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Lenovo™

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

FY2016/17 INTERIM RESULTS ANNOUNCEMENT

INTERIM RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") announces the unaudited results of the Company and its subsidiaries (the "Group") for the three and six months ended September 30, 2016 together with comparative figures for the corresponding period of last year, as follows:

SECOND QUARTER FINANCIAL HIGHLIGHTS

- **Lenovo's overall performance was stable in Q2: Group revenue US$11.2B; Group profit before taxation US$168M, including (i) resource actions costs of US$136M, and (ii) one-time disposal gains of property of US$206M and other asset of US$12M; Profit attributable to equity holders US$157M**
- **Core PC business is strong, retained #1 market position; mobile businesses making good progress; data center business actively addressing its challenges**
- **Despite challenging market conditions, Lenovo is executing strategy for continued profitable growth through new products, fast-growing segments, vertical markets**

	3 months ended September 30, 2016 (unaudited) *US$'million*	**6 months ended September 30, 2016 (unaudited)** *US$'million*	**3 months ended September 30, 2015 (unaudited)** *US$'million*	**6 months ended September 30, 2015 (unaudited)** *US$'million*	**Year-on-year change 3 months ended September 30**	**Year-on-year change 6 months ended September 30**
Revenue	11,231	21,287	12,150	22,866	(8)%	(7)%
Gross profit	1,607	3,142	1,575	3,222	2%	(2)%
Gross profit margin	14.3%	14.8%	13.0%	14.1%	1.3 pts	0.7 pts
Operating expenses	(1,392)	(2,682)	(2,359)	(3,910)	(41)%	(31)%
Operating profit/(loss)	215	460	(784)	(688)	N/A	N/A
Other non-operating expenses - net	(47)	(87)	(58)	(102)	(18)%	(14)%
Profit/(loss) before taxation	168	373	(842)	(790)	N/A	N/A
Profit/(loss) for the period	152	320	(717)	(615)	N/A	N/A
Profit/(loss) attributable to equity holders of the Company	157	330	(714)	(609)	N/A	N/A
Earnings/(loss) per share attributable to equity holders of the Company						
Basic	US 1.42 cents	US 2.99 cents	US (6.43) cents	US (5.49) cents	N/A	N/A
Diluted	US 1.42 cents	US 2.98 cents	US (6.43) cents	US (5.49) cents	N/A	N/A

INTERIM DIVIDEND

The Board has declared an interim dividend of HK6.0 cents (2015/16: HK6.0 cents) per share for the six months ended September 30, 2016, absorbing an aggregate amount of approximately HK$666.5 million (approximately US$86.0 million) (2015/16: approximately HK$666.5 million (approximately US$86.0 million)), to shareholders whose names appear on the register of members of the Company on Friday, November 18, 2016. The interim dividend will be paid on Monday, November 28, 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on Friday, November 18, 2016, during which no transfer of shares will be registered. In order to qualify for the interim 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 no later than 4:30 p.m. on Thursday, November 17, 2016. Shares of the Company will be traded ex-dividend as from Wednesday, November 16, 2016.

BUSINESS REVIEW AND OUTLOOK

Business Review

During the six months ended September 30, 2016, Lenovo continued to deliver solid performance. The Group's PC business remained number one PC player, gaining market share and maintaining a stable margin. The Group's Mobile business has also started showing momentum helped by innovative new products, channel expansion and the strategic focus shift to drive value growth. The Group continued to invest in the Data Center business to drive future growth, amidst continuing disruptive challenges to the industry segments which comprise the Data Center business customer base.

For the six months ended September 30, 2016, the Group's consolidated revenue decreased by 7 percent, or 5 percent in constant dollars, year-on-year to US$21,287 million. Revenue of the Group's PC and Smart Device business was US$14,796 million, representing a year-on-year decline of 8 percent. Revenue of the Mobile business decreased 10 percent year-on-year to US$3,751 million. Revenue of Data Center business decreased 4 percent year-on-year to US$2,168 million. Meanwhile, revenue of other goods and services was US$572 million.

Amid ongoing industry challenges, the Group executed resource actions during fiscal quarter two to further enhance efficiency and competitiveness. The Group expects to generate run-rate savings of about US$337 million from headcount and other savings, against related expenses incurred of US$136 million in total which were included in the Group's financial performance for fiscal quarter two. In the meantime, the Group has completed its new campus in Beijing and started the relocation of employees into the new office building. Therefore, the Group has executed a sale-and-lease-back of two of its office buildings in Beijing in the first half of the year. As a result, it has booked disposal gains of US$129 million and US$206 million in fiscal quarter one and two respectively.

For the six months ended September 30, 2016, the Group's gross profit was US$3,142 million, a decrease of 2 percent year-on-year, while gross margin increased by 0.7 percentage point year-on-year to 14.8 percent helped by its enhanced product portfolio. Operating expenses were reduced by 31 percent year-on-year to US$2,682 million, and the expense-to-revenue ratio was 12.6 percent, against 17.1 percent for the same period last year. The decline of expense-to-revenue ratio was mainly attributable to the better expense control, and the one-time items including the property disposal gain during the period under review. The Group recorded restructuring costs and one-time charges totaled US$923 million for the same period last year.

Excluding the expenses from resource actions and the one-time items including the property disposal gain, profit before taxation was US$163 million, an increase of 23 percent from US$133 million for the same period last year. The non-cash M&A related accounting charges were US$151 million for the six months ended September 30, 2016. That included intangible asset amortization of System X and Motorola, imputed interest expense of the three-year promissory note issued as part of the transaction to acquire Motorola, and others.

During the six months ended September 30, 2016, the Group reported profit before taxation of US$373 million, versus loss before taxation of US$790 million for the same period last year. The Group's profit attributable to equity holders was US$330 million, against loss attributable to equity holders of US$609 million last year.

Performance of Product Business Groups

During the six months ended September 30, 2016, Lenovo continued to build a more balanced product portfolio to drive growth. The profitability figures of business groups disclosed in the following paragraphs have excluded the impact of restructuring costs and one-time charges incurred.

PC and Smart Device Business Group (PCSD)

During the period under review, the global PC industry continued to decline due to macroeconomic forces and currency fluctuations, even though the market improved slightly in fiscal quarter two especially in mature markets yet competition remained keen. Despite the market challenges, the Group continued to outperform the PC market through solid execution of its strategy to capture opportunities from market consolidation and by delivering innovation in fast growing segments including Gaming and detachable. The Group thus remained its number one position in both PC and PC plus Tablet markets.

For the six months ended September 30, 2016, the Group's global PC unit shipments declined 3 percent year-on-year to 27.7 million, against a market decline of 4 percent. Lenovo's market share continued to increase. Its worldwide PC market share was 21.5 percent as of fiscal quarter two, an increase of 0.4 percentage point year-on-year, according to preliminary industry estimates.

The Group's commercial PC unit shipments for the interim period increased slightly year-on-year, against a relatively flattish market. Lenovo's market share in the worldwide commercial PC market has increased by 0.6 percentage point year-on-year to 23.1 percent as of fiscal quarter two. The Group's consumer PC unit shipments for the interim period declined by 7 percent year-on-year, against the market decline of 9 percent year-on-year during the period under review. Its latest market share for fiscal quarter two was 19.7 percent, flattish year-on-year, according to preliminary industry estimates.

The Group's PC plus Tablet shipments reached about 33 million for the interim period, declining by 3 percent year-on-year against market decline of 8 percent. The Group continued to solidify its worldwide number one position in the combined PC/Tablet market, and its market share reached 15.6 percent as of fiscal quarter two, increasing 0.7 percentage points year-on-year, according to preliminary industry estimates.

The Group continued to maintain good margin for its PCSD business despite the market challenges. For the six months ended September 30, 2016, revenue of the Group's PCSD business was US$14,796 million, representing approximately 70 percent of the Group's total revenue, and a year-on-year decline of 8 percent. The business group recorded a pre-tax profit of US$775 million, up 3 percent year-on-year. Pre-tax profit margin was 5.2 percent, up 0.5 percentage point year-on-year, thanks to the efficiency and profitability improvement in its business, especially in Americas and China.

Mobile Business Group (MBG)

During the period under review, the Group's mobile business has been stabilizing and showed solid growth quarter-on-quarter with improved profitability driven by new product launches and strategic focus shift to drive value growth. The Group has refined its strategy in focusing in the mid-to-high price band, expanding its channel structure and resetting its smartphone business in China. As a result, its worldwide smartphone shipments for the interim period recorded a decline of 28 percent year-on-year. Nevertheless its shipments have been on good track of improvement since fiscal quarter one, and demonstrated a quarter-on-quarter increase of 3 percent in fiscal quarter one and another strong quarter-on-quarter growth of almost 25 percent in fiscal quarter two. Lenovo's worldwide smartphone market share reached 3.9 percent as of fiscal quarter two, a decrease of 1.4 percentage points year-on-year, but an increase of 0.6 percentage point quarter-on-quarter. The Group's strategy has started to yield improvements in the average selling price and sequential sales revenue. The Group's innovative new products like Moto Z, Moto Mods, and the new Moto G, have received encouraging customer response and the activation rates of the products are increasing.

The Group's smartphone business for the rest of the world continued to show good momentum. Its shipments increased 2 percent quarter-on-quarter in fiscal quarter one and 27 percent in fiscal quarter two, with particularly strong growth in Asia Pacific, especially in key emerging markets such as India.

In China, the Group continued to execute its business transformation plan to enhance its product portfolio and expand its retail and online channel coverage. Shipments in China thus declined year-on-year as the Group continued to shift away from low price bands, but it was up sequentially in both fiscal quarter one and two, resulting in higher average selling price and sales revenue.

Representing approximately 18 percent of the Group's total revenue, Mobile business revenue decreased 10 percent for the six months ended September 30, 2016. Nevertheless, revenue showed sequential improvement in fiscal quarter two, growing by 20 percent quarter-on-quarter, driven by the strategic initiative to increase average selling price by streamlining the product portfolio and focusing on higher price bands. Driven by its effective transformation actions and expense optimization program, the Group's mobile business has been on a steady track of profitability improvement. Its operational loss before taxation for the interim period was US$277 million with a negative 7 percent pre-tax operational profit margin, if excluding the non-cash M&A related accounting charges.

Data Center Business Group (DCG)

Data center business revenue represented approximately 10 percent of the Group's total revenue. During the period under review, Lenovo's data center business saw revenue growth in China, and started to see growth in Latin America in fiscal quarter two. The Group has also seen some initial achievements in different data center business segments. The Group saw double-digit growth for its Global Accounts business, won new hyperscale accounts in North America, and obtained some strategic customers to win for its Next Gen IT businesses.

During the period under review, the Group has been investing in transforming the business especially in regions outside of China. The Group has been strengthening its sales capabilities through investing in sales training, and re-organising sales capabilities into a more dedicated structure to drive end-to-end execution improvement. In order to enhance product competitiveness, the Group formed a new strategic partnership with Nimble Storage to bring new all-Flash Array solutions into the portfolio, and it announced a strengthened portfolio with new, next generation IT offerings, including ThinkAgile CX Series, as well as a new Microsoft Azure cloud offerings. The Group's latest product roadmap and strategy have received very strong positive feedback from industry analysts during the recent annual Industry Analyst Council, and it is believed the investments and development in next Gen IT can solidly enhance the Group's DCG foundation to drive future growth over time.

For the six months ended September 30, 2016, revenue of the data center business was US$2,168 million, a decrease of 4 percent year-on-year. It maintained number one position in China with continuous revenue growth year-on-year. However, competition in markets outside China remained keen while the Group continued its plan to enhance sales capabilities and strengthen product competiveness, which resulted in slower than expected revenue growth. For the interim period under review, the Group's data center business recorded an operational loss before taxation of US$140 million and a negative 6.4 percent pre-tax operational profit margin, if excluding the non-cash M&A related accounting charges.

Lenovo Capital and Incubator Group (LCIG) and Others

The Group's Capital and Incubator Group began at the start of the fiscal year with a mission to drive innovation through investment in startups and exploring new technologies. During the interim period under review, the Group has completed a number of investment projects and set up its accelerator in Shenzhen and Hong Kong to explore more future opportunities for the Group.

Revenue from ecosystem and other products such as consumer electronic businesses from previous acquisitions was US$572 million, representing approximately 2 percent of the Group's total revenue.

Performance of Geographies

Performance of each geography includes a combination of PCSD, data center 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 the China PC market with market share of 36.6 percent as of fiscal quarter two, according to preliminary industry estimates, and continued to uphold its profitability by leveraging its leadership position despite the market challenges.

Competition in China smartphone market remained very keen. The Group has taken actions to shift its product portfolio towards mid to higher price bands and expand its coverage in the retail and online channels to turn around its China business over time. The actions have been on track and the efforts have resulted to the improvement of the average selling price of the smartphone business in China.

The data center business continued to record solid growth in revenue driven by the hyperscale business. Its revenue grew by 10 percent year-on-year, continued to outpace the market.

Profit before taxation was US$296 million and pre-tax profit margin was 4.9 percent, grew by 0.4 percentage points year-on-year.

Americas (AG)

Americas accounted for 30 percent of the Group's total revenue. The Group delivered strong PC growth and margin in AG during the review period. Its PC unit shipments increased by 7 percent year-on-year, outperforming the market by a 11-point premium. Its market share increased by 1.6 percentage points from a year ago to 15.4 percent as of fiscal quarter two, according to preliminary industry estimates. The solid performance was driven by the strong growth of its PC unit shipments in North America, which grew by 14 percent year-on-year against a market growth of 1 percent. This brought its U.S. market share to 15.6 percent as of fiscal quarter two, up 2.3 percentage points year-on-year.

The Group launched Moto Z and Moto Mods products in fiscal quarter two through more diversified channels with initial good customer reviews, and new Moto G products also saw good momentum in Latin America, which drove the continuous improvement of the Group's smartphone business in Americas GEO. The Group's data center business continued its investment in enhancing its sales capabilities and strengthening its portfolio. It achieved strong revenue growth of its Global Accounts and won new hyperscale deals in North America.

The Group recorded a profit before taxation of US$58 million in the region, versus a loss before taxation of US$204 million recorded in same period last year, and its pre-tax profit margin was 0.9 percent. The improved performance was enhanced by profitability improvement of its PC and MBG businesses.

Asia Pacific (AP)

Asia Pacific accounted for 17 percent of the Group's total revenue. The Group maintained its number two position in the PC market with market share of 16.4 percent as of fiscal quarter two. Its PC unit shipments for the interim period decreased by 14 percent year-on-year against market decline of 7 percent due to the Indian mega education deal last year.

The Group continued its solid shipments performance in smartphones during the period under review, and momentum has been particularly strong in India, with a double-digit growth premium to the market. The Group's data center business continued its actions in driving future revenue and profitability improvement.

Profit before taxation was US$18 million and pre-tax profit margin was 0.5 percent, against 1.6 percent in the same period last year, mainly due to challenges in PC markets including Japan and ASEAN countries.

Europe-Middle East-Africa (EMEA)

EMEA accounted for 25 percent of the Group's total revenue. During the period under review, the Group focused on actions in clearing channel inventory in EMEA, thus its PC unit shipments were subdued and declined by 5 percent year-on-year, against a market decline of 4 percent year-on-year. Even with these actions, its market share as of fiscal quarter two increased by 0.2 percentage point year-on-year to 20.1 percent.

The Group's smartphone shipments were down year-on-year largely due to product transitions but saw improvement quarter-by-quarter driven by the effective transformation actions. The Group continued its actions in enhancing its sales force and investment in product portfolio in its data center business to pursue better growth overtime.

The Group incurred US$115 million loss before taxation in EMEA during the period under review against a profit of US$63 million in the same period last year, with pre-tax profit margin of negative 2.2 percent.

Outlook

Looking forward, the market conditions may remain tough in the short term, but the Group has seen the results of strong execution. Lenovo is confident in its vision and strategy, and are investing to achieve long term profitable growth.

For PCSD, the Group is to maintain leadership and strong profitability in the core PC business, through leveraging industry consolidation, launching of innovative products, and focus on fast growing segments and vertical markets.

Meanwhile, the Group will continue to build Mobile and Data Center businesses into new profit engines. For Mobile business, the Group will do it through streamlined and innovative product portfolios, global carrier relationships, broader channel coverage and stronger consumer brand. Through the recent resource actions, the Group’s mobile business has now established a new competitive operating model and organization structure to capture efficiency, which is set to help the profitability improvement of the business over time.

For Data Center business, which the Group believes is an attractive business and is fully committed to this business, it will continue to strengthen the sales coverage in both capacity and capability across geographies. The Group is also devoting efforts to strengthening the value proposition of product offerings in hyperconverged and software defined through a combination of strategic partnerships and in-house development. Through its stronger direct sales coverage and capability, competitive product and service offerings, and partnership with industry leaders, it remains confident to drive the transformation which can in turn bring DCG business to profitable growth over time.

Meanwhile, the Group will develop new smart devices, powered by cloud and enriched with services. The Group is exploring smart home, smart office, smart healthcare and other areas and leveraging artificial intelligence, AR, VR and other new technologies.

The Group has a clear focus on customer centricity, so as to transform from a product transactional model to a customer relationship model. And it will continue to invest in marketing to build stronger brand awareness.

In the short term, market conditions will remain challenging. Through Lenovo’s efficient organization structure and competitive cost structure across all of its businesses, together with its solid execution, the Group remains confident in its vision and strategy, and is investing to drive long-term profitable growth.

FINANCIAL REVIEW

Results for the six months ended September 30, 2016

	6 months ended September 30, 2016 (unaudited) ***US$'million***	6 months ended September 30, 2015 (unaudited) *US$'million*	Year-on-year change
Revenue	**21,287**	22,866	(7)%
Gross profit	**3,142**	3,222	(2)%
Gross profit margin	**14.8%**	14.1%	0.7 pts
Operating expenses	**(2,682)**	(3,910)	(31)%
Operating profit/(loss)	**460**	(688)	N/A
Other non-operating expenses – net	**(87)**	(102)	(14)%
Profit/(loss) before taxation	**373**	(790)	N/A
Profit/(loss) for the period	**320**	(615)	N/A
Profit/(loss) attributable to equity holders of the Company	**330**	(609)	N/A
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	**US 2.99 cents**	US (5.49) cents	N/A
Diluted	**US 2.98 cents**	US (5.49) cents	N/A

For the six months ended September 30, 2016, the Group achieved total sales of approximately US$21,287 million. Profit attributable to equity holders for the period was approximately US$330 million, as compared with loss attributable to equity holders of US$609 million reported in the corresponding period of last year. The loss attributable to equity holders reported in the corresponding period of last year was mainly attributable to the restructuring costs of US$596 million and one-time charges (comprising additional spending to clear smartphone inventories and inventories write off) of US$327 million. Gross profit margin for the period was 0.7 points up from 14.1 percent reported in the corresponding period of last year. Basic earnings per share and diluted earnings per share were US2.99 cents and US2.98 cents, as compared with basic and diluted loss per share of US5.49 cents reported in the corresponding period of 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:

	6 months ended September 30, 2016 ***US$'000***	6 months ended September 30, 2015 *US$'000*
China	**6,050,133**	6,489,772
AP	**3,576,506**	3,589,956
EMEA	**5,204,445**	5,863,970
AG	**6,456,203**	6,922,468
	21,287,287	22,866,166

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

Operating expenses analyzed by function for the six months ended September 30, 2016 and 2015 are as follows:

	6 months ended September 30, 2016 *US$'000*	6 months ended September 30, 2015 *US$'000*
Other income – net	**11,621**	2,185
Selling and distribution expenses	**(1,295,687)**	(1,214,995)
Administrative expenses	**(896,769)**	(1,108,082)
Research and development expenses	**(704,574)**	(759,000)
Other operating income/(expenses) – net	**204,170**	(829,946)
	(2,681,239)	(3,909,838)

Operating expenses for the period decreased by 31 percent as compared with the corresponding period of last year. Other income for the period mainly represents net gain on disposal of an available-for-sale financial asset of US$12 million (2015/16: US$2 million). During the period, the Group announced resource actions and incurred US$136 million severance costs to further enhance efficiency and competitiveness in view of industrial challenges. With that, employee benefit costs decreased by US$194 million as a result of reduced headcount subsequent to the business realignment actions carried out last year and the decrease in severance costs by US$76 million. During the corresponding period of last year, the Group also recorded 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. The net other operating income for the period is mainly attributable to gain on monetizing certain non-core assets, offset with severance costs and net exchange loss. The impact of currency fluctuations during the period presented a challenge, the Group recorded a net exchange loss of US$43 million (2015/16: US$67 million) for the period. Key expenses by nature comprise:

	6 months ended September 30, 2016 *US$'000*	6 months ended September 30, 2015 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(79,656)**	(81,333)
Amortization of intangible assets	**(223,913)**	(222,391)
Employee benefit costs, including	**(1,627,838)**	(1,821,918)
- *long-term incentive awards*	***(80,363)***	*(62,564)*
- *severance and related costs*	***(135,977)***	*(212,475)*
Rental expenses under operating leases	**(39,251)**	(44,490)
Net foreign exchange loss	**(42,975)**	(66,565)
Advertising and promotional expenses	**(422,402)**	(387,597)
Inventories write off	**-**	(173,424)
Loss on impairment and disposal of assets	**-**	(310,201)
Gain on disposal of property, plant and equipment and prepaid lease payments	**335,478**	4,060
Others	**(580,682)**	(805,979)
	(2,681,239)	(3,909,838)

Other non-operating expenses (net) for the six months ended September 30, 2016 and 2015 comprise:

	6 months ended September 30, 2016 *US$'000*	6 months ended September 30, 2015 *US$'000*
Finance income	**11,603**	17,258
Finance costs	**(111,208)**	(115,753)
Share of profits/(losses) of associates and joint ventures	**12,519**	(3,345)
	(87,086)	(101,840)

Finance income mainly represents interest on bank deposits.

Finance costs for the period mainly represent interest expenses on the 5-Year US$1.5 billion notes bearing annual interest at 4.7%, the 5-Year RMB4 billion notes bearing annual interest at 4.95% and other bank loans, notional interest expense in relation to promissory note issued to Google Inc. and factoring costs.

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

Second Quarter 2016/17 compared to Second Quarter 2015/16

	3 months ended September 30, 2016 (unaudited) ***US$'million***	3 months ended September 30, 2015 (unaudited) *US$'million*	Year-on-year change
Revenue	**11,231**	12,150	(8)%
Gross profit	**1,607**	1,575	2%
Gross profit margin	**14.3%**	13.0%	1.3 pts
Operating expenses	**(1,392)**	(2,359)	(41)%
Operating profit/(loss)	**215**	(784)	N/A
Other non-operating expenses – net	**(47)**	(58)	(18)%
Profit/(loss) before taxation	**168**	(842)	N/A
Profit/(loss) for the period	**152**	(717)	N/A
Profit/(loss) attributable to equity holders of the Company	**157**	(714)	N/A
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	**US 1.42 cents**	US (6.43) cents	N/A
Diluted	**US 1.42 cents**	US (6.43) cents	N/A

For the three months ended September 30, 2016, the Group achieved total sales of approximately US$11,231 million. Profit attributable to equity holders for the period was approximately US$157 million, as compared with loss attributable to equity holders of US$714 million reported in the corresponding period of last year. The loss attributable to equity holders reported in the corresponding period of last year was mainly attributable to the restructuring costs of US$596 million and one-time charges (comprising additional spending to clear smartphone inventories and inventories write off) of US$327 million. Gross profit margin for the period was 1.3 points up from 13.0 percent reported in the corresponding period of last year. Basic earnings per share and diluted earnings per share were US1.42 cents, as compared with basic and diluted loss per share of US6.43 cents reported in the corresponding period of last year.

Sales by geographical segment are as follows:

	3 months ended September 30, 2016 ***US$'000***	3 months ended September 30, 2015 *US$'000*
China	**3,195,345**	3,324,519
AP	**1,896,616**	1,970,230
EMEA	**2,737,870**	3,202,092
AG	**3,401,370**	3,653,486
	11,231,201	12,150,327

Operating expenses analyzed by function for the three months ended September 30, 2016 and 2015 are as follows:

	3 months ended September 30, 2016 *US$'000*	3 months ended September 30, 2015 *US$'000*
Other income – net	**11,621**	532
Selling and distribution expenses	**(706,666)**	(649,418)
Administrative expenses	**(438,178)**	(542,427)
Research and development expenses	**(348,831)**	(369,453)
Other operating income/(expenses) – net	**90,197**	(798,017)
	(1,391,857)	(2,358,783)

Operating expenses for the period decreased by 41 percent as compared with the corresponding period of last year. Other income for the period mainly represents net gain on disposal of an available-for-sale financial asset of US$12 million (2015/16: Nil). During the period, the Group announced resource actions and incurred US$136 million severance costs to further enhance efficiency and competitiveness in view of industrial challenges. With that, employee benefit costs decreased by US$118 million as a result of reduced headcount subsequent to the business realignment actions carried out last year and the decrease in severance costs by US$76 million. During the corresponding period of last year, the Group also recorded 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. The net other operating income for the period is mainly attributable to gain on monetizing certain non-core assets, offset with severance costs and net exchange loss. The impact of currency fluctuations during the period presented a challenge, the Group recorded a net exchange loss of US$20 million (2015/16: US$36 million) for the period. Key expenses by nature comprise:

	3 months ended September 30, 2016 *US$'000*	3 months ended September 30, 2015 US$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(39,676)**	(42,154)
Amortization of intangible assets	**(111,826)**	(105,691)
Employee benefit costs, including	**(883,480)**	(1,001,551)
- *long-term incentive awards*	***(47,293)***	*(34,134)*
- *severance and related costs*	***(135,977)***	*(212,475)*
Rental expenses under operating leases	**(20,809)**	(23,744)
Net foreign exchange loss	**(20,153)**	(35,718)
Advertising and promotional expenses	**(240,222)**	(215,088)
Inventories write off	**-**	(173,424)
Loss on impairment and disposal of assets	**-**	(310,201)
Gain on disposal of property, plant and equipment and prepaid lease payments	**203,766**	1,138
Others	**(279,457)**	(452,350)
	(1,391,857)	(2,358,783)

Other non-operating expenses (net) for the three months ended September 30, 2016 and 2015 comprise:

	3 months ended September 30, 2016 *US$'000*	3 months ended September 30, 2015 *US$'000*
Finance income	**5,463**	8,248
Finance costs	**(55,731)**	(64,712)
Share of profits/(losses) of associates and joint ventures	**2,682**	(1,787)
	(47,586)	(58,251)

Finance income mainly represents interest on bank deposits.

Finance costs for the period mainly represent interest expenses on the 5-Year US$1.5 billion notes bearing annual interest at 4.7%, the 5-Year RMB4 billion notes bearing annual interest at 4.95% and other bank loans, notional interest expense in relation to promissory note issued to Google Inc. and factoring costs.

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

Capital Expenditure

The Group incurred capital expenditure of US$271 million (2015/16: US$352 million) during the six months ended September 30, 2016, mainly for the acquisition of property, plant and equipment, additions in construction-in-progress and intangible assets.

Liquidity and Financial Resources

At September 30, 2016, total assets of the Group amounted to US$27,084 million (March 31, 2016: US$24,933 million), which were financed by equity attributable to owners of the Company of US$3,161 million (March 31, 2016: US$3,000 million), non-controlling interests (net of put option written on non-controlling interest) of US$21 million (March 31, 2016: US$26 million), and total liabilities of US$23,902 million (March 31, 2016: US$21,907 million). At September 30, 2016, the current ratio of the Group was 0.85 (March 31, 2016: 0.82).

The Group had a solid financial position. At September 30, 2016, bank deposits, cash and cash equivalents totaled US$2,450 million (March 31, 2016: US$2,079 million), of which 39.0 (March 31, 2016: 41.7) percent was denominated in US dollar, 33.9 (March 31, 2016: 29.5) percent in Renminbi, 5.7 (March 31, 2016: 5.3) percent in Euro, 6.8 (March 31, 2016: 7.7) percent in Japanese Yen, and 14.6 (March 31, 2016: 15.8) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At September 30, 2016, 82.2 (March 31, 2016: 92.6) percent of cash are bank deposits, and 17.8 (March 31, 2016: 7.4) percent of cash are investments in liquid money market funds of investment grade.

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

The Group entered into a 5-Year loan facility agreement with syndicated banks for US$1,200 million, comprising US$800 million as short term, on December 18, 2013. As at September 30, 2016, the facility was utilized to the extent of US$400 million (March 31, 2016: US$800 million), not comprising any short-term (March 31, 2016: comprising US$400 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 not utilized as at September 30, 2016 (March 31, 2016: fully utilized).

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

The Group has also arranged other short-term credit facilities. At September 30, 2016, the Group's other total available credit facilities amounted to US$10,767 million (March 31, 2016: US$10,661 million), of which US$1,480 million (March 31, 2016: US$1,277 million) was in trade lines, US$366 million (March 31, 2016: US$366 million) in short-term and revolving money market facilities and US$8,921 million (March 31, 2016: US$9,018 million) in forward foreign exchange contracts. At September 30, 2016, the amounts drawn down were US$960 million (March 31, 2016: US$540 million) in trade lines, US$8,499 million (March 31, 2016: US$6,872 million) being used for the forward foreign exchange contracts, and US$46 million (March 31, 2016: US$52 million) in short-term bank loans.

At September 30, 2016, the Group's outstanding borrowings represented by the term bank loan of US$397 million (March 31, 2016: US$396 million), short-term bank loans of US$39 million (March 31, 2016: US$746 million) and long term notes of US$2,091 million (March 31, 2016: US$2,109 million). When compared with total equity of US$3,183 million (March 31, 2016: US$3,026 million), the Group's gearing ratio was 0.79 (March 31, 2016: 1.07). The net debt position of the Group at September 30, 2016 is US$77 million (March 31, 2016: US$1,172 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 September 30, 2016, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$8,499 million (March 31, 2016: US$6,872 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.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

	Note	**3 months ended September 30, 2016 (unaudited)** ***US$'000***	**6 months ended September 30, 2016 (unaudited)** ***US$'000***	3 months ended September 30, 2015 (unaudited) *US$'000*	6 months ended September 30, 2015 (unaudited) *US$'000*
Revenue	*2*	**11,231,201**	**21,287,287**	12,150,327	22,866,166
Cost of sales		**(9,623,955)**	**(18,145,558)**	(10,575,318)	(19,644,682)
Gross profit		**1,607,246**	**3,141,729**	1,575,009	3,221,484
Other income - net	*3*	**11,621**	**11,621**	532	2,185
Selling and distribution expenses		**(706,666)**	**(1,295,687)**	(649,418)	(1,214,995)
Administrative expenses		**(438,178)**	**(896,769)**	(542,427)	(1,108,082)
Research and development expenses		**(348,831)**	**(704,574)**	(369,453)	(759,000)
Other operating income/(expenses) - net		**90,197**	**204,170**	(798,017)	(829,946)
Operating profit/(loss)	*4*	**215,389**	**460,490**	(783,774)	(688,354)
Finance income	*5(a)*	**5,463**	**11,603**	8,248	17,258
Finance costs	*5(b)*	**(55,731)**	**(111,208)**	(64,712)	(115,753)
Share of profits/(losses) of associates and joint ventures		**2,682**	**12,519**	(1,787)	(3,345)
Profit/(loss) before taxation		**167,803**	**373,404**	(842,025)	(790,194)
Taxation	*6*	**(15,794)**	**(53,760)**	125,511	175,556
Profit/(loss) for the period		**152,009**	**319,644**	(716,514)	(614,638)
Profit/(loss) attributable to:					
Equity holders of the Company		**156,835**	**329,782**	(713,700)	(608,548)
Non-controlling interests		**(4,826)**	**(10,138)**	(2,814)	(6,090)
		152,009	**319,644**	(716,514)	(614,638)
Earnings/(loss) per share attributable to equity holders of the Company					
Basic	*7(a)*	**US 1.42 cents**	**US 2.99 cents**	US (6.43) cents	US (5.49) cents
Diluted	*7(b)*	**US 1.42 cents**	**US 2.98 cents**	US (6.43) cents	US (5.49) cents
Dividend	*8*		**85,948**		85,996

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended September 30, 2016 (unaudited) ***US$'000***	**6 months ended September 30, 2016 (unaudited)** ***US$'000***	3 months ended September 30, 2015 (unaudited) *US$'000*	6 months ended September 30, 2015 (unaudited) *US$'000*
Profit/(loss) for the period	**152,009**	**319,644**	(716,514)	(614,638)
Other comprehensive (loss)/income:				
<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	**(356)**	**(2,522)**	(10,670)	(4,671)
Investment revaluation reserve reclassified to consolidated income statement on disposal of an available-for-sale financial asset	**(11,259)**	**(11,259)**	-	154
Fair value change on cash flow hedges from forward foreign exchange contracts, net of taxes				
- Fair value (loss)/gain, net of taxes	**(7,417)**	**(1,405)**	66,949	(41,621)
- Reclassified to consolidated income statement	**11,719**	**80,172**	(59,722)	(79,610)
Currency translation differences	**(8,507)**	**44,531**	(66,827)	(34,883)
Other comprehensive (loss)/income for the period	**(15,820)**	**109,517**	(70,270)	(160,631)
Total comprehensive income/(loss) for the period	**136,189**	**429,161**	(786,784)	(775,269)
Total comprehensive income/(loss) attributable to:				
Equity holders of the Company	**141,015**	**439,299**	(783,970)	(769,179)
Non-controlling interests	**(4,826)**	**(10,138)**	(2,814)	(6,090)
	136,189	**429,161**	(786,784)	(775,269)

CONSOLIDATED BALANCE SHEET

	Note	**September 30, 2016 (unaudited)** ***US$'000***	March 31, 2016 (audited) *US$'000*
Non-current assets			
Property, plant and equipment		**1,280,885**	1,391,494
Prepaid lease payments		**314,753**	337,929
Construction-in-progress		**312,123**	231,110
Intangible assets		**8,560,460**	8,661,087
Interests in associates and joint ventures		**52,958**	40,439
Deferred income tax assets		**1,138,515**	1,000,572
Available-for-sale financial assets		**162,003**	139,572
Other non-current assets		**125,077**	164,410
		11,946,774	11,966,613
Current assets			
Inventories		**2,882,775**	2,637,317
Trade receivables	*9(a)*	**4,950,482**	4,403,507
Notes receivable		**185,095**	130,718
Derivative financial assets		**46,265**	27,021
Deposits, prepayments and other receivables	*10*	**4,474,488**	3,548,760
Income tax recoverable		**148,976**	140,237
Bank deposits		**196,588**	152,336
Cash and cash equivalents		**2,253,055**	1,926,880
		15,137,724	12,966,776
Total assets		**27,084,498**	24,933,389

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**September 30, 2016 (unaudited)** *US$'000*	March 31, 2016 (audited) *US$'000*
Share capital	*14*	**2,689,882**	2,689,882
Reserves		**471,501**	310,318
Equity attributable to owners of the Company		**3,161,383**	3,000,200
Non-controlling interests		**234,277**	238,949
Put option written on non-controlling interest	*12(c)*	**(212,900)**	(212,900)
Total equity		**3,182,760**	3,026,249
Non-current liabilities			
Borrowings	*13*	**2,487,542**	2,505,112
Warranty provision	*11(b)*	**291,771**	290,857
Deferred revenue		**558,612**	532,780
Retirement benefit obligations		**458,073**	442,874
Deferred income tax liabilities		**220,933**	222,679
Other non-current liabilities	*12*	**2,053,801**	2,152,578
		6,070,732	6,146,880
Current liabilities			
Trade payables	*9(b)*	**5,758,869**	4,266,687
Notes payable		**668,688**	234,661
Derivative financial liabilities		**60,924**	150,864
Other payables and accruals	*11(a)*	**9,326,393**	8,305,844
Provisions	*11(b)*	**1,108,455**	1,157,257
Deferred revenue		**626,394**	710,164
Income tax payable		**241,791**	188,968
Borrowings	*13*	**39,492**	745,815
		17,831,006	15,760,260
Total liabilities		**23,901,738**	21,907,140
Total equity and liabilities		**27,084,498**	24,933,389

CONSOLIDATED CASH FLOW STATEMENT

	Note	**6 months ended September 30, 2016 (unaudited)** *US$'000*	6 months ended September 30, 2015 (unaudited) *US$'000*
Cash flows from operating activities			
Net cash generated from operations	*15*	**1,812,811**	815,773
Interest paid		**(88,978)**	(84,143)
Tax paid		**(157,132)**	(132,828)
Net cash generated from operating activities		**1,566,701**	598,802
Cash flows from investing activities			
Purchase of property, plant and equipment		**(65,472)**	(119,841)
Purchase of prepaid lease payments		**(1,663)**	-
Sale of property, plant and equipment and prepaid lease payments		**160,728**	56,603
Interests acquired in associates		**-**	(4,050)
Payment for construction-in-progress		**(134,900)**	(171,915)
Payment for intangible assets		**(68,527)**	(60,442)
Purchase of available-for-sale financial assets		**(36,216)**	(35,111)
Net proceeds from disposal of an available-for-sale financial asset		**11,860**	2,835
Increase in bank deposits		**(44,252)**	(21,209)
Dividends received		**46**	532
Interest received		**11,603**	17,258
Net cash used in investing activities		**(166,793)**	(335,340)
Cash flows from financing activities			
Capital contribution from non-controlling interests		**5,466**	20,000
Contribution to employee share trusts		**(62,749)**	(89,543)
Dividends paid		**(291,826)**	(293,503)
Proceeds from borrowings		**953,388**	257,927
Repayments of borrowings		**(1,659,877)**	(840,010)
Issue of long term notes		**-**	640,895
Net cash used in financing activities		**(1,055,598)**	(304,234)
Increase/(decrease) in cash and cash equivalents		**344,310**	(40,772)
Effect of foreign exchange rate changes		**(18,135)**	(54,016)
Cash and cash equivalents at the beginning of the period		**1,926,880**	2,855,223
Cash and cash equivalents at the end of the period		**2,253,055**	2,760,435

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
	Share capital (unaudited) *US$'000*	Investment revaluation reserve (unaudited) *US$'000*	Employee share trusts (unaudited) *US$'000*	Share-based compensation reserve (unaudited) *US$'000*	Hedging reserve (unaudited) *US$'000*	Exchange reserve (unaudited) *US$'000*	Other reserve (unaudited) *US$'000*	Retained earnings (unaudited) *US$'000*	Non-controlling interests (unaudited) *US$'000*	Put option written on non-controlling interest (unaudited) *US$'000*	Total (unaudited) *US$'000*
At April 1, 2016	**2,689,882**	**962**	**(52,897)**	**13,161**	**(88,328)**	**(1,141,195)**	**83,363**	**1,495,252**	**238,949**	**(212,900)**	**3,026,249**
Profit/(loss) for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**329,782**	**(10,138)**	**–**	**319,644**
Other comprehensive (loss)/income	**–**	**(13,781)**	**–**	**–**	**78,767**	**44,531**	**–**	**–**	**–**	**–**	**109,517**
Total comprehensive (loss)/income for the period	**–**	**(13,781)**	**–**	**–**	**78,767**	**44,531**	**–**	**329,782**	**(10,138)**	**–**	**429,161**
Transfer to statutory reserve	**–**	**–**	**–**	**–**	**–**	**–**	**2,019**	**(2,019)**	**–**	**–**	**–**
Vesting of shares under long-term incentive program	**–**	**–**	**44,981**	**(52,097)**	**–**	**–**	**–**	**–**	**–**	**–**	**(7,116)**
Share-based compensation	**–**	**–**	**–**	**83,575**	**–**	**–**	**–**	**–**	**–**	**–**	**83,575**
Contribution to employee share trusts	**–**	**–**	**(62,749)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(62,749)**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(291,826)**	**–**	**–**	**(291,826)**
Capital contribution from non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,466**	**–**	**5,466**
At September 30, 2016	**2,689,882**	**(12,819)**	**(70,665)**	**44,639**	**(9,561)**	**(1,096,664)**	**85,382**	**1,531,189**	**234,277**	**(212,900)**	**3,182,760**
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 period	–	–	–	–	–	–	–	(608,548)	(6,090)	–	(614,638)
Other comprehensive loss	–	(4,517)	–	–	(121,231)	(34,883)	–	–	–	–	(160,631)
Total comprehensive loss for the period	–	(4,517)	–	–	(121,231)	(34,883)	–	(608,548)	(6,090)	–	(775,269)
Transfer to statutory reserve	–	–	–	–	–	–	7,651	(7,651)	–	–	–
Vesting of shares under long-term incentive program	–	–	77,570	(112,821)	–	–	–	–	–	–	(35,251)
Deferred tax charge in relation to long-term incentive program	–	–	–	(4,847)	–	–	–	–	–	–	(4,847)
Share-based compensation	–	–	–	82,775	–	–	–	–	–	–	82,775
Contribution to employee share trusts	–	–	(89,543)	–	–	–	–	–	–	–	(89,543)
Dividends paid	–	–	–	–	–	–	–	(293,503)	–	–	(293,503)
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	20,000	–	20,000
At September 30, 2015	2,689,882	(3,925)	(23,414)	(25,041)	(3,149)	(868,997)	83,363	1,125,376	249,288	(212,900)	3,010,483

Notes

1 General information and basis of preparation

The financial information relating to the year ended March 31, 2016 that is included in the FY2016/17 interim results announcement as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

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

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

<u>Basis of preparation</u>

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

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

The Group has adopted the following new amendments to existing standards that are mandatory for the year ending March 31, 2017 which the Group considers are appropriate and relevant to its operations:

- Amendments to HKAS 1, Disclosure initiative
- Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortization
- Amendments to HKAS 27, Equity method in separate financial statements
- Amendments to HKFRS 10, HKFRS 12 and HKAS 28, Investment entities: applying the consolidation exception
- Amendments to HKFRS 11, Accounting for acquisitions of interests in joint operations

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 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 ending March 31, 2017 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 7, Disclosure initiative	January 1, 2017
Amendments to HKAS 12, Recognition of deferred tax assets for unrealised losses	January 1, 2017
Amendments to HKFRS 2, Classification and measurement of share-based payment transactions	January 1, 2018

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

	6 months ended September 30, 2016		6 months ended September 30, 2015	
	Revenue from external customers	**Adjusted pre-tax income/ (loss)**	Revenue from external customers	Adjusted pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
China	**6,050,133**	**295,603**	6,489,772	289,594
AP	**3,576,506**	**18,186**	3,589,956	57,089
EMEA	**5,204,445**	**(114,573)**	5,863,970	62,990
AG	**6,456,203**	**58,212**	6,922,468	(204,445)
Segment total	**21,287,287**	**257,428**	22,866,166	205,228
Unallocated:				
Headquarters and corporate income/(expenses)		**315,423**		(320,084)
Restructuring costs		**(135,977)**		(596,195)
Finance income		**9,190**		14,809
Finance costs		**(96,800)**		(92,792)
Net gain on disposal of an available-for-sale financial asset		**11,575**		1,653
Dividend income from available-for-sale financial assets		**46**		532
Share of profits/(losses) of associates and joint ventures		**12,519**		(3,345)
Consolidated profit/(loss) before taxation		**373,404**		(790,194)

(b) Segment assets for reportable segments

	September 30, 2016 *US$'000*	March 31, 2016 *US$'000*
China	**7,992,958**	7,064,692
AP	**3,124,246**	3,229,634
EMEA	**3,407,470**	3,445,913
AG	**6,976,149**	6,535,732
Segment assets for reportable segments	**21,500,823**	20,275,971
Unallocated:		
Deferred income tax assets	**1,138,515**	1,000,572
Derivative financial assets	**46,265**	27,021
Available-for-sale financial assets	**162,003**	139,572
Interests in associates and joint ventures	**52,958**	40,439
Unallocated bank deposits and cash and cash equivalents	**990,093**	898,577
Unallocated inventories	**804,572**	755,799
Unallocated deposits, prepayments and other receivables	**1,954,872**	1,355,219
Income tax recoverable	**148,976**	140,237
Other unallocated assets	**285,421**	299,982
Total assets per consolidated balance sheet	**27,084,498**	24,933,389

(c) Segment liabilities for reportable segments

	September 30, 2016 *US$'000*	March 31, 2016 *US$'000*
China	**5,771,843**	4,332,504
AP	**1,908,699**	1,924,875
EMEA	**1,545,586**	1,762,689
AG	**3,562,284**	3,559,616
Segment liabilities for reportable segments	**12,788,412**	11,579,684
Unallocated:		
Income tax payable	**241,791**	188,968
Deferred income tax liabilities	**220,933**	222,679
Derivative financial liabilities	**60,924**	150,864
Unallocated borrowings	**2,481,359**	3,198,749
Unallocated trade payables	**3,858,502**	2,506,235
Unallocated other payables and accruals	**2,809,822**	2,522,636
Unallocated provisions	**140,105**	174,534
Unallocated other non-current liabilities	**1,241,223**	1,293,625
Other unallocated liabilities	**58,667**	69,166
Total liabilities per consolidated balance sheet	**23,901,738**	21,907,140

(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:

	6 months ended September 30, 2016 *US$'000*	6 months ended September 30, 2015 *US$'000*
PC and Smart Device Business Group ("PCSD")	**14,795,735**	16,024,238
Mobile Business Group ("MBG")	**3,750,758**	4,151,223
Data Center Group ("DCG")	**2,168,595**	2,254,467
Others	**572,199**	436,238
	21,287,287	22,866,166

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

(e) Other segment information

	China		**AP**		**EMEA**		**AG**		**Total**	
	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*
For the six months ended September 30										
Depreciation and amortization	**123,547**	91,494	**62,370**	70,003	**92,733**	102,835	**105,656**	109,500	**384,306**	373,832
Finance income	**82**	1,221	**430**	177	**112**	189	**1,789**	862	**2,413**	2,449
Finance costs	**1,107**	1,967	**3,849**	4,896	**2,572**	9,332	**6,880**	6,766	**14,408**	22,961
Additions to non-current assets (Note)	**62,477**	49,040	**9,118**	6,890	**7,876**	9,626	**32,704**	88,795	**112,175**	154,351

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$6,218 million (March 31, 2016: US$6,171 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At September 30, 2016

	China ***US$ million***	**AP** ***US$ million***	**EMEA** ***US$ million***	**AG** ***US$ million***	**Total** ***US$ million***
Goodwill					
- PCSD	**1,056**	**597**	**220**	**334**	**2,207**
- MBG	**-**	**322**	**371**	**949**	**1,642**
- DCG	**481**	**161**	**91**	**364**	**1,097**
Trademarks and trade names					
- PCSD	**211**	**59**	**104**	**68**	**442**
- MBG	**-**	**90**	**104**	**266**	**460**
- DCG	**162**	**54**	**31**	**123**	**370**

At March 31, 2016

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

The directors are of the view that there was no indication of impairment of goodwill and trademarks and trade names as at September 30, 2016 (March 31, 2016: Nil).

3 Other income – net

	3 months ended September 30, 2016 ***US$'000***	**6 months ended September 30, 2016** ***US$'000***	3 months ended September 30, 2015 *US$'000*	6 months ended September 30, 2015 *US$'000*
Net gain on disposal of an available-for-sale financial asset	**11,575**	**11,575**	-	1,653
Dividend income from available-for-sale financial assets	**46**	**46**	532	532
	11,621	**11,621**	532	2,185

4 Operating profit/(loss)

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

	3 months ended September 30, 2016 ***US$'000***	**6 months ended September 30, 2016** ***US$'000***	3 months ended September 30, 2015 *US$'000*	6 months ended September 30, 2015 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**69,859**	**139,220**	71,845	132,047
Amortization of intangible assets	**121,442**	**245,086**	113,227	241,785
Employee benefit costs, including	**992,581**	**1,842,345**	1,114,893	2,052,419
- long-term incentive awards	***47,293***	***80,363***	*34,134*	*62,564*
- severance and related costs	***135,977***	***135,977***	*212,475*	*212,475*
Rental expenses under operating leases	**24,560**	**47,137**	27,978	54,330
Inventories write off	**-**	**-**	173,424	173,424
Loss on impairment and disposal of assets	**-**	**-**	310,201	310,201
Gain on disposal of property, plant and equipment and prepaid lease payments	**(203,766)**	**(335,478)**	(1,138)	(4,060)

During the three months and six months ended September 30, 2016, the Group announced resource actions to further enhance efficiency and competitiveness in view of industrial challenges. Severance costs of approximately US$136 million were recognized in "other operating income/(expenses) – net".

During the three months and six months ended September 30, 2015, 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, were recognized in "other operating income/(expenses) – net".

5 Finance income and costs

(a) Finance income

	3 months ended September 30, 2016 *US$'000*	**6 months ended September 30, 2016** *US$'000*	3 months ended September 30, 2015 *US$'000*	6 months ended September 30, 2015 *US$'000*
Interest on bank deposits	**4,656**	**9,968**	7,950	16,773
Interest on money market funds	**807**	**1,635**	292	475
Others	**-**	**-**	6	10
	5,463	**11,603**	8,248	17,258

(b) Finance costs

	3 months ended September 30, 2016 *US$'000*	**6 months ended September 30, 2016** *US$'000*	3 months ended September 30, 2015 *US$'000*	6 months ended September 30, 2015 *US$'000*
Interest on bank loans and overdrafts	**9,991**	**20,262**	8,439	16,335
Interest on long term notes	**25,824**	**51,576**	26,343	47,066
Interest on promissory note	**10,036**	**20,001**	9,860	19,307
Factoring costs	**8,198**	**15,270**	15,849	25,097
Commitment fee	**24**	**48**	1,408	2,477
Interest on contingent considerations and put option liability	**1,527**	**3,298**	1,789	3,571
Others	**131**	**753**	1,024	1,900
	55,731	**111,208**	64,712	115,753

6 Taxation

The amount of taxation in the consolidated income statement represents:

	3 months ended September 30, 2016 *US$'000*	**6 months ended September 30, 2016** *US$'000*	3 months ended September 30, 2015 *US$'000*	6 months ended September 30, 2015 *US$'000*
Current tax				
Hong Kong profits tax	**380**	**2,046**	3,214	12,431
Taxation outside Hong Kong	**112,095**	**201,474**	96,356	140,842
Deferred tax	**(96,681)**	**(149,760)**	(225,081)	(328,829)
	15,794	**53,760**	(125,511)	(175,556)

Hong Kong profits tax has been provided for at the rate of 16.5% (2015/16: 16.5%) on the estimated assessable profit for the period. Taxation outside Hong Kong represents income and irrecoverable withholding taxes of subsidiaries operating in the Chinese Mainland and overseas, calculated at rates applicable in the respective jurisdictions.

7 Earnings/(loss) per share

(a) Basic

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

	3 months ended September 30, 2016	**6 months ended September 30, 2016**	3 months ended September 30, 2015	6 months ended September 30, 2015
Weighted average number of ordinary shares in issue	**11,108,654,724**	**11,108,654,724**	11,108,654,724	11,108,654,724
Adjustment for shares held by employee share trusts	**(82,380,009)**	**(70,209,201)**	(11,382,452)	(16,481,111)
Weighted average number of ordinary shares in issue for calculation of basic earnings/(loss) per share	**11,026,274,715**	**11,038,445,523**	11,097,272,272	11,092,173,613
	US$'000	***US$'000***	*US$'000*	*US$'000*
Profit/(loss) attributable to equity holders of the Company	**156,835**	**329,782**	(713,700)	(608,548)

(b) Diluted

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, namely long-term incentive awards. They were dilutive for the three months and six months ended September 30, 2016 and anti-dilutive for the three months and six months ended September 30, 2015.

	3 months ended September 30, 2016	**6 months ended September 30, 2016**	3 months ended September 30, 2015	6 months ended September 30, 2015
Weighted average number of ordinary shares in issue for calculation of basic earnings/(loss) per share	**11,026,274,715**	**11,038,445,523**	11,097,272,272	11,092,173,613
Adjustment for long-term incentive awards	**21,506,890**	**29,300,678**	-	-
Weighted average number of ordinary shares in issue for calculation of diluted earnings/(loss) per share	**11,047,781,605**	**11,067,746,201**	11,097,272,272	11,092,173,613
	US$'000	***US$'000***	*US$'000*	*US$'000*
Profit/(loss) attributable to equity holders of the Company used to determine diluted earnings/(loss) per share	**156,835**	**329,782**	(713,700)	(608,548)

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

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

8 Dividend

	6 months ended September 30, 2016 ***US$'000***	6 months ended September 30, 2015 *US$'000*
Interim dividend, declared after period end – HK6.0 cents (2015/16: HK6.0 cents) per ordinary share	**85,948**	85,996

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:

	September 30, 2016	March 31, 2016
	US$'000	*US$'000*
0 – 30 days	**3,348,964**	3,246,600
31 – 60 days	**874,578**	617,199
61 – 90 days	**350,541**	240,470
Over 90 days	**487,379**	405,410
	5,061,462	4,509,679
Less: provision for impairment	**(110,980)**	(106,172)
Trade receivables – net	**4,950,482**	4,403,507

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

	September 30, 2016	March 31, 2016
	US$'000	*US$'000*
0 – 30 days	**3,231,730**	3,013,430
31 – 60 days	**1,619,112**	789,183
61 – 90 days	**721,784**	347,257
Over 90 days	**186,243**	116,817
	5,758,869	4,266,687

10 Deposits, prepayments and other receivables

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

	September 30, 2016	March 31, 2016
	US$'000	*US$'000*
Deposits	**18,409**	13,207
Other receivables	**3,590,629**	2,811,260
Prepayments	**865,450**	724,293
	4,474,488	3,548,760

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:

	September 30, 2016	March 31, 2016
	US$'000	US$'000
Accruals	**1,898,958**	2,048,551
Allowance for billing adjustments (i)	**1,796,155**	1,904,076
Other payables (ii)	**5,631,280**	4,353,217
	9,326,393	8,305,844

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 *US$'000*	Environmental restoration *US$'000*	Restructuring *US$'000*	Total *US$'000*
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
Period ended September 30, 2016				
At the beginning of the period	**1,322,267**	**8,817**	**123,103**	**1,454,187**
Exchange adjustment	**(2,428)**	**627**	**2,022**	**201**
Provisions made	**400,130**	**5,079**	**135,977**	**541,206**
Amounts utilized	**(499,593)**	**(5,223)**	**(83,790)**	**(588,606)**
	1,220,376	**9,300**	**177,312**	**1,406,988**
Long-term portion classified as non-current liabilities	**(291,771)**	**(6,762)**	**-**	**(298,533)**
At the end of the period	**928,605**	**2,538**	**177,312**	**1,108,455**

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:

	September 30, 2016 *US$'000*	March 31, 2016 *US$'000*
Deferred considerations (a)	**1,428,628**	1,383,555
Guaranteed dividend to non-controlling shareholders of a subsidiary (b)	**-**	8,195
Environmental restoration (Note 11 (b))	**6,762**	6,073
Written put option liability (c)	**222,598**	221,499
Government incentives and grants received in advance (d)	**122,503**	144,919
Deferred rent liabilities	**108,039**	112,934
Others	**165,271**	275,403
	2,053,801	2,152,578

(a) Pursuant to the completion of business combinations, the Group is required to pay in cash to the then respective shareholders/sellers deferred consideration. Accordingly, current and non-current liabilities in respect of the present values of deferred considerations have been recognized. Deferred consideration is subsequently measured at amortized cost.

As at September 30, 2016, the potential undiscounted amounts of future payments in respect of the 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	US$25 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. As at September 30, 2016, the guaranteed dividend has been included in other payables and accruals in current liabilities.

(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 consolidated income statement upon fulfillment of those conditions.

13 Borrowings

	September 30, 2016 ***US$'000***	March 31, 2016 *US$'000*
Current liabilities		
Short-term loans (i)	**39,492**	745,815
Non-current liabilities		
Term loan (ii)	**397,026**	396,365
Long term notes (iii)	**2,090,516**	2,108,747
	2,487,542	2,505,112
	2,527,034	3,250,927

(i) The majority of the short-term bank loans are denominated in United States dollar. As at September 30, 2016, the Group has total revolving and short-term loan facilities of US$1,466 million (March 31, 2016: US$1,466 million) which has been utilized to the extent of US$46 million (March 31, 2016: US$752 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, and has been drawn down to the extent of US$400 million as at September 30, 2016 (March 31, 2016: 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 have been used for general corporate purposes including working capital, and acquisition activities.

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at September 30, 2016 and March 31, 2016 are as follows:

	September 30, 2016 ***US$'000***	March 31, 2016 *US$'000*
Within 1 year	**39,492**	745,815
Over 1 to 3 years	**1,890,999**	396,365
Over 3 to 5 years	**596,543**	2,108,747
	2,527,034	3,250,927

14 Share capital

	September 30, 2016 Number of shares	US$'000	March 31, 2016 Number of shares	US$'000
Issued and fully paid:				
Voting ordinary shares:				
At the beginning and end of the period/year	**11,108,654,724**	**2,689,882**	11,108,654,724	2,689,882

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

	6 months ended September 30, 2016 ***US$'000***	6 months ended September 30, 2015 *US$'000*
Profit/(loss) before taxation	**373,404**	(790,194)
Share of (profits)/losses of associates and joint ventures	**(12,519)**	3,345
Finance income	**(11,603)**	(17,258)
Finance costs	**111,208**	115,753
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**139,220**	132,047
Amortization of intangible assets	**245,086**	241,785
Share-based compensation	**80,363**	62,564
Impairment of property, plant and equipment	**-**	134,454
Gain on disposal of property, plant and equipment and prepaid lease payments	**(335,478)**	(4,060)
Net gain on disposal of an available-for-sale financial asset	**(11,575)**	(1,653)
Loss on disposal of construction-in-progress	**-**	157
Loss on disposal of intangible assets	**417**	441
Dividend income	**(46)**	(532)
Fair value change on financial instruments	**(30,417)**	(18,982)
(Increase)/decrease in inventories	**(245,458)**	233,053
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(1,236,075)**	(328,328)
Increase in trade payables, notes payable, provisions, other payables and accruals	**2,713,816**	929,375
Effect of foreign exchange rate changes	**32,468**	123,806
Net cash generated from operations	**1,812,811**	815,773

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

During the six months ended September 30, 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 89,005,425 shares from the market for award to employees upon vesting. Details of the program are 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 four members including Mr. Allen and other three independent non-executive directors, Ms. Ma Xuezheng, Mr. William Tudor Brown and Mr. Gordon Robert Halyburton Orr.

The Audit Committee of the Company has reviewed the unaudited interim results of the Group for the six months ended September 30, 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

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the six months ended September 30, 2016, in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with the exception that the roles of the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "CEO") have not been segregated as required by code provision A.2.1 of the CG Code.

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

The Board also appointed Mr. William O. Grabe as the lead independent director (the "Lead Independent Director") with broad authority and responsibility. Among other responsibilities, the Lead Independent Director will chair the Nomination and Governance Committee meeting and/or the Board meeting when considering (i) the combined roles of Chairman and CEO; and (ii) assessment of the performance of Chairman and/or CEO. The Lead Independent Director 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.

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

November 3, 2016

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