Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

FY2015/16 ANNUAL RESULTS ANNOUNCEMENT

ANNUAL RESULTS

The board of directors (the "**Board**") of Lenovo Group Limited (the "**Company**") announces the audited results of the Company and its subsidiaries (the "**Group**") for the year ended March 31, 2016 together with comparative figures of last year, as follows:

FINANCIAL HIGHLIGHTS

- **Full year group revenue of US$44.9B, down 3% YTY, up 3% YTY excluding currency impact**
- **Decisive actions to realign business in Q2 FY2015/16 to enhance competitiveness in tough markets; reflecting benefits from restructuring actions in 2H FY2015/16**
- **In Q4 FY2015/16, Group profit before taxation of US$193M, up 86% YTY; Group net income of US$180M, up 80% YTY; driven by more efficient cost structure despite revenue decline due to softer market and product transition**
- **Realized cost savings of approximately US$690M in 2H FY2015/16; on track to realize target full-year run-rate savings of US$1.35B**

	3 months ended March 31, 2016 *US$'million*	**Year ended March 31, 2016** *US$'million*	**3 months ended March 31, 2015** *US$'million*	**Year ended March 31, 2015** *US$'million*	**Year-on-year change** 3 months ended March 31	Full-year
Revenue	9,133	44,912	11,334	46,296	(19)%	(3)%
Gross profit	1,518	6,624	1,779	6,682	(15)%	(1)%
Gross profit margin	16.6%	14.8%	15.7%	14.4%	0.9 pts	0.4 pts
Operating expenses	(1,270)	(6,686)	(1,652)	(5,574)	(23)%	20%
Operating profit/(loss)	248	(62)	127	1,108	95%	N/A
Other non-operating expenses - net	(55)	(215)	(23)	(137)	133%	56%
Profit/(loss) before taxation	193	(277)	104	971	86%	N/A
Profit/(loss) for the period/year	176	(145)	97	837	81%	N/A
Profit/(loss) attributable to equity holders of the Company	180	(128)	100	829	80%	N/A
Earnings/(loss) per share attributable to equity holders of the Company						
Basic	US 1.63 cents	US (1.16) cents	US 0.91 cents	US 7.77 cents	US 0.72 cents	N/A
Diluted	US 1.62 cents	US (1.16) cents	US 0.90 cents	US 7.69 cents	US 0.72 cents	N/A

PROPOSED DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK20.5 cents per share for the year ended March 31, 2016 (2015: HK20.5 cents). Subject to shareholders' approval at the forthcoming annual general meeting to be held on Thursday, July 7, 2016 ("**AGM**"), the proposed final dividend will be payable on Tuesday, July 19, 2016 to the shareholders whose names appear on the register of members of the Company on Wednesday, July 13, 2016.

CLOSURE OF REGISTER OF MEMBERS

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

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

Latest time to lodge transfer documents for registration	4:30 p.m. on Wednesday, July 6, 2016
Closure of register of members	Thursday, July 7, 2016
Record date	Thursday, July 7, 2016

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

Latest time to lodge transfer documents for registration	4:30 p.m. on Tuesday, July 12, 2016
Closure of register of members	Wednesday, July 13, 2016
Record date	Wednesday, July 13, 2016

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

BUSINESS REVIEW AND OUTLOOK

Business Review

During the fiscal year ended March 31, 2016, Lenovo continued to drive its core PC business while integrating two major acquisitions – Motorola Mobility and System X – to build future growth engines. The macro-economy and global markets remained challenging during the period under review, with currency fluctuations in emerging markets being especially challenging. These factors affected overall demand, especially consumer, which led to a continued decline in the PC and tablet markets and slower growth of the worldwide smartphone market.

In view of the fast changing market environment and competition, the Group took prompt decisive actions to accelerate the transformation across the company by executing a series of business realignment and restructuring actions in the fiscal quarter two. The execution of this plan enables the Group to focus resources, sharpen its business model and efficiently capitalize on the most attractive market opportunities in mobile, PC and enterprise. Progress of these actions has been on track as planned and started showing results in the second half of the fiscal year with more efficient cost structure, amidst market challenges.

For the fiscal year ended March 31, 2016, the Group revenue decreased by 3 percent year-on-year to US$44,912 million, due to currency fluctuation and the slower PC demand, while the Group was building up the quality of its smartphone business. Excluding currency impacts, the revenue would have increased 3 percent year-on-year. Revenue of the PC Group was US$29,646 million, representing a year-on-year decline of 11 percent. Revenue of the Mobile business increased 7 percent year-on-year to US$9,779 million, and revenue of Enterprise business increased 73 percent year-on-year to US$4,553 million. The Group completed the acquisitions of Motorola Mobility and System X on October 1 and October 30, 2014 respectively in last fiscal year. Meanwhile, revenue of other goods and services was US$934 million.

The Group’s gross profit for the fiscal year ended March 31, 2016 was US$6,624 million, a decrease of 1 percent year-on-year largely due to the revenue decline, while gross margin increased 0.4 percentage point year-on-year to 14.8 percent. Operating expenses increased by 20 percent year-on-year to US$6,686 million, and the expenses-to-revenue ratio was 14.9 percent. The increase was mainly due to restructuring costs and one-time charges recorded in this fiscal quarter two, and the non-cash M&A accounting charges totaling US$330 million booked in the fiscal year which included intangible asset amortization of two acquired businesses, namely Motorola Mobility and System X, and imputed interest expense of the three-year promissory note issued as part of the transaction to acquire Motorola Mobility. Excluding the restructuring costs and one time charges totaling US$923 million and non-cash M&A accounting charges, the Group’s run rate profit before taxation was US$976 million, against US$1,139 million of previous fiscal year. This decline was mainly due to slower PC demand and product transition of the Group’s smartphone business. The decisive actions the Group took in fiscal quarter two to realign the business has started to show benefits in the second half of the fiscal year, and the Group’s cost structure in the second half was enhanced with profitability improved. Including the restructuring costs, one time charges and non-cash M&A accounting charges, the Group reported a loss before taxation of US$277 million, versus profit before taxation of US$971 million in last fiscal year. The Group’s net loss was US$128 million, versus net income of US$829 million of last fiscal year.

Amid the softer-than-expected markets and product transition the Group that has been undergoing for its smartphone product portfolio, the Group’s revenue in the fiscal quarter four recorded a decline of 19 percent year-on-year. Nevertheless, the Group realized the restructuring savings as planned, and the more efficient cost structure helped improve its profit and margin. For the fiscal quarter four ended March 31, 2016, the Group’s profit before taxation increased by 86 percent to US$193 million. Excluding the non-cash M&A accounting charges of US$77 million, the profit before taxation was US$270 million, increased by 37 percent year-on-year. The Group’s net income also increased by 80 percent to US$180 million.

Performance of Product Business Groups

During the fiscal year ended March 31, 2016, Lenovo continued to build a more balanced product portfolio to drive growth.

PC Business Group (PCG)

During the fiscal year under review, the global PC industry continued to decline due to macro-economic issues and currency fluctuations. Despite the market challenges, the Group continued to outperform the PC market by leveraging market consolidation and through solid execution of its strategy. This led to further solidifying its number one position. For the fiscal year ended March 31, 2016, the Group’s global PC unit shipments declined 6 percent year-on-year to 56.0 million, against market decline of 12 percent. Lenovo’s market share continued to increase, and its worldwide PC market share reached another record-high level of 21.0 percent for the fiscal year, an increase of 1.3 percentage points year-on-year, according to the industry estimates. In the fiscal quarter four, despite that the traditional PC market remained soft and recorded a 12.5 percent year-on-year decline impacted by the macro economy, the Group maintained its solid PC performance, and continued to achieve premium growth of 3.7-points to the market and grew its share, leveraging the market consolidation trend. In the faster growing expanded PC market, including PC, slate tablet and detachable, Lenovo continued to enhance its market position and it tied with number one in the fiscal quarter four, increasing its market share by 0.6 percentage point to 14.4 percent.

The Group's commercial PC unit shipments decreased 2 percent year-on-year, compared to the 8 percent year-on-year decline by the market for the fiscal year. Lenovo's market share in the worldwide commercial PC market increased by 1.4 percentage-points year-on-year to a record-high of 22.4 percent. The Group's consumer PC unit shipments decreased by 11 percent year-on-year, against the market decline of 16 percent year-on-year and its market share reached a record-high of 19.5 percent, increasing 1.1 percentage points year-on-year, according to industry estimates.

For the fiscal year ended March 31, 2016, revenue of the Group's PC business was US$29,646 million, representing approximately 66 percent of the Group's total revenue, and a year-on-year decline of 11 percent, mainly due to currency fluctuations and slower PC market demand. Excluding currency impacts, the revenue decrease would be 6 percent year-on-year. The PC business recorded a pre-tax income of US$1,491 million, against US$1,772 million last fiscal year, and the business group maintained its pre-tax margin solidly at 5.0 percent despite market challenges.

Mobile Business Group (MBG)

During the fiscal year under review, in view of the softer demand and keen market competition, the Group has accelerated its actions to build up the quality of its mobile business. As part of the business realignment plan taken in the fiscal quarter two, the Group has further aligned the key elements of Motorola Mobility with Lenovo to leverage the complementary strengths, streamline the product portfolio, improve efficiency and enhance the cost structure. The Group also focused on clearing the smartphone inventory in the market to drive healthier channel inventory position to build a more solid foundation to drive future growth.

Despite the much softer smartphone market towards the end of the fiscal year under review, the Group's refined strategy to focus on markets outside of China is paying off. In the five geographies where the Group is operating, it recorded strong market positions in three of them --- EMEA, AP and LA, driven by the solid momentum in the faster growing emerging markets. Its smartphone shipments showed strong momentum in EMEA, growing 83 percent year-on-year. It also demonstrated sizeable growth in AP, growing 96 percent year-on-year, and established a stronghold in LA with double-digit market share of 11.1 percent and shipments growing 46 percent year-on-year. And thus the Group's smartphone shipments in markets outside of China grew 63 percent year-on-year to 51 million.

Nevertheless, the Group has been under business transition in China and North America, which resulted in a decline in these two regions for the Group in fiscal quarter four and the fiscal year under review. In China, the Group has been undergoing continuous business transformation as planned, through actions in driving product transition and branding, and shifting focus to open market and higher main stream price band products, while its North America business experienced a slower-than-expected product transition that it missed a key window of opportunity during the fiscal quarter four in North America which affected the performance.

The Group's worldwide smartphone shipments declined 13 percent year-on-year to 66 million due to declines in China and North America. Lenovo's market share in the worldwide smartphone market decreased by 1.1 percentage points year-on-year to 4.6 percent.

For the fiscal year ended March 31, 2016, the total revenue from Mobile business increased 7 percent year-on-year to US$9,779 million, representing approximately 22 percent of the Group's total revenue. For the fiscal year under review, the Group's mobile business recorded an operational loss before taxation of US$469 million and a negative 4.8 percent pre-tax margin, if excluding the non-cash M&A related accounting charges.

Enterprise Business Group (EBG)

During the fiscal year, Lenovo continued to integrate the acquisition of System X. The Group enhanced its number one position in China and expanded its presence in hyperscale segment by winning several key accounts during the fiscal year. The Group has also established partnerships with leading tech companies, including Nutanix, Juniper, Redhat and SAP, to attack the fastest growing enterprise segments of converged, hyperconverged, cloud and hyperscale.

For the fiscal year ended March 31, 2016, revenue of the Enterprise business was US$4,553 million, an increase of 73 percent year-on-year, representing approximately 10 percent of the Group's total revenue. Its China business remained strong and revenue was up 76 percent year-on-year driven by the hyperscale success. The enterprise business recorded operational profit before the non-cash M&A related accounting charges of US$53 million with margin of 1.2 percent, against loss of US$29 million and negative 1.1 percent margin in last fiscal year. The Group achieved operational profitability with margin improvement for the sixth consecutive quarter since the acquisition closed.

Nevertheless, integration of System X business is taking longer than expected due to slower market growth affected by the macro economy. While the Group has had solid results in China and Emerging Markets, it is building confidence and driving better results in the U.S. and Western Europe. There were also some wins of the Group in the pipeline that were not yet reflected in the fiscal quarter four but will benefit revenue growth in future quarters. And these resulted in a slower than expected revenue growth for the Group in the fiscal quarter four.

Ecosystem and Cloud Services Business Group (ECS) and Others

The Group continued to build a solid foundation for its ecosystem business during the period under review, with an objective to create a better user experience for Lenovo's product users. The ECS team continued to demonstrate strong achievements during the fiscal year and its monthly active user base number exceeded 200 million.

Revenue from ECS and other products such as consumer electronic businesses from previous acquisitions was US$934 million, representing approximately 2 percent of the Group's total revenue.

Performance of Geographies

During the fiscal year ended March 31, 2016, Lenovo continued to establish a more balanced portfolio across all geographies to drive growth. Performance for each geography includes a combination of the PC, enterprise and mobility businesses. The profitability figures of geographies disclosed in the following paragraphs have excluded the impact of non-cash M&A related accounting charges for the period under review.

China

China accounted for 28 percent of the Group's total revenue. The Group maintained its strong number one position in China PC market with record market share of 36.5 percent for the fiscal year, according to industry estimates, and continued to protect its profitability by leveraging its leadership position despite the market challenges.

The competition in China smartphone market remained very keen while demand turned softer due to the economy. The Group has taken actions to strengthen its open channel partnership and brand strategy and to shift its product portfolio towards higher average selling price in order to turnaround its China business over time.

During the fiscal year under review, the Group's enterprise business continued to grow rapidly with strong revenue performance driven by sales to the hyperscale customers. Its revenue grew strongly by 76 percent year-on-year, and remained the strong number one with a 22.7 percent unit market share, continued to grow faster than the market.

Profit before taxation was US$563 million and pre-tax margin was 4.6 percent, a decline of 0.8 percentage points year-on-year due to the smartphone business transformation.

Americas (AG)

Americas accounted for 30 percent of the Group's total revenue. The Group's PC unit shipments in AG increased by 6 percent year-on-year, outperforming the market by a 16-point premium. The Group's AG market share increased by 2.0 percentage points from a year ago to a record 13.7 percent, according to preliminary industry estimates. The solid performance was driven by the strong growth of its PC unit shipments in the U.S., which grew by 19 percent year-on-year against a market decline of 4 percent. This brought its U.S. market share to 13.2 percent for the fiscal year, up 2.5 percentage points year-on-year.

The Group continued to pave the foundation for its smartphone business in the fiscal year to drive future growth. However, it experienced a slower-than-expected product transition that it missed a key window of opportunity during the fiscal quarter four in North America which affected the performance in the quarter. For enterprise business, the Group was still building the confidence and driving better results in U.S.

The Group recorded a loss before taxation of US$121 million in the region, versus a profit before taxation of US$8 million recorded last year, and its pre-tax margin was negative 0.9 percent. The decline in profitability was largely due to the inclusion of full-year Motorola Mobility business and efforts to strengthen the quality of our smartphone business in the region.

Asia Pacific (AP)

Asia Pacific accounted for 16 percent of the Group's total revenue. The Group's PC shipments grew at a 10-point premium to the market during the fiscal year and it became number one in AP with market share increased by 1.7 percentage points year-on-year, to a record 17.5 percent for the fiscal year, according to preliminary industry estimates.

The Group also achieved strong shipment growth in smartphones during the fiscal year, growing 96 percent year-on-year for the fiscal year, with particularly strong momentum in ASEAN countries and in India. The Group continued to leverage its channel expertise and ecosystem to accelerate its Enterprise business in AP.

Profit before taxation was US$89 million and pre-tax margin was 1.2 percent, versus 4.6 percent last year, mainly due to the inclusion of full-year Motorola Mobility business, contraction in Japan PC market and impact from currency fluctuation.

Europe-Middle East-Africa (EMEA)

EMEA accounted for 26 percent of the Group's total revenue. Lenovo's PC unit shipments in EMEA declined by 17 percent year-on-year, against a market decline of 20 percent year-on-year, impacted by macro-economic issues and currency fluctuations which resulted in a much softer PC market in EMEA. The Group's market share increased by 0.6 percentage points year-on-year to a record 20.0 percent in EMEA, according to preliminary industry estimates.

The Group continued to expand its smartphone business in EMEA and achieved strong growth of 83 percent during the fiscal year under review, with particularly strong performance in Eastern Europe and MEA. The Group continued its efforts to enhance its competitiveness and further stabilize its enterprise business performance during the quarter under review.

Profit before taxation in EMEA was US$126 million during the fiscal year under review against US$411 million last year, with pre-tax margin declining by 2.1 percentage points year-on-year to 1.1 percent, affected by the decline in PC shipments due to the slow market and the impact of currency fluctuations.

Business Realignment Plan Update

The Group announced a plan to execute a series of business realignment actions in fiscal quarter two to enable the Group to focus resources, sharpen its business model and efficiently capitalize on the most attractive market opportunities in mobile, PC and enterprise. Executions of these actions by the Group have been on track and as a result a total savings of approximately US$690 million were realized by the Group in second half of the fiscal year. The Group is on track to deliver its year run rate savings of US$1.35 billion.

Outlook

Looking forward, the markets where the Group is in will remain challenging in the short term. The Group is seeing the benefits of its strategic actions. The efficient organization structure, coupled with the competitive cost structure across all of its businesses, together with its solid execution, positions the Group well to drive its growth even in the current challenging market environment.

In order to drive stronger innovation, more customer-centric products and experiences and faster growth, the Group has aligned its organizational structure since the start of the new fiscal year.

- **PC and Smart Device Business Group**: Consisting of its core PC business as well as slate tablets, detachables, gaming and other smart devices.
- **Data Center Group**: By reorganizing and renaming this group, it will now be able to be faster, more nimble and more disruptive, particularly by leveraging relationships with an array of key partners.
- **Mobile Business Group**: Focusing on smartphones, this business has two sub-groups. One focuses on China, where it is rebuilding its business to win in the world's largest market. The other focuses on continuing its strong growth in emerging markets and breaking through in mature markets.
- **Lenovo Capital and Incubator Group (LCIG)**: As part of its innovation focus, this group will drive innovation through investment in startups and exploring new technologies

At the meantime, to maximize performance, the Group will manage different types of businesses differently based on the varying stages of maturity as well as synergy with its core business. Each business will have the appropriate set of performance metrics, priorities, management processes, ownership structure and incentives. While the Group's strategic focus remains consistent, this management system adds an important extra dimension and better positions the Group to respond to the changing market environment and opportunities as well as for future profit growth. For example:

The PC business will be managed to maximize profitability and always be a core business. It is expected the PC market consolidation will continue and that the expanded PC market, including 2-in-1/detachable and convertibles will see potential growth as macro-economic and currency conditions continue to stabilize. The Group will continue to leverage the consolidation trend to gain more share and drive profitable growth. Even more, Lenovo will leverage its innovation leadership in the expanded PC market. The Group has a full portfolio of new, innovative products in the pipeline with two dedicated business units to address the fast growing 2-in-1/detachable and gaming markets. As a result, the Group remains confident it will continue to expand its leadership and deliver profitable growth in PC over time.

Strategic expansion businesses like its Mobile and Data Center groups will be managed to drive both profitability and growth.

For Mobile, the Group has solid products and technology foundation, and has built global markets and channel coverage, while in the future, the Group will thoroughly integrate the organizations, streamline product lines and strengthen product competitiveness. The business group now has two experienced leaders with dedicated focus in China and Rest of World markets, respectively, to help the Group deliver its strategy more effectively and address the unique characteristics of the two markets. In Rest of the World, while keeping the high growth in emerging markets, the Group will invest in brand building, channel broadening and expanding the market and improving margins with innovative products. In China, the Group will keep driving the strategic shift from carrier to the open market, and leverage ZUK Z2 model to rebuild the end-to-end competitiveness. The Group will continue to focus on the business transformation to drive innovative product design and higher average selling price across its product portfolio while also improving its earnings quality through more efficient cost structure.

For Data Center, Lenovo will attack top line growth across geographies, while focusing on operational health. The Group has been reorganized into a dedicated business unit to sharply focus on the market, and now has enhanced end-to-end capabilities and ownership for everything from innovation through operations and technical support. The partnerships with leading tech companies (Nutanix, Juniper, Redhat & SAP) has brought the Group to a stronger position to attack the fastest growing segments of converged/hyperconverged, cloud and hyperscale markets. The Group is expanding its solution portfolio, with its own innovation and integrating partner technologies, to compete in a larger percentage of the total market opportunity. At the meantime, the Group has actions in place to enhance the sales team to accelerate the business in North America, and will increase its investments in its China-specific portfolio built upon global tech platform to win in PRC.

As the exploratory businesses – like start-ups it funds through Lenovo Capital and Incubator Group – it will be managed to maximize valuation and return on investment, and may include a portfolio of companies where Lenovo is not the sole or majority owner, but has an influence over strategy and execution and receives value for shareholders. The Group is to invest in core-technology and Internet related areas, including cloud computing, big data, artificial intelligence, robotics and Internet services, enhance its Internet service and intelligence ecosystem

The new organization structure and operating system will enable the Group to attack the opportunities in "Device + Cloud". Lenovo used to be a device company, and then became a device primary, cloud secondary company. As the world is heading toward an age of "Internet of Things," everything around people can have computing, storage and networking modules built inside. While protecting its "general purposed device" business, the Group will develop more specific-purposed devices, based on customers' needs in different scenarios – at home, at work, or on the go.

Lenovo has a unique advantage in combining its traditional strengths in end-user devices with its new capabilities in cloud and infrastructure to meet customer needs with a balanced "Device + Cloud" model. This is where Lenovo will attack and grow.

Lenovo will continue to leverage its innovation leadership to create new and exciting choices for its customers and drive new growth. The Group will host its second annual Lenovo Tech World conference in June this year. Tech World 2016 will host major product announcements, including the world's first consumer Project Tango-enabled smartphone in partnership with Google, which brings augmented reality technology. Lenovo will also announce new mobile technology designed by Motorola and share the Group's vision in emerging topics in innovation.

These fundamental changes the Group has made will position the company as a faster and stronger global company. This in turn will drive sustainable growth in revenue and profit amidst strong competition and market changes. In the year ahead, the Group will stay committed in driving the market outperformance in PCs while maintaining strong margins, improving quality of the Mobile business and driving its revenue growth, and driving strong top-line growth in the Data Center business.

The Group has started to monetize certain non-core assets. Coupled with an increasing focus on further improving the management of its working capital, these actions will continue to improve its finance situation.

Lenovo will continue to invest in areas it believes are important to its future success. Lenovo remains fully committed to its protect and attack strategy, supported by its proven execution capabilities, to lead the Group on its ongoing journey towards building a respected global tech leadership position in every business the Group enters and to drive profitable growth that, in turn, creates better value for shareholders.

FINANCIAL REVIEW

Results for the year ended March 31, 2016

	2016 *US$'million*	2015 *US$'million*	Year-on-year change
Revenue	**44,912**	46,296	(3)%
Gross profit	**6,624**	6,682	(1)%
Gross profit margin	**14.8%**	14.4%	0.4 pts
Operating expenses	**(6,686)**	(5,574)	20%
Operating (loss)/profit	**(62)**	1,108	N/A
Other non-operating expenses – net	**(215)**	(137)	56%
(Loss)/profit before taxation	**(277)**	971	N/A
(Loss)/profit for the year	**(145)**	837	N/A
(Loss)/profit attributable to equity holders of the Company	**(128)**	829	N/A
(Loss)/earnings per share attributable to equity holders of the Company			
Basic	**US (1.16) cents**	US 7.77 cents	N/A
Diluted	**US (1.16) cents**	US 7.69 cents	N/A

For the year ended March 31, 2016, the Group achieved total sales of approximately US$44,912 million. Loss attributable to equity holders for the year was approximately US$128 million, as compared with profit attributable to equity holders of US$829 million reported last year. This is mainly attributable to the restructuring costs of US$596 million; and one-time charges of US$327 million comprising additional spending to clear smartphone inventories and other inventories write off. Gross profit margin for the year was 0.4 points up from 14.4 percent reported last year. Basic loss per share and diluted loss per share were US1.16 cents, as compared with basic and diluted earnings per share of US7.77 cents and US7.69 cents reported last year.

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

	2016 *US$'000*	2015 *US$'000*
China	**12,358,639**	14,700,270
AP	**7,154,662**	6,549,339
EMEA	**11,794,698**	12,803,357
AG	**13,604,098**	12,242,627
	44,912,097	46,295,593

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

Operating expenses analyzed by function for the years ended March 31, 2016 and 2015 are as follows:

	2016 *US$'000*	2015 *US$'000*
Other income – net	**2,185**	1,490
Selling and distribution expenses	**(2,372,833)**	(2,302,182)
Administrative expenses	**(2,108,747)**	(1,883,114)
Research and development expenses	**(1,491,370)**	(1,220,919)
Other operating expenses – net	**(714,993)**	(168,574)
	(6,685,758)	(5,573,299)

Operating expenses for the year increased by 20 percent as compared with last year. This is principally attributable to the operating expenses of US$2,263 million recorded by System X and Motorola following the completion of the respective acquisitions on October 1 and October 30, 2014 (2015: US$1,433 million); and the restructuring and one-time charges in driving greater efficiency across organizations, primarily associated with severance costs of US$212 million, loss on impairment and disposal of assets of US$310 million, provision for lease obligations of US$62 million; and smartphone inventories write off of US$173 million in relation to realignment of key elements under Mobile Business Group. Key expenses by nature comprise:

	2016	2015
	***US$*'000**	*US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(166,116)**	(127,516)
Amortization of intangible assets	**(432,075)**	(287,877)
Employee benefit costs, including	**(3,302,749)**	(2,997,614)
- *long-term incentive awards*	***(161,097)***	*(99,062)*
- *severance and related costs*	***(212,475)***	-
Rental expenses under operating leases	**(80,527)**	(88,774)
Net foreign exchange loss	**(126,004)**	(189,550)
Advertising and promotional expenses	**(726,173)**	(675,760)
Inventories write off	**(173,424)**	-
Loss on impairment and disposal of assets	**(310,201)**	-
Others	**(1,368,489)**	(1,206,208)
	(6,685,758)	(5,573,299)

Depreciation and amortization charges increased by US$183 million which is attributable to the amounts brought in by System X and Motorola. Additional amortization of intangible assets in connection with the acquisition of System X and Motorola for the year totaled US$266 million (2015: US$127 million). The increase in employee benefit costs is in line with the increased average headcount during the year as a result of the two acquisitions, and severance and related costs incurred for restructuring actions during the year. A charge for one-time smartphone inventories write off of US$173 million has been made by the Group during the year. The impact of currency fluctuations during the year presented a challenge, the Group recorded a net exchange loss of US$126 million (2015: US$190 million) for the year.

Other non-operating expenses (net) for the years ended March 31, 2016 and 2015 comprise:

	2016	2015
	***US$*'000**	*US$'000*
Finance income	**32,816**	30,902
Finance costs	**(236,751)**	(185,504)
Share of (losses)/profits of associates and joint ventures	**(11,095)**	17,055
	(215,030)	(137,547)

Finance income mainly represents interest on bank deposits.

Finance costs for the year increased by 28 percent as compared with last year. This is mainly attributable to interest expense of US$27 million in relation to the 5-Year RMB4 billion notes, issued in June 2015, bearing annual interest at 4.95% due in June 2020, and US$39 million notional interest expense (2015: US$17 million) in relation to promissory note issued to Google Inc.

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

Fourth Quarter 2015/16 compared to Fourth Quarter 2014/15

	3 months ended March 31, 2016 *US$'million*	3 months ended March 31, 2015 *US$'million*	Year-on-year change
Revenue	**9,133**	11,334	(19)%
Gross profit	**1,518**	1,779	(15)%
Gross profit margin	**16.6%**	15.7%	0.9 pts
Operating expenses	**(1,270)**	(1,652)	(23)%
Operating profit	**248**	127	95%
Other non-operating expenses – net	**(55)**	(23)	133%
Profit before taxation	**193**	104	86%
Profit for the period	**176**	97	81%
Profit attributable to equity holders of the Company	**180**	100	80%
Earnings per share attributable to equity holders of the Company			
Basic	**US 1.63 cents**	US 0.91 cents	US 0.72 cents
Diluted	**US 1.62 cents**	US 0.90 cents	US 0.72 cents

For the three months ended March 31, 2016, the Group achieved total sales of approximately US$9,133 million. Profit attributable to equity holders for the period was approximately US$180 million, representing an increase of US$80 million as compared with the corresponding period of last year. Gross profit margin for the period was 0.9 points up from 15.7 percent reported in the corresponding period of last year. Basic earnings per share and diluted earnings per share were US1.63 cents and US1.62 cents, representing an increase of US0.72 cents and US0.72 cents respectively as compared with the corresponding period of last year.

Sales by geographical segment are as follows:

	3 months ended March 31, 2016 *US$'000*	3 months ended March 31, 2015 *US$'000*
China	**2,351,177**	3,071,064
AP	**1,584,441**	1,691,685
EMEA	**2,478,217**	2,966,483
AG	**2,718,917**	3,604,505
	9,132,752	11,333,737

Operating expenses analyzed by function for the three months ended March 31, 2016 and 2015 are as follows:

	3 months ended March 31, 2016 *US$'000*	3 months ended March 31, 2015 *US$'000*
Selling and distribution expenses	**(535,546)**	(657,805)
Administrative expenses	**(476,481)**	(545,840)
Research and development expenses	**(351,726)**	(424,353)
Other operating income/(expenses) – net	**94,046**	(23,614)
	(1,269,707)	(1,651,612)

Operating expenses decreased by 23 percent as compared to the corresponding period of last year. Employee benefit costs decreased as a result of reduced headcount subsequent to the business realignment actions. The impact of currency fluctuations during the period presented a challenge, the Group recorded a net exchange loss of US$28 million (2015: US$47 million) for the period. The net other operating income for the period is mainly attributable to research and development related government grants and other incentives of US$71 million. Key expenses by nature comprise:

	3 months ended March 31, 2016 *US$'000*	3 months ended March 31, 2015 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(42,483)**	(46,318)
Amortization of intangible assets	**(103,549)**	(118,048)
Employee benefit costs, including	**(690,476)**	(889,261)
- *long-term incentive awards*	***(51,285)***	*(20,042)*
Rental expenses under operating leases	**(17,690)**	(24,958)
Net foreign exchange loss	**(27,832)**	(47,141)
Advertising and promotional expenses	**(138,903)**	(201,244)
Others	**(248,774)**	(324,642)
	(1,269,707)	(1,651,612)

Other non-operating expenses (net) for the three months ended March 31, 2016 and 2015 comprise:

	3 months ended March 31, 2016 *US$'000*	3 months ended March 31, 2015 *US$'000*
Finance income	**7,983**	6,721
Finance costs	**(58,037)**	(52,163)
Share of (losses)/profits of associates and joint ventures	**(4,653)**	21,941
	(54,707)	(23,501)

Other non-operating expenses (net) increased by 133 percent as compared with the corresponding period of last year. This is mainly attributable to share of losses of associates and joint ventures of US$5 million, as compared with share of profits of associates and joint ventures of US$22 million in the corresponding period of last year, and interest expense of US$8 million in relation to the 5-Year RMB4 billion notes, issued in June 2015, bearing annual interest at 4.95% due in June 2020.

Capital Expenditure

The Group incurred capital expenditure of US$935 million (2015: US$972 million) during the year ended March 31, 2016, mainly for the acquisition of property, plant and equipment, prepaid lease payments, additions in construction-in-progress and intangible assets.

Liquidity and Financial Resources

At March 31, 2016, total assets of the Group amounted to US$24,933 million (2015: US$27,397 million), which were financed by equity attributable to owners of the Company of US$3,000 million (2015: US$4,084 million), non-controlling interests (net of put option written on non-controlling interest) of US$26 million (2015: US$23 million), and total liabilities of US$21,907 million (2015: US$23,290 million). At March 31, 2016, the current ratio of the Group was 0.82 (2015: 0.89).

The Group had a solid financial position. At March 31, 2016, bank deposits, cash and cash equivalents totaled US$2,079 million (2015: US$3,026 million), of which 41.7 (2015: 53.2) percent was denominated in US dollar, 29.5 (2015: 35.6) percent in Renminbi, 5.3 (2015: 2.8) percent in Euro, 7.7 (2015: 0.7) percent in Japanese Yen, and 15.8 (2015: 7.7) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At March 31, 2016, 92.6 (2015: 75.4) percent of cash are bank deposits, and 7.4 (2015: 24.6) percent of cash are investments in liquid money market funds of investment grade.

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

The Group entered into a 5-Year revolving loan facility agreement with syndicated banks for US$500 million on February 2, 2011. The loan borrowed under this facility was fully repaid on September 29, 2015 and the facility was cancelled with effect from October 9, 2015.

The Group entered into another 5-Year loan facility agreement with syndicated banks for US$1,200 million, comprising US$800 million as short term, on December 18, 2013. As at March 31, 2016, the facility was utilized to the extent of US$800 million (2015: US$1,100 million), comprising US$400 million (2015: US$700 million) short-term.

In addition, on May 26, 2015, the Group entered into a 5-Year loan facility agreement with a bank for US$300 million. The facility was fully utilized as at March 31, 2016.

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

The Group has also arranged other short-term credit facilities. At March 31, 2016, the Group's total available credit facilities amounted to US$10,661 million (2015: US$12,223 million), of which US$1,277 million (2015: US$1,353 million) was in trade lines, US$366 million (2015: US$339 million) in short-term and revolving money market facilities and US$9,018 million (2015: US$10,531 million) in forward foreign exchange contracts. At March 31, 2016, the amounts drawn down were US$540 million (2015: US$316 million) in trade lines, US$6,872 million (2015: US$9,822 million) being used for the forward foreign exchange contracts, and US$46 million (2015: US$177 million) in short-term bank loans.

At March 31, 2016, the Group's outstanding borrowings represented by the term bank loans of US$396 million (2015: US$395 million), short-term bank loans of US$746 million (2015: US$1,168 million) and long term notes of US$2,109 million (2015: US$1,491 million). When compared with total equity of US$3,026 million (2015: US$4,106 million), the Group's gearing ratio was 1.07 (2015: 0.74). The net debt position of the Group at March 31, 2016 is US$1,172 million (2015: US$28 million).

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At March 31, 2016, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$6,872 million (2015: US$9,822 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

Contingent Liabilities

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

Human Resources

At March 31, 2016, the Group had a headcount of more than 60,000 worldwide.

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

CONSOLIDATED INCOME STATEMENT

	Note	2016 US$'000	2015 US$'000
Revenue	2	**44,912,097**	46,295,593
Cost of sales		**(38,288,160)**	(39,613,780)
Gross profit		**6,623,937**	6,681,813
Other income - net	3	**2,185**	1,490
Selling and distribution expenses		**(2,372,833)**	(2,302,182)
Administrative expenses		**(2,108,747)**	(1,883,114)
Research and development expenses		**(1,491,370)**	(1,220,919)
Other operating expenses - net		**(714,993)**	(168,574)
Operating (loss)/profit	4	**(61,821)**	1,108,514
Finance income	5(a)	**32,816**	30,902
Finance costs	5(b)	**(236,751)**	(185,504)
Share of (losses)/profits of associates and joint ventures		**(11,095)**	17,055
(Loss)/profit before taxation		**(276,851)**	970,967
Taxation	6	**132,276**	(134,364)
(Loss)/profit for the year		**(144,575)**	836,603
(Loss)/profit attributable to:			
Equity holders of the Company		**(128,146)**	828,715
Non-controlling interests		**(16,429)**	7,888
		(144,575)	836,603
(Loss)/earnings per share attributable to equity holders of the Company			
Basic	7(a)	**US(1.16) cents**	US7.77 cents
Diluted	7(b)	**US(1.16) cents**	US7.69 cents
Dividends	8	**379,316**	379,646

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2016 *US$'000*	2015 *US$'000*
(Loss)/profit for the year	**(144,575)**	836,603
Other comprehensive (loss)/income:		
<u>Item that will not be reclassified to profit or loss</u>		
Remeasurements of post-employment benefit obligations, net of taxes	**(24,662)**	(68,973)
<u>Items that have been reclassified or may be subsequently reclassified to profit or loss</u>		
Fair value change on available-for-sale financial assets, net of taxes	**216**	7,326
Investment revaluation reserve reclassified to consolidated income statement on disposal of available-for-sale financial assets	**154**	-
Fair value change on cash flow hedges from forward foreign exchange contracts, net of taxes		
- Fair value (loss)/gain, net of taxes	**(120,839)**	421,138
- Reclassified to consolidated income statement	**(85,571)**	(299,847)
Currency translation differences	**(307,081)**	(598,733)
Other comprehensive loss for the year	**(537,783)**	(539,089)
Total comprehensive (loss)/income for the year	**(682,358)**	297,514
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	**(665,929)**	289,626
Non-controlling interests	**(16,429)**	7,888
	(682,358)	297,514

CONSOLIDATED BALANCE SHEET

	Note	**2016**	2015
		US$'000	*US$'000*
Non-current assets			
Property, plant and equipment		**1,391,494**	1,443,313
Prepaid lease payments		**337,929**	225,111
Construction-in-progress		**231,110**	311,590
Intangible assets		**8,661,087**	9,225,743
Interests in associates and joint ventures		**40,439**	45,719
Deferred income tax assets		**1,000,572**	526,801
Available-for-sale financial assets		**139,572**	73,400
Other non-current assets		**164,410**	37,675
		11,966,613	11,889,352
Current assets			
Inventories		**2,637,317**	2,954,425
Trade receivables	*9(a)*	**4,403,507**	5,217,740
Notes receivable		**130,718**	334,738
Derivative financial assets		**27,021**	184,534
Deposits, prepayments and other receivables	*10*	**3,548,760**	3,652,502
Income tax recoverable		**140,237**	136,857
Bank deposits		**152,336**	171,139
Cash and cash equivalents		**1,926,880**	2,855,223
		12,966,776	15,507,158
Total assets		**24,933,389**	27,396,510

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**2016**	2015
		US$'000	*US$'000*
Share capital	*14*	**2,689,882**	2,689,882
Reserves		**310,318**	1,393,761
Equity attributable to owners of the Company		**3,000,200**	4,083,643
Non-controlling interests		**238,949**	235,378
Put option written on non-controlling interest	*12(c)*	**(212,900)**	(212,900)
Total equity		**3,026,249**	4,106,121
Non-current liabilities			
Borrowings	*13*	**2,505,112**	1,885,848
Warranty provision	*11(b)*	**290,857**	338,700
Deferred revenue		**532,780**	550,205
Retirement benefit obligations		**442,874**	410,118
Deferred income tax liabilities		**222,679**	249,823
Other non-current liabilities	*12*	**2,152,578**	2,407,303
		6,146,880	5,841,997
Current liabilities			
Trade payables	*9(b)*	**4,266,687**	4,664,065
Notes payable		**234,661**	171,049
Derivative financial liabilities		**150,864**	80,897
Other payables and accruals	*11(a)*	**8,305,844**	9,278,052
Provisions	*11(b)*	**1,157,257**	1,223,488
Deferred revenue		**710,164**	693,406
Income tax payable		**188,968**	169,161
Borrowings	*13*	**745,815**	1,168,274
		15,760,260	17,448,392
Total liabilities		**21,907,140**	23,290,389
Total equity and liabilities		**24,933,389**	27,396,510

CONSOLIDATED CASH FLOW STATEMENT

	Note	**2016**	2015
		US$'000	*US$'000*
Cash flows from operating activities			
Net cash generated from operations	*15*	**841,292**	669,020
Interest paid		**(194,841)**	(133,547)
Tax paid		**(354,190)**	(296,981)
Net cash generated from operating activities		**292,261**	238,492
Cash flows from investing activities			
Purchase of property, plant and equipment		**(203,231)**	(258,599)
Purchase of prepaid lease payments		**(176,101)**	(69,903)
Sale of property, plant and equipment and prepaid lease payments		**91,723**	9,181
Acquisition of businesses, net of cash acquired		**-**	(2,325,726)
Interests acquired in associates		**(5,815)**	(7,911)
Payment for construction-in-progress		**(400,585)**	(347,506)
Payment for intangible assets		**(147,447)**	(296,689)
Purchase of available-for-sale financial assets		**(69,255)**	(32,596)
Net proceeds from disposal of available-for-sale financial assets		**4,915**	-
Decrease in bank deposits		**18,803**	16,645
Dividends received		**532**	305
Interest received		**32,816**	30,902
Net cash used in investing activities		**(853,645)**	(3,281,897)
Cash flows from financing activities			
Exercise of share options		**-**	385
Contribution to employee share trusts		**(171,317)**	(129,365)
Dividends paid		**(379,367)**	(326,930)
Capital contribution from non-controlling interests		**20,000**	-
Proceeds from borrowings		**1,480,075**	1,803,420
Repayments of borrowings		**(1,895,416)**	(693,880)
Issue of long term notes		**640,895**	1,488,980
Net cash (used in)/generated from financing activities		**(305,130)**	2,142,610
Decrease in cash and cash equivalents		**(866,514)**	(900,795)
Effect of foreign exchange rate changes		**(61,829)**	(102,126)
Cash and cash equivalents at the beginning of the year		**2,855,223**	3,858,144
Cash and cash equivalents at the end of the year		**1,926,880**	2,855,223

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
	Share capital	Investment revaluation reserve	Employee share trusts	Share-based compensation reserve	Hedging reserve	Exchange reserve	Other reserve	Retained earnings	Non-controlling interests	Put option written on non-controlling interest	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At April 1, 2015	**2,689,882**	**592**	**(11,441)**	**9,852**	**118,082**	**(834,114)**	**75,712**	**2,035,078**	**235,378**	**(212,900)**	**4,106,121**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(128,146)**	**(16,429)**	**–**	**(144,575)**
Other comprehensive income/(loss)	**–**	**370**	**–**	**–**	**(206,410)**	**(307,081)**	**–**	**(24,662)**	**–**	**–**	**(537,783)**
Total comprehensive income/(loss) for the year	**–**	**370**	**–**	**–**	**(206,410)**	**(307,081)**	**–**	**(152,808)**	**(16,429)**	**–**	**(682,358)**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**–**	**7,651**	**(7,651)**	**–**	**–**	**–**
Vesting of shares under long-term incentive program	**–**	**–**	**129,861**	**(187,504)**	**–**	**–**	**–**	**–**	**–**	**–**	**(57,643)**
Deferred tax charge in relation to long-term incentive program	**–**	**–**	**–**	**(4,847)**	**–**	**–**	**–**	**–**	**–**	**–**	**(4,847)**
Share-based compensation	**–**	**–**	**–**	**195,660**	**–**	**–**	**–**	**–**	**–**	**–**	**195,660**
Contribution to employee share trusts	**–**	**–**	**(171,317)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(171,317)**
Capital contribution from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**20,000**	**–**	**20,000**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(379,367)**	**–**	**–**	**(379,367)**
At March 31, 2016	**2,689,882**	**962**	**(52,897)**	**13,161**	**(88,328)**	**(1,141,195)**	**83,363**	**1,495,252**	**238,949**	**(212,900)**	**3,026,249**
At April 1, 2014	1,650,101	(6,734)	(49,003)	(23,622)	(3,209)	(235,381)	71,880	1,606,098	227,490	(212,900)	3,024,720
Profit for the year	–	–	–	–	–	–	–	828,715	7,888	–	836,603
Other comprehensive income/(loss)	–	7,326	–	–	121,291	(598,733)	–	(68,973)	–	–	(539,089)
Total comprehensive income/(loss) for the year	–	7,326	–	–	121,291	(598,733)	–	759,742	7,888	–	297,514
Acquisition of businesses	–	–	–	121,252	–	–	–	–	–	–	121,252
Transfer to statutory reserve	–	–	–	–	–	–	3,832	(3,832)	–	–	–
Issue of ordinary shares	1,039,396	–	–	–	–	–	–	–	–	–	1,039,396
Exercise of share options	385	–	–	–	–	–	–	–	–	–	385
Vesting of shares under long-term incentive program	–	–	166,927	(237,448)	–	–	–	–	–	–	(70,521)
Deferred tax credit in relation to long-term incentive program	–	–	–	9,693	–	–	–	–	–	–	9,693
Share-based compensation	–	–	–	139,977	–	–	–	–	–	–	139,977
Contribution to employee share trusts	–	–	(129,365)	–	–	–	–	–	–	–	(129,365)
Dividends paid	–	–	–	–	–	–	–	(326,930)	–	–	(326,930)
At March 31, 2015	2,689,882	592	(11,441)	9,852	118,082	(834,114)	75,712	2,035,078	235,378	(212,900)	4,106,121

Notes

1 General information and basis of preparation

The financial information relating to the years ended March 31, 2016 and 2015 included in this FY2015/16 annual results announcement does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended March 31, 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended March 31, 2016 in due course.

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

Basis of preparation

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

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

During the year, the Group has finalized the fair value assessments for the net assets acquired from the business combination activities in respect of Motorola Mobility Group ("Motorola") and X86 server hardware and related maintenance services business of IBM ("System X"). On completion of the fair value assessments, adjustments made to the provisional calculation of identifiable assets and liabilities (as at March 31, 2015) amounted to US$296 million. The comparative consolidated balance sheet as at March 31, 2015 has been retrospectively reclassified to reflect the final allocation of fair values of the net assets acquired in FY2014/15.

The Group has adopted the following new amendment to existing standard that is mandatory for the year ended March 31, 2016 which the Group considers is appropriate and relevant to its operations:

- Amendments to HKAS 19 (2011), Employee benefits

The adoption of this newly effective amendment to existing standard does not result in substantial changes to the Group's accounting policies or financial results.

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, 2016 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
Amendments to HKAS 1, Disclosure initiative	January 1, 2016
Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortization	January 1, 2016
Amendments to HKAS 27, Equity method in separate financial statements	January 1, 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28, Investment entities: applying the consolidation exception	January 1, 2016

Amendments to HKFRS 11, Accounting for acquisitions of interests in joint operations	January 1, 2016
Amendments to HKFRS 10 and HKAS 28, Sale or contribution of assets between an investor and its associate or joint venture	Date to be determined

The Group is in the process of making an assessment of the impact of these new standards and amendments to existing standards upon initial application.

2 Segment information

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

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

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

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

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

	2016		2015	
	Revenue from external customers	**Adjusted pre-tax income/ (loss)**	Revenue from external customers	Adjusted pre-tax income
	US$'000	***US$'000***	*US$'000*	*US$'000*
China	**12,358,639**	**563,245**	14,700,270	794,795
AP	**7,154,662**	**88,516**	6,549,339	302,183
EMEA	**11,794,698**	**125,710**	12,803,357	410,858
AG	**13,604,098**	**(120,748)**	12,242,627	7,999
Segment total	**44,912,097**	**656,723**	46,295,593	1,515,835
Unallocated:				
Headquarters and corporate expenses		**(167,760)**		(449,142)
Restructuring costs		**(596,195)**		-
Finance income		**28,114**		14,825
Finance costs		**(188,823)**		(129,096)
Net gain on disposal of available-for-sale financial assets		**1,653**		1,185
Dividend income from an available-for-sale financial asset		**532**		305
Share of (losses)/profits of associates and joint ventures		**(11,095)**		17,055
Consolidated (loss)/profit before taxation		**(276,851)**		970,967

(b) Segment assets for reportable segments

	2016	2015
	US$'000	*US$'000*
China	**7,064,692**	6,171,640
AP	**3,229,634**	2,174,578
EMEA	**3,445,913**	2,801,788
AG	**6,535,732**	5,079,629
Segment assets for reportable segments	**20,275,971**	16,227,635
Unallocated:		
Deferred income tax assets	**1,000,572**	526,801
Derivative financial assets	**27,021**	184,534
Available-for-sale financial assets	**139,572**	73,400
Interests in associates and joint ventures	**40,439**	45,719
Unallocated bank deposits and cash and cash equivalents	**898,577**	1,259,658
Unallocated inventories	**755,799**	1,131,779
Unallocated deposits, prepayments and other receivables	**1,355,219**	1,508,524
Income tax recoverable	**140,237**	136,857
Intangible assets pending allocation	**-**	6,002,031
Other unallocated assets	**299,982**	299,572
Total assets per consolidated balance sheet	**24,933,389**	27,396,510

(c) Segment liabilities for reportable segments

	2016	2015
	US$'000	*US$'000*
China	**4,332,504**	4,346,489
AP	**1,924,875**	1,707,546
EMEA	**1,762,689**	1,592,540
AG	**3,559,616**	5,161,715
Segment liabilities for reportable segments	**11,579,684**	12,808,290
Unallocated:		
Income tax payable	**188,968**	169,161
Deferred income tax liabilities	**222,679**	249,823
Derivative financial liabilities	**150,864**	80,897
Unallocated borrowings	**3,198,749**	2,924,352
Unallocated trade payables	**2,506,235**	2,631,917
Unallocated other payables and accruals	**2,522,636**	2,499,007
Unallocated provisions	**174,534**	11,655
Unallocated other non-current liabilities	**1,293,625**	1,806,831
Other unallocated liabilities	**69,166**	108,456
Total liabilities per consolidated balance sheet	**21,907,140**	23,290,389

(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:

	2016 *US$'000*	2015 *US$'000*
PC Business Group ("PCG")	**29,646,265**	33,346,120
Mobile Business Group ("MBG")	**9,779,323**	9,142,211
Enterprise Business Group ("EBG")	**4,553,374**	2,627,408
Others	**933,135**	1,179,854
	44,912,097	46,295,593

(e) Other segment information

	China		**AP**		**EMEA**		**AG**		**Total**	
	2016 *US$'000*	2015 *US$'000*	**2016** *US$'000*	2015 *US$'000*	**2016** *US$'000*	2015 *US$'000*	**2016** *US$'000*	2015 *US$'000*	**2016** *US$'000*	2015 *US$'000*
Depreciation and amortization	**165,098**	148,274	**139,091**	86,248	**202,568**	118,273	**233,844**	155,948	**740,601**	508,743
Finance income	**2,048**	4,197	**311**	3,254	**398**	463	**1,945**	8,163	**4,702**	16,077
Finance costs	**3,867**	2,255	**10,593**	9,457	**19,516**	24,788	**13,952**	19,908	**47,928**	56,408
Additions to non-current assets (Note)	**316,831**	249,117	**21,127**	35,840	**18,004**	17,098	**152,615**	61,681	**508,577**	363,736

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

(f) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$6,171 million (2015: US$6,504 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At March 31, 2016

	China *US$ million*	**AP** *US$ million*	**EMEA** *US$ million*	**AG** *US$ million*	**Total** *US$ million*
Goodwill					
- PCG	**1,085**	**549**	**233**	**326**	**2,193**
- MBG	**-**	**314**	**362**	**926**	**1,602**
- EBG	**484**	**162**	**92**	**366**	**1,104**
Trademarks and trade names					
- PCG	**211**	**59**	**103**	**69**	**442**
- MBG	**-**	**90**	**104**	**266**	**460**
- EBG	**162**	**54**	**31**	**123**	**370**

At March 31, 2015

	China *US$ million*	AP *US$ million*	EMEA *US$ million*	AG *US$ million*	Amounts pending allocation *US$ million*	Total *US$ million*
Goodwill	1,128	521	216	336	3,019	5,220
Trademarks and trade names	209	59	102	67	847	1,284

The directors are of the view that there was no indication of impairment of goodwill and trademarks and trade names as at March 31, 2016 (2015: Nil).

3 Other income – net

	2016	2015
	US$'000	*US$'000*
Net gain on disposal of available-for-sale financial assets	**1,653**	1,185
Dividend income from an available-for-sale financial asset	**532**	305
	2,185	1,490

4 Operating (loss)/profit

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

	2016	2015
	US$'000	*US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**266,100**	208,363
Amortization of intangible assets	**474,501**	300,380
Employee benefit costs, including	**3,749,425**	3,524,219
- long-term incentive awards	***161,097***	*99,062*
- severance and related costs	***212,475***	-
Rental expenses under operating leases	**99,417**	113,264
Inventories write off	**173,424**	-
Loss on impairment and disposal of assets	**310,201**	-

During the year, the Group announced a series of restructuring actions to reduce costs and enhance operational efficiency. Exceptional charges amounting to approximately US$596 million, comprising mainly severance costs, loss on impairment and disposal of assets and provision for lease obligations, have been recognized in "other operating expenses – net".

5 Finance income and costs

(a) Finance income

	2016	2015
	US$'000	*US$'000*
Interest on bank deposits	**30,623**	28,793
Interest on money market funds	**2,184**	2,092
Others	**9**	17
	32,816	30,902

(b) Finance costs

	2016	2015
	US$'000	*US$'000*
Interest on bank loans and overdrafts	**31,911**	28,658
Interest on long term notes	**100,950**	64,925
Interest on promissory note	**38,632**	16,599
Factoring costs	**49,469**	54,075
Commitment fee	**4,601**	10,787
Interest on contingent considerations and put option liability	**7,125**	7,068
Others	**4,063**	3,392
	236,751	185,504

6 Taxation

The amount of taxation in the consolidated income statement represents:

	2016	2015
	US$'000	*US$'000*
Current tax		
Hong Kong profits tax	**(8,488)**	26,041
Taxation outside Hong Kong	**379,220**	193,810
Deferred tax	**(503,008)**	(85,487)
	(132,276)	134,364

Hong Kong profits tax has been provided for at the rate of 16.5% (2015: 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.

7 (Loss)/earnings per share

(a) Basic

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

	2016	2015
Weighted average number of ordinary shares in issue	**11,108,654,724**	10,714,763,044
Adjustment for shares held by employee share trusts	**(22,234,783)**	(44,369,898)
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share	**11,086,419,941**	10,670,393,146
	US$'000	*US$'000*
(Loss)/profit attributable to equity holders of the Company	**(128,146)**	828,715

(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 potential ordinary shares, namely share options and long-term incentive awards. They were anti-dilutive for the year ended March 31, 2016, and dilutive for the year ended March 31, 2015.

	2016	2015
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share	**11,086,419,941**	10,670,393,146
Adjustments for share options and long-term incentive awards	**-**	101,511,837
Weighted average number of ordinary shares in issue for calculation of diluted (loss)/earnings per share	**11,086,419,941**	10,771,904,983
	US$'000	*US$'000*
(Loss)/profit attributable to equity holders of the Company used to determine diluted (loss)/earnings per share	**(128,146)**	828,715

Adjustments for the dilutive potential ordinary shares are as follows:

– For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average periodic market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. 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 share options.

– For the 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.

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

8 Dividends

	2016	2015
	US$'000	*US$'000*
Interim dividend of HK6.0 cents (2015: HK6.0 cents) per ordinary share, paid on December 7, 2015	**85,996**	85,978
Proposed final dividend – HK20.5 cents (2015: HK20.5 cents) per ordinary share	**293,320**	293,668
	379,316	379,646

9 Ageing analysis

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

	2016	2015
	US$'000	*US$'000*
0 – 30 days	**3,246,600**	3,669,635
31 – 60 days	**617,199**	881,449
61 – 90 days	**240,470**	320,591
Over 90 days	**405,410**	426,770
	4,509,679	5,298,445
Less: provision for impairment	**(106,172)**	(80,705)
Trade receivables – net	**4,403,507**	5,217,740

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

	2016	2015
	US$'000	*US$'000*
0 – 30 days	**3,013,430**	3,764,605
31 – 60 days	**789,183**	358,296
61 – 90 days	**347,257**	218,299
Over 90 days	**116,817**	322,865
	4,266,687	4,664,065

10 Deposits, prepayments and other receivables

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

	2016	2015
	US$'000	*US$'000*
Deposits	**13,207**	3,481
Other receivables	**2,811,260**	2,403,138
Prepayments	**724,293**	1,245,883
	3,548,760	3,652,502

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

11 Provisions, other payables and accruals

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

	2016	2015
	US$'000	*US$'000*
Accruals	**2,048,551**	2,264,839
Allowance for billing adjustments (i)	**1,904,076**	2,223,861
Other payables (ii)	**4,353,217**	4,789,352
	8,305,844	9,278,052

Notes:

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

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

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

(b) The components of provisions are as follows:

	Warranty	**Environmental restoration**	**Restructuring**	**Total**
	US$'000	***US$'000***	**US$'000**	***US$'000***
Year ended March 31, 2015				
At the beginning of the year	1,127,260	19,684	-	1,146,944
Exchange adjustment	(69,142)	(2,919)	-	(72,061)
Provisions made	1,153,855	10,378	-	1,164,233
Amounts utilized	(1,049,291)	(6,919)	-	(1,056,210)
Unused amounts reversed	(19,391)	(3,749)	-	(23,140)
Acquisition of businesses	416,504	-	-	416,504
	1,559,795	16,475	-	1,576,270
Long-term portion classified as non-current liabilities	(338,700)	(14,082)	-	(352,782)
At the end of the year	1,221,095	2,393	-	1,223,488
Year ended March 31, 2016				
At the beginning of the year	**1,559,795**	**16,475**	**-**	**1,576,270**
Exchange adjustment	**(19,051)**	**382**	**1,501**	**(17,168)**
Provisions made	**945,709**	**9,104**	**342,103**	**1,296,916**
Amounts utilized	**(1,164,186)**	**(8,477)**	**(220,501)**	**(1,393,164)**
Unused amounts reversed	**-**	**(8,667)**	**-**	**(8,667)**
	1,322,267	**8,817**	**123,103**	**1,454,187**
Long-term portion classified as non-current liabilities	**(290,857)**	**(6,073)**	**-**	**(296,930)**
At the end of the year	**1,031,410**	**2,744**	**123,103**	**1,157,257**

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

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

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

12 Other non-current liabilities

Details of other non-current liabilities are as follows:

	2016	2015
	US$'000	*US$'000*
Contingent considerations (a)	**-**	270,196
Deferred considerations (a)	**1,383,555**	1,361,800
Guaranteed dividend to non-controlling shareholders of a subsidiary (b)	**8,195**	9,605
Environmental restoration (Note 11 (b))	**6,073**	14,082
Written put option liability (c)	**221,499**	219,317
Government incentives and grants received in advance (d)	**144,919**	118,371
Deferred rent liabilities	**112,934**	127,954
Others	**275,403**	285,978
	2,152,578	2,407,303

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

All contingent considerations have been included in other payables and accruals as at March 31, 2016.

As at March 31, 2016, the potential undiscounted amounts of future payments in respect of the contingent and deferred considerations that the Group could be required to make to the then respective shareholders/sellers under the arrangements are as follows:

Joint venture with NEC Corporation	Nil – US$309 million
Stoneware	Nil – US$48 million
Google Inc.	US$1,448 million

(b) Following the acquisition of Medion AG ("Medion") on July 29, 2011, Lenovo Germany Holding GmbH ("Lenovo Germany"), an indirect wholly-owned subsidiary of the Company and the immediate holding company of Medion entered into a domination and profit and loss transfer agreement (the "Domination Agreement") with Medion on October 25, 2011. Pursuant to the Domination Agreement, Lenovo Germany has guaranteed to the non-controlling shareholders of Medion an annual guaranteed pre-tax dividend amounting to EUR0.82 per share for each fiscal year. The Domination

Agreement became effective on January 3, 2012 and is terminable by either Lenovo Germany or Medion after March 31, 2017. Accordingly, a non-current liability in respect of future guaranteed dividend has been recognized. The corresponding amount stated at its discounted value on the date of acquisition of Medion was charged to retained earnings in equity.

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

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

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

(d) Government incentives and grants received in advance by certain group companies included in other non-current liabilities mainly relate 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 incentives and grants are credited to the income statement upon fulfillment of those conditions.

13 Borrowings

	2016	2015
	US$'000	*US$'000*
Current liabilities		
Short-term loans (i)	**745,815**	1,168,274
Non-current liabilities		
Term loan (ii)	**396,365**	395,043
Long term notes (iii)	**2,108,747**	1,490,805
	2,505,112	1,885,848
	3,250,927	3,054,122

(i) Short-term loans primarily comprised a US$1,200 million 5-Year loan facility (comprising US$800 million short term) entered into in December 2013 which has been utilized to the extent of US$400 million as at March 31, 2016 (2015: US$700 million), and a US$300 million 5-Year loan facility entered into in May 2015 which has been utilized to the extent of US$300 million as at March 31, 2016. The majority of the short-term bank loans are denominated in United States dollar.

(ii) Term loan primarily comprised a US$1,200 million 5-Year loan facility (comprising US$800 million short term) entered into in December 2013 which has been drawn down to the extent of US$400 million as at March 31, 2016 (2015: US$400 million).

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

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at March 31, 2016 and 2015 are as follows:

	2016	2015
	US$'000	*US$'000*
Within 1 year	**745,815**	1,168,274
Over 1 to 3 years	**396,365**	-
Over 3 to 5 years	**2,108,747**	1,885,848
	3,250,927	3,054,122

The fair value of the long term notes as at March 31, 2016 was US$2,192 million. The carrying amounts of other borrowings approximate their fair values as the impact of discounting is not significant.

14 Share capital

	2016		2015	
	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**	10,406,375,509	1,650,101
Issue of ordinary shares	-	-	701,107,215	1,039,396
Exercise of share options	-	-	1,172,000	385
At the end of the year	**11,108,654,724**	**2,689,882**	11,108,654,724	2,689,882

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

	2016	2015
	US$'000	*US$'000*
(Loss)/profit before taxation	**(276,851)**	970,967
Share of losses/(profits) of associates and joint ventures	**11,095**	(17,055)
Finance income	**(32,816)**	(30,902)
Finance costs	**236,751**	185,504
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**266,100**	208,363
Amortization of intangible assets	**474,501**	300,380
Share-based compensation	**161,097**	99,062
Impairment of property, plant and equipment	**134,454**	-
(Gain)/loss on disposal of property, plant and equipment and prepaid lease payments	**(5,863)**	162
Net gain on disposal of available-for-sale financial assets	**(1,653)**	(1,185)
Loss on disposal of construction in progress	**184**	200
Loss on disposal of intangible assets	**976**	2,656
Dividend income	**(532)**	(305)
Fair value change on financial instruments	**21,069**	20,376
Decrease in inventories	**317,108**	120,263
Decrease/(increase) in trade receivables, notes receivable, deposits, prepayments and other receivables	**1,172,555**	(526,439)
Decrease in trade payables, notes payable, provisions, other payables and accruals	**(1,759,818)**	(491,457)
Effect of foreign exchange rate changes	**122,935**	(171,570)
Net cash generated from operations	**841,292**	669,020

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

During the year ended March 31, 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the long-term incentive program of the Company purchased 150,182,248 shares from the market for award to employees upon vesting. Details of the program will be set out in the 2015/16 Annual Report of the Company.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the annual results of the Group for the year ended March 31, 2016. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended March 31, 2016, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and where appropriate, met the recommended best practices in the CG Code, with the exception that the roles of the chairman of the Board (the "**Chairman**") and the chief executive officer of the Company (the "**CEO**") have not been segregated as required by code provision A.2.1 of the CG Code.

The Board has recently reviewed the organization human resources planning of the Company and is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Yang Yuanqing ("**Mr. Yang**") to continue to hold both the positions as it would help to maintain the continuity of the strategy execution and stability of the operations of the Company. The Board comprising a vast majority of independent non-executive directors meets regularly on a quarterly basis to review the operations of the Company led by Mr. Yang.

The Board also appointed Mr. William O. Grabe as the lead independent director ("**Lead Independent Director**") with broad authority and responsibility. Among other responsibilities, the Lead Independent Director will chair the Nomination and Governance Committee meeting and/or the Board meeting when considering (i) the combined roles of Chairman and CEO; and (ii) assessment of the performance of Chairman and/or CEO. The Lead Independent Director will also call and chair meeting(s) with all independent non-executive directors without management and executive director present at least once a year on such matters as are deemed appropriate. Accordingly, the Board believes that the current Board structure with combined roles of Chairman and CEO, the appointment of Lead Independent Director and a vast majority of independent non-executive directors will provide an effective balance on power and authorizations between the Board and the management of the Company.

Apart from the foregoing, the Company met the recommended best practices in the CG Code as to be disclosed in the respective sections of the 2015/16 Annual Report. Particularly, the Company published quarterly financial results and business reviews in addition to interim and annual results. Quarterly financial results enhanced the shareholders' ability to assess the performance, financial position and prospects of the Company. The quarterly financial results were prepared using the accounting standards consistent with the policies applied to the interim and annual accounts.

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

May 26, 2016

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