Lenovo Group Limited | 2016/17 Interim Report

Stock Code 992

DIFFERENT FOR THE SAKE OF BEING BETTER

WHEN PROGRESS NEVER ENDS, THERE IS NO BEST, ONLY BETTER

Yoga 910

This interim report is printed on environmentally friendly paper manufactured from elemental chlorine-free pulp
Printed on chemistry free plate system and soy ink


YOGA


ThinkPad X1 Carbon
INSPIRATION CAN COME FROM ANYTHING & ANYONE
ThinkPad
Lenovo

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)	**US1.42 cents**	**US2.99 cents**	US (6.43) cents	US (5.49) cents
Diluted	7(b)	**US1.42 cents**	**US2.98 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:				
Items that have been reclassified or may be subsequently reclassified to profit or loss				
Fair value change on available-for-sale financial assets, net of taxes	**(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	9	**1,280,885**	1,391,494
Prepaid lease payments		**314,753**	337,929
Construction-in-progress		**312,123**	231,110
Intangible assets	9	**8,560,460**	8,661,087
Interests in associates and joint ventures		**52,958**	40,439
Deferred income tax assets	9	**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	10(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	11	**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

	Note	**September 30, 2016 (unaudited) US$'000**	March 31, 2016 (audited) US$'000
Share capital	15	**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	13(c)	**(212,900)**	(212,900)
Total equity		**3,182,760**	3,026,249
Non-current liabilities			
Borrowings	14	**2,487,542**	2,505,112
Warranty provision	12(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	13	**2,053,801**	2,152,578
		6,070,732	6,146,880
Current liabilities			
Trade payables	10(b)	**5,758,869**	4,266,687
Notes payable		**668,688**	234,661
Derivative financial liabilities		**60,924**	150,864
Other payables and accruals	12(a)	**9,326,393**	8,305,844
Provisions	12(b)	**1,108,455**	1,157,257
Deferred revenue		**626,394**	710,164
Income tax payable		**241,791**	188,968
Borrowings	14	**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	18	**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)
Dividend 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 bank borrowings		**953,388**	257,927
Repayment of bank 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$'000	Share-based compen-sation reserve (unaudited) US$'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

1 GENERAL INFORMATION AND BASIS OF PREPARATION

The financial information relating to the year ended March 31, 2016 that is included in the interim report 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.

Basis of preparation

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

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

The Group has adopted the following new amendments to existing standards that are mandatory for the year 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.

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

Basis of preparation *(continued)*

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, Statement of cash flows	January 1, 2017
Amendments to HKAS 12, Income taxes	January 1, 2017
Amendments to HKFRS 2, Share-based payment	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.

2 SEGMENT INFORMATION *(continued)*

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

2 SEGMENT INFORMATION *(continued)*

(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

2 SEGMENT INFORMATION *(continued)*

(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

2 SEGMENT INFORMATION *(continued)*

(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") (Note)	**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.

2 SEGMENT INFORMATION *(continued)*

(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 payment	**(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".

4 OPERATING PROFIT/(LOSS) *(continued)*

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)

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

(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
Adjustments 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 NON-CURRENT ASSETS

Analysis of the movements in major non-current assets is as follows:

	Property, plant and equipment US$'000	Intangible assets US$'000	Deferred income tax assets US$'000
Year ended March 31, 2016			
At the beginning of the year	1,443,313	9,225,743	536,486
Exchange adjustment	(43,056)	(316,276)	(2,698)
Additions	203,231	147,447	–
Transfers	246,864	79,650	–
Disposals	(61,202)	(976)	–
Depreciation/amortization	(263,202)	(474,501)	–
Impairment recognized	(134,454)	–	–
Credited to consolidated income statement	–	–	509,165
Credited to other comprehensive income	–	–	1,086
Charged to share-based compensation reserve	–	–	(4,847)
At the end of the year	1,391,494	8,661,087	1,039,192
Six months ended September 30, 2016			
At the beginning of the period	**1,391,494**	**8,661,087**	**1,039,192**
Exchange adjustment	**4,017**	**50,621**	**2,878**
Additions	**65,472**	**68,527**	**-**
Transfers	**21,409**	**25,728**	**-**
Disposals	**(63,931)**	**(417)**	**-**
Depreciation/amortization	**(137,576)**	**(245,086)**	**-**
Credited to consolidated income statement	**-**	**-**	**152,403**
Charged to other comprehensive income	**-**	**-**	**(2,946)**
At the end of the period	**1,280,885**	**8,560,460**	**1,191,527**

The movements in deferred income tax assets presented above are prior to offsetting of balances within the same jurisdiction. Deferred income tax assets and liabilities are netted off when the taxes relate to the same tax authority and where offsetting is legally enforceable. The amounts shown in the consolidated balance sheet are determined after appropriate offset.

10 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 US$'000	March 31, 2016 US$'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 US$'000	March 31, 2016 US$'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

11 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

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

	September 30, 2016 US$'000	March 31, 2016 US$'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.

12 PROVISIONS, OTHER PAYABLES AND ACCRUALS

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

	September 30, 2016 US$'000	March 31, 2016 US$'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.

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

(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, 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	221
Provisions made	400,130	5,079	135,977	541,186
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.

13 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 12 (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.

13 OTHER NON-CURRENT LIABILITIES *(continued)*

(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.

14 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 loans (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

The fair value of the long term notes as at September 30, 2016 was US$2,208 million. The carrying amounts of other borrowings approximate their fair values as the impact of discounting is not significant.

15 SHARE CAPITAL

	September 30, 2016		March 31, 2016	
	Number of shares	**US$'000**	Number of shares	US$'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

16 COMMITMENTS

At September 30, 2016, the Group had the following capital commitments:

	September 30, 2016 US$'000	March 31, 2016 US$'000
Contracted but not provided for:		
– Property, plant and equipment	**408,987**	393,655
– IT consulting services	**1,653**	43
– Investment	**2,154**	9,800
	412,794	403,498

17 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.

18 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

FINANCIAL REVIEW

Results

For the six months ended September 30	**2016 US$'000**	2015 US$'000
Revenue	**21,287,287**	22,866,166
Gross profit	**3,141,729**	3,221,484
Gross profit margin	**14.8%**	14.1%
Operating expenses	**(2,681,239)**	(3,909,838)
Operating profit/(loss)	**460,490**	(688,354)
Other non-operating expenses – net	**(87,086)**	(101,840)
Profit/(loss) before taxation	**373,404**	(790,194)
Profit/(loss) for the period	**319,644**	(614,638)
Profit/(loss) attributable to equity holders of the Company	**329,782**	(608,548)
Earnings/(loss) per share attributable to equity holders of the Company (US cents)		
– Basic	**2.99**	(5.49)
– Diluted	**2.98**	(5.49)
EBITDA*	**913,538**	(254,143)
EBITDA* before restructuring and one-time charges	**1,049,515**	668,712
Profit before taxation before restructuring and one-time charges	**509,381**	132,661
Dividend per ordinary share (HK cents)		
– Interim dividend	**6.0**	6.0

* Excluding other income – net

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.

FINANCIAL REVIEW *(continued)*

Results *(continued)*

The Group adopts geographical segments as the reporting format. Geographical segments comprise China, AP, EMEA and AG. Analyses of sales by segment are set out in Business Review and Outlook below:

For the six months ended September 30	**2016**		2015	
	Revenue from external customers US$'000	**Adjusted pre-tax income/(loss) US$'000**	Revenue from external customers US$'000	Adjusted pre-tax income/(loss) US$'000
China	**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)
	21,287,287	**257,428**	22,866,166	205,228

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)

FINANCIAL REVIEW *(continued)*

Results *(continued)*

Operating expenses for the period decreased by 31 percent as compared with the corresponding period of last year. Other income 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)

FINANCIAL REVIEW *(continued)*

Results *(continued)*

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.

Financial Position

The Group's major balance sheet items are set out below:

Non-current assets	**September 30, 2016 US$'000**	March 31, 2016 US$'000
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

Property, plant and equipment

Property, plant and equipment comprise mainly the Group's freehold land and buildings, leasehold improvements, plant and machinery and office equipment. Decrease of 8 percent is mainly attributable to current period depreciation; and partly offset by the Group's further investments in office equipment and headquarters in China.

FINANCIAL REVIEW *(continued)*

Financial Position *(continued)*

Prepaid lease payments

Prepaid lease payments represent the land use rights in respect of the manufacturing sites and headquarters in China. Decrease of 7 percent is mainly due to disposal during the period.

Construction-in-progress

Construction-in-progress comprises mainly the Group's investments in headquarters in China, other facilities, internal use software and research and development laboratories.

Intangible assets

Intangible assets comprise goodwill and other intangible assets including trademarks and trade names, and internal use software.

Interests in associates and joint ventures

Interests in associates and joint ventures are increased by 31 percent mainly attributable to share of profits from principal business activities of respective associates and joint ventures during the period.

Deferred income tax assets

Deferred income tax assets amounted to US$1,139 million as at September 30, 2016, representing an increase of 14 percent over March 31, 2016, which is mainly attributable to tax losses and temporary differences in relation to provisions and accruals arising in the normal course of business.

Available-for-sale financial assets

Available-for-sale financial assets are increased by 16 percent mainly attributable to additional investments during the period, and partly offset by disposal of listed equity securities.

Other non-current assets

Other non-current assets amounted to US$125 million as at September 30, 2016, representing a decrease of 24 percent over March 31, 2016, which is mainly attributable to the decrease of indirect tax recoverable.

Current assets	**September 30, 2016 US$'000**	March 31, 2016 US$'000
Inventories	**2,882,775**	2,637,317
Trade receivables	**4,950,482**	4,403,507
Notes receivable	**185,095**	130,718
Derivative financial assets	**46,265**	27,021
Deposits, prepayments and other receivables	**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

FINANCIAL REVIEW *(continued)*

Financial Position *(continued)*

Inventories

Inventories increased by 9 percent, which is in line with the Group's business growth.

Trade receivables and Notes receivable

Trade receivables and notes receivable increased by 13 percent, which is in line with the increase in business activities during the period.

Derivative financial assets/liabilities

Derivatives relate to foreign currency forward contracts that are designated as hedges for the fair value of recognized assets or liabilities or a firm commitment, or of highly probable forecast transactions. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair values.

Deposits, prepayments and other receivables

Majority of other receivables of the Group are amounts due from subcontractors for part components sold in the ordinary course of business. Increase is in line with the increase in business activities during the period, and also attributable to receivables arising from monetizing non-core assets.

Non-current liabilities	**September 30, 2016 US$'000**	March 31, 2016 US$'000
Borrowings	**2,487,542**	2,505,112
Warranty provision	**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	**2,053,801**	2,152,578
	6,070,732	6,146,880

Borrowings

Borrowings (classified as non-current) decreased by US$18 million is mainly due to the exchange gain arising from the 5-Year RMB4 billion notes bearing annual interest at 4.95% due in June 2020.

Warranty provision

The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labor associated with warranty repair and service actions. The period ranges from one to three years. The aggregate current and non-current amount of warranty provision decreased by 8 percent is mainly contributed by the Group's continuous cost enhancement on warranty repair and service actions. The Group reevaluates its estimates on a quarterly basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

FINANCIAL REVIEW *(continued)*

Financial Position *(continued)*

Retirement benefit obligations

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

Deferred income tax liabilities

Deferred income tax liabilities comprise withholding tax on undistributed earnings, tax liabilities on upward valuation of intangibles arising from business combination and accelerated tax depreciation.

Other non-current liabilities

Other non-current liabilities mainly comprise the deferred consideration to Google Inc. in respect of the business combination activities, written put option liability in connection with a joint venture and government incentives and grants received in advance.

Current liabilities	**September 30, 2016 US$'000**	March 31, 2016 US$'000
Trade payables	**5,758,869**	4,266,687
Notes payable	**668,688**	234,661
Derivative financial liabilities	**60,924**	150,864
Other payables and accruals	**9,326,393**	8,305,844
Provisions	**1,108,455**	1,157,257
Deferred revenue	**626,394**	710,164
Income tax payable	**241,791**	188,968
Borrowings	**39,492**	745,815
	17,831,006	15,760,260

Trade payables and Notes payable

Trade payables and notes payable increased in line with the increase in business activities during the period.

Other payables and accruals

Other payables and accruals comprise the allowance for billing adjustments relating primarily to allowance for future volume discounts, price protection, rebates, and customer sales returns. Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors. The balances increased in line with business activities during the period.

Provisions

Provisions comprise warranty liabilities (due within one year), environmental restorations and restructuring provision. The decrease of 4 percent over March 31, 2016 is mainly contributed by the Group's continuous cost enhancement on warranty repair and service actions, and partly offset by the additional provision for employee termination payments during the period.

FINANCIAL REVIEW *(continued)*

Financial Position *(continued)*

Borrowings

Borrowings (classified as current) amounted to US$39 million as at September 30, 2016, representing a decrease of 95 percent over March 31, 2016, which is mainly attributable to the net repayment of revolving loans during the period.

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.

FINANCIAL REVIEW *(continued)*

Liquidity and Financial Resources *(continued)*

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.

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.

BUSINESS REVIEW AND OUTLOOK *(continued)*

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.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Performance of Product Business Groups *(continued)*

Mobile Business Group (MBG) *(continued)*

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 customer 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 competitiveness, 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.

Performance of Product Business Groups *(continued)*

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.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Performance of Geographies *(continued)*

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.

BUSINESS REVIEW AND OUTLOOK *(continued)*

Outlook *(continued)*

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.

HUMAN RESOURCES

At September 30, 2016, the Group had a headcount of more than 52,000 worldwide.

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

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Long-Term Incentive Program

The Company operates a Long-Term Incentive Program ("LTI Program") which was adopted by the Company in 2005 and amended in 2008 and 2016 respectively. The purpose of the LTI Program is to attract, retain, reward and motivate executive and non-executive directors, senior management and selected top-performing employees of the Company and its subsidiaries.

Under the LTI Program, the Company maintains two types of equity-based compensation vehicles: (i) share appreciation rights, and (ii) restricted share units. These vehicles are described in more detail below.

(i) Share Appreciation Rights ("SARs")

SARs entitle the holder to receive the appreciation in value of the Company's share price above a predetermined level. SARs are typically subject to a vesting schedule of up to four years.

(ii) Restricted Share Units ("RSUs")

RSU is equivalent to the value of one ordinary share of the Company. Once vested, RSU is converted to ordinary share, or its cash equivalent. RSUs are typically subject to a vesting schedule of up to four years. Dividends are typically not paid on RSUs.

The Company reserves the right to settle any awards under the LTI Program in cash or in ordinary shares at its discretion. The Company has created and funded a trust to pay shares to eligible recipients. In the case of SARs, shares are due after exercise by the recipient. In the case of RSUs, shares are due after the employee satisfies any vesting conditions.

The number of units that are awarded under the LTI Program is set and reviewed annually, reflecting competitive market positioning, market practices, especially those among Lenovo's competitors, as well as the Company's performance and each individual's actual and expected contribution to the business. In certain circumstances, awards under the LTI Program may be made to support the attraction of new hires. Award levels and mix may vary by individual, role and level.

Details of the movements in the share awards for executive and non-executive directors as of September 30, 2016 under the LTI program are presented below.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(continued)*

Long-Term Incentive Program *(continued)*

The movements in the share awards of the executive and non-executive directors during the period are as follows:

Name	Award type	Fiscal Year of Award	Effective price (HK$)	Number of units As at April 1, 2016 (Unvested)	Awarded during the period	Vested during the period	Exercised during the period	Cancelled/ lapsed during the period *(Note 2)*	As at September 30, 2016 (Unvested)	Total outstanding as at September 30, 2016	Vesting period (mm.dd.yyyy)
Mr. Yang Yuanqing	SAR	09/10	5.23	-	-	-	-	-	-	6,596,156	02.08.2011 - 02.08.2014
	SAR	10/11	4.92	-	-	-	-	-	-	11,030,219	02.21.2012 - 02.21.2015
	SAR	11/12	6.80	-	-	-	-	-	-	11,132,358	02.13.2013 - 02.13.2016
	SAR	12/13	8.22	3,514,894	-	-	-	-	3,514,894	14,059,573	02.04.2014 - 02.04.2017
	SAR	13/14	9.815	10,890,045	-	3,630,017	-	-	7,260,028	14,520,062	06.03.2015 - 06.03.2018
	SAR	15/16	12.29	12,703,664	-	3,175,916	-	-	9,527,748	12,703,664	06.01.2016 - 06.01.2019
	SAR	16/17	4.90	-	126,972,471	-	-	-	126,972,471	126,972,471	06.01.2017 - 06.01.2023
	RSU	12/13	8.22	1,424,956	-	-	-	-	1,424,956	1,424,956	02.04.2014 - 02.04.2017
	RSU	12/13	7.82	1,072,109	-	1,072,109	-	-	-	-	06.03.2014 - 06.03.2016
	RSU	13/14	9.815	3,997,192	-	1,332,399	-	-	2,664,793	2,664,793	06.03.2015 - 06.03.2018
	RSU	15/16	12.29	4,882,018	-	1,220,505	-	-	3,661,513	3,661,513	06.01.2016 - 06.01.2019
	RSU	15/16	12.29	1,131,814	-	-	-	-	1,131,814	1,131,814	-
Mr. Zhu Linan	SAR	12/13	6.36	-	-	-	-	-	-	91,438	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	12,362	-	121,362	-	-	-	242,723	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	183,923	-	91,961	-	-	91,962	275,884	08.15.2015 - 08.15.2017
	SAR	15/16	7.49	403,970	-	134,657	-	-	269,313	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	-	615,761	-	-	-	615,761	615,761	08.19.2017 - 08.19.2023
	RSU	13/14	7.88	32,801	-	32,801	-	-	-	-	08.16.2014 - 08.16.2016
	RSU	14/15	11.48	45,006	-	22,503	-	-	22,503	22,503	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	103,497	-	34,499	-	-	68,998	68,998	08.14.2016 - 08.14.2018
	RSU	16/17	5.38	-	144,088	-	-	-	144,088	144,088	08.19.2017 - 08.19.2019
Mr. Zhao John Huan	SAR	11/12	5.78	-	-	-	-	-	-	103,913	11.03.2012 - 11.03.2014
	SAR	12/13	6.36	-	-	-	-	-	-	274,316	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	121,362	-	121,362	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	183,923	-	91,961	-	-	91,962	275,884	08.15.2015 - 08.15.2017
	SAR	15/16	7.49	403,970	-	134,657	-	-	269,313	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	-	615,761	-	-	-	615,761	615,761	08.19.2017 - 08.19.2023
	RSU	13/14	7.88	32,801	-	32,801	-	-	-	-	08.16.2014 - 08.16.2016
	RSU	14/15	11.48	45,006	-	22,503	-	-	22,503	22,503	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	103,497	-	34,499	-	-	68,998	68,998	08.14.2016 - 08.14.2018
	RSU	16/17	5.38	-	144,088	-	-	-	144,088	144,088	08.19.2017 - 08.19.2019
Dr. Tian Suning	SAR	09/10	3.88	-	-	-	263,796	220,351	-	-	08.07.2010 - 08.07.2012
	SAR	09/10	4.47	-	-	-	38,163	36,275	-	-	11.30.2010 - 11.30.2012
	SAR	10/11	4.59	-	-	-	-	-	-	237,001	08.20.2011 - 08.20.2013
	SAR	11/12	4.56	-	-	-	-	-	-	323,000	08.19.2012 - 08.19.2014
	SAR	12/13	6.36	-	-	-	-	-	-	274,316	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	121,362	-	121,362	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	183,923	-	91,961	-	-	91,962	275,884	08.15.2015 - 08.15.2017
	SAR	14/15	7.49	403,970	-	134,657	-	-	269,313	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	-	615,761	-	-	-	615,761	615,761	08.19.2017 - 08.19.2023
	RSU	13/14	7.88	32,801	-	32,801	-	-	-	-	08.16.2014 - 08.16.2016
	RSU	14/15	11.48	45,006	-	22,503	-	-	22,503	22,503	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	103,497	-	34,499	-	-	68,998	68,998	08.14.2016 - 08.14.2018
	RSU	16/17	5.38	-	144,088	-	-	-	144,088	144,088	08.19.2017 - 08.19.2019
Mr. Nicholas C. Allen	SAR	09/10	4.47	-	-	-	-	-	-	107,343	11.30.2010 - 11.30.2012
	SAR	10/11	4.59	-	-	-	-	-	-	237,001	08.20.2011 - 08.20.2013
	SAR	11/12	4.56	-	-	-	-	-	-	323,000	08.19.2012 - 08.19.2014
	SAR	12/13	6.36	-	-	-	-	-	-	274,316	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	121,362	-	121,362	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	183,923	-	91,961	-	-	91,962	275,884	08.15.2015 - 08.15.2017
	SAR	14/15	7.49	403,970	-	134,657	-	-	269,313	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	-	615,761	-	-	-	615,761	615,761	08.19.2017 - 08.19.2023
	RSU	13/14	7.88	32,801	-	32,801	-	-	-	-	08.16.2014 - 08.16.2016
	RSU	14/15	11.48	45,006	-	22,503	-	-	22,503	22,503	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	103,497	-	34,498	-	-	68,999	68,999	08.14.2016 - 08.14.2018
	RSU	16/17	5.38	-	144,088	-	-	-	144,088	144,088	08.19.2017 - 08.19.2019

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(continued)*

Long-Term Incentive Program *(continued)*

				Number of units							
Name	**Award type**	**Fiscal Year of Award**	**Effective price** (HK$)	**As at April 1, 2016** (Unvested)	**Awarded during the period**	**Vested during the period**	**Exercised during the period**	**Cancelled/ lapsed during the period** *(Note 2)*	**As at September 30, 2016** (Unvested)	**Total outstanding as at September 30, 2016**	**Vesting period** (mm.dd.yyyy)
Mr. Nobuyuki Idei	SAR	11/12	5.23	-	-	-	-	-	-	144,085	09.28.2012 - 09.28.2014
	SAR	12/13	6.36	-	-	-	-	-	-	274,316	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	121,362	-	121,362	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	183,923	-	91,961	-	-	91,962	275,884	08.15.2015 - 08.15.2017
	SAR	14/15	7.49	403,970	-	134,657	-	-	269,313	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	-	615,761	-	-	-	615,761	615,761	08.19.2017 - 08.19.2023
	RSU	13/14	7.88	32,801	-	32,801	-	-	-	-	08.16.2014 - 08.16.2016
	RSU	14/15	11.48	45,006	-	22,503	-	-	22,503	22,503	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	103,497	-	34,498	-	-	68,999	68,999	08.14.2016 - 08.14.2018
	RSU	16/17	5.38	-	144,088	-	-	-	144,088	144,088	08.19.2017 - 08.19.2019
Mr. William O. Grabe	SAR	09/10	3.88	-	-	-	263,796	219,642	-	-	08.07.2010 - 08.07.2012
	SAR	09/10	4.47	-	-	-	38,163	31,244	-	-	11.30.2010 - 11.30.2012
	SAR	10/11	4.59	-	-	-	-	-	-	237,001	08.20.2011 - 08.20.2013
	SAR	11/12	4.56	-	-	-	-	-	-	323,000	08.19.2012 - 08.19.2014
	SAR	12/13	6.36	-	-	-	-	-	-	274,316	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	121,362	-	121,362	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	183,923	-	91,961	-	-	91,962	275,884	08.15.2015 - 08.15.2017
	SAR	14/15	7.49	403,970	-	134,657	-	-	269,313	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	-	615,761	-	-	-	615,761	615,761	08.19.2017 - 08.19.2023
	RSU	13/14	7.88	32,801	-	32,801	-	-	-	-	08.16.2014 - 08.16.2016
	RSU	14/15	11.48	45,006	-	22,503	-	-	22,503	22,503	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	103,497	-	34,498	-	-	68,999	68,999	08.14.2016 - 08.14.2018
	RSU	16/17	5.38	-	144,088	-	-	-	144,088	144,088	08.19.2017 - 08.19.2019
	RSU (Deferral)	15/16	5.00	-	49,510	49,510	-	-	-	-	Note 1
	RSU (Deferral)	16/17	4.71	-	52,506	52,506	-	-	-	-	Note 1
Mr. William Tudor Brown	SAR	12/13	8.07	-	-	-	-	-	-	53,476	01.31.2014 - 01.31.2016
	SAR	13/14	7.88	121,362	-	121,362	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	183,923	-	91,961	-	-	91,962	275,884	08.15.2015 - 08.15.2017
	SAR	14/15	7.49	403,970	-	134,657	-	-	269,313	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	-	615,761	-	-	-	615,761	615,761	08.19.2017 - 08.19.2023
	RSU	13/14	7.88	32,801	-	32,801	-	-	-	-	08.16.2014 - 08.16.2016
	RSU	14/15	11.48	45,006	-	22,503	-	-	22,503	22,503	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	103,497	-	34,498	-	-	68,999	68,999	08.14.2016 - 08.14.2018
	RSU	16/17	5.38	-	144,088	-	-	-	144,088	144,088	08.19.2017 - 08.19.2019
Ms. Ma Xuezheng	SAR	11/12	4.56	-	-	-	-	-	-	107,666	08.19.2012 - 08.19.2014
	SAR	12/13	6.36	-	-	-	-	-	-	182,877	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	121,362	-	121,362	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	183,923	-	91,961	-	-	91,962	275,884	08.15.2015 - 08.15.2017
	SAR	14/15	7.49	403,970	-	134,657	-	-	269,313	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	-	615,761	-	-	-	615,761	615,761	08.19.2017 - 08.19.2023
	RSU	13/14	7.88	32,801	-	32,801	-	-	-	-	08.16.2014 - 08.16.2016
	RSU	14/15	11.48	45,006	-	22,503	-	-	22,503	22,503	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	103,497	-	34,499	-	-	68,998	68,998	08.14.2016 - 08.14.2018
	RSU	16/17	5.38	-	144,088	-	-	-	144,088	144,088	08.19.2017 - 08.19.2019
Mr. Yang Chih-Yuan Jerry	SAR	12/13	8.63	-	-	-	-	-	-	24,593	02.20.2014 - 02.20.2016
	SAR	13/14	7.88	81,919	-	81,919	-	-	-	245,757	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	124,148	-	62,073	-	-	62,075	186,221	08.15.2015 - 08.15.2017
	SAR	14/15	11.07	37,202	-	12,400	-	-	24,802	37,202	11.16.2015 - 11.16.2017
	SAR	14/15	7.49	403,970	-	134,657	-	-	269,313	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	-	615,761	-	-	-	615,761	615,761	08.19.2017 - 08.19.2023
	RSU	13/14	7.88	22,141	-	22,141	-	-	-	-	08.16.2014 - 08.16.2016
	RSU	14/15	11.48	30,379	-	15,189	-	-	15,190	15,190	08.15.2015 - 08.15.2017
	RSU	14/15	11.07	9,103	-	3,034	-	-	6,069	6,069	11.06.2015 - 11.06.2017
	RSU	15/16	7.49	103,497	-	34,498	-	-	68,999	68,999	08.14.2016 - 08.14.2018
	RSU	16/17	5.38	-	144,088	-	-	-	144,088	144,088	08.19.2017 - 08.19.2019
Mr. Gordon Robert Halyburton Orr	SAR	15/16	7.25	224,107	-	74,702	-	-	149,405	224,107	09.18.2016 - 09.18.2022
	SAR	16/17	5.38	-	615,761	-	-	-	615,761	615,761	08.19.2017 - 08.19.2023
	RSU	15/16	7.25	57,416	-	19,138	-	-	38,278	38,278	09.18.2016 - 09.18.2018
	RSU	16/17	5.38	-	144,088	-	-	-	144,088	144,088	08.19.2017 - 08.19.2019

Note 1: Proceeds in respect of quarterly deferral grants to be paid only at point of termination from the board of directors or unforeseen emergency.

Note 2: These units were nulified in accordance with the operation of the SAR plan rules.

DIRECTORS' INTERESTS

As at September 30, 2016, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(i) Interests in the shares and underlying shares of the Company

		Capacity and number of shares/ underlying share held				
Name of director	**Interests in shares/ underlying shares**	**Personal interests**	**Family interests**	**Corporate interests**	**Aggregate long position**	**Approximate percentage of interests** *(Note 2)*
Mr. Yang Yuanqing	Ordinary shares	72,796,619	–	622,804,000 *(Note 3)*	695,600,619	
	Share awards	205,897,579	–	–	205,897,579	
					901,498,198	8.12%
Mr. Zhu Linan	Ordinary shares	2,781,682	–	–	2,781,682	
	Share awards	1,865,365	–	–	1,865,365	
					4,647,047	0.04%
Mr. Zhao John Huan	Ordinary shares	337,117	–	–	337,117	
	Share awards	2,273,517	–	–	2,273,517	
					2,610,634	0.02%
Dr. Tian Suning	Ordinary shares	835,296	–	–	835,296	
	Share awards	2,729,605	–	–	2,729,605	
					3,564,901	0.03%
Mr. Nicholas C. Allen	Ordinary shares	662,008	–	–	662,008	
	Share awards	2,836,949	–	–	2,836,949	
					3,498,957	0.03%
Mr. Nobuyuki Idei	Ordinary shares	363,030	–	–	363,030	
	Share awards	2,313,690	–	–	2,313,690	
					2,676,720	0.02%
Mr. William O. Grabe	Ordinary shares	1,916,574	–	744,281	2,660,855	
	Share awards	2,729,606	–	–	2,729,606	
					5,390,461	0.05%
Mr. William Tudor Brown	Ordinary shares	248,572	–	–	248,572	
	Share awards	1,948,765	–	–	1,948,765	
					2,197,337	0.02%
Ms. Ma Xuezheng	Ordinary shares	10,837,965	–	2,240,000	13,077,965	
	Share awards	2,185,831	–	–	2,185,831	
					15,263,796	0.14%
Mr. Yang Chih-Yuan Jerry	Ordinary shares	145,076	–	–	145,076	
	Share awards	1,747,850	–	–	1,747,850	
					1,892,926	0.02%
Mr. Gordon Robert Halyburton Orr	Ordinary shares	19,138	–	–	19,138	
	Share awards	1,022,234	–	–	1,022,234	
					1,041,372	0.01%

DIRECTORS' INTERESTS *(continued)*

(ii) Interests in shares and underlying shares of the associated corporations of the Company

Name of director	Name of associated corporations	Long position/ short position	Capacity/ nature of interests	Number and class of shares/ underlying shares/ registered capital held	Approximate percentage of interests *(Note 4)*
Mr. Yang Yuanqing	SHENQI Holdings Limited	Long position	Personal interests held as beneficial owner	4,200,000 ordinary shares	4.42%
	SHAREit Technology Holdings Inc.	Long position	Personal interests held as beneficial owner	5,500,000 series A preferred shares	15.98%
	北京聯想智慧醫療信息技術有限公司	Long position	Personal interests held as beneficial owner	registered capital of RMB2,400,000	3.00% *(Note 5)*
	國民認證科技（北京）有限公司	Long position	Personal interests held as beneficial owner	registered capital of RMB1,097,144	6.00% *(Note 5)*

Notes:

1. Share awards represent underlying shares convertible into ordinary shares. Details of share awards are set out under the section "Long-Term Incentive Program".
2. The approximate percentage of interests is based on the shares/underlying shares comprising the interests held as a percentage of the total number of shares in issue of the Company of the same class immediately after the relevant event and as recorded in the register maintained under section 352 of the SFO.
3. The shares are held by Sureinvest Holdings Limited in which Mr. Yang Yuanqing holds more than one-third of the voting power at its general meetings. Therefore, Mr. Yang is taken to have an interest in 622,804,000 shares under the SFO and such interest is also reported under the below section headed "Substantial Shareholders' and Other Persons' Interests".
4. The approximate percentage of interests is based on the shares comprising the interests held as a percentage of the total number of shares in issue of the same associated corporation of the same class immediately after the relevant event and as recorded in the register maintained under section 352 of the SFO.
5. Mr. Yang Yuanqing holds the interests of RMB2,400,000 (being 3%) and RMB1,097,144 (being 6%) in the registered capital in 北京聯想智慧醫療信息技術有限公司 and 國民認證科技(北京)有限公司 respectively.

Save as disclosed above, as at September 30, 2016, none of the directors or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at September 30, 2016, the following persons (other than the directors and chief executive of the Company as disclosed above) had an interests or short positions in the shares and/or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

		Capacity and number of shares/ underlying shares held			
Name	**Long position/ short position**	**Beneficial owner**	**Corporate interests**	**Aggregate long and short positions**	**Approximate percentage of interests** *(Note 1)*
Legend Holdings Corporation	Long position	2,867,636,724	628,919,317 *(Note 2)*	3,496,556,041	31.47%
Right Lane Limited	Long position	388,819,317	240,100,000 *(Note 3)*	628,919,317	5.66%
Sureinvest Holdings Limited	Long position	622,804,000	–	622,804,000 *(Note 4)*	5.61%
BlackRock, Inc.	Long position	–	565,435,216	565,435,216 *(Note 5)*	5.09%
	Short position	–	172,000	172,000 *(Note 5)*	0.00%

Notes:

1. The approximate percentage of interests is based on the shares/underlying shares comprising the interests held as a percentage of the total number of shares in issue of the Company of the same class immediately after the relevant event and as recorded in the register maintained under section 336 of the SFO.
2. Out of 628,919,317 shares, 388,819,317 shares are directly held by Right Lane Limited ("Right Lane"), a direct wholly-owned subsidiary of Legend Holdings Corporation, and 240,100,000 shares are indirectly held by Right Lane through its wholly-owned subsidiary, Legion Elite Limited ("Legion Elite").
3. These shares are held by Legion Elite.
4. Mr. Yang Yuanqing holds more than one-third of the voting power at general meetings of Sureinvest Holdings Limited ("SHL"). Accordingly, Mr. Yang is deemed to have interests in those 622,804,000 shares of the Company held by SHL under the SFO. This interest is also included as corporate interests of Mr. Yang in the above section headed "Directors' Interests".
5. BlackRock, Inc. holds 565,435,216 shares in long position and 172,000 shares in short position of the Company through its various controlled corporations. In addition, 1,886,000 shares in long position and 172,000 shares in short position are held through cash settled unlisted derivatives.

Save as disclosed above, as at September 30, 2016, no other persons (other than the directors and chief executive of the Company, whose interests are set out in the above section headed "Directors' Interests") had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

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 under section headed "Long-Term Incentive Program" in this interim report.

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.

CHANGES IN DIRECTORS' EMOLUMENTS AND INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in directors' emoluments and information of the Company subsequent to the date of the 2015/16 Annual Report or the latest pertaining publication of the Company (whichever later) are set out below:

Director		Details of Changes
Mr. Yang Yuanqing	–	For the financial year ending March 31, 2017, the share awards of Mr. Yang Yuanqing under the long-term incentive program of the Company is increased to a value of US$18,737,000 (or approximately RMB124,995,831). *(Note: The translation of RMB into USD is based on the exchange rate of RMB1.00 to USD0.149901 as at September 30, 2016 and is for information purposes only).*
Mr. Zhu Linan	–	Ceased to be a member of the Compensation Committee of the Company with effect from September 1, 2016.
Mr. Zhao John Huan	–	Appointed as a member of the Compensation Committee of the Company with effect from September 1, 2016.
	–	Appointed as the chairman of the board, executive director and chief executive officer of Lee & Man Handbags Holding Limited (HKSE listed) with effect from August 9, 2016.
Dr. Tian Suning	–	Retired as an independent non-executive director of MasterCard Incorporated (NYSE listed) on June 28, 2016.
	–	Appointed as a member of the Nomination and Governance Committee of the Company with effect from September 1, 2016.
	–	Being an executive chairman of the holding company of AsiaInfo from February 2014.
Mr. Nicholas C. Allen	–	Resigned as an independent non-executive director of VinaLand Limited (London Stock Exchange AIM listed) with effect from October 25, 2016.
Ms. Ma Xuezheng	–	Resigned as a non-executive director of STELUX Holdings International Limited (HKSE listed) with effect from September 15, 2016.
Mr. Gordon Robert Halyburton Orr	–	Re-designated from a non-executive director to an independent non-executive director of the Company and appointed as a member of the Audit Committee and the Compensation Committee of the Company with effect from September 1, 2016.

Save as disclosed above, there is no other information to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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 Listing Rules, 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.

COMPLIANCE WITH MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules along with its guidance note to govern directors' securities transactions. Having made specific enquiry of the directors of the Company, all the directors of the Company have confirmed their compliance with the required standard set out in the Model Code and the guidance note at all applicable times during the six months ended September 30, 2016.

The Company has also adopted its own trading in securities policy applicable to designated senior management of the Company which is on terms no less exacting than the required standard as set out in the Model Code.

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

November 3, 2016

CORPORATE INFORMATION

HONORARY CHAIRMAN
Mr. Liu Chuanzhi

BOARD OF DIRECTORS

Chairman and executive director
Mr. Yang Yuanqing

Non-executive directors
Mr. Zhu Linan
Mr. Zhao John Huan

Independent non-executive directors
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
Mr. Gordon Robert Halyburton Orr

CHIEF FINANCIAL OFFICER
Mr. Wong Wai Ming

COMPANY SECRETARY
Mr. Mok Chung Fu, Eric

REGISTERED OFFICE
23rd Floor, Lincoln House, Taikoo Place
979 King's Road, Quarry Bay, Hong Kong

PRINCIPAL BANKERS
Bank of China
BNP Paribas
Citibank, N.A.
Industrial and Commercial Bank of China
Standard Chartered Bank (Hong Kong) Limited

INDEPENDENT AUDITOR
PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong

SHARE REGISTRAR
Tricor Abacus Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

AMERICAN DEPOSITARY RECEIPTS
(Depositary and Registrar)
Citibank, N.A.
14th Floor, 388 Greenwich Street
New York, NY 10013, USA

STOCK CODES

Hong Kong Stock Exchange:	992
American Depositary Receipts:	LNVGY

WEBSITE
www.lenovo.com