 *US$'000*
Selling and distribution expenses	**(654,204)**	(665,027)
Administrative expenses	**(485,179)**	(460,528)
Research and development expenses	**(309,895)**	(291,565)
Other operating (expenses)/income – net	**(2,021)**	46,395
	(1,451,299)	(1,370,725)

Operating expenses for the period increased by 6 percent as compared with the corresponding period of last year. During the period, employee benefit costs of the Group increased by US$109 million, and the Group recorded a net exchange loss of US$23 million (2017/18: gain of US$3 million). The Group has reduced advertising and promotional expenses by US$45 million compared with the corresponding period of last year. Key expenses by nature comprise:

	3 months ended June 30, 2018 *US$'000*	3 months ended June 30, 2017 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(36,978)**	(38,222)
Amortization of intangible assets	**(111,404)**	(104,009)
Employee benefit costs, including	**(867,258)**	(758,521)
- *long-term incentive awards*	***(46,815)***	*(47,241)*
Rental expenses under operating leases	**(31,586)**	(34,612)
Net foreign exchange (loss)/gain	**(23,116)**	2,993
Advertising and promotional expenses	**(168,239)**	(212,893)
Loss on disposal of property, plant and equipment	**(933)**	(4,088)
Fair value gain on financial assets at fair value through profit or loss	**29,063**	-
Gain on disposal of financial assets at fair value through profit or loss	**32,130**	-
Others	**(272,978)**	(221,373)
	(1,451,299)	(1,370,725)

Other non-operating expenses (net) for the three months ended June 30, 2018 and 2017 comprise:

	3 months ended June 30, 2018 *US$'000*	3 months ended June 30, 2017 *US$'000*
Finance income	**5,298**	9,188
Finance costs	**(71,848)**	(72,044)
Share of losses of associates and joint ventures	**(1,027)**	(293)
	(67,577)	(63,149)

Finance income mainly represents interest on bank deposits.

Finance costs for the period remained stable as compared with the corresponding period of last year. The slight change is a combined effect of the decrease in interest on promissory note issued to Google Inc. of US$12 million and factoring costs of US$2 million, and the increase in interest expense on bank loans of US$14 million.

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

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

	3 months ended June 30, 2018		3 months ended June 30, 2017	
	Revenue from external customers	**Adjusted pre-tax income/ (loss)**	Revenue from external customers	Adjusted pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
IDG	**9,953,859**	**320,524**	8,751,760	118,536
DCG	**1,628,873**	**(62,998)**	970,635	(144,499)
Others	**329,993**	**7,324**	289,819	(4,921)
Segment total	**11,912,725**	**264,850**	10,012,214	(30,884)
Unallocated:				
Headquarters and corporate (expenses)/income - net		**(94,467)**		(2,473)
Depreciation and amortization		**(25,544)**		(22,079)
Finance income		**840**		1,829
Finance costs		**(32,074)**		(17,311)
Share of losses of associates and joint ventures		**(1,027)**		(293)
Gain on disposal of property, plant and equipment		**218**		1,949
Consolidated profit/(loss) before taxation		**112,796**		(69,262)

Headquarters and corporate (expenses)/income comprise the gains on disposal and fair valuation of certain financial assets totaling US$61 million, and various expenses such as employee benefit costs, legal and professional fees, and research and technology expenses attributable to headquarters and corporate. The significant increase when compared with the corresponding period of last year is mainly due to the higher bonus accrual, an increase of US$33 million, made for headquarters and corporate as a result of the outperformance this quarter as opposed to the less satisfactory results under the challenging market conditions in the corresponding period of last year. In addition, a breakthrough bonus accrual of US$17 million has been reserved at the corporate level in anticipation of the outperformance. The Group also recorded a net exchange loss of US$26 million as a result of the balance sheet hedges whereas a net exchange gain of US$12 million was recognized in the corresponding period of last year. Additional research and technology expenses of US$16 million were incurred during the period as compared with the corresponding period of last year. Moreover, the Group recognized certain one-time charges at the corporate level during the current quarter, including the costs incurred in connection with an onerous lease contract and the settlement of a copyright claim totaling US$23 million.

Capital Expenditure

The Group incurred capital expenditure of US$134 million (2017/18: US$168 million) during the three months ended June 30, 2018, mainly for the acquisition of property, plant and equipment, prepaid lease payments, additions in construction-in-progress and intangible assets.

Liquidity and Financial Resources

At June 30, 2018, total assets of the Group amounted to US$31,311 million (March 31, 2018: US$28,494 million), which were financed by equity attributable to owners of the Company of US$3,333 million (March 31, 2018: US$3,519 million), perpetual securities of US$1,007 million (March 31, 2018: US$994 million) and other non-controlling interests (net of put option written on non-controlling interest) of -US$2 million (March 31, 2018: US$33 million), and total liabilities of US$26,973 million (March 31, 2018: US$23,948 million). At June 30, 2018, the current ratio of the Group was 0.81 (March 31, 2018: 0.80).

The Group had a solid financial position. At June 30, 2018, bank deposits, cash and cash equivalents totaled US$2,689 million (March 31, 2018: US$1,932 million), of which 40.7 (March 31, 2018: 28.8) percent was denominated in US dollar, 37.0 (March 31, 2018: 45.6) percent in Renminbi, 6.7 (March 31, 2018: 6.1) percent in Euro, 2.9 (March 31, 2018: 7.4) percent in Japanese Yen, and 12.7 (March 31, 2018: 12.1) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At June 30, 2018, 100 (March 31, 2018: 99.6) percent of cash are bank deposits, while at March 31, 2018, 0.4 percent are investments in liquid money market funds of investment grade.

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

The Group entered into a 5-Year revolving loan facility agreement with syndicated banks for US$1,500 million on March 28, 2018. The facility was utilized to the extent of US$1,500 million as at June 30, 2018 (March 31, 2018: not utilized). The outstanding revolving loan of US$800 million utilized from another revolving loan facility as at March 31, 2018 was re-financed and prepaid in April 2018 by this 5-Year revolving loan facility.

In addition, on May 26, 2015, the Group entered into a 5-Year loan facility agreement with a bank for US$300 million. The facility was utilized to the extent of US$300 million as at June 30, 2018 (March 31, 2018: US$300 million).

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

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

On March 29, 2018, the Group completed the issuance of 5-Year US$750 million notes bearing annual interest at 4.75% due in March 2023. The proceeds were mainly used to repurchase the principal amount of US$714 million of the 2019 Note, and for general corporate purpose including working capital.

The Group has also arranged other short-term credit facilities. At June 30, 2018, the Group's other total available credit facilities amounted to US$12,383 million (March 31, 2018: US$11,232 million), of which US$1,765 million (March 31, 2018: US$1,730 million) was in trade lines, US$796 million (March 31, 2018: US$796 million) in short-term and revolving money market facilities and US$9,822 million (March 31, 2018: US$8,706 million) in forward foreign exchange contracts. At June 30, 2018, the amounts drawn down were US$1,143 million (March 31, 2018: US$1,090 million) in trade lines, US$9,712 million (March 31, 2018: US$8,645 million) being used for the forward foreign exchange contracts, and US$70 million (March 31, 2018: US$70 million) in short-term bank loans.

At June 30, 2018, the Group's outstanding borrowings represented by short-term bank loans of US$1,853 million (March 31, 2018: US$1,166 million) and notes of US$2,628 million (March 31, 2018: US$2,649 million). When compared with total equity of US$4,338 million (March 31, 2018: US$4,546 million), the Group's gearing ratio was 1.03 (March 31, 2018: 0.84). The net debt position of the Group at June 30, 2018 is US$1,792 million (March 31, 2018: US$1,883 million).

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At June 30, 2018, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$9,712 million (March 31, 2018: US$8,645 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

Contingent Liabilities

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

CONSOLIDATED INCOME STATEMENT

	Note	**3 months ended June 30, 2018 (unaudited)** *US$'000*	3 months ended June 30, 2017 (unaudited) *US$'000*
Revenue	*2*	**11,912,725**	10,012,214
Cost of sales		**(10,281,053)**	(8,647,602)
Gross profit		**1,631,672**	1,364,612
Selling and distribution expenses		**(654,204)**	(665,027)
Administrative expenses		**(485,179)**	(460,528)
Research and development expenses		**(309,895)**	(291,565)
Other operating (expenses)/income – net		**(2,021)**	46,395
Operating profit/(loss)	*3*	**180,373**	(6,113)
Finance income	*4(a)*	**5,298**	9,188
Finance costs	*4(b)*	**(71,848)**	(72,044)
Share of losses of associates and joint ventures		**(1,027)**	(293)
Profit/(loss) before taxation		**112,796**	(69,262)
Taxation	*5*	**(27,476)**	15,397
Profit/(loss) for the period		**85,320**	(53,865)
Profit/(loss) attributable to:			
Equity holders of the Company		**77,044**	(72,290)
Perpetual securities holders		**13,440**	13,247
Other non-controlling interests		**(5,164)**	5,178
		85,320	(53,865)
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	*6(a)*	**US 0.65 cents**	US (0.66) cents
Diluted	*6(b)*	**US 0.65 cents**	US (0.66) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended June 30, 2018 (unaudited) ***US$'000***	3 months ended June 30, 2017 (unaudited) *US$'000*
Profit/(loss) for the period	**85,320**	(53,865)
Other comprehensive (loss)/income:		
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	**-**	(188)
Fair value change on financial assets at fair value through other comprehensive income, net of taxes	**(5,288)**	-
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes		
- Fair value gain/(loss), net of taxes	**191,247**	(97,720)
- Reclassified to consolidated income statement	**(93,370)**	47,968
Currency translation differences	**(372,092)**	19,774
Other comprehensive loss for the period	**(279,503)**	(30,166)
Total comprehensive loss for the period	**(194,183)**	(84,031)
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	**(202,459)**	(102,456)
Perpetual securities holders	**13,440**	13,247
Other non-controlling interests	**(5,164)**	5,178
	(194,183)	(84,031)

CONSOLIDATED BALANCE SHEET

	Note	**June 30, 2018 (unaudited) *US$'000***	March 31, 2018 (audited) *US$'000*
Non-current assets			
Property, plant and equipment		**1,262,016**	1,304,751
Prepaid lease payments		**479,209**	507,628
Construction-in-progress		**373,953**	382,845
Intangible assets		**8,426,938**	8,514,504
Interests in associates and joint ventures		**34,639**	35,666
Deferred income tax assets		**1,575,545**	1,530,623
Available-for-sale financial assets		**-**	373,077
Financial assets at fair value through profit or loss		**318,145**	-
Financial assets at fair value through other comprehensive income		**79,118**	-
Other non-current assets		**115,614**	181,759
		12,665,177	12,830,853
Current assets			
Inventories		**4,125,099**	3,791,691
Trade receivables	*7(a)*	**6,050,803**	4,972,722
Notes receivable		**13,411**	11,154
Derivative financial assets		**162,009**	24,890
Deposits, prepayments and other receivables	*8*	**5,387,258**	4,703,335
Income tax recoverable		**218,597**	227,203
Bank deposits		**75,856**	84,306
Cash and cash equivalents		**2,613,148**	1,848,017
		18,646,181	15,663,318
Total assets		**31,311,358**	28,494,171

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**June 30, 2018 (unaudited)** *US$'000*	March 31, 2018 (audited) *US$'000*
Share capital	*12*	**3,185,923**	3,185,923
Reserves		**147,135**	332,697
Equity attributable to owners of the Company		**3,333,058**	3,518,620
Perpetual securities		**1,007,110**	993,670
Other non-controlling interests		**361,953**	246,598
Put option written on non-controlling interests	*9(a)(ii), 10(b)*	**(364,003)**	(212,900)
Total equity		**4,338,118**	4,545,988
Non-current liabilities			
Borrowings	*11*	**1,842,234**	2,648,725
Warranty provision	*9(b)*	**266,533**	278,908
Deferred revenue		**600,912**	583,405
Retirement benefit obligations		**420,184**	413,482
Deferred income tax liabilities		**274,317**	230,609
Other non-current liabilities	*10*	**553,810**	333,332
		3,957,990	4,488,461
Current liabilities			
Trade payables	*7(b)*	**7,919,634**	6,450,792
Notes payable		**831,441**	801,974
Derivative financial liabilities		**49,380**	62,694
Other payables and accruals	*9(a)*	**9,871,546**	9,217,764
Provisions	*9(b)*	**798,393**	858,475
Deferred revenue		**731,525**	732,552
Income tax payable		**174,788**	168,779
Borrowings	*11*	**2,638,543**	1,166,692
		23,015,250	19,459,722
Total liabilities		**26,973,240**	23,948,183
Total equity and liabilities		**31,311,358**	28,494,171

CONSOLIDATED CASH FLOW STATEMENT

	Note	**3 months ended June 30, 2018 (unaudited)** ***US$'000***	3 months ended June 30, 2017 (unaudited) *US$'000*
Cash flows from operating activities			
Net cash generated from/(used in) operations	*14*	**490,632**	(396,458)
Interest paid		**(73,838)**	(46,579)
Tax paid		**(80,823)**	(134,313)
Net cash generated from/(used in) operating activities		**335,971**	(577,350)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(37,228)**	(68,375)
Purchase of prepaid lease payments		**-**	(10,908)
Sale of property, plant and equipment		**106**	196
Acquisition of subsidiaries, net of cash acquired	*15*	**(105,743)**	-
Net proceeds from disposal of a joint venture		**-**	78,991
Payment for construction-in-progress		**(57,041)**	(56,731)
Payment for intangible assets		**(39,807)**	(32,304)
Purchase of available-for-sale financial assets		**-**	(20,768)
Purchase of financial assets at fair value through profit or loss		**(4,517)**	-
Purchase of financial assets at fair value through other comprehensive income		**(274)**	-
Proceeds from sale of financial assets at fair value through profit or loss		**33,230**	-
Repayment of deferred consideration		**-**	(686,301)
Decrease in bank deposits		**8,450**	43,104
Dividends received		**118**	-
Interest received		**5,298**	9,188
Net cash used in investing activities		**(197,408)**	(743,908)
Cash flows from financing activities			
Contribution to employee share trusts		**(10,347)**	(19,117)
Issue of perpetual securities		**-**	149,625
Capital contribution from other non-controlling interests		**1,948**	7,385
Proceeds from borrowings		**2,445,000**	1,247,499
Repayments of borrowings		**(1,745,000)**	(1,451,903)
Net cash generated from/(used in) financing activities		**691,601**	(66,511)
Increase/(decrease) in cash and cash equivalents		**830,164**	(1,387,769)
Effect of foreign exchange rate changes		**(65,033)**	20,640
Cash and cash equivalents at the beginning of the period		**1,848,017**	2,754,599
Cash and cash equivalents at the end of the period		**2,613,148**	1,387,470

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											
	Share capital (*unaudited*) *US$'000*	Investment revaluation reserve (*unaudited*) *US$'000*	Employee share trusts (*unaudited*) *US$'000*	Share-based compensation reserve (*unaudited*) *US$'000*	Hedging reserve (*unaudited*) *US$'000*	Exchange reserve (*unaudited*) *US$'000*	Other reserve (*unaudited*) *US$'000*	Retained earnings (*unaudited*) *US$'000*	Perpetual securities (*unaudited*) *US$'000*	Other non-controlling interests (*unaudited*) *US$'000*	Put option written on non-controlling interests (*unaudited*) *US$'000*	Total (*unaudited*) *US$'000*
At April 1, 2018	**3,185,923**	**(2,741)**	**(101,702)**	**231,857**	**(16,906)**	**(937,907)**	**71,449**	**1,088,647**	**993,670**	**246,598**	**(212,900)**	**4,545,988**
Change in accounting policy	**–**	**(17,376)**	**–**	**–**	**–**	**–**	**–**	**5,746**	**–**	**–**	**–**	**(11,630)**
Restated total equity	**3,185,923**	**(20,117)**	**(101,702)**	**231,857**	**(16,906)**	**(937,907)**	**71,449**	**1,094,393**	**993,670**	**246,598**	**(212,900)**	**4,534,358**
Profit/(loss) for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**77,044**	**13,440**	**(5,164)**	**–**	**85,320**
Other comprehensive (loss)/income	**–**	**(5,288)**	**–**	**–**	**97,877**	**(372,092)**	**–**	**–**	**–**	**–**	**–**	**(279,503)**
Total comprehensive (loss)/income for the period	**–**	**(5,288)**	**–**	**–**	**97,877**	**(372,092)**	**–**	**77,044**	**13,440**	**(5,164)**	**–**	**(194,183)**
Acquisition of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**118,571**	**–**	**118,571**
Put option written on non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(151,103)**	**(151,103)**
Vesting of shares under long-term incentive program	**–**	**–**	**82,319**	**(90,260)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,941)**
Share-based compensation	**–**	**–**	**–**	**46,815**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**46,815**
Contribution to employee share trusts	**–**	**–**	**(10,347)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10,347)**
Capital contribution from other non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,948**	**–**	**1,948**
At June 30, 2018	**3,185,923**	**(25,405)**	**(29,730)**	**188,412**	**80,971**	**(1,309,999)**	**71,449**	**1,171,437**	**1,007,110**	**361,953**	**(364,003)**	**4,338,118**
At April 1, 2017	2,689,882	(2,965)	(111,228)	123,493	(5,328)	(1,226,618)	62,751	1,693,614	843,677	240,844	(212,900)	4,095,222
(Loss)/profit for the period	–	–	–	–	–	–	–	(72,290)	13,247	5,178	–	(53,865)
Other comprehensive (loss)/income	–	(188)	–	–	(49,752)	19,774	–	–	–	–	–	(30,166)
Total comprehensive (loss)/income for the period	–	(188)	–	–	(49,752)	19,774	–	(72,290)	13,247	5,178	–	(84,031)
Vesting of shares under long-term incentive program	–	–	58,353	(76,661)	–	–	–	–	–	–	–	(18,308)
Share-based compensation	–	–	–	47,315	–	–	–	–	–	–	–	47,315
Contribution to employee share trusts	–	–	(19,117)	–	–	–	–	–	–	–	–	(19,117)
Issue of perpetual securities (Note 13)	–	–	–	–	–	–	–	–	149,625	–	–	149,625
Capital contribution from other non-controlling interests	–	–	–	–	–	–	–	–	–	7,385	–	7,385
At June 30, 2017	2,689,882	(3,153)	(71,992)	94,147	(55,080)	(1,206,844)	62,751	1,621,324	1,006,549	253,407	(212,900)	4,178,091

Notes

1 General information and basis of preparation

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

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

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

Basis of preparation

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

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

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

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

Except for the two new standards, the adoption of these newly effective interpretation and amendments to existing standard does not result in substantial changes to the Group's accounting policies or financial results. Among the above, the adoption of the two new standards are of higher relevancy to the Group's operations. The following describes the key changes 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 fair value through profit or loss with the irrevocable option at inception to present changes in fair value in other comprehensive income in which case the accumulated fair value changes in other comprehensive income will not be recycled to the profit or loss in the future.

For financial liabilities there were no changes to classification and measurement, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. Under the new hedge accounting rules, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach.

Under HKFRS 9, trade receivables of the Group are to be classified as FVOCI instruments with earlier recognition of loss is expected, and amount of relevant impairment provision may be revised when ECL is referenced. The Group currently holds certain investments in equity instruments which are classified as FVOCI instruments. 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 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 amortised 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 period, net fair value gains of US$29,063,000 relating to these investments were recognized in profit or loss.

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

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

(c) Bond refinancing

Following the adoption of HKFRS 9, the Group could no longer defer the recognition of a loss from the refinancing of a borrowing. Under the Group's previous accounting policies, this loss would have been recognized over the remaining life of the borrowing by adjusting the effective interest rate, on the basis that the terms and conditions of the facility remained largely unchanged. 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 subject to a different timing of recognition, which may impact the amount of revenue recognized by the Group for a given period.

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

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

The following new standards, interpretation and amendments to existing standard, which are considered appropriate and relevant to the Group's operations, have been issued but are not effective for the year ending March 31, 2019 and have not been early adopted:

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

Among the above, HKFRS 16 is of higher relevancy to the Group's operations. The following describes the key changes that may impact the consolidated financial statements of the Group.

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

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

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

Based on the assessment performed, the Group is in the opinion that the adoption of above new standards, interpretation and amendments to standard 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, Data Center Group ("DCG") and others, replaces the Group's original segment by geography and is designed to align the Group more closely with its strategic direction and market dynamics to better serve customers.

The Group has adopted the new business group structure as the reporting format effective for the year ending March 31, 2019 and the comparative segment information has been presented to reflect the current organizational structure. Management has determined the operating segments based on the reports reviewed by the Lenovo Executive Committee (the "LEC"), the chief operating decision-maker, that are used to make strategic decisions.

The LEC assesses the performance of the operating segments based on a measure of adjusted pre-tax income/(loss). This measurement basis excludes the effects of non-recurring expenditure such as restructuring costs from the operating segments. The measurement basis also excludes the effects of unrealized gains/(losses) on financial instruments. Certain interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

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

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

	3 months ended June 30, 2018		3 months ended June 30, 2017	
	Revenue from external customers	**Adjusted pre-tax income/ (loss)**	Revenue from external customers	Adjusted pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
IDG	**9,953,859**	**320,524**	8,751,760	118,536
DCG	**1,628,873**	**(62,998)**	970,635	(144,499)
Others	**329,993**	**7,324**	289,819	(4,921)
Segment total	**11,912,725**	**264,850**	10,012,214	(30,884)
Unallocated:				
Headquarters and corporate (expenses)/income - net		**(94,467)**		(2,473)
Depreciation and amortization		**(25,544)**		(22,079)
Finance income		**840**		1,829
Finance costs		**(32,074)**		(17,311)
Share of losses of associates and joint ventures		**(1,027)**		(293)
Gain on disposal of property, plant and equipment		**218**		1,949
Consolidated profit/(loss) before taxation		**112,796**		(69,262)

(b) Segment assets for reportable segments

	June 30, 2018	March 31, 2018
	US$'000	*US$'000*
IDG	**20,184,036**	18,692,539
DCG	**5,104,081**	4,718,555
Others	**351,355**	280,510
Segment assets for reportable segments	**25,639,472**	23,691,604
Unallocated:		
Deferred income tax assets	**1,575,545**	1,530,623
Financial assets at fair value through profit or loss	**318,145**	-
Financial assets at fair value through other comprehensive income	**79,118**	-
Derivative financial assets	**162,009**	24,890
Available-for-sale financial assets	**-**	373,077
Interests in associates and joint ventures	**34,639**	35,666
Unallocated bank deposits and cash and cash equivalents	**2,689,004**	1,932,324
Unallocated deposits, prepayments and other receivables	**179,802**	235,783
Income tax recoverable	**218,597**	227,203
Other unallocated assets	**415,027**	443,001
Total assets per consolidated balance sheet	**31,311,358**	28,494,171

(c) Segment liabilities for reportable segments

	June 30, 2018	March 31, 2018
	US$'000	*US$'000*
IDG	**18,993,280**	17,062,282
DCG	**1,906,363**	1,809,529
Others	**344,012**	225,348
Segment liabilities for reportable segments	**21,243,655**	19,097,159
Unallocated:		
Deferred income tax liabilities	**274,317**	230,609
Derivative financial liabilities	**49,380**	62,694
Unallocated borrowings	**4,480,777**	3,815,417
Unallocated other payables and accruals	**450,883**	539,037
Unallocated provisions	**9,333**	1,333
Unallocated other non-current liabilities	**290,107**	33,155
Income tax payable	**174,788**	168,779
Total liabilities per consolidated balance sheet	**26,973,240**	23,948,183

(d) Analysis of revenue by geography

	3 months ended June 30, 2018	3 months ended June 30, 2017
	US$'000	*US$'000*
China	**2,957,702**	2,515,217
AP	**2,214,022**	1,572,992
EMEA	**2,764,511**	2,702,610
AG	**3,976,490**	3,221,395
	11,912,725	10,012,214

(e) Other segment information

	IDG		DCG		Others		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	US$'000	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*
For the three months ended June 30								
Depreciation and amortization	**109,599**	104,188	**51,310**	47,138	**1,499**	1,459	**162,408**	152,785
Finance income	**4,353**	7,314	**55**	-	**50**	45	**4,458**	7,359
Finance costs	**36,220**	51,168	**3,554**	3,565	**-**	-	**39,774**	54,733
Additions to non-current assets (Note)	**368,057**	149,868	**22,919**	18,450	**-**	-	**390,976**	168,318

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

(f) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$6,196 million (March 31, 2018: US$6,362 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At June 30, 2018

	China	**AP**	**EMEA**	**AG**	***Mature Market***	***Emerging Market***	**Total**
	US$ million	***US$ million***	***US$ million***	***US$ million***	***US$ million***	***US$ million***	***US$ million***
Goodwill							
- PCSD	**1,066**	**623**	**230**	**320**	**-**	**-**	**2,239**
- MBG	**-**	**-**	**-**	**-**	**681**	**911**	**1,592**
- DCG	**479**	**161**	**92**	**363**	**-**	**-**	**1,095**
Trademarks and trade names							
- PCSD	**209**	**59**	**105**	**67**	**-**	**-**	**440**
- MBG	**-**	**-**	**-**	**-**	**121**	**339**	**460**
- DCG	**162**	**54**	**31**	**123**	**-**	**-**	**370**

At March 31, 2018

	China	**AP**	**EMEA**	**AG**	***Mature Market***	***Emerging Market***	**Total**
	US$ million	***US$ million***	***US$ million***	***US$ million***	***US$ million***	***US$ million***	***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	-	-	-	-	121	339	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 a 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 in accordance with HKAS 36 "Impairment of assets".

The directors are of the view that there was no indication of impairment of goodwill and trademarks and trade names as at June 30, 2018 (March 31, 2018: Nil).

3 Operating profit/(loss)

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

	3 months ended June 30, 2018 *US$'000*	3 months ended June 30, 2017 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**65,760**	62,383
Amortization of intangible assets	**122,192**	112,481
Employee benefit costs, including	**1,000,640**	856,346
- long-term incentive awards	***46,815***	*47,241*
Rental expenses under operating leases	**35,976**	38,602
Loss on disposal of property, plant and equipment	**933**	4,088
Fair value gain on financial assets at fair value through profit or loss	**(29,063)**	-
Gain on disposal of financial assets at fair value through profit or loss	**(32,130)**	-

4 Finance income and costs

(a) Finance income

	3 months ended June 30, 2018 *US$'000*	3 months ended June 30, 2017 *US$'000*
Interest on bank deposits	**5,086**	7,955
Interest on money market funds	**212**	1,233
	5,298	9,188

(b) Finance costs

	3 months ended June 30, 2018 *US$'000*	3 months ended June 30, 2017 *US$'000*
Interest on bank loans and overdrafts	**23,736**	9,945
Interest on notes	**30,139**	30,821
Interest on promissory note	**-**	11,589
Factoring costs	**15,666**	18,101
Commitment fee	**360**	321
Interest on contingent/deferred considerations and put option liability	**1,668**	554
Others	**279**	713
	71,848	72,044

5 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended June 30, 2018	3 months ended June 30, 2017
	US$'000	*US$'000*
Current tax		
Hong Kong profits tax	**6,726**	7,110
Taxation outside Hong Kong	**76,190**	64,960
Deferred tax	**(55,440)**	(87,467)
	27,476	(15,397)

Hong Kong profits tax has been provided for at the rate of 16.5% (2017/18: 16.5%) on the estimated assessable profit for the period. Taxation outside Hong Kong represents income and irrecoverable withholding taxes of subsidiaries operating in the Chinese Mainland and overseas, calculated at rates applicable in the respective jurisdictions.

6 Earnings/(loss) per share

(a) Basic

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

	3 months ended June 30, 2018	3 months ended June 30, 2017
Weighted average number of ordinary shares in issue	**12,014,791,614**	11,108,654,724
Adjustment for shares held by employee share trusts	**(160,130,614)**	(157,451,340)
Weighted average number of ordinary shares in issue for calculation of basic earnings/(loss) per share	**11,854,661,000**	10,951,203,384
	US$'000	*US$'000*
Profit/(loss) attributable to equity holders of the Company	**77,044**	(72,290)

(b) Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares, namely long-term incentive awards and bonus warrants. Long-term incentive awards were dilutive for the three months ended June 30, 2018 and anti-dilutive for the three months ended June 30, 2017. Bonus warrants were anti-dilutive for the three months ended June 30, 2018 and 2017.

	3 months ended June 30, 2018	3 months ended June 30, 2017
Weighted average number of ordinary shares in issue for calculation of basic earnings/(loss) per share	**11,854,661,000**	10,951,203,384
Adjustment for long-term incentive awards	**40,827**	-
Weighted average number of ordinary shares in issue for calculation of diluted earnings/(loss) per share	**11,854,701,827**	10,951,203,384
	US$'000	*US$'000*
Profit/(loss) attributable to equity holders of the Company used to determine diluted earnings/(loss) per share	**77,044**	(72,290)

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

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

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

7 Ageing analysis

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

	June 30, 2018 ***US$'000***	March 31, 2018 *US$'000*
0 – 30 days	**3,811,469**	3,046,240
31 – 60 days	**1,427,311**	1,169,286
61 – 90 days	**420,022**	320,183
Over 90 days	**478,226**	545,629
	6,137,028	5,081,338
Less: provision for impairment	**(86,225)**	(108,616)
Trade receivables – net	**6,050,803**	4,972,722

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

	June 30, 2018	March 31, 2018
	US$'000	*US$'000*
0 – 30 days	**4,061,507**	3,694,507
31 – 60 days	**2,173,878**	1,793,380
61 – 90 days	**1,181,263**	727,029
Over 90 days	**502,986**	235,876
	7,919,634	6,450,792

8 Deposits, prepayments and other receivables

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

	June 30, 2018	March 31, 2018
	US$'000	*US$'000*
Deposits	**16,818**	15,818
Other receivables	**4,024,415**	3,346,475
Prepayments	**1,346,025**	1,341,042
	5,387,258	4,703,335

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

9 Provisions, other payables and accruals

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

	June 30, 2018	March 31, 2018
	US$'000	*US$'000*
Accruals	**1,632,077**	1,865,507
Allowance for billing adjustments (i)	**1,609,254**	1,634,287
Written put option liability (ii)	**224,813**	224,813
Other payables (iii)	**6,405,402**	5,493,157
	9,871,546	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. The exercise price for the call and put options will be determined in accordance with the joint venture agreement, and up to a maximum of US$750 million.

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

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

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

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

(b) The components of provisions are as follows:

	Warranty	**Environmental restoration**	**Restructuring**	**Total**
	US$'000	***US$'000***	***US$'000***	***US$'000***
Year ended March 31, 2018				
At the beginning of the year	1,061,906	8,390	89,652	1,159,948
Exchange adjustment	24,577	638	3,794	29,009
Provisions made	895,939	9,662	100,775	1,006,376
Amounts utilized	(901,204)	(9,771)	(140,168)	(1,051,143)
	1,081,218	8,919	54,053	1,144,190
Long-term portion classified as non-current liabilities	(278,908)	(6,807)	-	(285,715)
At the end of the year	802,310	2,112	54,053	858,475
Three months ended June 30, 2018				
At the beginning of the period	**1,081,218**	**8,919**	**54,053**	**1,144,190**
Exchange adjustment	**(31,149)**	**(393)**	**(1,676)**	**(33,218)**
Provisions made	**192,925**	**2,628**	**-**	**195,553**
Amounts utilized	**(220,560)**	**(2,989)**	**(11,600)**	**(235,149)**
Acquisition of subsidiaries	**-**	**18,061**	**-**	**18,061**
	1,022,434	**26,226**	**40,777**	**1,089,437**
Long-term portion classified as non-current liabilities	**(266,533)**	**(24,511)**	**-**	**(291,044)**
At the end of the period	**755,901**	**1,715**	**40,777**	**798,393**

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

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

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

10 Other non-current liabilities

Details of other non-current liabilities are as follows:

	June 30, 2018	March 31, 2018
	US$'000	*US$'000*
Contingent consideration (a)	**64,613**	-
Deferred consideration (a)	**25,072**	25,072
Written put option liability (b)	**151,190**	-
Environmental restoration (Note 9(b))	**24,511**	6,807
Government incentives and grants received in advance (c)	**48,395**	58,988
Deferred rent liabilities	**90,950**	94,377
Others	**149,079**	148,088
	553,810	333,332

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

As at June 30, 2018, the potential undiscounted amounts of future payments in respect of the contingent and deferred considerations that the Group could be required to make to the then respective sellers under the arrangements are as follows:

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

(b) 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, 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.

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

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

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

11 Borrowings

	June 30, 2018	March 31, 2018
	US$'000	*US$'000*
Current liabilities		
Short-term loans (i)	**1,853,361**	1,166,692
Note (ii)	**785,182**	-
	2,638,543	1,166,692
Non-current liabilities		
Notes (ii)	**1,842,234**	2,648,725
	4,480,777	3,815,417

(i) The majority of the short-term bank loans are denominated in United States dollar. As at June 30, 2018, the Group has total revolving and short-term loan facilities of US$2,596 million (March 31, 2018: US$1,896 million) which has been utilized to the extent of US$1,870 million (March 31, 2018: US$1,170 million).

(ii)

Issue date	**Principal amount**	**Term**	**Interest rate per annum**	**Due date**	**June 30, 2018** ***US$'000***	March 31, 2018 *US$'000*
May 8, 2014	US$786 million	5 years	4.7%	May 2019	**785,182**	774,341
June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	**602,301**	635,015
March 16, 2017	US$500 million	5 years	3.875%	March 2022	**496,785**	496,590
March 29, 2018	US$750 million	5 years	4.75%	March 2023	**743,148**	742,779
					2,627,416	2,648,725

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at June 30, 2018 and March 31, 2018 are as follows:

	June 30, 2018	March 31, 2018
	US$'000	*US$'000*
Within 1 year	**2,638,543**	1,166,692
Over 1 to 3 years	**602,301**	1,409,356
Over 3 to 5 years	**1,239,933**	1,239,369
	4,480,777	3,815,417

12 Share capital

	June 30, 2018		March 31, 2018	
	Number of Shares	***US$'000***	*Number of shares*	*US$'000*
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the period/year	**12,014,791,614**	**3,185,923**	11,108,654,724	2,689,882
Issue of ordinary shares	**-**	**-**	906,136,890	496,041
At the end of the period/year	**12,014,791,614**	**3,185,923**	12,014,791,614	3,185,923

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

13 Perpetual securities

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

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

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

	3 months ended June 30, 2018 ***US$'000***	3 months ended June 30, 2017 *US$'000*
Profit/(loss) before taxation	**112,796**	(69,262)
Share of losses of associates and joint ventures	**1,027**	293
Finance income	**(5,298)**	(9,188)
Finance costs	**71,848**	72,044
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**65,760**	62,383
Amortization of intangible assets	**122,192**	112,481
Share-based compensation	**46,815**	47,241
Impairment of property, plant and equipment	**-**	4,608
Loss on disposal of property, plant and equipment	**933**	4,088
Gain on disposal of financial assets at fair value through profit or loss	**(32,130)**	-
Fair value change on bonus warrants	**(122)**	-
Fair value change on financial instruments	**(52,434)**	3,538
Fair value change on financial assets at fair value through profit or loss	**(29,063)**	-
Dividend income	**(118)**	-
Increase in inventories	**(193,733)**	(383,497)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(1,137,491)**	(385,317)
Increase in trade payables, notes payable, provisions, other payables and accruals	**1,409,761**	214,049
Effect of foreign exchange rate changes	**109,889**	(69,919)
Net cash generated from/(used in) operations	**490,632**	(396,458)

Reconciliation of financing liabilities

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

Financing liabilities	**June 30, 2018** *US$'000*	March 31, 2018 *US$'000*
Short-term loans - current	**1,853,361**	1,166,692
Note - current	**785,182**	-
Notes - non-current	**1,842,234**	2,648,725
Financing liabilities	**4,480,777**	3,815,417
Short-term loans – variable interest rates	**1,853,361**	1,166,692
Notes – fixed interest rates	**2,627,416**	2,648,725
Financing liabilities	**4,480,777**	3,815,417

	Short-term loans current *US$'000*	**Long-term loans non-current** *US$'000*	**Note current** *US$'000*	**Notes non-current** *US$'000*	**Total** *US$'000*
Financing liabilities as at April 1, 2017	70,003	397,687	-	2,569,005	3,036,695
Proceeds from borrowings	7,413,740	12,000	-	-	7,425,740
Repayments of borrowings	(6,324,406)	(400,000)	-	-	(6,724,406)
Issue of notes	-	-	-	749,119	749,119
Repayment of notes	-	-	-	(723,389)	(723,389)
Foreign exchange adjustments	-	-	-	56,175	56,175
Other non-cash movements	7,355	(9,687)	-	(2,185)	(4,517)
Financing liabilities as at March 31, 2018	1,166,692	-	-	2,648,725	3,815,417
Financing liabilities as at April 1, 2018	**1,166,692**	**-**	**-**	**2,648,725**	**3,815,417**
Proceeds from borrowings	**2,445,000**	**-**	**-**	**-**	**2,445,000**
Repayments of borrowings	**(1,745,000)**	**-**	**-**	**-**	**(1,745,000)**
Transfer	**-**	**-**	**774,341**	**(774,341)**	**-**
Foreign exchange adjustments	**-**	**-**	**-**	**(32,901)**	**(32,901)**
Other non-cash movements	**(13,331)**	**-**	**10,841**	**751**	**(1,739)**
Financing liabilities as at June 30, 2018	**1,853,361**	**-**	**785,182**	**1,842,234**	**4,480,777**

15 Business combination

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

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

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

The estimated total consideration for the business combination activity completed during the quarter is approximately US$193 million, including initial and contingent consideration.

Set forth below is the preliminary calculation of goodwill:

(a) At completion date, cash payment comprising cash consideration of JPY17,850,000,000 (US$162,553,502) net of a downward adjustment of JPY3,722,999,906 (US$33,904,016) calculated based on the actual working capital amount and the actual net debt as at the completion date was paid to Fujitsu Limited.

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

	US$'000
Purchase consideration:	
- Cash paid (a)	**128,649**
- Present value of contingent consideration (b)	**64,447**
Total purchase consideration	**193,096**
Less: Fair value of net assets acquired	**(123,409)**
Goodwill	**69,687**

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

	US$'000
Cash and cash equivalents	**22,906**
Property, plant and equipment	**34,345**
Deferred tax assets less liabilities	**(20,059)**
Intangible assets	**152,868**
Other non-current assets	**8,674**
Net working capital except cash and cash equivalents	**82,531**
Non-current liabilities	**(39,285)**
Fair value of net assets of FCCL	**241,980**
Less: share of other non-controlling interest	**(118,571)**
Fair value of net assets attributable to 51% interest acquired	**123,409**

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

At June 30, 2018, the Group has not finalized the fair value assessments for net assets acquired (including intangible assets) from the business combination activity. The relevant fair values of net assets stated above are on a provisional basis.

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

During the three months ended June 30, 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the respective trustee of the long-term incentive program and the employee share purchase plan of the Company purchased a total of 19,923,245 shares from the market for award to employees upon vesting. Details of these program and plan are set out in the 2017/18 annual report of the Company.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the unaudited financial results of the Group for the three months ended June 30, 2018. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the three months ended June 30, 2018, in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with the exception that the roles of the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "CEO") have not been segregated as required by code provision A.2.1 of the CG Code.

The Board has recently 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 chairs 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 provide an effective balance on power and authorizations between the Board and the management of the Company.

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

August 15, 2018

As at the date of this announcement, the executive director is Mr. Yang Yuanqing; the non-executive directors are Mr. Zhu Linan and Mr. Zhao John Huan; and the independent non-executive directors are Dr. Tian Suning, Mr. Nicholas C. Allen, Mr. Nobuyuki Idei, Mr. William O. Grabe, Mr. William Tudor Brown, Ms. Ma Xuezheng, Mr. Yang Chih-Yuan Jerry and Mr. Gordon Robert Halyburton Orr.