Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

FY2017/18 ANNUAL RESULTS ANNOUNCEMENT

ANNUAL RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") announces the audited results of the Company and its subsidiaries (the "Group") for the year ended March 31, 2018 together with comparative figures of last year, as follows:

FINANCIAL HIGHLIGHTS AND OUTLOOK

- Transformation efforts drove the full year Group revenue back to growth and reached highest level in 3 years; full year Group revenue of US$45B, up 5% YTY
- Strong operational performance with improvement in profitability by US$255M YTY during the quarter, the 2nd consecutive quarter of YTY improvement; full year operational performance improved by US$96M YTY. Operational performance is measured at profit before taxation, but excluding restructuring charges and disposal gains on properties
- PCSD continued to remain strong with full year revenue back to growth and profit before taxation back to 5% level during the quarter
- The transformation execution in Data Center led to strong 44% revenue YTY growth during the quarter – the 2nd consecutive quarter of YTY growth, and narrowed losses QTQ every quarter during the fiscal year
- Mobile business faced challenges in some emerging markets but continued to do well in Latin America and North America; focus on reducing loss in the new fiscal year
- Formed "Intelligent Devices Group" in the next fiscal year, combining PCSD and MBG, to speed the convergence of computing and communication technologies as the market moves quickly into the smart Internet of Things ("IoT") era. This coupled with Data Center's cloud technology makes a unique competitive advantage for the Group

	3 months ended March 31, 2018	Year ended March 31, 2018	3 months ended March 31, 2017	Year ended March 31, 2017	Year-on-year change	
	US$'million	*US$'million*	*US$'million*	*US$'million*	3 months ended March 31	Full-year
Revenue	10,638	45,350	9,579	43,035	11%	5%
Gross profit	1,544	6,272	1,368	6,106	13%	3%
Gross profit margin	14.5%	13.8%	14.3%	14.2%	0.2 pts	(0.4)pts
Operating expenses	(1,443)	(5,885)	(1,294)	(5,434)	11%	8%
Operating profit	101	387	74	672	36%	(42)%
Other non-operating expenses - net	(64)	(234)	(59)	(182)	9%	28%
Profit before taxation	37	153	15	490	143%	(69)%
Profit/(loss) for the period/year	49	(127)	104	530	(53)%	N/A
Profit/(loss) attributable to equity holders of the Company	33	(189)	107	535	(69)%	N/A
Earnings/(loss) per share attributable to equity holders of the Company						
Basic	US 0.28 cents	US (1.67) cents	US 0.97 cents	US 4.86 cents	US (0.69) cents	N/A
Diluted	US 0.28 cents	US (1.67) cents	US 0.97 cents	US 4.86 cents	US (0.69) cents	N/A

PROPOSED DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK20.5 cents per share for the year ended March 31, 2018 (2017: HK20.5 cents). Subject to shareholders' approval at the forthcoming annual general meeting to be held on July 5, 2018 ("AGM"), the proposed final dividend will be payable on July 18, 2018 to the shareholders whose names appear on the register of members of the Company on July 12, 2018.

CLOSURE OF REGISTER OF MEMBERS

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

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

Latest time to lodge transfer documents for registration	4:30 p.m. on June 26, 2018
Closure of register of members	From June 27 to July 5, 2018
Record date	June 27, 2018

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

Latest time to lodge transfer documents for registration	4:30 p.m. on July 11, 2018
Closure of register of members	July 12, 2018
Record date	July 12, 2018

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

BUSINESS REVIEW AND OUTLOOK

Business Review

The Group introduced the 3-wave strategy at the beginning of fiscal year 2017/18 and after a year's strong execution, both its full year revenue and operational profit before taxation returned back to growth, despite a highly competitive environment. During the fiscal quarter four ended in March 31, 2018, the Group revenue continued to grow year-on-year for three consecutive quarters led by continued strength in PCSD and Data Center Groups. The first wave PC business continued to deliver solid profitability and cash flow to the Group, which provided a solid base to fuel the growth needs of the second wave strategy in Data Center and Mobile businesses and investment needs for the third wave strategy in Device + Cloud strategy.

During the fiscal year, the PC and Smart Device business returned to solid revenue growth after two years of decline, and saw its profitability improved quarter-on-quarter in its latest three consecutive quarters. The transformation of the second wave Data Center business continued to show strong results; revenue grew 44 percent year-on-year in fiscal quarter four, the strongest revenue growth since System x acquisition and the second consecutive quarter of double-digit year-on-year growth. In addition, the loss further narrowed quarter-to-quarter for four consecutive quarters. While its Mobile business faced challenges in a highly competitive market during the year, the Group has reshaped its strategy to significantly reduce losses going forward by focusing on profitable markets, continue strengthening in Latin America and North America, and reducing expenses. The Group's Capital and Incubator Group continued to invest in AI (Artificial Intelligence), IoT (internet of things), big data, and VR/AR (virtual reality/augmented reality) to support its Device + Cloud strategy, through which these added capabilities will both develop new businesses and strengthen existing ones.

As the world moves into the smart IoT era, Lenovo has successfully transformed from a single business focused on PC hardware into a multiple-device company with various smart devices available. For one, the Group teamed up with Disney and launched its first Augmented Reality device – "Star Wars: Jedi Challenge" – in fiscal quarter three and was the clear number one AR headset vendor in the quarter. The Group will continue to invest in the third wave of Device + Cloud and Infrastructure + Cloud strategy to capture next generation opportunities offered by new technologies. Moreover, as Lenovo enhances customer centricity, there is greater emphasis on software and services the Group provides to enhance customer experience. As a result the Group's software and services revenue showed strong year-on-year growth and has exceeded a billion US dollar during the fiscal year under review.

For the fiscal year ended March 31, 2018, the Group's consolidated revenue grew 5 percent year-on-year to US$45,350 million. Revenue of the Group's PC and Smart Device business was US$32,379 million, representing a year-on-year increase of 8 percent. Revenue of the Data Center business increased 8 percent year-on-year to US$4,394 million. Revenue of the Mobile business decreased 6 percent year-on-year to US$7,241 million. Meanwhile, revenue of other goods and services was US$1,336 million.

For the fiscal year ended March 31, 2018, the Group's gross profit was US$6,272 million, an increase of 3 percent year-on-year, while gross margin decreased by 0.4 percentage point year-on-year to 13.8 percent, mainly due to increased component costs especially in memory. Operating expenses increased by 8 percent year-on-year to US$5,885 million, and the expense-to-revenue ratio was 13.0 percent, worsened by 0.4 percentage point year-on-year. However if the one-off items are excluded, the expense-to-revenue ratio in the previous fiscal year would have been 13.6 percent versus the 12.9 percent this fiscal year, an improvement in operating efficiency as the Group further optimized cost structure. The Group's profit before taxation was US$153 million for the fiscal year under review. Excluding the severance expenses of US$101 million and disposal gain on Wuhan R&D property of US$61 million in the fiscal year, the Group's operational profit before taxation was US$193 million, almost double the US$97 million a year ago. The new US tax legislation enacted on December 22, 2017 effectively reduced the US corporate tax rate to 21% starting from January 1, 2018. As a result, the Group recorded a one-time non-cash write-off charge of US$400 million on the deferred income tax assets, which resulted in a loss attributable to equity holders of US$189 million against a US$535 million profit recorded in the previous year. The Group's view is that the lowered tax rate in the US will benefit its operations there over time.

Performance of Product Business Groups

During the fiscal year ended March 31, 2018, Lenovo continued to balance between growth and profitability in its PC and Smart Device business, and the transformation in Data Center started to show positive momentum. While in Mobile business, Lenovo narrowed the loss during the year, but more work needs to be done to significantly reduce the loss going forward.

PC and Smart Device Business Group (PCSD)

During the fiscal year under review, the PC market continued to show signs of stabilization thanks to 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 during the fiscal year returned to solid revenue growth of 8 percent year-on-year after two years of decline. In addition, profitability improved quarter-on-quarter in the past three fiscal quarters during the year and returned to 5 percent pre-tax profit margin in fiscal quarter four despite increases in component costs. In commercial PC, the Group continued to gain share in shipment and revenue during the fiscal year, and accounted for 60 percent of its PC unit mix versus 57 percent prior year, according to industry estimates. Within commercial, the Group continued to grab share in the Workstation segment, growing at 31 percent year-on-year in revenue. In consumer PC, the Group continued to focus on premium segments, in particular the Gaming PC saw around 91 percent year-on-year growth in revenue during the fiscal year, with increased momentum in the Legion gaming brand. The Gaming PC and Workstation product categories each reached billion-dollar scale in the fiscal year. The Group also had initial success in its new Smart Device, the AR product "Star Wars: Jedi Challenge", and grabbed the number one AR headset vendor during fiscal quarter three after its release, according to industry estimates.

In driving towards a customer-centric business, the PCSD group collaborated with the investment companies under the LCIG (Lenovo Capital and Incubator Group) to make devices smarter and provide convenience to customers. For example, the group collaborated with an AR tracking technology provider under the LCIG investment portfolio in its AR headset. And in the Lenovo New Retail stores opened in China 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 year ended March 31, 2018, revenue of the Group's PCSD business was US$32,379 million, representing approximately 71 percent of the Group's total revenue, an increase of 8 percent year-on-year. Most notably, PCSD saw its year-on-year revenue grow the most in fiscal quarter four, when it grew 16 percent. PCSD revenue growth exceeded shipments growth driven by innovative products and better product mix. The business group recorded a pre-tax profit of US$1,459 million, down 2 percent year-on-year mainly due to the higher costs from the increased component prices during the year. Pre-tax profit margin was 4.5 percent, down 0.5 percentage point year-on-year.

Data Center Business Group (DCG)

The Group's previous transformation investments in building sales capability, strengthening the channel and product solution capabilities, started to bring strong positive momentum to the business during the fiscal year under review, most notably in the second half of the fiscal year. As a result of these efforts, the Group's full year revenue returned back to growth and losses narrowed year-on-year. Moreover, the losses improved quarter-on-quarter every quarter in the fiscal year. The revenue in second half of the fiscal year also reached the highest level since the System x acquisition and saw 29 percent year-on-year growth.

Within the segments, the Group during the fiscal year saw strong double-digit revenue growth in its Hyperscale business. The Hyperscale business had undergone significant business transformation to improve in-house design and manufacturing capabilities, as well as improving the customer mix, as such the margin of this business has improved significantly. The Hyperscale business now has design wins with 6 out of the top 10 largest hyperscaler customers in the world. In its Software Defined Infrastructure segment, the Group saw its revenue grew triple-digit during the fiscal year as the Group's strategic partnership with leading hyperconverged software providers continued to thrive. The Group does not have the hindrance of legacy infrastructure, making the Group the perfect partner to lead in the transition to a software defined infrastructure. While in High Performance Computing (HPC) segment, the group solidified its number two position globally in the HPC Top 500 List and is fast closing the gap with the number one player. The Group also won 5 HPC "Readers' Choice Award" at end of 2017 including best HPC server and best HPC storage as a testimony of the Group's relentless pursuit of innovation, quality and reliability in its products. For one, the Group announced the ThinkSystem SD650 Direct Water Cooled Server, which helps control some of most powerful supercomputers in the world and exemplifies innovation leadership in HPC technology.

Within the geographies, the Data Center Group continued to see strong revenue year-on-year growth in North America and EMEA (Europe, Middle-East and Africa) for four consecutive quarters and profitability improvements. China also returned to growth with double-digit revenue year-on-year growth in the second half of the fiscal year with profitability improvement.

For the fiscal year ended March 31, 2018, revenue of the Data Center business was US$4,394 million, increasing 8 percent year-on-year and representing approximately 10 percent of the Group's total revenue. The loss from the Data Center business further narrowed, more notably in the second half of fiscal 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$305 million, excluding the non-cash M&A related accounting charges during the year, which was an improvement from the US$343 million loss last fiscal year.

Mobile Business Group (MBG)

The Group's Mobile business faced challenges in some emerging markets, but continued to gain share in its core market in Latin America, where it grew 40 percent year-on-year in shipment, while improved profitability during the fiscal year. Shipments in North America grew 57 percent year-on-year driven by initial success in mainstream models with carrier expansion during the fiscal year, though more work is needed to sharpen the competiveness in the high-end segment.

In emerging markets, slower brand transition in EMEA emerging areas and the severe competition in Asia Pacific emerging markets impacted the overall shipments performance for the year under review. Thus, the Group's worldwide smartphone shipments for the fiscal year declined by 7 percent year-on-year. In China, the Group has already significantly scaled back its operations there as the market there started to decline and remain crowded, but continued to refine its product and channel strategy to seek healthy growth there.

In light of the challenges in some emerging markets, the Group has reshaped its strategy going forward to significantly reduce losses by focusing on profitable markets, simplifying business and reducing expenses going forward.

Mobile business revenue was US$7,241 million, representing approximately 16 percent of the Group's total revenue, decreasing 6 percent year-on-year for the fiscal year ended March 31, 2018. Operational loss before taxation, excluding non-cash M&A related accounting charges, for the period under review was US$463 million, which was an improvement from the US$566 million loss previous fiscal year.

Lenovo Capital and Incubator Group (LCIG) and Others

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 year, the Group's portfolio companies continued to support the core business to bring intelligence, contents and services to the devices. For example, the Group partnered with one of the portfolio companies in AR tracking technology in its AR headset. Another is the Group's investment in facial recognition and deep learning processor to help differentiate its devices. Moreover, Lenovo continued to enhance and differentiate its next-generation devices by partnering with leading best-in-class vendors, such as Google and Disney. As of the year-end under review, the Group has invested in 85 companies to help the Group build the next-generation smart solutions.

The Group also made progress in its Software and Services business to enhance customer experience and provide total intelligent solution, which saw revenue grew double-digit year-on-year and exceeded one billion US dollar mark during the fiscal year under review. LCIG continued to gain traction as a big data solution provider, winning orders from key customers, and as an IoT connectivity solution provider, winning new partners and customers.

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

Revenue from the LCIG, and other products such as consumer electronic businesses from previous acquisitions was US$1,336 million, representing approximately 3 percent of the Group's total revenue.

Performance of Geographies

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

China

China accounted for 25 percent of the Group's total revenue. In its PCSD business, the Group continued to improve the product mix and drive premium revenue growth to protect profitability, in light of a declining China PC market during the year under review. The Group's innovative products including Millennial and Gaming PCs also helped to drive a healthier consumer business. As such, the Group's PCSD revenue was flattish year-on-year against the shipment decline for the full year. The Group remained China's number one player with 36.5 percent market share in the fiscal year.

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, showed encouraging signs of improvement during the year under review. It resumed revenue growth year-on-year in both fiscal quarter three and four, as well as improved profitability. The profitability improvement was the result of better customer mix and more efficiency in in-house design and manufacturing.

The smartphone market in China started to decline during the fiscal year, while competition remained intense. The Group has significantly scaled back its smartphone operations in China to be nimble, where it will use tactical strategy to address the market opportunities there. The scale back has resulted in shipment and revenue decline year-on-year, but the loss also narrowed significantly as a result.

The PCSD business remained the profit pool in China during the fiscal year, while the losses narrowed in DCG in the second half of fiscal year and MBG's loss for the full year also narrowed. As such, the Group recorded a pre-tax profit of US$558 million and a pre-tax profit margin of 4.8 percent, improved year-on-year.

Americas (AG)

Americas accounted for 31 percent of the Group's total revenue. In its PCSD business, the Group focused on balancing between growth and profitability in which its revenue grew faster than its shipment volume in AG during the period, driven by improvement in the product mix to protect profitability. The Group's AG PC shipment decreased by 6 percent year-on-year mainly due to a decline in North America as it focused on protecting profitability. As a result, North America PCSD profitability improved in the second half of fiscal year. And in Latin America, the Group continued to see strength with a record market share of 17.4 percent.

The Group's Data Center business continued to show positive momentum as a result of its transformation actions. Its revenue grew by double-digit and profitability improved year-on-year during the fiscal year under review. Notably, North America DCG saw revenue year-on-year growth for four consecutive quarters. The Group continued to see strength across different segments including the Hyperscale, Software Defined, and High Performance Computing segments.

The Group's Moto brand smartphones continued to show strong growth in Latin America with 40 percent shipment growth during the fiscal year and enjoyed premium brand image during the period, which enabled the Group to protect the profitability there. In North America, the Group successfully expanded its carrier channel to all four major U.S. telco partners since fiscal quarter two, and as such saw strong shipment growth during the fiscal year. Its mainstream products such as Moto G and Moto E delivered strong volume across the region. As a result, the Group's smartphone shipments grew 57 percent year on-year, far outpaced the market growth in North America. Nevertheless, more work needs to be done in the breakthrough of high-end smartphone segment in the U.S., which dragged the profit performance in the region during the period under review.

The Group recorded a profit before taxation of US$72 million in the region and its pre-tax profit margin was 0.5 percent in the fiscal year under review, against 1.2 percent in the previous fiscal year, mainly due to the slower progress in its breakthrough in mid to high-end smartphone market.

Asia Pacific (AP)

Asia Pacific accounted for 16 percent of the Group's total revenue. In its PCSD business, the Group gained 1.4 percentage points of shipment market share in PCs in Asia Pacific to 17.2 percent during the fiscal year according to industry estimates, driven by targeting high growth areas.

The Group's transformation of its Data Center business started to bring revenue growth back in the second half of fiscal year on year-on-year basis, owing to its previous investments in enhancing capabilities in sales, channel, and product solutions.

The Group's smartphone business in the region faced fierce competition during the fiscal year, hence the Group readjusted its strategy to focus on margin protection. As such, the Group saw smartphone shipments decline and share loss in the fiscal year.

Loss before taxation was US$134 million and pre-tax profit margin was negative 1.9 percent during the fiscal year, a decrease from negative 0.9 percent of previous fiscal year, mainly due to the readjustment of smartphone strategy in the region.

Europe-Middle East-Africa (EMEA)

EMEA accounted for 28 percent of the Group's total revenue. During the fiscal year under review, the Group saw its PC business in EMEA gaining positive momentum with margin expansion owing to its continued solid performance in Western Europe. Its PC unit shipments grew 4 percent year-on-year, and reached a record market share of 21.2 percent.

The Group's Data Center business saw growth return in the region with strong revenue growth and profitability improvement during the fiscal year. The Group had initial success in Hyperscale and won the largest Supercomputer project in Europe in Germany and further expanded its High Performance Computer business footprint to several other mature countries in the region.

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 the smartphone shipment in the region saw a decline during the fiscal year under review.

The Group incurred US$62 million loss before taxation in EMEA during the fiscal year under review, leading to a pre-tax profit margin of negative 0.5 percent, improved from negative 3.0 percent of previous fiscal year thanks to the improvement from PCSD and Data Center businesses.

Outlook

The Group's strong execution in its transformation started to show positive results with revenue and operational profit before taxation resumed growth during the fiscal year. Lenovo has a clear vision to drive sustainable, profitable growth going forward. Although the markets the Group participates in remain fiercely competitive, management is confident in its ability to successfully execute the strategy and weather the competition. At the same time, Lenovo continues to invest in emerging technologies and merge smart technologies into its core business. And as the market moves into the smart IoT era, Lenovo sees PC, smartphone and IoT devices as one device portal from which the users can move seamlessly from one to another through the cloud and using smarter tools that make tasks easier. As such, the Group has formed the "Intelligent Devices Group", combining PCSD and MBG together, to speed 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.

Under the new "Intelligent Devices Group", Lenovo will have the structure and business model to be more customer centric, offering customer 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 services or subscriptions model, offering customer a total solution when purchasing devices. The Group remains confident in its core PC business, and aims to grow premium to market in revenue without compromising on profitability. Lenovo will leverage industry consolidation opportunities, and drive growth in the high-growth segments such as gaming PCs and workstations. The Group's iconic commercial brand, ThinkPad, celebrated its 25th anniversary with 125 million units shipped since its launch, 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, i.e. Mirage Solo standalone VR headset with Google's Daydream launched in early May 2018, as well as AI-enabled devices in smart home and smart office coming soon. With smartphone, the Group will continue to strengthen its core markets in Latin America and North America, focus on profitable markets, and cut expenses to significantly reduce the loss in this business. The Group's long-term vision 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.

In the Data Center business, the Group's transformation has been well executed and starting to see positive results in steering the business into a world-class next-generation IT solution provider. The next-generation IT products and solutions such as software defined solutions, high-performance computing and hyperscale now represent a much larger mix of the DCG revenue in fiscal quarter four. The Group will continue to drive growth in these segments, as well as profitability improvement for overall DCG business. Lenovo also seeks to strengthen various industrial solutions such as those for 5G Telecom and IoT. In Hyperscale, the Group continues to leverage its world-class in-house design and manufacturing capabilities, and bring compelling offerings to the global hyperscalers. And in software defined data center, the Group will continue to partner with the best-in-class software vendors to give customers the flexibility. In high-performance computing, Lenovo aims to further narrow the gap with the number one vendor in the global Top 500 HPC List. And in the customer-centric model, the Group will also strengthen its attach rates in storage, networking, and services; so as to offer a more compelling total solution and build a long-term business relationship with customers. The Group will continue to build on its solid foundation with its strong organizational structure and product portfolio, while also enhancing its sales capabilities, strengthening channel management, and driving growth in high-growth segments. 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 continues 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 incorporated its AI core capabilities, such as voice recognition, language understanding and machine learning to strengthen its supercomputer, edge computing, and cloud computing capabilities. Thomson Reuters named Lenovo a Top 100 Global Tech Leader in 2018 for its outstanding performance in the areas of innovation, environmental impact and corporate social responsibility, demonstrating Lenovo's innovation capabilities and focus on sustainability. And most recently, Laptop Magazine named Lenovo the Best Laptop Brand 2018 for the second year, as well as won 14 iF Annual Design Awards for products like "Star Wars: Jedi Challenge" and Mirage Solo VR headset.

Looking forward, market conditions remain challenging in the short term. However, the Group now has a stronger organization with sharper customer focus and more compelling 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 year ended March 31, 2018

	2018 *US$'million*	2017 *US$'million*	Year-on-year change
Revenue	**45,350**	43,035	5%
Gross profit	**6,272**	6,106	3%
Gross profit margin	**13.8%**	14.2%	(0.4)pts
Operating expenses	**(5,885)**	(5,434)	8%
Operating profit	**387**	672	(42)%
Other non-operating expenses – net	**(234)**	(182)	28%
Profit before taxation	**153**	490	(69)%
(Loss)/profit for the year	**(127)**	530	N/A
(Loss)/profit attributable to equity holders of the Company	**(189)**	535	N/A
(Loss)/earnings per share attributable to equity holders of the Company			
Basic	**US (1.67) cents**	US 4.86 cents	N/A
Diluted	**US (1.67) cents**	US 4.86 cents	N/A

For the year ended March 31, 2018, the Group achieved total sales of approximately US$45,350 million. Loss attributable to equity holders for the year was approximately US$189 million, as compared with profit attributable to equity holders of US$535 million reported last year. This is mainly attributable to the write off of deferred income tax assets of US$400 million, pursuant to the Tax Cuts and Jobs Act enacted by the government of United States ("US") on December 22, 2017, with the US corporate tax rate reduced for tax years beginning after December 31, 2017. Gross profit margin for the year was 0.4 points down from 14.2 percent reported last year. Basic and diluted loss per share were US1.67 cents, as compared with basic and diluted earnings per share of US4.86 cents reported last year.

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

	2018 *US$'000*	2017 *US$'000*
China	**11,525,321**	11,794,773
AP	**7,156,293**	7,011,595
EMEA	**12,481,897**	11,187,313
AG	**14,186,432**	13,041,050
	45,349,943	43,034,731

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

Operating expenses analyzed by function for the years ended March 31, 2018 and 2017 are as follows:

	2018 *US$'000*	2017 *US$'000*
Other income – net	**301**	10,891
Selling and distribution expenses	**(2,833,253)**	(2,680,631)
Administrative expenses	**(1,757,319)**	(1,851,990)
Research and development expenses	**(1,273,729)**	(1,361,691)
Other operating (expenses)/income – net	**(21,408)**	450,253
	(5,885,408)	(5,433,168)

Operating expenses for the year increased by 8 percent as compared with last year. During the year, the Group recorded gain of US$61 million on monetizing the Wuhan R&D property, while in last year, the Group recorded gain of US$553 million on monetizing certain non-core assets and disposal of a joint venture. The Group announced resource actions and incurred severance costs of US$101 million (2017: US$146 million) to further enhance efficiency and competitiveness in view of industrial challenges. The Group has also reduced the advertising and promotional expenses by US$47 million compared with last year. Other income in last year mainly represented net gain on disposal of an available-for-sale financial asset of US$12 million. The Group recorded a net exchange loss of US$56 million (2017: US$111 million) for the year. Key expenses by nature comprise:

	2018 *US$'000*	2017 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(148,177)**	(155,583)
Amortization of intangible assets	**(443,809)**	(432,996)
Employee benefit costs, including	**(3,222,012)**	(3,173,774)
-long-term incentive awards	***(199,779)***	*(180,892)*
-severance and related costs	***(100,775)***	*(146,368)*
Rental expenses under operating leases	**(131,858)**	(123,936)
Net foreign exchange loss	**(55,735)**	(110,968)
Advertising and promotional expenses	**(842,365)**	(888,883)
Impairment of property, plant and equipment	**(4,608)**	(7,303)
Gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**50,937**	336,172
Gain on disposal of a joint venture	**-**	218,366
Dilution gain of interests in associates and a joint venture	**2,499**	14,260
Others	**(1,090,280)**	(1,108,523)
	(5,885,408)	(5,433,168)

Other non-operating expenses (net) for the years ended March 31, 2018 and 2017 comprise:

	2018 *US$'000*	2017 *US$'000*
Finance income	**32,145**	27,795
Finance costs	**(263,160)**	(231,627)
Share of (losses)/profits of associates and joint ventures	**(2,506)**	21,411
	(233,521)	(182,421)

Finance income mainly represents interest on bank deposits.

Finance costs for the year increased by 14 percent as compared with last year. This is mainly attributable to the interest expense of US$20 million in relation to the 5-Year US$500 million notes, issued in March 2017, bearing annual interest at 3.875%, and the increase in factoring cost of US$43 million, partly offset by the decrease in interest on promissory note issued to Google Inc. of US$41 million.

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

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

	3 months ended March 31, 2018 ***US$'million***	3 months ended March 31, 2017 *US$'million*	Year-on-year change
Revenue	**10,638**	9,579	11%
Gross profit	**1,544**	1,368	13%
Gross profit margin	**14.5%**	14.3%	0.2 pts
Operating expenses	**(1,443)**	(1,294)	11%
Operating profit	**101**	74	36%
Other non-operating expenses – net	**(64)**	(59)	9%
Profit before taxation	**37**	15	143%
Profit for the period	**49**	104	(53)%
Profit attributable to equity holders of the Company	**33**	107	(69)%
Earnings per share attributable to equity holders of the Company			
Basic	**US 0.28 cents**	US 0.97 cents	US (0.69) cents
Diluted	**US 0.28 cents**	US 0.97 cents	US (0.69) cents

For the three months ended March 31, 2018, the Group achieved total sales of approximately US$10,638 million. Profit attributable to equity holders for the period was approximately US$33 million, representing a decrease of US$74 million as compared with the corresponding period of last year. Gross profit margin for the period was 0.2 points up from 14.3 percent reported in the corresponding period of last year. Basic and diluted earnings per share were US0.28 cents, representing a decrease of US0.69 cents as compared with the corresponding period of last year.

Sales by geographical segment are as follows:

	3 months ended March 31, 2018 ***US$'000***	3 months ended March 31, 2017 *US$'000*
China	**2,441,672**	2,280,680
AP	**1,740,196**	1,733,379
EMEA	**3,047,280**	2,623,964
AG	**3,409,161**	2,940,676
	10,638,309	9,578,699

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

	3 months ended March 31, 2018	3 months ended March 31, 2017
	US$'000	*US$'000*
Other income – net	**-**	275
Selling and distribution expenses	**(631,612)**	(658,275)
Administrative expenses	**(456,515)**	(509,446)
Research and development expenses	**(326,829)**	(338,672)
Other operating (expenses)/income – net	**(28,318)**	211,473
	(1,443,274)	(1,294,645)

Operating expenses for the period increased by 11 percent as compared with the corresponding period of last year. In the corresponding period of last year, the Group recorded gain on disposal of a joint venture of US$218 million. During the period, the Group announced resource actions and incurred severance costs of US$39 million (2017: US$10 million) to further enhance efficiency and competitiveness in view of industrial challenges. The Group has also reduced the advertising and promotional expenses by US$78 million compared with the corresponding period of last year. The Group recorded a net exchange loss of US$17 million (2017: US$38 million) for the period. Key expenses by nature comprise:

	3 months ended March 31, 2018	3 months ended March 31, 2017
	US$'000	*US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(37,089)**	(37,484)
Amortization of intangible assets	**(118,754)**	(104,664)
Employee benefit costs, including	**(849,690)**	(797,985)
-long-term incentive awards	***(52,198)***	*(45,850)*
-severance and related costs	***(39,278)***	*(10,391)*
Rental expenses under operating leases	**(33,452)**	(33,199)
Net foreign exchange loss	**(16,873)**	(38,302)
Advertising and promotional expenses	**(121,499)**	(199,347)
Impairment of property, plant and equipment	**-**	(7,303)
(Loss)/gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**(2,259)**	1,779
Gain on disposal of a joint venture	**-**	218,366
Dilution gain of interests in associates and a joint venture	**1,337**	14,260
Others	**(264,995)**	(310,766)
	(1,443,274)	(1,294,645)

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

	3 months ended March 31, 2018	3 months ended March 31, 2017
	US$'000	*US$'000*
Finance income	**7,577**	10,070
Finance costs	**(71,821)**	(67,388)
Share of profits/(losses) of associates and joint ventures	**390**	(1,355)
	(63,854)	(58,673)

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 7 percent as compared with the corresponding period of last year. This is mainly attributable to the increase in interest expense on bonds, bank loans and factoring costs of US$29 million, partly offset by the decrease in interest on promissory note issued to Google Inc. of US$23 million.

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

Capital Expenditure

The Group incurred capital expenditure of US$671 million (2017: US$803 million) during the year ended March 31, 2018, mainly for the acquisition of property, plant and equipment, prepaid lease payments, additions in construction-in-progress and intangible assets.

Liquidity and Financial Resources

At March 31, 2018, total assets of the Group amounted to US$28,494 million (2017: US$27,186 million), which were financed by equity attributable to owners of the Company of US$3,519 million (2017: US$3,223 million), perpetual securities of US$994 million (2017: US$844 million) and other non-controlling interests (net of put option written on non-controlling interest) of US$33 million (2017: US$28 million), and total liabilities of US$23,948 million (2017: US$23,091 million). At March 31, 2018, the current ratio of the Group was 0.80 (2017: 0.81).

The Group had a solid financial position. At March 31, 2018, bank deposits, cash and cash equivalents totaled US$1,932 million (2017: US$2,951 million), of which 28.8 (2017: 45.1) percent was denominated in US dollar, 45.6 (2017: 29.0) percent in Renminbi, 6.1 (2017: 6.6) percent in Euro, 7.4 (2017: 5.2) percent in Japanese Yen, and 12.1 (2017: 14.1) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At March 31, 2018, 99.6 (2017: 78.5) percent of cash are bank deposits, and 0.4 (2017: 21.5) percent of cash are investments in liquid money market funds of investment grade.

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

The Group entered into a 5-Year loan facility agreement with syndicated banks for US$1,200 million, comprising US$800 million as revolving loan facility and US$400 million as term loan facility, on December 18, 2013. The term loan facility has been prepaid. As at March 31, 2018, the revolving loan facility was utilized to the extent of US$800 million (2017: not utilized). The outstanding US$800 million was re-financed and prepaid in April 2018 by a 5-Year revolving loan facility with syndicated banks of US$1,500 million signed on March 28, 2018.

In addition, on May 26, 2015, the Group entered into a 5-Year revolving loan facility agreement with a bank for US$300 million. The facility was utilized to the extent of US$300 million as at March 31, 2018 (2017: not utilized).

On May 8, 2014, the Group completed the issuance of 5-Year US$1.5 billion notes bearing annual interest at 4.7% due in May 2019 ("Note 2019"); and on June 10, 2015, the Group completed the issuance of 5-Year RMB4 billion notes bearing annual interest at 4.95% due in June 2020 ("Note 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 ("Note 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 ("Note 2023"). The proceeds were majorly used to repurchase the principal amount of USD714 million of the Note 2019, and for general corporate purpose including working capital.

The Group has also arranged other short-term credit facilities. At March 31, 2018, the Group's other total available credit facilities amounted to US$11,232 million (2017: US$10,710 million), of which US$1,730 million (2017: US$1,584 million) was in trade lines, US$796 million (2017: US$293 million) in short-term and revolving money market facilities and US$8,706 million (2017: US$8,833 million) in forward foreign exchange contracts. At March 31, 2018, the amounts drawn down were US$1,090 million (2017: US$1,086 million) in trade lines, US$8,645 million (2017: US$8,216 million) being used for the forward foreign exchange contracts, and US$70 million (2017: US$70 million) in short-term bank loans.

At March 31, 2018, the Group did not have any term bank loan (2017: US$398 million), and the Group's outstanding borrowings represented by short-term bank loans of US$1,166 million (2017: US$70 million) and notes of US$2,649 million (2017: US$2,569 million). When compared with total equity of US$4,546 million (2017: US$4,095 million), the Group's gearing ratio was 0.84 (2017: 0.74). The net debt position of the Group at March 31, 2018 is US$1,883 million (2017: US$86 million).

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At March 31, 2018, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$8,645 million (2017: US$8,216 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

Contingent Liabilities

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

Human Resources

At March 31, 2018, the Group had a headcount of more than 54,000 worldwide.

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

The Company has launched an employee share purchase plan ("Plan") in October 2016. The purpose of the Plan is to facilitate and encourage Lenovo share ownership by the general employee population. Under the Plan, eligible employees will be awarded one matching restricted share unit for every four ordinary shares of the Company purchased through qualified employee contributions. The matching restricted share units are subject to a vesting schedule of up to two years. Executive and non-executive directors and senior management of the Company are not eligible to participate in the Plan.

CONSOLIDATED INCOME STATEMENT

	Note	**2018** **US$'000**	2017 US$'000
Revenue	2	**45,349,943**	43,034,731
Cost of sales		**(39,077,812)**	(36,929,215)
Gross profit		**6,272,131**	6,105,516
Other income - net	3	**301**	10,891
Selling and distribution expenses		**(2,833,253)**	(2,680,631)
Administrative expenses		**(1,757,319)**	(1,851,990)
Research and development expenses		**(1,273,729)**	(1,361,691)
Other operating (expenses)/income - net		**(21,408)**	450,253
Operating profit	4	**386,723**	672,348
Finance income	5(a)	**32,145**	27,795
Finance costs	5(b)	**(263,160)**	(231,627)
Share of (losses)/profits of associates and joint ventures		**(2,506)**	21,411
Profit before taxation		**153,202**	489,927
Taxation	6	**(279,977)**	40,514
(Loss)/profit for the year		**(126,775)**	530,441
(Loss)/profit attributable to:			
Equity holders of the Company		**(189,323)**	535,084
Perpetual securities holders		**53,680**	1,872
Other non-controlling interests		**8,868**	(6,515)
		(126,775)	530,441
(Loss)/earnings per share attributable to equity holders of the Company			
Basic	7(a)	**US (1.67) cents**	US 4.86 cents
Diluted	7(b)	**US (1.67) cents**	US 4.86 cents
Dividends	8	**399,284**	378,375

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2018	2017
	US$'000	*US$'000*
(Loss)/profit for the year	**(126,775)**	530,441
Other comprehensive (loss)/income:		
Item that will not be reclassified to profit or loss		
Remeasurements of post-employment benefit obligations, net of taxes	**(19,797)**	42,390
Items that have been reclassified or may be subsequently reclassified to profit or loss		
Fair value change on available-for-sale financial assets, net of taxes	**224**	8,713
Investment revaluation reserve reclassified to consolidated income statement on disposal of available-for-sale financial assets	**-**	(12,640)
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes		
- Fair value (loss)/gain, net of taxes	**(233,651)**	96,993
- Reclassified to consolidated income statement	**222,073**	(13,993)
Currency translation differences	**288,711**	(85,423)
Other comprehensive income for the year	**257,560**	36,040
Total comprehensive income for the year	**130,785**	566,481
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	**68,237**	571,124
Perpetual securities holders	**53,680**	1,872
Other non-controlling interests	**8,868**	(6,515)
	130,785	566,481

CONSOLIDATED BALANCE SHEET

	Note	**2018**	2017
		US$'000	*US$'000*
Non-current assets			
Property, plant and equipment		**1,304,751**	1,236,250
Prepaid lease payments		**507,628**	473,090
Construction-in-progress		**382,845**	413,160
Intangible assets		**8,514,504**	8,349,145
Interests in associates and joint ventures		**35,666**	32,567
Deferred income tax assets		**1,530,623**	1,435,256
Available-for-sale financial assets		**373,077**	255,898
Other non-current assets		**181,759**	122,221
		12,830,853	12,317,587
Current assets			
Inventories		**3,791,691**	2,794,035
Trade receivables	*9(a)*	**4,972,722**	4,468,392
Notes receivable		**11,154**	68,333
Derivative financial assets		**24,890**	53,808
Deposits, prepayments and other receivables	*10*	**4,703,335**	4,333,351
Income tax recoverable		**227,203**	199,149
Bank deposits		**84,306**	196,720
Cash and cash equivalents		**1,848,017**	2,754,599
		15,663,318	14,868,387
Total assets		**28,494,171**	27,185,974

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	2018 *US$'000*	2017 *US$'000*
Share capital	*14*	**3,185,923**	2,689,882
Reserves		**332,697**	533,719
Equity attributable to owners of the Company		**3,518,620**	3,223,601
Perpetual securities		**993,670**	843,677
Other non-controlling interests		**246,598**	240,844
Put option written on non-controlling interest	*11(a)(iii)*	**(212,900)**	(212,900)
Total equity		**4,545,988**	4,095,222
Non-current liabilities			
Borrowings	*13*	**2,648,725**	2,966,692
Warranty provision	*11(b)*	**278,908**	280,421
Deferred revenue		**583,405**	537,428
Retirement benefit obligations		**413,482**	370,207
Deferred income tax liabilities		**230,609**	221,601
Other non-current liabilities	*12*	**333,332**	380,557
		4,488,461	4,756,906
Current liabilities			
Trade payables	*9(b)*	**6,450,792**	5,649,925
Notes payable		**801,974**	835,613
Derivative financial liabilities		**62,694**	67,285
Other payables and accruals	*11(a)*	**9,217,764**	10,004,614
Provisions	*11(b)*	**858,475**	873,405
Deferred revenue		**732,552**	586,536
Income tax payable		**168,779**	246,465
Borrowings	*13*	**1,166,692**	70,003
		19,459,722	18,333,846
Total liabilities		**23,948,183**	23,090,752
Total equity and liabilities		**28,494,171**	27,185,974

CONSOLIDATED CASH FLOW STATEMENT

	Note	**2018**	2017
		US$'000	*US$'000*
Cash flows from operating activities			
Net cash (used in)/generated from operations	*16*	**(61,991)**	2,697,332
Interest paid		**(243,584)**	(173,659)
Tax paid		**(450,718)**	(403,851)
Net cash (used in)/generated from operating activities		**(756,293)**	2,119,822
Cash flows from investing activities			
Purchase of property, plant and equipment		**(217,849)**	(117,873)
Purchase of prepaid lease payments		**(10,908)**	(175,570)
Sale of property, plant and equipment, prepaid lease payments and construction-in-progress		**40,525**	411,872
Interest acquired in an associate and joint ventures		**(2,205)**	(11,024)
Net proceeds from disposal of a joint venture		**160,564**	78,497
Payment for construction-in-progress		**(285,447)**	(345,685)
Payment for intangible assets		**(156,390)**	(164,326)
Purchase of available-for-sale financial assets		**(100,466)**	(124,110)
Net proceeds from disposal of available-for-sale financial assets		**165**	11,897
Repayment of contingent/deferred considerations		**(686,301)**	(983,335)
Decrease/(increase) in bank deposits		**112,414**	(44,384)
Dividends received		**286**	38,674
Interest received		**32,145**	27,795
Net cash used in investing activities		**(1,113,467)**	(1,397,572)
Cash flows from financing activities			
Net proceeds from issue of ordinary shares		**496,041**	-
Acquisition of additional interest in a subsidiary		**-**	(20,439)
Contribution to employee share trusts		**(61,211)**	(119,042)
Dividends paid		**(380,750)**	(376,898)
Dividends paid to other non-controlling interests		**(4,937)**	-
Distribution to perpetual securities holders		**(53,312)**	-
Issue of perpetual securities		**149,625**	841,805
Capital contribution from other non-controlling interests		**1,823**	6,023
Proceeds from borrowings		**7,425,740**	3,223,391
Repayments of borrowings		**(6,724,406)**	(3,905,564)
Issue of notes		**749,119**	495,821
Repayment of notes		**(723,389)**	-
Net cash generated from financing activities		**874,343**	145,097
(Decrease)/increase in cash and cash equivalents		**(995,417)**	867,347
Effect of foreign exchange rate changes		**88,835**	(39,628)
Cash and cash equivalents at the beginning of the year		**2,754,599**	1,926,880
Cash and cash equivalents at the end of the year		**1,848,017**	2,754,599

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											
	Share capital *US$'000*	Investment revaluation reserve *US$'000*	Employee share trusts *US$'000*	Share-based compensation reserve *US$'000*	Hedging reserve *US$'000*	Exchange reserve *US$'000*	Other reserve *US$'000*	Retained earnings *US$'000*	Perpetual securities *US$'000*	Other non-controlling interests *US$'000*	Put option written on non-controlling interest *US$'000*	Total *US$'000*
At April 1, 2017	**2,689,882**	**(2,965)**	**(111,228)**	**123,493**	**(5,328)**	**(1,226,618)**	**62,751**	**1,693,614**	**843,677**	**240,844**	**(212,900)**	**4,095,222**
(Loss)/profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(189,323)**	**53,680**	**8,868**	**–**	**(126,775)**
Other comprehensive income/(loss)	**–**	**224**	**–**	**–**	**(11,578)**	**288,711**	**–**	**(19,797)**	**–**	**–**	**–**	**257,560**
Total comprehensive income/(loss) for the year	**–**	**224**	**–**	**–**	**(11,578)**	**288,711**	**–**	**(209,120)**	**53,680**	**8,868**	**–**	**130,785**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**–**	**15,097**	**(15,097)**	**–**	**–**	**–**	**–**
Vesting of shares under long-term incentive program	**–**	**–**	**70,737**	**(91,528)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(20,791)**
Deferred tax charge in relation to long-term incentive program	**–**	**–**	**–**	**(2,196)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(2,196)**
Share-based compensation	**–**	**–**	**–**	**202,088**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**202,088**
Contribution to employee share trusts	**–**	**–**	**(61,211)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(61,211)**
Issue of perpetual securities (Note 15)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**149,625**	**–**	**–**	**149,625**
Issue of ordinary shares	**496,041**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**496,041**
Issue of bonus warrants	**–**	**–**	**–**	**–**	**–**	**–**	**(6,399)**	**–**	**–**	**–**	**–**	**(6,399)**
Capital contribution from other non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,823**	**–**	**1,823**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(380,750)**	**–**	**–**	**–**	**(380,750)**
Dividends paid to other non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,937)**	**–**	**(4,937)**
Distribution to perpetual securities holders (Note 15)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(53,312)**	**–**	**–**	**(53,312)**
At March 31, 2018	**3,185,923**	**(2,741)**	**(101,702)**	**231,857**	**(16,906)**	**(937,907)**	**71,449**	**1,088,647**	**993,670**	**246,598**	**(212,900)**	**4,545,988**
At April 1, 2016	2,689,882	962	(52,897)	13,161	(88,328)	(1,141,195)	83,363	1,495,252	–	238,949	(212,900)	3,026,249
Profit/(loss) for the year	–	–	–	–	–	–	–	535,084	1,872	(6,515)	–	530,441
Other comprehensive (loss)/income	–	(3,927)	–	–	83,000	(85,423)	–	42,390	–	–	–	36,040
Total comprehensive (loss)/income for the year	–	(3,927)	–	–	83,000	(85,423)	–	577,474	1,872	(6,515)	–	566,481
Transfer to statutory reserve	–	–	–	–	–	–	2,214	(2,214)	–	–	–	–
Vesting of shares under long-term incentive program	–	–	60,711	(72,368)	–	–	–	–	–	–	–	(11,657)
Share-based compensation	–	–	–	182,700	–	–	–	–	–	–	–	182,700
Contribution to employee share trusts	–	–	(119,042)	–	–	–	–	–	–	–	–	(119,042)
Dividends paid	–	–	–	–	–	–	–	(376,898)	–	–	–	(376,898)
Issue of perpetual securities (Note 15)	–	–	–	–	–	–	–	–	841,805	–	–	841,805
Change in ownership interest in a subsidiary	–	–	–	–	–	–	(22,826)	–	–	2,387	–	(20,439)
Capital contribution from other non-controlling interests	–	–	–	–	–	–	–	–	–	6,023	–	6,023
At March 31, 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

Notes

1 General information and basis of preparation

The financial information relating to the years ended March 31, 2018 and 2017 included in the FY2017/18 annual results announcement does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended March 31, 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended March 31, 2018 in due course.

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

Basis of preparation

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

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

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

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

The adoption of these newly effective amendments to existing standards does not result in substantial changes to the Group’s accounting policies or financial results. The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see note 16(a).

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

	Effective for annual periods beginning on or after
HKFRS 9, Financial instruments	January 1, 2018
HKFRS 15, Revenue from contracts with customers	January 1, 2018
HKFRS 16, Leases	January 1, 2019
HKFRS 17, Insurance contracts	January 1, 2021
HK (IFRIC) – Int 22, Foreign currency transactions and advance consideration	January 1, 2018
HK (IFRIC) – Int 23, Uncertainty over income tax treatments	January 1, 2019
Amendments to HKFRS 2, Share-based payment	January 1, 2018
Amendments to HKFRS 10 and HKAS 28, Consolidated financial statements and investments in associates	Date to be determined

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

HKFRS 9, Financial instruments

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

Under HKFRS 9, trade receivables of the Group are likely to be classified as FVOCI instruments 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 realised 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 FVOCI reserve to retained earnings.

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

The Group will apply the new rules retrospectively from April 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated, except in relation to changes in the fair value of foreign exchange forward contracts attributable to forward points, which will be recognised in the costs of hedging reserve.

HKFRS 15, Revenue from contracts with customers

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

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

The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of April 1, 2018 and that comparatives will not be restated.

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.

At March 31, 2018, the Group had operating lease commitments of US$521 million. Upon adoption of HKFRS 16 the majority of operating lease commitments will be recognized in the consolidated balance sheet as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortized cost and the right-of-use asset will be depreciated on a straight-line basis 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 and amendments to standards will not result in a significant effect on its consolidated financial statements.

2 Segment information

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

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

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

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

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

	2018		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*
China	**11,525,321**	**557,641**	11,794,773	539,137
AP	**7,156,293**	**(133,664)**	7,011,595	(65,155)
EMEA	**12,481,897**	**(62,383)**	11,187,313	(336,666)
AG	**14,186,432**	**71,746**	13,041,050	157,452
Segment total	**45,349,943**	**433,340**	43,034,731	294,768

	2018	2017
Unallocated:		
Headquarters and corporate expenses	**(26,675)**	(57,160)
Restructuring costs	**(100,775)**	(159,481)
Finance income	**15,258**	18,263
Finance costs	**(219,177)**	(207,563)
Impairment of an available-for-sale financial asset	**-**	(1,005)
Gain on disposal of available-for-sale financial assets	**15**	11,575
Dividend income from available-for-sale financial assets	**286**	321
Share of (losses)/profits of associates and joint ventures	**(2,506)**	21,411
Gain on disposal of a joint venture	**-**	218,366
Gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**50,937**	336,172
Dilution gain of interests in associates and a joint venture	**2,499**	14,260
Consolidated profit before taxation	**153,202**	489,927

(b) Segment assets for reportable segments

	2018	2017
	US$'000	*US$'000*
China	**8,868,706**	7,754,296
AP	**3,817,436**	3,497,366
EMEA	**3,347,797**	3,282,761
AG	**6,936,707**	6,633,117
Segment assets for reportable segments	**22,970,646**	21,167,540
Unallocated:		
Deferred income tax assets	**1,530,623**	1,435,256
Derivative financial assets	**24,890**	53,808
Available-for-sale financial assets	**373,077**	255,898
Interests in associates and joint ventures	**35,666**	32,567
Unallocated bank deposits and cash and cash equivalents	**313,366**	1,075,639
Unallocated inventories	**911,506**	823,619
Unallocated deposits, prepayments and other receivables	**1,808,182**	1,829,387
Income tax recoverable	**227,203**	199,149
Other unallocated assets	**299,012**	313,111
Total assets per consolidated balance sheet	**28,494,171**	27,185,974

(c) Segment liabilities for reportable segments

	2018	2017
	US$'000	*US$'000*
China	**4,927,436**	4,884,148
AP	**1,725,803**	1,631,624
EMEA	**1,584,893**	1,569,619
AG	**3,032,107**	3,375,555
Segment liabilities for reportable segments	**11,270,239**	11,460,946
Unallocated:		
Deferred income tax liabilities	**230,609**	221,601
Derivative financial liabilities	**62,694**	67,285
Unallocated borrowings	**3,815,417**	2,966,692
Unallocated trade and notes payables	**4,592,569**	4,249,522
Unallocated other payables and accruals	**3,378,036**	3,570,065
Unallocated provisions	**374,589**	237,907
Unallocated other non-current liabilities	**29,074**	25,070
Income tax payable	**168,779**	246,465
Other unallocated liabilities	**26,177**	45,199
Total liabilities per consolidated balance sheet	**23,948,183**	23,090,752

(d) Analysis of revenue by significant category

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

	2018 US$'000	2017 US$'000
PC and Smart Device Business Group ("PCSD")	**32,378,666**	30,075,953
Mobile Business Group ("MBG")	**7,240,927**	7,707,448
Data Center Group ("DCG")	**4,394,360**	4,068,488
Others	**1,335,990**	1,182,842
	45,349,943	43,034,731

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

(e) Other segment information

	China		AP		EMEA		AG		Total	
	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000
Depreciation and amortization	**139,075**	197,306	**143,158**	131,623	**163,297**	183,927	**292,992**	229,250	**738,522**	742,106
Finance income	**169**	225	**1,256**	1,344	**334**	147	**15,128**	7,816	**16,887**	9,532
Finance costs	**4,014**	3,818	**10,941**	6,958	**10,986**	4,925	**18,042**	8,363	**43,983**	24,064
Additions to non-current assets (Note)	**178,028**	174,458	**33,441**	62,392	**22,497**	38,818	**81,802**	141,348	**315,768**	417,016

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

(f) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$6,362 million (2017: US$6,122 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At March 31, 2018

	China US$ million	AP US$ million	EMEA US$ million	AG US$ million	Total US$ million
Goodwill					
- PCSD	**1,117**	**574**	**247**	**334**	**2,272**
- MBG	**-**	**328**	**378**	**970**	**1,676**
- DCG	**503**	**161**	**123**	**353**	**1,140**
Trademarks and trade names					
- PCSD	**209**	**59**	**109**	**67**	**444**
- MBG	**-**	**90**	**104**	**266**	**460**
- DCG	**162**	**54**	**31**	**123**	**370**

At March 31, 2017

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

The directors are of the view that there was no indication of impairment of goodwill and trademarks and trade names as at March 31, 2018 (2017: Nil).

3 Other income – net

	2018 ***US$'000***	2017 *US$'000*
Impairment of an available-for-sale financial asset	**-**	(1,005)
Net gain on disposal of available-for-sale financial assets	**15**	11,575
Dividend income from available-for-sale financial assets	**286**	321
	301	10,891

4 Operating profit

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

	2018 ***US$'000***	2017 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**259,121**	269,107
Amortization of intangible assets	**479,401**	472,999
Employee benefit costs, including	**3,663,301**	3,580,788
- long-term incentive awards	***199,779***	*177,523*
- severance and related costs	***100,775***	*146,368*
Rental expenses under operating leases	**147,133**	140,286
Impairment of property, plant and equipment	**4,608**	7,303
Gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**(50,937)**	(336,172)
Gain on disposal of a joint venture	**-**	(218,366)

During the year, the Group announced resource actions to further enhance efficiency and competitiveness in view of industrial challenges. Severance costs of approximately US$101 million (2017: exceptional charges of approximately US$159 million comprising mainly severance costs, loss on impairment of assets and provision for lease obligations) were recognized in "other operating (expenses)/income – net".

5 Finance income and costs

(a) Finance income

	2018	2017
	US$'000	*US$'000*
Interest on bank deposits	**27,672**	23,975
Interest on money market funds	**4,473**	3,820
	32,145	27,795

(b) Finance costs

	2018	2017
	US$'000	*US$'000*
Interest on bank loans and overdrafts	**44,376**	38,546
Interest on notes	**130,229**	103,489
Interest on promissory note	**11,589**	52,746
Factoring costs	**71,897**	28,905
Commitment fee	**779**	440
Interest on contingent/deferred considerations and put option liability	**1,110**	3,434
Others	**3,180**	4,067
	263,160	231,627

6 Taxation

The amount of taxation in the consolidated income statement represents:

	2018	2017
	US$'000	*US$'000*
Current tax		
Hong Kong profits tax	**16,997**	2,043
Taxation outside Hong Kong	**332,795**	411,397
Deferred tax		
Credit for the year	**(469,815)**	(453,954)
Effect of change in tax rate	**400,000**	-
	279,977	(40,514)

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

Pursuant to the Tax Cuts and Jobs Act enacted by the government of the United States ("US") on December 22, 2017, the US corporate tax rate is reduced for tax years beginning after December 31, 2017. This rate change leads to a write-off of US deferred income tax assets of approximately US$400 million for the year ended March 31, 2018.

7 (Loss)/earnings per share

(a) Basic

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

	2018	2017
Weighted average number of ordinary shares in issue	**11,441,318,678**	11,108,654,724
Adjustment for shares held by employee share trusts	**(130,726,638)**	(99,384,505)
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share	**11,310,592,040**	11,009,270,219
	US$'000	*US$'000*
(Loss)/profit attributable to equity holders of the Company	**(189,323)**	535,084

(b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares, namely long-term incentive awards and bonus warrants. They were anti-dilutive for the year ended March 31, 2018 and dilutive for the year ended March 31, 2017.

	2018	2017
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share	**11,310,592,040**	11,009,270,219
Adjustment for long-term incentive awards and bonus warrants	**-**	11,377,359
Weighted average number of ordinary shares in issue for calculation of diluted (loss)/earnings per share	**11,310,592,040**	11,020,647,578
	US$'000	*US$'000*
(Loss)/profit attributable to equity holders of the Company used to determine diluted (loss)/earnings per share	**(189,323)**	535,084

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

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

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

8 Dividends

	2018	2017
	US$'000	*US$'000*
Interim dividend of HK6.0 cents (2017: HK6.0 cents) per ordinary share, paid on November 30, 2017	**85,434**	85,948
Proposed final dividend – HK20.5 cents (2017: HK20.5 cents) per ordinary share	**313,850**	292,427
	399,284	378,375

9 Ageing analysis

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

	2018	2017
	US$'000	*US$'000*
0 – 30 days	**3,046,240**	2,923,083
31 – 60 days	**1,169,286**	985,251
61 – 90 days	**320,183**	283,050
Over 90 days	**545,629**	381,387
	5,081,338	4,572,771
Less: provision for impairment	**(108,616)**	(104,379)
Trade receivables – net	**4,972,722**	4,468,392

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

	2018	2017
	US$'000	*US$'000*
0 – 30 days	**3,694,507**	3,497,382
31 – 60 days	**1,793,380**	1,098,575
61 – 90 days	**727,029**	846,804
Over 90 days	**235,876**	207,164
	6,450,792	5,649,925

10 Deposits, prepayments and other receivables

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

	2018	2017
	US$'000	*US$'000*
Deposits	**15,818**	19,018
Other receivables	**3,346,475**	3,326,928
Prepayments	**1,341,042**	987,405
	4,703,335	4,333,351

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

11 Provisions, other payables and accruals

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

	2018	2017
	US$'000	*US$'000*
Accruals	**1,865,507**	2,066,687
Allowance for billing adjustments (i)	**1,634,287**	1,611,495
Deferred considerations (ii)	**-**	686,301
Written put option liability (iii)	**224,813**	223,703
Other payables (iv)	**5,493,157**	5,416,428
	9,217,764	10,004,614

Notes:

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

(ii) Pursuant to the completion of business combination, the Group is required to pay in cash to Google Inc. deferred consideration. Accordingly, current liability in respect of the present value of deferred consideration has been recognized. Deferred consideration is subsequently measured at amortized cost. The remaining deferred consideration payable to Google Inc. has been settled during the year.

(iii) Pursuant to the joint venture agreement entered into between the Company and Compal Electronics, Inc. ("Compal") to establish a joint venture company ("JV Co") to manufacture notebook computer products and related parts, the Company and Compal are respectively granted call and put options which entitle the Company to purchase from Compal and Compal to sell to the Company the 49% Compal's interests in the JV Co. The call and put options will be exercisable at any time after October 1, 2019 and October 1, 2017 respectively. The exercise price for the call and put options will be determined in accordance with the joint venture agreement, and up to a maximum of US$750 million.

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

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

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

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

(b) The components of provisions are as follows:

	Warranty *US$'000*	Environmental restoration *US$'000*	Restructuring *US$'000*	Total *US$'000*
Year ended March 31, 2017				
At the beginning of the year	1,322,267	8,817	123,103	1,454,187
Exchange adjustment	(16,316)	308	154	(15,854)
Provisions made	736,693	9,442	150,470	896,605
Amounts utilized	(980,738)	(10,177)	(184,075)	(1,174,990)
	1,061,906	8,390	89,652	1,159,948
Long-term portion classified as non-current liabilities	(280,421)	(6,122)	-	(286,543)
At the end of the year	781,485	2,268	89,652	873,405
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**

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

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

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

12 Other non-current liabilities

Details of other non-current liabilities are as follows:

	2018 *US$'000*	2017 *US$'000*
Deferred consideration (a)	**25,072**	25,072
Environmental restoration (Note 11(b))	**6,807**	6,122
Government incentives and grants received in advance (b)	**58,988**	95,774
Deferred rent liabilities	**94,377**	102,756
Others	**148,088**	150,833
	333,332	380,557

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

As at March 31, 2018, the potential undiscounted amount of future payment in respect of the deferred consideration that the Group could be required to make to NEC Corporation under the arrangement is US$25 million.

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

13 Borrowings

	2018 *US$'000*	2017 *US$'000*
Current liabilities		
Short-term loans (i)	**1,166,692**	70,003
Non-current liabilities		
Term loan (ii)	-	397,687
Notes (iii)	**2,648,725**	2,569,005
	2,648,725	2,966,692
	3,815,417	3,036,695

(i) The majority of the short-term bank loans are denominated in United States dollar. As at March 31, 2018, the Group has total revolving and short-term loan facilities of US$1,896 million (2017: US$1,393 million) which has been utilized to the extent of US$1,170 million (2017: US$70 million).

(ii) Term loan comprised a US$1,200 million 5-year loan facility (comprising US$800 million short term) entered into in December 2013. The term loan was prepaid during the year (2017: US$400 million).

(iii)

Issue date	Principal amount	Term	Interest rate per annum	Due date	**2018** *US$'000*	2017 *US$'000*
May 8, 2014	US$786 million (2017: US$1.5 billion)	5 years	4.7%	May 2019	**774,341**	1,495,081
June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	**635,015**	578,103
March 16, 2017	US$500 million	5 years	3.875%	March 2022	**496,590**	495,821
March 29, 2018	US$750 million	5 years	4.75%	March 2023	**742,779**	-
					2,648,725	2,569,005

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 would be used to repurchase the outstanding 2019 notes and for the Company's working capital and general corporate purposes.

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at March 31, 2018 and March 31, 2017 are as follows:

	2018 *US$'000*	2017 *US$'000*
Within 1 year	**1,166,692**	70,003
Over 1 to 3 years	**1,409,356**	1,892,768
Over 3 to 5 years	**1,239,369**	1,073,924
	3,815,417	3,036,695

14 Share capital

	2018 *Number of shares*	**2018** *US$'000*	2017 *Number of shares*	2017 *US$'000*
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the year	**11,108,654,724**	**2,689,882**	11,108,654,724	2,689,882
Issue of ordinary shares	**906,136,890**	**496,041**	-	-
At the end of the year	**12,014,791,614**	**3,185,923**	11,108,654,724	2,689,882

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

15 Perpetual securities

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

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

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

	2018	2017
	US$'000	*US$'000*
Profit before taxation	**153,202**	489,927
Share of losses/(profits) of associates and joint ventures	**2,506**	(21,411)
Finance income	**(32,145)**	(27,795)
Finance costs	**263,160**	231,627
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**259,121**	269,107
Amortization of intangible assets	**479,401**	472,999
Share-based compensation	**199,779**	177,523
Impairment of an available-for-sale financial asset	**-**	1,005
Impairment of property, plant and equipment	**4,608**	7,303
Gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**(50,937)**	(336,172)
Gain on disposal of a joint venture	**-**	(218,366)
Dilution gain on interests in associates and a joint venture	**(2,499)**	(14,260)
Gain on disposal of available-for-sale financial assets	**(15)**	(11,575)
Loss on disposal of intangible assets	**710**	417
Dividend income from available-for-sale financial assets	**(286)**	(321)
Fair value change on financial instruments	**12,749**	(27,366)
Fair value change on bonus warrants	**(3,003)**	-
Increase in inventories	**(997,656)**	(156,718)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(1,012,749)**	(580,005)
Increase in trade payables, notes payable, provisions, other payables and accruals	**919,996**	2,354,218
Effect of foreign exchange rate changes	**(257,933)**	87,195
Net cash (used in)/generated from operations	**(61,991)**	2,697,332

(a) Reconciliation of financing liabilities

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

Financing liabilities	**2018** ***US$'000***
Short-term loans - current	**1,166,692**
Notes - non-current	**2,648,725**
Financing liabilities	**3,815,417**
Short-term loans – variable interest rates	**1,166,692**
Notes – fixed interest rates	**2,648,725**
Financing liabilities	**3,815,417**

	Short-term loans current	Long-term loans non-current	Notes non-current	Total
	US$'000	*US$'000*	*US$'000*	*US$'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**

17 Non-adjusting post balance sheet event

On May 2, 2018, the Company completed the acquisition of 51% in Fujitsu Client Computing Limited and its subsidiary, Shimane Fujitsu Limited (together "FCCL"), pursuant to the sales and purchase agreement and joint venture agreement dated November 2, 2017. 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.

Pursuant to the joint venture agreement, both the Company and Fujitsu are respectively granted call and put options which entitle the Company to purchase from Fujitsu and DBJ, or Fujitsu and DBJ to sell to the Company, 49% interest in FCCL. Both options will be exercisable following the fifth anniversary of the date of completion.

The estimated total consideration for the business combination activity comprises:

(i) JPY17.85 billion, on the assumption that FCCL has zero net debt and normalized working capital, payable in cash on completion, minus 51% of (a) the net debt and (b) the working capital adjustment; and

(ii) JPY2.55 billion to JPY12.75 billion performance-adjusted consideration based on business performance to March 31, 2020, payable in cash after March 31, 2020.

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

During the year ended March 31, 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the respective trustee of the long-term incentive program and the employee share purchase plan of the Company purchased a total of 106,257,377 shares from the market for award to employees upon vesting. Details of these program and plan will be 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. 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 annual results of the Group for the year ended March 31, 2018. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended March 31, 2018, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and where appropriate, met the recommended best practices in the CG Code, with the exception that the roles of the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "CEO") have not been segregated as required by code provision A.2.1 of the CG Code.

The Board has 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.

Apart from the foregoing, the Company met the recommended best practices in the CG Code as to be disclosed in the respective sections of the 2017/18 Annual Report. Particularly, the Company published quarterly financial results and business reviews in addition to interim and annual results. Quarterly financial results enhanced the shareholders' ability to assess the performance, financial position and prospects of the Company. The quarterly financial results were prepared using the accounting standards consistent with the policies applied to the interim and annual financial statements.

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

May 24, 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.