Notes to the Financial Statements

1 GENERAL INFORMATION AND BASIS OF PREPARATION

Lenovo Group Limited (the "Company") and its subsidiaries (together, the "Group") develop, manufacture and market reliable, high-quality, secure and easy-to-use technology products and services. Its product lines include legendary Think-branded commercial personal computers and Idea-branded consumer personal computers, as well as servers, workstations, and a family of mobile internet devices, including tablets and smartphones.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is 23rd Floor, Lincoln House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong. The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The financial statements have been prepared under the historical cost convention except that certain financial assets and financial liabilities are stated at fair values, as explained in the significant accounting policies set out below.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

Changes in accounting policies and disclosures

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 are appropriate and relevant to its operations:

– Amendments to HKAS 7, Disclosure initiative

– Amendments to HKAS 12, Recognition of deferred tax assets for unrealised 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 35(a).

1 GENERAL INFORMATION AND BASIS OF PREPARATION *(continued)*

Changes in accounting policies and disclosures *(continued)*

At the date of approval of these financial statements, the following new standards 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.

1 GENERAL INFORMATION AND BASIS OF PREPARATION *(continued)*

HKFRS 9, Financial instruments *(continued)*

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 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 the 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.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Principles of consolidation and equity accounting

(i) Subsidiaries

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to March 31.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to (ii))

Intra-group transactions, balances, income and expenses on transactions are eliminated. Profits and losses resulting from intra-group transactions that are recognized in assets are also eliminated.

Adjustments have been made to the financial statements of subsidiaries when necessary to align their accounting policies to ensure consistency with the policies adopted by the Group.

For subsidiaries which adopted December 31 as their financial year end date for statutory reporting purposes, their financial statements for the years ended March 31, 2017 and 2018 have been used for the preparation of the Group's consolidated financial statements.

(ii) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Principles of consolidation and equity accounting *(continued)*

(ii) Business combinations (continued)

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in the consolidated income statement. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and, in a business combination achieved in stages the acquisition-date fair value of any previous equity interest in the acquiree over the net identifiable assets acquired and liabilities assumed (Note 2(g)(i)). If it is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated income statement.

(iii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Principles of consolidation and equity accounting *(continued)*

(iii) Changes in ownership interests *(continued)*

The potential cash payments related to put options issued by the Group over the equity of a subsidiary are accounted for as financial liabilities. The amount that may become payable under the option on exercise is initially recognized at fair value as a written put option liability with a corresponding charge directly to equity.

A written put option liability is subsequently re-measured as a result of the change in the expected performance at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. In the event that the option expires unexercised, the written put option liability is derecognized with a corresponding adjustment to equity.

(iv) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in the consolidated income statement. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized as other comprehensive income/expense in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized as other comprehensive income/expense are reclassified to the consolidated income statement.

(v) Separate financial statements

Investments in subsidiaries in the Company's balance sheet are accounted for at cost less impairment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

(b) Associates and joint arrangements

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor, rather than the legal structures of the joint arrangements. The Group has assessed the nature of its joint arrangements and applied HKFRS 11 in preparing the consolidated financial statements.

(b) Associates and joint arrangements *(continued)*

Associates and joint ventures

Interests in associates and joint ventures are accounted for using the equity method of accounting and are initially recognized at cost. The Group's interests in associates and joint ventures include goodwill identified on acquisition, net of any accumulated impairment losses.

The Group's share of its associates' and joint ventures' post-acquisition profits or losses is recognized in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income/expense is recognized as other comprehensive income/expense with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or the joint venture including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate or the joint venture.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate and joint venture is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount adjacent to share of profit/(loss) of associates and joint ventures in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates or joint ventures are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates or the joint ventures. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Accounting policies of associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

For associates and joint ventures which adopted December 31 as their financial year end date for statutory reporting purposes, their financial statements for the years ended March 31, 2017 and 2018 have been used for the preparation of the Group's consolidated financial statements.

Joint operation

Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. Investments in joint operations are accounted for such that each joint operator recognizes its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Lenovo Executive Committee (the "LEC") that makes strategic decisions.

(d) Translation of foreign currencies

(i) Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements of the Company and of the Group are presented in United States dollars, which is the Company's functional and the Group's presentation currency.

(ii) Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in the income statement. They are deferred in equity if they are relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

All foreign exchange gains and losses that relate to monetary assets and liabilities denominated in foreign currency are presented in the income statement within "Other operating (expenses)/income – net".

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in the income statement, and other changes in the carrying amount are recognized as other comprehensive income/expense and included in the investment revaluation reserve in equity.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on financial assets and liabilities carried at fair value are as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized as other comprehensive income/expense and included in the investment revaluation reserve in equity.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Translation of foreign currencies *(continued)*

(iii) The results and financial position of all the group entities that have a functional currency different from the Group's presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates on the dates of the transactions); and

- all resulting exchange differences are recognized as other comprehensive income/expense.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized as other comprehensive income/expense and included in the exchange reserve in equity.

(iv) On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary, loss of joint control of a joint venture, or loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to the consolidated income statement.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in the consolidated income statement. For all other partial disposals (that is, reductions in the Group's ownership interest in an associate or a joint venture that do not result in the Group losing influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated income statement.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognized when replaced. All other repairs and maintenance are charged in the income statement during the financial period in which they are incurred.

Freehold land and buildings comprise mainly factories and office premises. All freehold lands are located outside Hong Kong and are not depreciated. Depreciation of buildings, buildings related equipment and leasehold improvements is calculated using the straight-line method to allocate their costs to their estimated residual values over the unexpired periods of the leases or their expected useful lives to the Group ranging from 10 to 50 years whichever is shorter.

Depreciation on other property, plant and equipment is calculated using the straight-line method to allocate their costs to their estimated residual values over their estimated useful lives to the Group. The principal annual rates used for this purpose are:

Plant and machinery	
Tooling equipment	50% – 100%
Other machinery	14% – 20%
Furniture and fixtures	20% – 25%
Office equipment	20% – 33%
Motor vehicles	20%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(h)).

Gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognized within "Other operating (expenses)/income – net" in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Construction-in-progress

Construction-in-progress represents buildings, plant and machinery and internal use software under construction and pending installation and is stated at historical cost, less any accumulated impairment losses. Historical cost comprises all direct and indirect costs of acquisition or construction or installation of buildings, plant and machinery or internal use software as well as interest expenses and exchange differences on the related funds borrowed during the construction, installation and testing periods and prior to the date when the assets were available for use. No depreciation or amortization is provided for on construction-in-progress. On completion, the carrying values of the buildings, plant and machinery or internal use software are transferred from construction-in-progress to property, plant and equipment or intangible assets.

Gain on disposal of construction-in-progress is the difference between the net sales proceeds and the carrying amount of the relevant assets, and is recognized within "Other operating (expenses)/income – net" in the income statement.

(g) Intangible assets

(i) Goodwill

Goodwill represents the excess of the consideration of an acquisition transferred over the Group's interests in the fair value of the acquiree's identifiable assets acquired and liabilities assumed at the acquisition date. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in interests in associates and joint ventures.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGU"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(ii) Trademarks and trade names

Separately acquired trademarks and trade names are shown at historical cost. Trademarks and trade names acquired in a business combination are recognized at fair value at the acquisition date.

Trademarks and trade names that have an indefinite useful life are tested annually for impairment and carried at cost less accumulated impairment losses.

(iii) Customer relationships

Customer relationships acquired in a business combination are recognized at fair value at the acquisition date. Customer relations have a definite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over their estimated useful lives.

The estimated useful lives for customer relationships at the balance sheet date are not more than 15 years.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Intangible assets *(continued)*

(iv) Internal use software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software.

Development costs that are directly attributable to the design and testing of identifiable and unique software controlled by the Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Development costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Costs associated with maintaining computer software are recognized as an expense as incurred.

Acquired computer software licenses costs and computer software development costs are amortized using the straight-line method over their estimated useful lives of not more than 8 years.

(v) Patents and technology

Expenditure on acquired patents and technology is capitalized at historical cost upon acquisition and amortized using the straight-line method over their estimated useful lives of not more than 10 years.

(h) Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to depreciation or amortization and are tested annually for impairment. Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(i) Financial assets

Classification

The Group classifies its financial assets into: (i) at fair value through profit or loss, (ii) loans and receivables; and (iii) available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as held for trading unless they are designated as hedges (Note 2(k)). Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables comprise trade, notes and other receivables, deposits, bank deposits and cash and cash equivalents in the balance sheet (Note 2(n) and 2(o)).

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless mature or management intends to dispose of them within 12 months of the balance sheet date.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial assets *(continued)*

Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value are recognized as follows:

- for financial assets at fair value through profit or loss – in profit or loss within other income or other expenses.
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security are recognized in income statement and other changes in the carrying amount are recognized in other comprehensive income or loss.
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income or loss.

Dividends on financial assets at fair value through profit or loss and available-for-sale financial assets are recognized in profit or loss as other income when the Group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss and available-for-sale financial assets is recognized in the income statement as other income.

Details on how the fair value of financial instruments is determined are disclosed in note 3(d).

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

(j) Impairment of financial assets

(i) Assets carried at amortized cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the income statement.

(ii) Assets classified as available-for-sale

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, the Group uses the criteria referred to in (i) above. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative losses, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement, is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair values. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (i) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge) or (ii) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognized as other comprehensive income/expense. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale or purchase that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the income statement within “Finance costs”. The gain or loss relating to the ineffective portion is recognized in the income statement within “Other operating (expenses)/income – net”.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gains or losses on the hedging instrument that has been recognized as other comprehensive income from the period when the hedge was effective shall remain separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gains or losses on the hedging instrument that has been recognized as other comprehensive income from the period when the hedge was effective shall be reclassified from equity to the income statement immediately.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognized immediately in the income statement.

(l) Financial guarantee contracts

Financial guarantee contracts are recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less cumulative amortization, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognized as part of the cost of the investment.

(m) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on a weighted average basis. The cost of finished goods (except for trading products) and work-in-progress comprises direct materials, direct labour and an attributable proportion of production overheads. For trading products, cost represents invoiced value on purchases, less purchase returns and discounts. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(n) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. Majority of other receivables are amounts due from subcontractors for part components sold in the ordinary course of business. Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. See Note 2(i) for further information about the Group's accounting for trade receivables and Note 2(j) for a description of the Group's impairment policies.

If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

(o) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents mainly comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity attributable to the Company's equity holders.

(q) Borrowings and borrowing costs

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(r) Trade and other payables

Trade payables are obligations to pay for part components or services that have been acquired in the ordinary course of business from suppliers. Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors. Trade and other payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Provisions

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

(i) Warranty provision

The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labor associated with warranty repair and service actions. The period ranges from one to three years. The Group reevaluates its estimates on a quarterly basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

(ii) Other provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring costs provision comprises lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

(t) Current and deferred income tax

The tax expense for the period comprises current and deferred income tax.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Current and deferred income tax *(continued)*

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same tax authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

(u) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognized as a provision.

(v) Revenue

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the normal course of the Group's activities.

(i) Sale of goods and services

Revenue from sale of hardware, software and peripherals, services and mobile devices is recognized, net of value-added tax, an allowance for estimated returns, rebates and discounts, when both ownership and risk of loss are effectively transferred to customer, generally when there is a persuasive evidence that a sales arrangement exists, the price is fixed or determinable, collectability is reasonably assured and delivery has occurred.

The Group enters into different shipping terms with customers. Delivery is generally considered as occurred once the goods are shipped. For certain transactions, the Group defers the recognition of revenue and cost of shipped products until the goods are delivered to designated locations.

Revenue from extended warranty contracts is deferred and amortized as earned over the contract period, ranging from one to four years. Revenue associated with undelivered elements is deferred and recorded when delivery occurs. Revenue from provision of systems integration service and information technology technical service is recognized over the term of contract or when services are rendered.

(v) Revenue *(continued)*

(ii) Interest income

Interest income is recognized using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired receivables is recognized using the original effective interest rate.

(iii) Dividend income

Dividend income is recognized when the right to receive payment is established.

(w) Non-base manufacturing costs

Non-base manufacturing costs are costs that are periodic in nature as opposed to product specific. They are typically incurred after the physical completion of the product and include items such as outbound freight for in-country finished goods shipments, warranty costs, engineering charges, storage and warehousing costs, and contribute to bringing inventories to their present location and condition. Non-base manufacturing costs enter into the calculation of gross margin but are not inventoriable costs.

(x) Employee benefits

(i) Pension obligations

The Group operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. Significant portion of the defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the income statement.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized as other comprehensive income/expense in the year in which they arise. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Employee benefits *(continued)*

(i) Pension obligations (continued)

Past service costs are recognized immediately in the income statement. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due and are reduced by employer's portion of voluntary contributions forfeited by those employees who leave the scheme prior to vesting fully. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group's contributions to local municipal government retirement schemes in connection with retirement benefit schemes in the Mainland of China ("Chinese Mainland") are expensed as incurred. The local municipal governments in the Chinese Mainland assume the retirement benefit obligations of the qualified employees.

(ii) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, the largest being in the United States. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized as other comprehensive income/expense in the period in which they arise. The obligations of these schemes in the United States are valued annually by independent qualified actuaries.

(iii) Long-term incentive program

The Group operates a long-term incentive program to recognize employees' individual and collective contributions, and includes two types of awards, namely share appreciation rights and restricted share units ("Long-term Incentive Awards"). The Company reserves the right, at its discretion, to pay the award in cash or ordinary shares of the Company. The fair value of the employee services received in exchange for the grant of the Long-term Incentive Awards is recognized as employee benefit expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the Long-term Incentive Awards granted, including any market performance conditions (for example, an entity's share price); excluding the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets); and including the impact of non-vesting conditions. Non-market performance and service conditions are included in assumptions about the number of Long-term Incentive Awards that are expected to become exercisable/vested. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Employee benefits *(continued)*

(iii) Long-term incentive program *(continued)*

At each balance sheet date, the Group revises its estimates of the number of Long-term Incentive Awards that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to share-based compensation reserve under equity.

Employee share trusts are established for the purposes of awarding shares to eligible employees under the long-term incentive program. The employee share trusts are administered by independent trustees and are funded by the Group's cash contributions and recorded as contributions to employee share trusts, an equity component. The administrator of the employee share trusts buys the Company's shares in the open market for award to employees upon vesting.

Upon vesting, the corresponding amounts in the share-based compensation reserve will be transferred to share capital for new allotment of shares to employees, or to the employee share trusts for shares awarded to employees by the employee share trusts.

(iv) Termination benefit

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(v) Share options

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

(y) Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized as "Other operating (expenses)/ income – net" in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in other non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Operating leases (as the lessee)

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

Interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated balance sheet and is amortized over the lease terms on a straight line basis, ranging from 10 to 50 years for the Group.

(aa) Related party transactions

A related party transaction is a transfer of resources, services or obligations between the Group and a related party of the Group, regardless of whether a price is charged.

(i) A person, or a close member of that person's family, is related to the Group if that person:

- has control or joint control over the Group;
- has significant influence over the Group; or
- is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

- The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third party.
- The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- The entity is controlled or jointly controlled by a person identified in (i) above.
- A person, or a close member of that person's family, who has control or joint control over the Group, has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(ab) Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders in case of final dividend and by the Company's directors in case of interim dividend.

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, such as market risk (including foreign currency risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. Financial risk management is carried out by the centralized treasury department ("Group Treasury").

(a) Financial risk factors

(i) Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to United States dollar, Renminbi and Euro. Foreign currency risk arises from future commercial transactions, recognized assets and liabilities and net investment in foreign operations denominated in a currency that is not the group companies' functional currency.

Management has set up a policy to require group companies to manage their foreign currency risk against their functional currency. The Group's forward foreign currency contracts are either used to hedge a percentage of anticipated cash flows (mainly export sales and purchase of inventories) which are highly probable, or used as fair value hedges for the identified assets and liabilities.

For segment reporting purposes, external hedge contracts on assets, liabilities or future transactions are designated to each operating segment, as appropriate.

The following tables detail the Group's exposure at the balance sheet date to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate, except for the currency risk between United States dollar and Hong Kong dollar given the two currencies are under the linked exchange rate system. For presentation purposes, the amounts of the exposure are shown in United States dollar, translated using the spot rate at the balance sheet date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(i) Foreign currency risk *(continued)*

	2018			2017		
	United States dollar US$'000	**Renminbi US$'000**	**Euro US$'000**	United States dollar US$'000	Renminbi US$'000	Euro US$'000
Trade and other receivables	**182,738**	**44,530**	**14,803**	195,839	24,535	169,571
Bank deposits and cash and cash equivalents	**24,478**	**9,132**	**20,554**	29,378	26,052	81,430
Trade and other payables	**(320,730)**	**(24,341)**	**(18,422)**	(532,157)	(111,446)	(19,468)
Borrowings	**-**	**(635,015)**	**-**	–	(578,103)	–
Intercompany balances before elimination	**(2,716,689)**	**1,136,490**	**(318,945)**	(2,383,059)	370,199	(367,276)
Gross exposure	**(2,830,203)**	**530,796**	**(302,010)**	(2,689,999)	(268,763)	(135,743)
Notional amounts of forward exchange contracts used as economic hedges	**3,118,896**	**-**	**269,936**	2,373,294	–	313,114
Net exposure	**288,693**	**530,796**	**(32,074)**	(316,705)	(268,763)	177,371

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(ii) Cash flow interest rate risk

The Group's interest rate risk mainly arises from short-term and long-term borrowings denominated in United States dollar. It is the Group's policy to mitigate interest rate risk through the use of appropriate interest rate hedging instruments. Generally, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

The Group operates various customer financing programs. The Group is exposed to fluctuation of interest rates of all the currencies covered by those programs.

(iii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers and subcontractors, including outstanding receivables and committed transactions.

For banks and other financial institutions, the Group controls its credit risk through monitoring their credit rating and setting approved counterparty credit limits that are regularly reviewed.

The Group has no significant concentration of customer credit risk. The Group has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

No credit limits were exceeded by any customers during the reporting period, and management does not expect any significant losses from non-performance by these counterparties.

(iv) Liquidity risk

Cash flow forecasting of the Group is performed by Group Treasury. It monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 27) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements, for example, currency restrictions.

Surplus cash held by the operating entities over and above balances required for working capital management are transferred to Group Treasury. Group Treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts, At the balance sheet date, the Group held money market funds of US$8,393,000 (2017: US$634,356,000) (Note 24).

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iv) Liquidity risk *(continued)*

The tables below analyze the Group's non-derivative financial liabilities and derivative financial liabilities into relevant maturity groupings based on the remaining periods at the balance sheet date to the contractual maturity dates. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the tables are the contractual undiscounted cash outflows/(inflows).

	Repayable on demand or 3 months or less US$'000	Over 3 months to 1 year US$'000	Over 1 to 3 years US$'000	Over 3 to 5 years US$'000	Total US$'000
At March 31, 2017					
Borrowings	53,005	148,629	2,109,617	1,133,778	3,445,029
Trade, notes and other payables and accruals	13,956,373	1,623,775	–	–	15,580,148
Deferred considerations	–	697,890	25,072	–	722,962
Written put option liability	–	224,790	–	–	224,790
Others	–	–	22,013	110,321	132,334
Derivatives settled in net:					
Forward foreign exchange contracts	1,597	–	–	–	1,597
Derivatives settled in gross:					
Forward foreign exchange contracts					
– outflow	6,470,583	194,434	–	–	6,665,017
– inflow	(6,457,668)	(195,600)	–	–	(6,653,268)
At March 31, 2018					
Borrowings	**1,138,704**	**159,243**	**1,599,043**	**1,340,625**	**4,237,615**
Trade, notes and other payables and accruals	**14,225,510**	**385,920**	**-**	**-**	**14,611,430**
Deferred consideration	**-**	**-**	**25,072**	**-**	**25,072**
Written put option liability	**224,813**	**-**	**-**	**-**	**224,813**
Others	**-**	**-**	**106,906**	**53,409**	**160,315**
Derivatives settled in net:					
Forward foreign exchange contracts	**4,844**	**-**	**-**	**-**	**4,844**
Derivatives settled in gross:					
Forward foreign exchange contracts					
– outflow	**5,952,722**	**909,683**	**-**	**-**	**6,862,405**
– inflow	**(5,930,706)**	**(903,571)**	**-**	**-**	**(6,834,277)**

(b) Market risk sensitivity analysis

HKFRS 7 "Financial instruments: Disclosures" requires the disclosure of a sensitivity analysis for market risks that show the effects of a hypothetical change in the relevant market risk variable to which the Group is exposed to at the balance sheet date on profit or loss and total equity.

The sensitivity analysis for each type of market risks does not reflect inter-dependencies between risk variables. The sensitivity analysis assumes that a hypothetical change of the relevant risk variable had occurred at the balance sheet date and had been applied to the relevant risk variable in existence on that date. The bases and assumptions adopted in the preparation of the analyses will by definition, seldom equal to the related actual results.

The disclosure of the sensitivity analysis on market risks is solely for compliance with HKFRS 7 disclosure requirements in respect of financial instruments, and are for illustration purposes only; and it should be noted that the hypothetical amounts so generated do not represent a projection of likely future events and profits or losses of the Group.

(i) Foreign currency exchange rate sensitivity analysis

At March 31, 2018, if United States dollar had weakened/strengthened by one percent against the major currencies with all other variables held constant, pre-tax profit for the year would have been US$2.1 million higher/lower (2017: pre-tax profit for the year would have been US$2.2 million higher/lower), mainly as a result of foreign exchange gains/losses on translation of unhedged portion of receivable and payable balances.

The analysis above is based on the assumption that United States dollar weakened or strengthened against all other currencies in the same direction and magnitude, but it may not be necessarily true in reality.

(ii) Interest rate sensitivity analysis

At March 31, 2018, if interest rate on borrowings had been 25 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been US$3.6 million lower/higher (2017: pre-tax profit for the year would have been US$4.0 million lower/higher).

At March 31, 2018, if interest rates on customer financing programs had been 25 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been US$4.0 million lower/higher (2017: pre-tax profit for the year would have been US$3.7 million lower/higher). This analysis is based on the assumption that the interest rates of all the currencies covered by the customer financing programs go up and down at the same time and with the same magnitude; however, such assumptions may not be necessarily true in reality.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as total borrowings (including current and non-current borrowings) divided by total equity. The Group's strategy remains unchanged and the gearing ratios and net debt position of the Group as at March 31, 2018 and 2017 are as follows:

	2018 US$ million	2017 US$ million
Bank deposits and cash and cash equivalents	**1,932**	2,951
Less: total borrowings	**(3,815)**	(3,037)
Net debt position	**(1,883)**	(86)
Total equity	**4,546**	4,095
Gearing ratio	**0.84**	0.74

(d) Fair value estimation

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

- Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

- The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

- Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Fair value estimation *(continued)*

The following table presents the assets and liabilities that are measured at fair value at March 31, 2018 and 2017.

	2018				2017			
	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets								
Available-for-sale financial assets								
Listed equity investments	29,563	-	-	29,563	24,143	-	-	24,143
Unlisted equity investments	-	-	343,514	343,514	-	-	231,755	231,755
Derivative financial assets	-	24,890	-	24,890	-	53,808	-	53,808
	29,563	24,890	343,514	397,967	24,143	53,808	231,755	309,706
Liabilities								
Derivative financial liabilities	-	62,694	-	62,694	-	67,285	-	67,285
	-	62,694	-	62,694	-	67,285	-	67,285

3 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Fair value estimation *(continued)*

There were no significant transfers of financial assets among Levels 1, 2 and 3 fair value hierarchy classification during the years ended March 31, 2018 and 2017.

The movements in the financial assets and liabilities included in Level 3 fair value hierarchy for the years ended March 31, 2018 and 2017 are as follows:

Available-for-sale financial assets

	2018 US$'000	2017 US$'000
At the beginning of the year	**231,755**	100,278
Exchange adjustment	**15,172**	(2,332)
Fair value change recognized in other comprehensive income	**(2,828)**	10,704
Additions	**100,466**	124,110
Transferred to investment in a joint venture	**(901)**	–
Disposals	**(150)**	–
Impairment	**-**	(1,005)
At the end of the year	**343,514**	231,755

No sensitivity analysis for unlisted equity investments is presented as a reasonably possible change in key assumptions used in the sensitivity analysis would not result in any significant potential financial impact.

Notes to the Financial Statements

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements often requires the use of judgment to select specific accounting methods and policies from several acceptable alternatives. Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following are the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the financial statements:

(a) Impairment of non-financial assets

The Group tests at least annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amounts of an asset or a cash-generating unit have been determined based on value-in-use calculations. These calculations require the use of estimates.

The value-in-use calculations primarily use cash flow projections based on financial budgets, in general covered five years, were approved by management and estimated terminal values at the end of the five-year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues and operating margin, growth rates and selection of discount rates, to reflect the risks involved and the earnings multiple that can be realized for the estimated terminal value.

Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The tax liabilities recognized are based on management's assessment of the likely outcome.

The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(b) Income taxes *(continued)*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements.

Deferred income tax assets are mainly recognized for temporary differences such as warranty provision, accrued sales rebates, bonus accruals, and other accrued expenses, and unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which deductible temporary differences and the unused tax losses can be utilized, based on all available evidence. Recognition primarily involves judgment regarding the future financial performance of the particular legal entity or tax group in which the deferred income tax asset has been recognized. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred income tax assets will ultimately be realized, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilized. The carrying amount of deferred income tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilization periods to allow utilization of the carry forward tax losses, the asset balance will be reduced and the difference charged to the income statement.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Warranty provision

Warranty provision is based on the estimated cost of product warranties when revenue is recognized. Factors that affect the Group's warranty liability include the number of sold units currently under warranty, historical and anticipated rates of warranty claims on those units, and cost per claim to satisfy our warranty obligation. The estimation basis is reviewed on an on-going basis and revised where appropriate. Certain of these costs are reimbursable from the suppliers in accordance with the terms of relevant arrangements with the suppliers. These amounts are recognized as a separate asset, to the extent of the amount of the provision made, when it is virtually certain that reimbursement will be received if the Group settles the obligation.

(d) Revenue recognition

Application of various accounting principles related to the measurement and recognition of revenue requires the Group to make judgments and estimates. Specifically, complex arrangements with non-standard terms and conditions may require significant contract interpretation to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting. Other significant judgments include determining whether the Group or a reseller is acting as the principal in a transaction and whether separate contracts are considered part of one arrangement.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(d) Revenue recognition *(continued)*

The Group sells products to channels. Sales through channels are primarily made under agreements allowing for volume discounts, price protection and rebates, and marketing development funds. The Group monitors the channel inventory level with reference to historical data. Revenue recognition is also impacted by the Group's ability to estimate volume discounts, price protection and rebates, marketing development funds. The Group considers various factors, including a review of specific transactions, historical experience, market and economic conditions and channel inventory level when calculating these provisions and allowances.

Revenue from sales of goods is recognized when both ownership and risk of loss are effectively transferred to customer, which are generally occurred upon shipment. For certain transactions, risk of loss associated with goods-in-transit is retained by the Group, in which the Group books revenue upon delivery of products and defers the amounts of revenue based on the estimated days-in-transit at the end of each month. The days-in-transit is estimated based on the Group's weighted average estimated time of shipment arrival. Cost of in-transit products is deferred in deposits, prepayment and other receivables in the balance sheet until revenue is recognized. The estimates of days-in-transit are reviewed semi-annually.

(e) Retirement benefits

Pension and other post-retirement benefit costs and obligations are dependent on various assumptions. The Group's major assumptions primarily relate to discount rate, expected return on assets, and salary growth. In determining the discount rate, the Group references market yields at the balance sheet date on high quality corporate bonds. The currency and term of the bonds are consistent with the currency and estimated term of the benefit obligations being valued. The expected return on plan assets is based on market expectations for returns over the life of the related assets and obligations. The salary growth assumptions reflect the Group's long-term actual experience and future and near-term outlook. Actual results that differ from the assumptions are generally recognized in the year they occur.

(f) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analyses for various available-for-sale financial assets that are not traded in active markets.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(g) Fair value of identifiable assets and liabilities acquired through business combinations

The Group applies the acquisition method to account for business combinations, which requires the Group to record assets acquired and liabilities assumed at their fair values on the date of acquisition. Significant judgment is used to estimate the fair values of the assets and liabilities acquired, including estimating future cash flows from the acquired business, determining appropriate discount rates, asset lives and other assumptions.

5 SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by 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, Asia Pacific ("AP"), Europe-Middle East-Africa ("EMEA") and Americas ("AG"), which are also the Group's reportable operating segments.

The LEC assesses the performance of the reportable 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.

5 SEGMENT INFORMATION *(continued)*

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

	2018		2017	
	Revenue from external customers US$'000	**Adjusted pre-tax income/(loss) US$'000**	Revenue from external customers US$'000	Adjusted pre-tax income/(loss) US$'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
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

5 SEGMENT INFORMATION *(continued)*

(b) Segment assets for reportable segments

	2018 US$'000	2017 US$'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

5 SEGMENT INFORMATION *(continued)*

(c) Segment liabilities for reportable segments

	2018 US$'000	2017 US$'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") (Note)	**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.

5 SEGMENT INFORMATION *(continued)*

(e) Other segment information

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

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

The total of non-current assets other than financial instruments, deferred income tax assets and post-employment benefit assets (there are no rights arising under insurance contracts) located in China and other countries is approximately US$4,245,626,000 (2017: US$3,880,145,000) and US$6,681,527,000 (2017: US$6,746,288,000) respectively.

6 OTHER INCOME – NET

	2018 US$'000	2017 US$'000
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
	301	10,891

Notes to the Financial Statements

7 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 (Note 10)	**3,663,301**	3,580,788
Cost of inventories sold	**36,970,355**	34,852,885
Inventories write down	**60,534**	23,533
Auditor's remuneration		
– Audit services (b)	**9,252**	8,023
– Non-audit services	**3,856**	5,009
Rental expenses under operating leases	**147,133**	140,286
Government grants (Note 28(ii))	**(161,820)**	(177,357)
Net foreign exchange loss	**55,735**	110,968
Net loss/(gain) on foreign exchange forward contracts for cash flow hedges reclassified from equity	**222,073**	(13,993)
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)
Ineffectiveness on cash flow hedges	**(7,807)**	(4,380)

(a) 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".

(b) Of the above audit services fees, US$8,421,000 (2017: US$7,748,000) is payable to the Company's auditor.

8 FINANCE INCOME AND COSTS

(a) Finance income

	2018 US$'000	2017 US$'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 US$'000	2017 US$'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

9 TAXATION

The amount of taxation in the consolidated income statement represents:

	2018 US$'000	2017 US$'000
Current tax		
– Hong Kong profits tax	**16,997**	2,043
– Taxation outside Hong Kong	**332,795**	411,397
Deferred tax (Note 20)		
– Credit for the year	**(469,815)**	(453,954)
– Effect of change in tax rate	**400,000**	–
	279,977	(40,514)

Notes to the Financial Statements

9 TAXATION *(continued)*

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. The rate change leads to a write-off of US deferred income tax assets of approximately US$400 million for the year.

The Group has been granted certain tax concessions by tax authorities in the Chinese Mainland and overseas whereby the subsidiaries operating in the respective jurisdictions are entitled to tax concessions.

The differences between the Group's expected tax charge, calculated at the domestic rates applicable to the countries concerned, and the Group's tax charge/(credit) for the year are as follows:

	2018 **US$'000**	2017 US$'000
Profit before taxation	**153,202**	489,927
Tax calculated at domestic rates applicable in countries concerned	**45,038**	163,091
Income not subject to taxation	**(282,563)**	(237,916)
Expenses not deductible for taxation purposes	**141,540**	144,994
Recognition/utilization of previously unrecognized temporary differences/tax losses	**(58,020)**	(145,199)
Effect on deferred income tax assets due to change in tax rates	**400,000**	(1,599)
Deferred income tax assets not recognized	**20,023**	55,074
Under/(over)-provision in prior years	**13,959**	(18,959)
	279,977	(40,514)

The weighted average applicable tax rate for the year was 29.4% (2017: 33.3%). The decrease is caused by changes in tax concessions and profitability of the Group's subsidiaries in respective countries they are operating, and the enactment of Tax Cuts and Jobs Act by the US government.

9 TAXATION *(continued)*

The tax charge relating to components of other comprehensive income is as follows:

	2018			2017		
	Before tax US$'000	**Tax charge US$'000**	**After tax US$'000**	Before tax US$'000	Tax charge US$'000	After tax US$'000
Fair value change on available-for-sale financial assets	**224**	**-**	**224**	9,180	(467)	8,713
Investment revaluation reserve reclassified to consolidated income statement on disposal of available-for-sale financial assets	**-**	**-**	**-**	(12,640)	–	(12,640)
Fair value change on cash flow hedges	**(11,538)**	**(40)**	**(11,578)**	85,540	(2,540)	83,000
Remeasurements of post-employment benefit obligations (Note 36)	**(19,797)**	**-**	**(19,797)**	42,778	(388)	42,390
Currency translation differences	**288,711**	**-**	**288,711**	(85,423)	–	(85,423)
Other comprehensive income	**257,600**	**(40)**	**257,560**	39,435	(3,395)	36,040
Deferred tax (Note 20)		**(40)**			(3,395)	

10 EMPLOYEE BENEFIT COSTS

	2018 US$'000	2017 US$'000
Wages and salaries, including severance and related costs of US$100,775,000 (2017: US$146,368,000)	**2,778,153**	2,759,039
Social security costs	**247,117**	210,465
Long-term incentive awards granted (Note 29)	**199,779**	177,523
Pension costs		
– Defined contribution plans	**182,721**	165,148
– Defined benefit plans (Note 36)	**16,439**	18,011
Others	**239,092**	250,602
	3,663,301	3,580,788

The Group contributes to respective local municipal government retirement schemes which are available to all qualified employees in the Chinese Mainland. Contributions to these schemes are calculated with reference to the monthly average salaries as set out by the local municipal government.

The Group participates in various defined contribution schemes, either voluntary or mandatory, for all qualified employees. The assets of those defined contribution schemes are held separately from those of the Group in independently administered funds.

The Group also contributes to certain defined benefit pension schemes, details of which are set out in Note 36.

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) Directors' and senior management's emoluments

Directors' emoluments comprise payments by the Group to directors of the Company in connection with the management of the affairs of the Company and its subsidiaries. The remuneration of each director and the chief executive who is also a director, for the years ended March 31, 2018 and 2017 is set out below:

	2018							
Name of Director	Fees US$'000	Salaries US$'000	Discretionary bonuses (note i) US$'000	Long-term incentive awards (note ii) US$'000	Retirement payments and employer's contribution to pension schemes US$'000	Housing allowance US$'000	Other benefits in-kind US$'000	Total US$'000
Executive director								
Mr. Yang Yuanqing (CEO)	-	1,404	1,213	15,286	149	-	700	18,752
Non-executive directors								
Mr. Zhu Linan	93	-	-	196	-	-	-	289
Mr. Zhao John Huan	93	-	-	196	-	-	-	289
Independent non-executive directors								
Dr. Tian Suning	93	-	-	196	-	-	-	289
Mr. Nicholas C. Allen	120	-	-	196	-	-	-	316
Mr. Nobuyuki Idei	93	-	-	196	-	-	-	289
Mr. William O. Grabe	128	-	-	196	-	-	-	324
Mr. William Tudor Brown	93	-	-	196	-	-	-	289
Ms. Ma Xuezheng	113	-	-	196	-	-	-	309
Mr. Yang Chih-Yuan Jerry	93	-	-	198	-	-	-	291
Mr. Gordon Robert Halyburton Orr	93	-	-	174	-	-	-	267
	1,012	1,404	1,213	17,226	149	-	700	21,704

Notes to the Financial Statements

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

	2017							
Name of Director	Fees US$'000	Salaries US$'000	Discretionary bonuses (note i) US$'000	Long-term incentive awards (note ii) US$'000	Retirement payments and employer's contribution to pension schemes US$'000	Housing allowance US$'000	Other benefits in-kind US$'000	Total US$'000
Executive director								
Mr. Yang Yuanqing (CEO)	-	1,310	89	17,392	131	127	196	19,245
Non-executive directors								
Mr. Zhu Linan	93	-	-	190	-	-	-	283
Mr. Zhao John Huan	93	-	-	190	-	-	-	283
Independent non-executive directors								
Dr. Tian Suning	93	-	-	190	-	-	-	283
Mr. Nicholas C. Allen	120	-	-	190	-	-	-	310
Mr. Nobuyuki Idei	93	-	-	190	-	-	-	283
Mr. William O. Grabe	128	-	-	190	-	-	-	318
Mr. William Tudor Brown	93	-	-	190	-	-	-	283
Ms. Ma Xuezheng	113	-	-	190	-	-	-	303
Mr. Yang Chih-Yuan Jerry	93	-	-	186	-	-	-	279
Mr. Gordon Robert Halyburton Orr	93	-	-	115	-	-	-	208
	1,012	1,310	89	19,213	131	127	196	22,078

Notes:

(i) Discretionary bonuses paid for the two years ended March 31, 2018 and 2017 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2017 and 2016 respectively.

(ii) Details of the long-term incentive program of the Company are set out in Note 29. The fair value of the employee services received in exchange for the grant of the long-term incentive awards is recognized as an expense. The total amount to be amortized over the vesting period is determined by reference to the fair value of the long-term incentive awards at the date of grant. The amounts disclosed above represent the amortized amounts for the two years ended March 31, 2018 and 2017.

(iii) Mr. William O. Grabe has elected to defer his receipt of the cash of director's fee into fully vested share units under the long-term incentive program (Note 29) for the two years ended March 31, 2018 and 2017.

(iv) During the years ended March 31, 2018 and 2017, a pension payment of US$1.5 million was made to Mr. Liu Chuanzhi, a retired director.

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

During the year, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor any are payable (2017: nil). No consideration was provided to or receivable by third parties for making available directors' service (2017: nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled body corporate and connected entities (2017: nil).

No director of the Company had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the year or at any time during the year (2017: nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2017: one) director whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2017: four) individuals during the year are as follows:

	2018 US$'000	2017 US$'000
Basic salaries, allowances, and other benefits-in-kind	**5,349**	5,099
Discretionary bonuses (note i)	**4,987**	6,286
Retirement payments and employer's contribution to pension schemes	**2,062**	2,088
Long-term incentive awards	**18,375**	15,297
Compensation for loss of office	**6,680**	–
Others	**623**	550
	38,076	29,320

Note:

(i) Discretionary bonuses paid for the two years ended March 31, 2018 and 2017 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2017 and 2016 respectively.

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(continued)*

(b) Five highest paid individuals *(continued)*

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands		
US$3,841,748 – US$3,905,776	**–**	1
US$5,122,331 – US$5,186,359	**1**	–
US$5,378,448 – US$5,442,476	**–**	1
US$6,274,856 – US$6,338,884	**–**	1
US$7,107,234 – US$7,171,262	**1**	–
US$11,205,099 – US$11,269,127	**1**	–
US$13,574,177 – US$13,638,205	**–**	1
US$14,470,585 – US$14,534,613	**1**	–

12 (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 the 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
Adjustments 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

On September 29, 2017, the Company as issuer and Union Star Limited as subscriber ("the Subscriber") entered into a subscription agreement in relation to issuance of new shares and bonus warrants. On November 17, 2017, the Company issued and the Subscriber subscribed for 90,613,689 units of bonus warrants at exercise price of HK$5.17. The gross proceeds from the share subscription is approximately HK$3,905,450,000. Upon certain changes in the shareholding of the Subscriber immediately before or after the subscription, 32% of the Subscriber will be indirectly held by Legend Holdings Corporation (through Legion Elite Limited) and 68% of the Subscriber will be indirectly held by senior management of the Group.

The subscription and issuance of bonus warrants increase the total number of shares in issue of the Company ("the Company's shares"). Shares from the subscription represent (i) approximately 8.16% of the Company's shares and (ii) approximately 7.54% of the Company's shares as enlarged by the subscription. The exercise in full of the subscription rights attaching to the bonus warrants will result in the issue of 90,613,689 shares which represent (i) approximately 0.75% of the Company's shares as enlarged by the subscription and (ii) approximately 0.75% of the Company's shares as enlarged by the subscription and the full exercise of the bonus warrants (assuming there will be no other changes in the Company's shares). As at March 31, 2018, all of Bonus Warrants remains outstanding.

12 (LOSS)/EARNINGS PER SHARE *(continued)*

(b) Diluted *(continued)*

For the adjustment for dilutive potential ordinary share 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 share) 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.

13 DIVIDENDS

	2018 US$'000	2017 US$'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

14 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Office equipment	Motor vehicles	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At April 1, 2016							
Cost	610,686	511,353	638,645	65,629	556,994	7,761	2,391,068
Accumulated depreciation and impairment losses	84,540	210,169	337,049	39,035	325,090	3,691	999,574
Net book amount	526,146	301,184	301,596	26,594	231,904	4,070	1,391,494
Year ended March 31, 2017							
Opening net book amount	526,146	301,184	301,596	26,594	231,904	4,070	1,391,494
Exchange adjustment	(6,721)	(268)	(1,950)	(370)	(6,702)	(10)	(16,021)
Reclassification	(331)	585	357	(65)	(542)	(4)	-
Additions	1,709	9,227	41,116	2,722	61,335	1,764	117,873
Transfers	62,062	11,844	3,689	1,109	4,617	110	83,431
Disposals	(55,824)	(2,297)	(3,234)	(511)	(5,085)	(248)	(67,199)
Depreciation	(15,821)	(46,461)	(103,497)	(8,209)	(90,581)	(1,456)	(266,025)
Impairment recognized	-	(3,597)	-	-	(3,706)	-	(7,303)
Closing net book amount	511,220	270,217	238,077	21,270	191,240	4,226	1,236,250
At March 31, 2017							
Cost	578,103	447,879	661,786	66,197	580,635	8,479	2,343,079
Accumulated depreciation and impairment losses	66,883	177,662	423,709	44,927	389,395	4,253	1,106,829
Net book amount	511,220	270,217	238,077	21,270	191,240	4,226	1,236,250
Year ended March 31, 2018							
Opening net book amount	**511,220**	**270,217**	**238,077**	**21,270**	**191,240**	**4,226**	**1,236,250**
Exchange adjustment	**35,270**	**2,668**	**8,444**	**1,051**	**7,982**	**10**	**55,425**
Additions	**36,435**	**6,214**	**86,634**	**1,723**	**85,474**	**1,369**	**217,849**
Transfers	**60,777**	**3,614**	**5,546**	**516**	**2,570**	**447**	**73,470**
Disposals	**(907)**	**(1,633)**	**(7,836)**	**(282)**	**(6,453)**	**(340)**	**(17,451)**
Depreciation	**(20,631)**	**(41,266)**	**(98,339)**	**(7,473)**	**(87,051)**	**(1,424)**	**(256,184)**
Impairment recognized	**-**	**(4,608)**	**-**	**-**	**-**	**-**	**(4,608)**
Closing net book amount	**622,164**	**235,206**	**232,526**	**16,805**	**193,762**	**4,288**	**1,304,751**
At March 31, 2018							
Cost	**714,053**	**449,194**	**735,491**	**67,796**	**636,074**	**9,393**	**2,612,001**
Accumulated depreciation and impairment losses	**91,889**	**213,988**	**502,965**	**50,991**	**442,312**	**5,105**	**1,307,250**
Net book amount	**622,164**	**235,206**	**232,526**	**16,805**	**193,762**	**4,288**	**1,304,751**

Notes to the Financial Statements

15 PREPAID LEASE PAYMENTS

	2018 US$'000	2017 US$'000
At the beginning of the year	**473,090**	337,929
Exchange adjustment	**43,229**	(20,011)
Additions	**10,908**	175,570
Disposals	**(7,327)**	(8,501)
Amortization	**(12,272)**	(11,897)
At the end of the year	**507,628**	473,090

Prepaid lease payments represent the payments for land use rights held by the Group in the Chinese Mainland under term leases between 10 to 50 years.

16 CONSTRUCTION-IN-PROGRESS

	Buildings under construction		Internal use software		Others		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
At the beginning of the year	**210,674**	167,615	**156,769**	15,501	**45,717**	47,994	**413,160**	231,110
Exchange adjustment	**19,544**	(12,702)	**4,928**	(724)	**7,066**	(709)	**31,538**	(14,135)
Additions	**104,621**	111,255	**180,826**	204,192	**-**	30,238	**285,447**	345,685
Transfers	**(45,608)**	(55,494)	**(187,016)**	(62,200)	**(41,205)**	(31,806)	**(273,829)**	(149,500)
Disposals	**(71,206)**	–	**(2,265)**	–	**-**	–	**(73,471)**	–
At the end of the year	**218,025**	210,674	**153,242**	156,769	**11,578**	45,717	**382,845**	413,160

During the year, the Group had capitalised borrowing costs amounting to US$4.4 million (2017: US$6.9 million) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 4.60% (2017: 4.34%).

17 INTANGIBLE ASSETS

(a)

	Goodwill (Note (b)) US$'000	Trademarks and trade names (Note (b)) US$'000	Internal use software US$'000	Customer relationships US$'000	Patent and technology (Note (c)) US$'000	Total US$'000
At April 1, 2016						
Cost	4,898,637	1,438,131	815,387	1,422,110	1,598,762	10,173,027
Accumulated amortization and impairment losses	-	165,692	589,103	229,637	527,508	1,511,940
Net book amount	4,898,637	1,272,439	226,284	1,192,473	1,071,254	8,661,087
Year ended March 31, 2017						
Opening net book amount	4,898,637	1,272,439	226,284	1,192,473	1,071,254	8,661,087
Exchange adjustment	(42,899)	(3,581)	(5,798)	(14,768)	(1,875)	(68,921)
Additions	-	-	49,506	-	114,820	164,326
Transfer from construction-in-progress	-	-	66,069	-	-	66,069
Disposals	-	-	(218)	-	(199)	(417)
Amortization	-	(2,905)	(130,373)	(120,958)	(218,763)	(472,999)
Closing net book amount	4,855,738	1,265,953	205,470	1,056,747	965,237	8,349,145
At March 31, 2017						
Cost	4,855,738	1,305,073	910,972	1,387,483	1,709,761	10,169,027
Accumulated amortization and impairment losses	-	39,120	705,502	330,736	744,524	1,819,882
Net book amount	4,855,738	1,265,953	205,470	1,056,747	965,237	8,349,145
Year ended March 31, 2018						
Opening net book amount	**4,855,738**	**1,265,953**	**205,470**	**1,056,747**	**965,237**	**8,349,145**
Exchange adjustment	**232,483**	**8,803**	**5,331**	**32,901**	**9,203**	**288,721**
Additions	**-**	**-**	**35,358**	**-**	**121,032**	**156,390**
Transfer from construction-in-progress	**-**	**-**	**197,716**	**-**	**2,643**	**200,359**
Disposals	**-**	**-**	**(683)**	**-**	**(27)**	**(710)**
Amortization	**-**	**(355)**	**(82,877)**	**(127,618)**	**(268,551)**	**(479,401)**
Closing net book amount	**5,088,221**	**1,274,401**	**360,315**	**962,030**	**829,537**	**8,514,504**
At March 31, 2018						
Cost	**5,088,221**	**1,313,745**	**1,171,245**	**1,433,773**	**1,846,553**	**10,853,537**
Accumulated amortization and impairment losses	**-**	**39,344**	**810,930**	**471,743**	**1,017,016**	**2,339,033**
Net book amount	**5,088,221**	**1,274,401**	**360,315**	**962,030**	**829,537**	**8,514,504**

17 INTANGIBLE ASSETS *(continued)*

(a) *(continued)*

Amortization of US$35,592,000 (2017: US$40,003,000), US$10,979,000 (2017: US$10,658,000), US$326,397,000 (2017: US$314,971,000) and US$106,433,000 (2017: US$107,367,000) are included in the 'cost of sales', 'selling and distribution expenses', 'administrative expenses' and 'research and development expenses' in the consolidated income statement respectively.

(b) Impairment tests for goodwill and intangible assets with indefinite useful lives

The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

	China US$ million	**AP US$ million**	**EMEA US$ million**	**AG US$ million**	**Total US$ million**
At March 31, 2018					
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**

	China US$ million	AP US$ million	EMEA US$ million	AG US$ million	Total US$ million
At March 31, 2017					
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

17 INTANGIBLE ASSETS *(continued)*

(b) Impairment tests for goodwill and intangible assets with indefinite useful lives *(continued)*

The Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amounts to their carrying amounts as at the reporting date. The recoverable amount of a CGU is determined based on value in use. These assessments use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period with a terminal value related to the future cash flow of the CGU extrapolated using constant projection of cash flows beyond the five-year period. The estimated growth rates adopted do not exceed the long-term average growth rates for the businesses in which the CGU operates.

Future cash flows are discounted at the rate of 9%, 11% and 10% for PCSD, MBG and DCG respectively (2017: 9%, 11% and 10% respectively). The estimated compound annual growth rates used for value-in-use calculations under the five-year financial budgets period are as follows:

		2018			2017	
	PCSD	**MBG**	**DCG**	PCSD	MBG	DCG
China	**0%**	**N/A**	**11%**	3%	N/A	7%
AP	**-1%**	**24%**	**6%**	-1%	26%	5%
EMEA	**-1%**	**32%**	**4%**	-1%	26%	7%
AG	**0%**	**7%**	**12%**	-1%	13%	16%

Management determined budgeted gross margins based on past performance and its expectations for the market development. The budgeted growth rates are based on management expectations, and where considered appropriate, with adjustments made with reference to industry reports which are more conservative for the purpose of goodwill impairment test. The discount rates are pre-tax and reflect specific risks relating to the relevant segments. The Group announced a new organizational structure in May 2018 by combining PCSD and MBG under Intelligent Devices Group, following the earlier creation of the new reporting business units for MBG based upon market structure, namely MBG Mature Market and MBG Emerging Market. MBG's goodwill and trademarks and trade names with indefinite useful lives have been reallocated to the CGU affected using a relative value approach in accordance with HKAS 36 "Impairment of assets". The estimated compound annual growth rates used for value-in-use calculations under the five-year financial budgets period for MBG Mature Market and MBG Emerging Market are 22% and 10% respectively.

The directors are of the view that there was no evidence of impairment of goodwill and trademarks and trade names as at March 31, 2018 arising from the review (2017: nil).

The Group has performed a sensitivity analysis on key assumptions used for the annual impairment test for goodwill. A reasonably possible change in key assumptions used in the impairment test for goodwill would not cause any CGU's carrying amount to exceed its respective recoverable amount.

(c) At March 31, 2018, patent and technology of US$34,459,000 (2017: US$61,939,000) is under development.

18 INTERESTS IN ASSOCIATES AND JOINT VENTURES

	2018 US$'000	2017 US$'000
Share of net assets		
– Associates	**26,005**	21,992
– Joint ventures	**9,661**	10,575
	35,666	32,567

The following is a list of the principal associates and joint ventures:

Company name	Place of incorporation/ establishment	Interest held indirectly 2018	2017	Principal activities
Associates				
北京閃聯雲視信息技術有限公司 (Beijing Shanlian Yunshi Information Technology Limited) (Note ii)	Chinese Mainland	**23.7%**	23.7%	Distribution and development of IT technology
成都諦聽科技有限公司 (Chengdu Diting Technology Limited) (Note ii)	Chinese Mainland	**17.3%**	17.3%	Distribution and development of IT technology
茄子技術控股有限公司 (Shareit Technology Holdings Inc.) (Note ii)	Cayman Islands	**47.7%**	47.7%	Software development
深圳視見醫療科技有限公司 (Imsight Medical Technology Inc.) (Note ii)	Chinese Mainland	**17.8%**	-	Development of techniques applied to clinical medical image analysis
Joint ventures				
北京聯想金服科技有限公司 (Beijing Lenovo Fintech Co., Ltd.) (Note ii)	Chinese Mainland	**50.0%**	50.0%	Online payment platform development
聯想新視界(北京)科技有限公司 (Lenovo New Vision (Beijing) Technology Co., Ltd.) (Note ii)	Chinese Mainland	**35.1%**	48.2%	Software development

Notes:
(i) All the above associates and joint ventures operate principally in their respective places of incorporation or establishment.

(ii) The English name of the company is a direct translation or transliteration of its Chinese registered name.

18 INTERESTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

The following sets out the aggregate amount of the Group's share of associates and joint ventures:

	2018 US$'000	2017 US$'000
Share of profits/(losses) of associates	**1,323**	(2,192)
Share of (losses)/profits of joint ventures	**(3,829)**	23,603
	(2,506)	21,411

19 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables US$'000	**Assets at fair value through profit and loss** US$'000	**Derivatives used for hedging** US$'000	**Available for-sale financial assets** US$'000	**Total** US$'000
Assets					
At March 31, 2018					
Available-for-sale financial assets	**-**	**-**	**-**	**373,077**	**373,077**
Derivative financial assets	**-**	**15,037**	**9,853**	**-**	**24,890**
Other non-current assets	**43,901**	**-**	**-**	**-**	**43,901**
Trade receivables	**4,972,722**	**-**	**-**	**-**	**4,972,722**
Notes receivable	**11,154**	**-**	**-**	**-**	**11,154**
Deposits and other receivables	**3,362,293**	**-**	**-**	**-**	**3,362,293**
Bank deposits	**84,306**	**-**	**-**	**-**	**84,306**
Cash and cash equivalents	**1,848,017**	**-**	**-**	**-**	**1,848,017**
	10,322,393	**15,037**	**9,853**	**373,077**	**10,720,360**
At March 31, 2017					
Available-for-sale financial assets	–	–	–	255,898	255,898
Derivative financial assets	–	45,024	8,784	–	53,808
Other non-current assets	43,184	–	–	–	43,184
Trade receivables	4,468,392	–	–	–	4,468,392
Notes receivable	68,333	–	–	–	68,333
Deposits and other receivables	3,345,946	–	–	–	3,345,946
Bank deposits	196,720	–	–	–	196,720
Cash and cash equivalents	2,754,599	–	–	–	2,754,599
	10,877,174	45,024	8,784	255,898	11,186,880

Notes to the Financial Statements

19 FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

	Liabilities at fair value through profit and loss US$'000	Derivatives used for hedging US$'000	Other financial liabilities at amortized cost US$'000	Total US$'000
Liabilities				
At March 31, 2018				
Trade payables	**-**	**-**	**6,450,792**	**6,450,792**
Notes payable	**-**	**-**	**801,974**	**801,974**
Derivative financial liabilities	**35,937**	**26,757**	**-**	**62,694**
Other payables and accruals	**-**	**-**	**8,992,951**	**8,992,951**
Borrowings	**-**	**-**	**3,815,417**	**3,815,417**
Deferred consideration	**-**	**-**	**25,072**	**25,072**
Written put option liability	**-**	**-**	**224,813**	**224,813**
	35,937	**26,757**	**20,311,019**	**20,373,713**
At March 31, 2017				
Trade payables	–	–	5,649,925	5,649,925
Notes payable	–	–	835,613	835,613
Derivative financial liabilities	53,305	13,980	–	67,285
Other payables and accruals	–	–	9,094,610	9,094,610
Borrowings	–	–	3,036,695	3,036,695
Deferred considerations	–	–	711,373	711,373
Written put option liability	–	–	223,703	223,703
	53,305	13,980	19,551,919	19,619,204

20 DEFERRED INCOME TAX ASSETS AND LIABILITIES

Deferred income tax is calculated in full on temporary differences under the liability method using the rates applicable in the respective jurisdictions.

Deferred income tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the consolidated balance sheet:

	2018 US$'000	2017 US$'000
Deferred income tax assets:		
Recoverable within 12 months	**635,386**	600,763
Recoverable after 12 months	**895,237**	834,493
	1,530,623	1,435,256
Deferred income tax liabilities:		
Recoverable after 12 months	**(230,609)**	(221,601)
Net deferred income tax assets	**1,300,014**	1,213,655

The movements in the net deferred income tax assets are as follows:

	2018 US$'000	2017 US$'000
At the beginning of the year	**1,213,655**	777,893
Reclassification and exchange adjustment	**18,780**	(14,797)
Credited to consolidated income statement (Note 9)	**469,815**	453,954
Charged to other comprehensive income (Note 9)	**(40)**	(3,395)
Charged to share-based compensation reserve	**(2,196)**	–
Effect of change in tax rate (Note 9)	**(400,000)**	–
At the end of the year	**1,300,014**	1,213,655

20 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(continued)*

(a) The movements in deferred income tax assets (prior to offsetting of balances within the same tax jurisdiction), analyzed by major components, during the year are as follows:

	Provisions and accruals US$'000	Tax losses US$'000	Tax depreciation allowance US$'000	Deferred revenue US$'000	Share-based payment US$'000	Others US$'000	Total US$'000
At April 1, 2016	343,495	511,986	14,094	139,772	17,714	12,131	1,039,192
Reclassification and exchange adjustments	(39,494)	2,987	351	3,135	-	(1,639)	(34,660)
Credited/(charged) to consolidated income statement	146,515	389,591	1,179	(47,375)	2,021	(1,907)	490,024
Charged to other comprehensive income	(388)	-	-	-	-	(3,191)	(3,579)
At March 31, 2017 and April 1, 2017	**450,128**	**904,564**	**15,624**	**95,532**	**19,735**	**5,394**	**1,490,977**
Reclassification and exchange adjustments	**10,081**	**(303)**	**10,746**	**5,407**	**-**	**(1,527)**	**24,404**
Credited/(charged) to consolidated income statement	**99,193**	**394,009**	**2,760**	**(8,102)**	**7,942**	**846**	**496,648**
Credited to other comprehensive income	**-**	**-**	**-**	**-**	**-**	**488**	**488**
Charged to share-based compensation reserve	**-**	**-**	**-**	**-**	**(2,196)**	**-**	**(2,196)**
Effect of change in tax rate	**(56,580)**	**(351,713)**	**(836)**	**(11,210)**	**(8,851)**	**(823)**	**(430,013)**
At March 31, 2018	**502,822**	**946,557**	**28,294**	**81,627**	**16,630**	**4,378**	**1,580,308**

Deferred income tax assets are recognized for deductible temporary differences and tax losses carried forward to the extent that realization of the related tax benefit through the future taxable profits is probable.

20 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(continued)*

(a) *(continued)*

At March 31, 2018, the Group did not recognize deferred income tax assets in respect of deductible temporary differences of approximately US$1,036,897,000 (2017: US$1,574,999,000) and tax losses of approximately US$2,258,581,000 (2017: US$2,435,848,000) that can be carried forward against future taxable income, of which, tax losses of US$1,015,591,000 (2017: US$1,596,982,000) can be carried forward indefinitely. The remaining balances of tax losses will expire as follows:

	2018 US$'000	2017 US$'000
Expiring in		
– 2018	**131,173**	174,129
– 2019	**16,911**	17,558
– 2020	**21,635**	12,337
– 2021	**199,549**	188,426
– 2022	**381,940**	382,929
– 2023	**396,743**	2,436
– 2024	**51,870**	4,778
– 2025	**23,177**	56,273
– 2026	**6,114**	–
– 2027	**13,878**	–
	1,242,990	838,866

20 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(continued)*

(b) The movements in deferred income tax liabilities (prior to offsetting of balances within the same tax jurisdiction), analyzed by major components, during the year are as follows:

	Intangible valuation US$'000	Undistributed earnings US$'000	Property valuation US$'000	Accelerated tax depreciation US$'000	Others US$'000	Total US$'000
At April 1, 2016	156,010	52,602	3,301	49,386	-	261,299
Reclassification and exchange adjustments	(17,244)	(5,429)	(191)	3,012	(11)	(19,863)
(Credited)/charged to consolidated income statement	(9,503)	10,504	6	34,730	333	36,070
Credited to other comprehensive income	-	-	-	-	(184)	(184)
At March 31, 2017 and April 1, 2017	**129,263**	**57,677**	**3,116**	**87,128**	**138**	**277,322**
Reclassification and exchange adjustments	**8,485**	**(233)**	**472**	**(2,434)**	**(666)**	**5,624**
(Credited)/charged to consolidated income statement	**(25,256)**	**27,551**	**25**	**24,513**	**-**	**26,833**
Charged to other comprehensive income	**-**	**-**	**-**	**-**	**528**	**528**
Effect of change in tax rate	**(57)**	**-**	**-**	**(29,956)**	**-**	**(30,013)**
At March 31, 2018	**112,435**	**84,995**	**3,613**	**79,251**	**-**	**280,294**

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 US$'000	2017 US$'000
At the beginning of the year	**255,898**	139,572
Exchange adjustment	**17,540**	(2,529)
Fair value change recognized in other comprehensive income	**224**	9,180
Additions	**100,466**	124,110
Transferred to investment in a joint venture	**(901)**	–
Disposals	**(150)**	(13,430)
Impairment	**-**	(1,005)
At the end of the year	**373,077**	255,898
Equity securities, at fair value		
Listed:		
– In Hong Kong	**12,108**	11,039
– Outside Hong Kong	**17,455**	13,104
	29,563	24,143
Unlisted	**343,514**	231,755
	373,077	255,898

22 INVENTORIES

	2018 US$'000	2017 US$'000
Raw materials and work-in-progress	**2,005,975**	1,273,562
Finished goods	**1,133,363**	1,007,413
Service parts	**652,353**	513,060
	3,791,691	2,794,035

23 RECEIVABLES

(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 US$'000	2017 US$'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

Trade receivables that are not past due are fully performing and not considered impaired.

At March 31, 2018, trade receivables, net of impairment, of US$862,020,000 (2017: US$637,895,000) were past due. The ageing of these receivables, based on due date, is as follows:

	2018 US$'000	2017 US$'000
Within 30 days	**444,377**	368,336
31 – 60 days	**136,373**	117,341
61 – 90 days	**67,406**	53,225
Over 90 days	**213,864**	98,993
	862,020	637,895

23 RECEIVABLES *(continued)*

(a) *(continued)*

Movements in the provision for impairment of trade receivables are as follows:

	2018 US$'000	2017 US$'000
At beginning of the year	**104,379**	106,172
Exchange adjustment	**(2,390)**	5,752
Provisions made	**55,052**	35,154
Uncollectible receivables written off	**(18,002)**	(9,495)
Unused amounts reversed	**(30,423)**	(33,204)
At the end of the year	**108,616**	104,379

(b) Notes receivable of the Group are bank accepted notes mainly with maturity dates within six months.

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

	2018 US$'000	2017 US$'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

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

(d) The carrying amounts of trade receivables, notes receivables, deposits and other receivables approximate their fair values. The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivable mentioned above.

Notes to the Financial Statements

24 BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2018 US$'000	2017 US$'000
Bank deposits		
– maturing between three to twelve months	**11,013**	119,292
– restricted bank balances	**73,293**	77,428
	84,306	196,720
Cash and cash equivalents		
– cash at bank and in hand	**1,839,624**	2,120,243
– money market funds	**8,393**	634,356
	1,848,017	2,754,599
	1,932,323	2,951,319
Maximum exposure to credit risk	**1,932,323**	2,951,319
Effective annual interest rates	**0%-6.5%**	0%-11.25%

25 PAYABLES

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

	2018 US$'000	2017 US$'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

(b) Notes payable of the Group are mainly repayable within three months.

(c) The carrying amounts of trade payables and notes payable approximate their fair values.

26 PROVISIONS, OTHER PAYABLES AND ACCRUALS

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

	2018 US$'000	2017 US$'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.

Notes to the Financial Statements

26 PROVISIONS, OTHER PAYABLES AND ACCRUALS *(continued)*

(b) The components of provisions of the Group 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.

27 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

Notes:

(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.

27 BORROWINGS *(continued)*

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates at the end of the reporting period 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

The fair value of the notes as at March 31, 2018 was US$2,659 million (2017: US$2,633 million). The carrying amounts of other borrowings approximate their fair values as the impact of discounting is not significant.

Total bank facilities of the Group are as follows:

	Total facilities		**Utilized amounts**	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000
Revolving loans	**1,100,000**	1,100,000	**1,100,000**	–
Term loan	**–**	400,000	**–**	400,000
Short-term loans	**795,637**	292,807	**70,000**	70,000
Foreign exchange contracts	**8,706,553**	8,833,620	**8,644,518**	8,215,817
Other trade finance facilities	**1,730,185**	1,583,685	**1,090,008**	1,085,974
	12,332,375	12,210,112	**10,904,526**	9,771,791

All borrowings are unsecured and the effective annual interest rates at March 31, 2018 and March 31, 2017 are as follows:

	United States dollar	
	2018	2017
Term loan	**N/A**	2.63%
Short-term loans	**3.38%-5.31%**	0%-4.15%

28 OTHER NON-CURRENT LIABILITIES

	2018 US$'000	2017 US$'000
Deferred consideration (i)	**25,072**	25,072
Environmental restoration (Note 26(b))	**6,807**	6,122
Government incentives and grants received in advance (ii)	**58,988**	95,774
Deferred rent liabilities	**94,377**	102,756
Others	**148,088**	150,833
	333,332	380,557

Notes:

(i) 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.

(ii) 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.

29 SHARE CAPITAL

	2018		2017	
	Number of shares	US$'000	Number of shares	US$'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 (Note 12).

29 SHARE CAPITAL *(continued)*

Long-term incentive program

A performance-related long-term incentive program was approved on May 26, 2005 for the purpose of rewarding and motivating directors, executives and top-performing employees of the Company and its subsidiaries (the "Participants"). The long-term incentive program is designed to enable the Company to attract and retain the best available personnel, and encourage and motivate Participants to work towards enhancing the value of the Company and its shares by aligning their interests with those of the shareholders of the Company.

The Company also approved a share-based compensation package for non-executive directors.

Under the long-term incentive program, the Company may grant awards, at its discretion, using any of the two types of equity-based compensation: (i) share appreciation rights and (ii) restricted share units, which are described below:

(i) Share Appreciation Rights ("SARs")

An SAR entitles the holder to receive the appreciation in value of the Company's share price above a predetermined level.

(ii) Restricted Share Units ("RSUs")

An RSU equals to the value of one ordinary share of the Company. Once vested, an RSU is converted to an ordinary share.

Under the two types of compensation, the Company reserves the right, at its discretion, to settle the award in cash or ordinary shares of the Company.

Movements in the number of units of award granted during the year and their related weighted average fair values are as follows:

	Number of units	
	SARs	**RSUs**
Outstanding at April 1, 2016	286,222,558	186,431,731
Granted during the year	473,195,957	300,802,097
Vested during the year	(104,580,378)	(65,548,767)
Lapsed/cancelled during the year	(99,575,652)	(61,002,782)
Outstanding at March 31, 2017	555,262,485	360,682,279
Outstanding at April 1, 2017	**555,262,485**	**360,682,279**
Granted during the year	**490,920,405**	**301,523,867**
Vested during the year	**(249,496,096)**	**(142,386,897)**
Lapsed/cancelled during the year	**(87,244,882)**	**(41,623,477)**
Outstanding at March 31, 2018	**709,441,912**	**478,195,772**
Average fair value per unit (HK$)		
– At March 31, 2017	1.45	6.49
– At March 31, 2018	**1.01**	**5.50**

29 SHARE CAPITAL *(continued)*

Long-term incentive program *(continued)*

The fair values of the SARs awarded under the long-term incentive program were calculated by applying a Black-Scholes pricing model. For the year ended March 31, 2018, the model inputs were the fair value (i.e. market value) of the Company's shares at the grant date, taking into account the expected volatility of 34.04 percent (2017: 37.06 percent), expected dividends during the vesting periods of 5.59 percent (2017: 2.74 percent), contractual life of 4.5 years (2017: 4.5 years), and a risk-free interest rate of 0.94 percent (2017: 0.70 percent).

The remaining vesting periods of the awards under the long-term incentive program as at March 31, 2018 ranged from 0.41 to 2.92 years (2017: 0.25 to 3 years).

30 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.

31 BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY

(a) Balance sheet of the Company

	At March 31	
	2018	2017
	US$'000	US$'000
Non-current assets		
Property, plant and equipment	**1,376**	1,548
Intangible assets	**1,581**	5,217
Interest in an associate	**1,887**	1,887
Investments in subsidiaries	**8,580,253**	8,367,819
Available-for-sale financial assets	**46,291**	66,004
	8,631,388	8,442,475
Current assets		
Deposits, prepayments and other receivables	**52,050**	81,736
Amounts due from subsidiaries	**4,201,643**	3,206,011
Cash and cash equivalents	**15,936**	99,600
	4,269,629	3,387,347
Total assets	**12,901,017**	11,829,822
Share capital	**3,185,923**	2,689,882
Reserves (Note 31(b))	**981,864**	839,845
Total equity	**4,167,787**	3,529,727
Non-current liabilities		
Borrowings	**2,648,725**	2,966,692
Amount due to a subsidiary	**1,000,000**	850,000
Other non-current liabilities	**25,900**	26,149
	3,674,625	3,842,841
Current liabilities		
Derivative financial liabilities	**4,884**	68
Other payables and accruals	**86,904**	754,233
Borrowings	**1,096,689**	–
Deferred revenue	**-**	114
Amounts due to subsidiaries	**3,870,128**	3,702,839
	5,058,605	4,457,254
Total liabilities	**8,733,230**	8,300,095
Total equity and liabilities	**12,901,017**	11,829,822

On behalf of the Board

Yang Yuanqing
Chairman and Chief Executive Officer

Ma Xuezheng
Director

31 BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY *(continued)*

(b) Movement of reserves of the Company

The changes in the reserves of the Company during the years ended March 31, 2018 and 2017 are as follows:

	Investment revaluation reserve US$'000	Share-based compensation reserve US$'000	Exchange reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Total US$'000
At April 1, 2016	(7,860)	8,315	10,204	8,614	335,170	354,443
Profit for the year	–	–	–	–	758,261	758,261
Other comprehensive loss	(3,584)	–	–	–	–	(3,584)
Total comprehensive (loss)/ income for the year	(3,584)	–	–	–	758,261	754,677
Vesting of shares under long-term incentive program	–	(72,368)	–	–	–	(72,368)
Share-based compensation	–	182,700	–	–	–	182,700
Dividends paid	–	–	–	–	(379,607)	(379,607)
At March 31, 2017	(11,444)	118,647	10,204	8,614	713,824	839,845
At April 1, 2017	**(11,444)**	**118,647**	**10,204**	**8,614**	**713,824**	**839,845**
Profit for the year	**-**	**-**	**-**	**-**	**446,962**	**446,962**
Other comprehensive loss	**(22,779)**	**-**	**-**	**-**	**-**	**(22,779)**
Total comprehensive (loss)/ income for the year	**(22,779)**	**-**	**-**	**-**	**446,962**	**424,183**
Vesting of shares under long-term incentive program	**-**	**(91,528)**	**-**	**-**	**-**	**(91,528)**
Share-based compensation	**-**	**199,892**	**-**	**-**	**-**	**199,892**
Issue of bonus warrants	**-**	**-**	**-**	**(6,399)**	**-**	**(6,399)**
Dividends paid	**-**	**-**	**-**	**-**	**(384,129)**	**(384,129)**
At March 31, 2018	**(34,223)**	**227,011**	**10,204**	**2,215**	**776,657**	**981,864**

Notes to the Financial Statements

32 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) The Group had the following significant related party transactions in the normal course of business during the year:

	2018 US$'000	2017 US$'000
閃聯信息技術工程中心有限公司 (IGRS Engineering Lab Limited) (an associate) – Purchase of goods	**15,654**	11,811
上海視雲網絡科技有限公司 (Shanghai Shiyun Network Technology Limited) (an associate) – Purchase of goods	**219**	295

Note: The English name of each company is a direct translation of its Chinese registered name.

(b) Key management compensation

Details on key management compensation are set out in Note 11.

33 COMMITMENTS

(a) Capital commitments

Apart from disclosed elsewhere in these financial statements, on March 31, 2018, the Group had the following other capital commitments:

	2018 US$'000	2017 US$'000
Contracted but not provided for:		
– Property, plant and equipment	**154,658**	271,369
– IT consulting services	**1,092**	4,401
– Investment in a subsidiary	**188,692**	–
– Investment in financial assets	**13,776**	–
	358,218	275,770

(b) Commitments under operating leases

The future aggregate minimum lease payments in respect of land and buildings and prepaid lease payments under non-cancellable operating leases of the Group are as follows:

	2018 US$'000	2017 US$'000
Not later than one year	**33,454**	48,518
Later than one year but not later than five years	**293,253**	356,335
Later than five years	**194,161**	236,993
	520,868	641,846

34 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.

35 RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH (USED IN)/GENERATED FROM OPERATIONS

	2018 US$'000	2017 US$'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 of 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

Notes to the Financial Statements

35 RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH (USED IN)/GENERATED FROM OPERATIONS *(continued)*

(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 US$'000	Long-term loans non-current US$'000	Notes non-current US$'000	Total US$'000
Financing liabilities as at April 1, 2017	70,003	397,687	2,569,005	3,036,695
Proceeds from borrowings	7,413,740	12,000	-	7,425,740
Repayments of borrowings	(6,324,406)	(400,000)	-	(6,724,406)
Issue of notes	-	-	749,119	749,119
Repayment of notes	-	-	(723,389)	(723,389)
Foreign exchange adjustments	-	-	56,175	56,175
Other non-cash movements	7,355	(9,687)	(2,185)	(4,517)
Financing liabilities as at March 31, 2018	1,166,692	-	2,648,725	3,815,417

36 RETIREMENT BENEFIT OBLIGATIONS

	2018 US$'000	2017 US$'000
Pension obligation included in non-current liabilities		
Pension benefits	**387,632**	345,277
Post-employment medical benefits	**25,850**	24,930
	413,482	370,207
Expensed in income statement		
Pension benefits (Note 10)	**16,439**	18,011
Post-employment medical benefits	**1,177**	1,084
	17,616	19,095
Remeasurements for:		
Defined pension benefits	**20,597**	(43,007)
Post-employment medical benefits	**(800)**	229

In Germany, the Group operates a sectionalised plan that has both defined contribution and defined benefit features, including benefits based on a final pay formula. This plan is closed to new entrants. Following the acquisition of System X and Motorola Mobility in 2014, the Group assumed approximately US$132,052,000 of defined benefit obligations in Germany. The defined benefit plan for Motorola's employees in Germany contains less than 10 active employees but a large number of retirees and former employees with benefits which have vested, but where payment will be deferred until they retire. As a result of these acquisitions and decreases in Euro interest rates, the Group's largest pension liabilities are now in Germany.

The Group continues to maintain significant pension liabilities in Japan, where a cash balance benefit is provided for substantially all employees.

In the United States, the defined benefit plan is closed to new entrants, and now covers only 1.1% of employees. There is also a supplemental defined benefit plan that covers certain executives.

The Group also operates final salary defined benefit plans in a number of countries as a result of past acquisitions.

The Group's major plans are valued by qualified actuaries annually using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(a) Pension benefits

The amounts recognized in the consolidated balance sheet are determined as follows:

	2018 US$'000	2017 US$'000
Present value of funded obligations	**548,060**	511,815
Fair value of plan assets	**(334,597)**	(300,872)
Deficit of funded plans	**213,463**	210,943
Present value of unfunded obligations	**174,169**	134,334
Liability in the balance sheet	**387,632**	345,277
Representing:		
Pension benefits obligation	**387,632**	345,277

The principal actuarial assumptions used are as follows:

	2018	2017
Discount rate	**0.5%-3.25%**	0.5%-3.25%
Future salary increases	**0%-3.5%**	0%-2.9%
Future pension increases	**0%-2%**	0%-1.75%
Life expectancy for male aged 60	**27**	23
Life expectancy for female aged 60	**29**	29

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

		Impact on defined benefit obligation	
2018	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**0.5%**	**Decrease by 10.6%**	**Increase by 11.4%**
Salary growth rate	**0.5%**	**Increase by 1.2%**	**Decrease by 1.1%**
Pension growth rate	**0.5%**	**Increase by 8.0%**	**Decrease by 7.3%**
		Increase by 1 year in assumption	**Decrease by 1 year in assumption**
Life expectancy		**Increase by 3.3%**	**Decrease by 3.3%**

(a) Pension benefits *(continued)*

2017	Change in assumption	Increase in assumption	Decrease in assumption
		Impact on defined benefit obligation	
Discount rate	0.5%	Decrease by 10.7%	Increase by 12.4%
Salary growth rate	0.5%	Increase by 0.1%	Decrease by 1.6%
Pension growth rate	0.5%	Increase by 7.9%	Decrease by 7.2%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		Increase by 3.8%	Decrease by 3.4%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

(b) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

The US plan (Lenovo Future Health Account and Retiree Life Insurance Program) is currently funded by a trust that qualifies for tax exemption under US tax law, out of which benefits to eligible retirees and dependents will be made.

Changes in future medical cost trend rates has no effect on the liabilities for post-employment medical benefits.

The amounts recognized in the consolidated balance sheet are determined as follows:

	2018 US$'000	2017 US$'000
Present value of funded obligations	**26,652**	27,090
Fair value of plan assets	**(2,391)**	(3,568)
	24,261	23,522
Present value of unfunded obligations	**1,589**	1,408
Liability in the balance sheet	**25,850**	24,930

Notes to the Financial Statements

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(c) Additional information on post-employment benefits (pension and medical)

Plan assets of the Group comprise:

	2018			2017		
	Quoted US$'000	**Unquoted US$'000**	**Total US$'000**	Quoted US$'000	Unquoted US$'000	Total US$'000
Pension plan						
Equity instruments						
Information technology	**2,079**	**-**	**2,079**	1,028	–	1,028
Energy	**235**	**-**	**235**	309	–	309
Manufacturing	**9,726**	**-**	**9,726**	4,309	–	4,309
Others	**3,573**	**-**	**3,573**	5,402	–	5,402
	15,613	**-**	**15,613**	11,048	–	11,048
Debt instruments						
Government	**49,617**	**-**	**49,617**	45,944	–	45,944
Corporate bonds (investment grade)	**50,056**	**-**	**50,056**	47,808	–	47,808
Corporate bonds (Non-investment grade)	**8,864**	**-**	**8,864**	2,507	–	2,507
	108,537	**-**	**108,537**	96,259	–	96,259
Others						
Property	**-**	**13,270**	**13,270**	–	10,476	10,476
Qualifying insurance policies	**-**	**43,503**	**43,503**	–	48,495	48,495
Cash and cash equivalents	**16,302**	**-**	**16,302**	22,891	–	22,891
Investment funds	**-**	**55,821**	**55,821**	–	41,876	41,876
Structured bonds	**-**	**81,180**	**81,180**	–	69,279	69,279
Others	**-**	**371**	**371**	–	548	548
	16,302	**194,145**	**210,447**	22,891	170,674	193,565
	140,452	**194,145**	**334,597**	130,198	170,674	300,872
Medical plan						
Cash and cash equivalents	**2,391**	**-**	**2,391**	3,568	–	3,568

The long term strategic asset allocations of the plans are set and reviewed from time to time by the plans' trustees taking into account the membership, liability profile and the liquidity requirements of the plans.

The weighted average duration of the defined benefit obligation is 12.5 years.

(c) Additional information on post-employment benefits (pension and medical) *(continued)*

Expected maturity analysis of undiscounted pension and post-employments medical benefits:

At March 31, 2018	Less than a year US$'000	Between 1-2 years US$'000	Between 2-5 years US$'000	Over 5 years US$'000	Total US$'000
Pension benefits	19,515	17,177	66,892	801,881	905,465
Post-employment medical benefits	914	994	3,523	42,415	47,846
Total	20,429	18,171	70,415	844,296	953,311

Pension and medical plan assets do not include any of the Company's ordinary shares or US real estate occupied by the Group (2017: nil).

Reconciliation of fair value of plan assets of the Group:

	Pension		Medical	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000
Opening fair value	**300,872**	292,742	**3,568**	4,189
Exchange adjustment	**21,767**	(12,128)	**-**	–
Interest income	**5,287**	5,862	**103**	105
Remeasurements:				
Experience gain/(loss)	**5,644**	(6,334)	**318**	(286)
Contributions by the employer	**25,681**	35,061	**41**	41
Contributions by plan participants	**663**	568	**-**	–
Benefits paid	**(25,317)**	(14,899)	**(1,639)**	(481)
Closing fair value	**334,597**	300,872	**2,391**	3,568
Actual return on plan assets	**10,931**	(472)	**421**	(181)

Contributions of US$9,925,000 are estimated to be made for the year ending March 31, 2019.

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(c) Additional information on post-employment benefits (pension and medical) *(continued)*

Reconciliation of movements in present value of defined benefit obligations of the Group:

	Pension		Medical	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000
Opening defined benefit obligation	**646,149**	711,874	**28,498**	27,931
Exchange adjustment	**54,847**	(25,189)	**215**	(76)
Current service cost	**14,516**	15,950	**315**	412
Past service cost	**(1,141)**	(1,908)	**-**	–
Interest cost	**11,051**	10,157	**965**	790
Remeasurements:				
(Gain)/loss from change in demographic assumptions	**(609)**	(3,133)	**5**	8
Loss/(gain) from changes in financial assumptions	**13,487**	(29,806)	**10**	(74)
Experience loss/(gain)	**13,363**	(16,402)	**(497)**	9
Contributions by plan participants	**663**	568	**-**	–
Benefits paid	**(27,397)**	(15,636)	**(1,270)**	(489)
Curtailments	**(2,700)**	(326)	**-**	(13)
Closing defined benefit obligation	**722,229**	646,149	**28,241**	28,498

During the year, benefits of US$2,080,000 were paid directly by the Group (2017: US$737,000).

Summary of pensions and post-retirement medical benefits of the Group:

	2018 US$'000	2017 US$'000	2016 US$'000	2015 US$'000	2014 US$'000
Present value of defined benefit obligations	**750,470**	674,647	739,805	699,680	428,935
Fair value of plan assets	**336,988**	304,440	296,931	289,562	272,420
Deficit	**413,482**	370,207	442,874	410,118	156,515
Actuarial (gains)/losses arising on plan assets	**(5,962)**	6,620	3,580	(29,070)	(588)
Actuarial losses/(gains) arising on plan liabilities	**25,759**	(49,398)	21,082	99,157	(3,400)
	19,797	(42,778)	24,662	70,087	(3,988)

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(c) Additional information on post-employment benefits (pension and medical) *(continued)*

The amounts recognized in the consolidated income statement are as follows:

	Pension		Medical	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000
Current service cost	**14,516**	15,950	**315**	412
Past service cost	**(1,141)**	(1,908)	**-**	–
Interest cost	**11,051**	10,157	**965**	790
Interest income	**(5,287)**	(5,862)	**(103)**	(105)
Curtailment gains	**(2,700)**	(326)	**-**	(13)
Total expense recognized in the consolidated income statement	**16,439**	18,011	**1,177**	1,084

37 PRINCIPAL SUBSIDIARIES

The following includes the principal subsidiaries directly or indirectly held by the Company and, in the opinion of the directors, are significant to the results of the year or form a substantial portion of the net assets of the Group. The directors consider that giving details of other subsidiaries would result in particulars of excessive length.

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held		Principal activities
			2018	2017	
Held directly:					
聯想(北京)有限公司 (Lenovo (Beijing) Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$175,481,300	**100%**	100%	Manufacturing and distribution of IT products and provision of IT services
聯想(上海)有限公司 (Lenovo (Shanghai) Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$10,000,000	**100%**	100%	Distribution of IT products and provision of IT services
Held indirectly:					
聯寶(合肥)電子科技有限公司 (LCFC (Hefei) Electronics Technology Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	US$265,000,000	**51%**	51%	Manufacturing and distribution of IT products

Notes to the Financial Statements

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2018	2017	Principal activities
Lenovo (Asia Pacific) Limited	Hong Kong	HK$3,042,972,340.42	**100%**	100%	Investment holding and distribution of IT products
北京聯想軟件有限公司 (Beijing Lenovo Software Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$5,000,000	**100%**	100%	Provision of IT services and distribution of IT products
Lenovo (Australia & New Zealand) Pty Limited	Australia	AUD45,860,993.40	**100%**	100%	Distribution of IT products
Lenovo (Belgium) BVBA	Belgium	EUR1,317,700,834.94	**100%**	100%	Investment holding and distribution of IT products
Lenovo (Canada) Inc.	Canada	CAD10,000,000	**100%**	100%	Distribution of IT products
Lenovo Computer Limited	Hong Kong	HK$2	**100%**	100%	Procurement agency and distribution of IT products
Lenovo (Danmark) ApS	Denmark	DKK126,000	**100%**	100%	Distribution of IT products
Lenovo (Deutschland) GmbH	Germany	EUR25,100	**100%**	100%	Distribution of IT products
Lenovo Enterprise Solutions (Singapore) Pte. Ltd.	Singapore	SGD55,958,592	**100%**	100%	Manufacturing and wholesaling of computers, computer hardware and peripheral equipment
Lenovo Enterprise Solutions Ltd.	Japan	JPY50,000,000	**100%**	100%	Distribution of IT products
Lenovo (France) SAS	France	EUR1,837,000	**100%**	100%	Distribution of IT products

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held		Principal activities
			2018	2017	
Lenovo HK Services Limited	Hong Kong	HK$2	**100%**	100%	Provision of business planning, management, global supply chain, finance, and administration support services
Lenovo Global Technology (Asia Pacific) Limited	Hong Kong	US$123,001	**100%**	100%	Investment holding and distribution of IT products
Lenovo Global Technology HK Limited	Hong Kong	US$1	**100%**	100%	Procurement agency and distribution of IT products
Lenovo Global Technology (Hong Kong) Distribution Limited	Hong Kong	US$1	**100%**	100%	Distribution of IT products
Lenovo (Hong Kong) Limited	Hong Kong	HK$74,256,023	**100%**	100%	Distribution of IT products
惠陽聯想電子工業有限公司 (Lenovo (Huiyang) Electronic Industrial Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$31,955,500	**100%**	100%	Manufacturing and distribution of IT products
Lenovo (India) Private Limited	India	INR8,607,471,514	**100%**	100%	Manufacturing and distribution of IT products
聯想信息產品(深圳)有限公司 (Lenovo Information Products (Shenzhen) Co. Ltd.)[1] (limited liability company (wholly-owned entity))	Chinese Mainland	RMB643,966,800	**100%**	100%	Manufacturing and distribution of IT products

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2018	Percentage of issued capital held 2017	Principal activities
Lenovo (Israel) Ltd.	Israel	ILS1,000	**100%**	100%	Distribution of IT products
Lenovo (Italy) S.r.l	Italy	EUR100,000	**100%**	100%	Distribution of IT products
Lenovo (Japan) Ltd.	Japan	JPY100,000,000	**66.64%**	66.64%	Distribution of IT products
Lenovo Korea LLC	Korea	KRW3,580,940,000	**100%**	100%	Distribution of IT products
Lenovo Mexico, S. de R.L. de C.V.	Mexico	MXN226,308,454	**100%**	100%	Distribution of IT products
聯想移動通信科技有限公司 (Lenovo Mobile Communication Technology Ltd.)[1] (foreign-investment enterprise wholly-owned entity)	Chinese Mainland	RMB187,500,000	**100%**	100%	Manufacturing and distribution of IT products and provision of IT services
聯想移動通信軟件(武漢)有限公司 (Lenovo Mobile Communication Software (Wuhan) Limited)[1] (foreign-investment enterprise wholly-owned entity)	Chinese Mainland	RMB10,000,000	**-**	100%	R&D of mobile software
摩托羅拉(武漢)移動技術通信有限公司 (Motorola (Wuhan) Mobility Technologies Communication Company Limited)[1] 前稱"聯想移動通信(武漢)有限公司" (formerly known as "Lenovo Mobile Communication (Wuhan) Limited")[1] (foreign-investment enterprise wholly-owned entity)	Chinese Mainland	RMB60,000,000	**100%**	100%	Manufacturing of mobile products
Lenovo PC HK Limited	Hong Kong	HK$2,377,934,829.50 ordinary and HK$1,000,000 non-voting deferred	**100%**	100%	Procurement agency and distribution of IT products

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2018	2017	Principal activities
Lenovo PC International Limited	Hong Kong	HK$4,758,857,785	**100%**	100%	Intellectual properties
Lenovo (Schweiz) GmbH	Switzerland	CHF2,000,000	**100%**	100%	Manufacturing and distribution of IT products
Lenovo (Singapore) Pte. Ltd.	Singapore	SGD1,971,231,035.94	**100%**	100%	Manufacturing and wholesaling of computers, computer hardware and peripheral equipment
Lenovo (South Africa) (Pty) Limited	South Africa	RAND100	**100%**	100%	Distribution of IT products
Lenovo (Spain), S.L.	Spain	EUR37,475,456.40	**100%**	100%	Distribution of IT products
Lenovo (Sweden) AB	Sweden	SEK200,200	**100%**	100%	Distribution of IT products
聯想系統集成(深圳)有限公司 (Lenovo Systems Technology Company Limited)[1] (有限責任公司(法人獨資)) (limited liability company (wholly-owned entity))	Chinese Mainland	RMB263,407,660	**100%**	100%	Manufacturing and distribution of IT products
Lenovo Technology (United Kingdom) Limited	United Kingdom	GBP8,629,510	**100%**	100%	Distribution of IT products
Lenovo Technology B.V.	Netherlands	EUR20,000	**100%**	100%	Distribution of IT products
Lenovo Technology Sdn. Bhd.	Malaysia	MYR1,000,000	**100%**	100%	Selling and distribution of computer hardware, software and peripherals and services

Notes to the Financial Statements

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2018	2017	Principal activities
Lenovo Tecnologia (Brasil) Ltda	Brazil	BRL4,424,321,818	**100%**	100%	Manufacturing and distribution of IT products
Lenovo (Thailand) Limited	Thailand	THB243,000,000	**100%**	100%	Distribution of IT products as well as mobile phone, smart phone and tablet, server and storage
Lenovo (United States) Inc.	United States	US$1	**100%**	100%	Distribution of IT products
Lenovo (Venezuela), SA	Venezuela	VEB3,846,897	**100%**	100%	Distribution of IT products
聯想(西安)有限公司 (Lenovo (Xian) Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB10,000,000	**100%**	100%	Provision of IT services and distribution of IT products
LLC "Lenovo (East Europe/Asia)"	Russia	RUB1,910,000	**100%**	100%	Distribution and marketing of IT products
Medion AG	Germany	EUR48,418,400	**79.83%**	79.83%	Retail and service business for consumer electronic products
Motorola Mobility Comércio de Produtos Eletronicos Ltda.	Brazil	BRL756,663,401	**100%**	100%	Developer, owner, licensor and seller of communications hardware and software
Motorola Mobility International Sales LLC	United States	-	**100%**	100%	Holding company

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2018	2017	Principal activities
Motorola Mobility LLC	United States	-	**100%**	100%	Developer, owner, licensor and seller of communications hardware and software
NEC Personal Computers, Ltd.	Japan	JPY500,000,000	**66.64%**	66.64%	Manufacturing and distribution of IT products
深圳聯想海外控股有限公司 (Shenzhen Lenovo Overseas Holdings Limited)[1] (wholly-foreign owned enterprise)	Chinese Mainland	US$760,822,799.24	**100%**	100%	Investment management
Stoneware, Inc.	United States	US$861,341.25	**100%**	100%	Development and distribution of IT products
陽光雨露信息技術服務(北京)有限公司 (Sunny Information Technology Service, Inc.)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB50,000,000	**100%**	100%	Provision of repair services for computer hardware and software systems

Notes:

(i) All the above subsidiaries operate principally in their respective places of incorporation or establishment.

(ii) All the Chinese Mainland subsidiaries and Motorola's subsidiaries are limited liability companies. They have adopted December 31 as their financial year end date for statutory reporting purposes. For the preparation of the consolidated financial statements, financial statements of these Chinese Mainland subsidiaries and Motorola's subsidiaries for the years ended March 31, 2017 and 2018 have been used.

(iii) Medion AG is a publicly traded German stock corporation listed on the Frankfurt am Main stock exchange. The percentage of issued capital held is equivalent to approximately 86.51% (2017: 86.51%) excluding treasury shares.

(iv) In November 2017, the Company entered into an equity interest transfer and framework agreement in relation to disposal of 100% equity interest in 聯想移動通信軟件(武漢)有限公司 (Lenovo Mobile Communication Software (Wuhan) Limited) to a third party.

(v) The company whose English name ends with a "1" is a direct transliteration of its Chinese registered name.

38 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.

39 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on May 24, 2018.