Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

FY2016/17 ANNUAL RESULTS ANNOUNCEMENT

ANNUAL RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") announces the audited results of the Company and its subsidiaries (the "Group") for the year ended March 31, 2017 together with comparative figures of last year, as follows:

FINANCIAL HIGHLIGHTS

- Full year Group revenue of US$43B, down 4% YTY, down 3% YTY excluding currency impact
- Full year Group profit before taxation of US$490M and Group profit attributable to equity holders of the Company of US$535M
- Core PC business remained solid; transformation for mobile businesses on track; accelerating transition to solution driven data center business
- Despite challenging market conditions, Lenovo is executing strategy for continued profitable growth through new products, fast-growing segments, vertical markets

	3 months ended March 31, 2017 *US$'million*	Year ended March 31, 2017 *US$'million*	3 months ended March 31, 2016 *US$'million*	Year ended March 31, 2016 *US$'million*	Year-on-year change 3 months ended March 31	Year-on-year change Full-year
Revenue	9,579	43,035	9,133	44,912	5%	(4)%
Gross profit	1,368	6,106	1,518	6,624	(10)%	(8)%
Gross profit margin	14.3%	14.2%	16.6%	14.8%	(2.3)pts	(0.6)pts
Operating expenses	(1,294)	(5,434)	(1,270)	(6,686)	2%	(19)%
Operating profit/(loss)	74	672	248	(62)	(70)%	N/A
Other non-operating expenses - net	(59)	(182)	(55)	(215)	7%	(15)%
Profit/(loss) before taxation	15	490	193	(277)	(92)%	N/A
Profit/(loss) for the period/year	104	530	176	(145)	(41)%	N/A
Profit/(loss) attributable to equity holders of the Company	107	535	180	(128)	(41)%	N/A
Earnings/(loss) per share attributable to equity holders of the Company						
Basic	US 0.97 cents	US 4.86 cents	US 1.63 cents	US (1.16) cents	US (0.66) cents	N/A
Diluted	US 0.97 cents	US 4.86 cents	US 1.62 cents	US (1.16) cents	US (0.65) cents	N/A

PROPOSED DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK20.5 cents per share for the year ended March 31, 2017 (2016: HK20.5 cents). Subject to shareholders' approval at the forthcoming annual general meeting to be held on July 6, 2017 ("AGM"), the proposed final dividend will be payable on July 18, 2017 to the shareholders whose names appear on the register of members of the Company on July 12, 2017.

CLOSURE OF REGISTER OF MEMBERS

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

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

Latest time to lodge transfer documents for registration	4:30 p.m. on June 29, 2017
Closure of register of members	From June 30 to July 6, 2017
Record date	June 30, 2017

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

Latest time to lodge transfer documents for registration	4:30 p.m. on July 11, 2017
Closure of register of members	July 12, 2017
Record date	July 12, 2017

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

BUSINESS REVIEW AND OUTLOOK

Business Review

During the fiscal year ended March 31, 2017, the Group faced difficult macro environment conditions resulting in challenging global markets at a time the Group was executing its transformation strategy. A combination of increases in key component costs and supply constraints across the industries where the Group operates also caused some impact on the Group's performance, especially in the second half of the fiscal year. Despite that, the Group saw progress in all its businesses last year. Lenovo remained number one in PCs for the fiscal year under review with record high market share and demonstrated strong growth in fast growing segments such as gaming and detachable. The Group's Mobile business achieved strong growth in shipments in Latin America and is breaking through in Western Europe while repositioning its China business. For the Data Center business, the Group's transformation work under its new business leader started showing some signs of stabilization, especially in certain markets outside of China. The Group also continued to build its capabilities in Device + Cloud, adding new offerings to its portfolio and growing its "opt-in" attach rates for user-friendly applications.

For the fiscal year ended March 31, 2017, the Group's consolidated revenue decreased by 4 percent year-on-year, or 3 percent excluding currency impact, to US$43,035 million due to the transition in the smartphone and data center businesses during the year under review. Revenue of the Group's PC and Smart Device business was US$30,076 million, representing a year-on-year decrease of 2 percent. Revenue of the Mobile business decreased 10 percent year-on-year to US$7,707 million. Revenue of Data Center business decreased 11 percent year-on-year to US$4,069 million. Meanwhile, revenue of other goods and services was US$1,183 million.

For the fiscal year ended March 31, 2017, the Group's gross profit was US$6,106 million, a decrease of 8 percent year-on-year, while gross margin decreased by 0.6 percentage point year-on-year to 14.2 percent, impacted largely by component cost increase arising from their supply constraints across various products and the transition in Data Center business. Operating expenses were down by 19 percent year-on-year to US$5,434 million, and the expense-to-revenue ratio was 12.6 percent, against 14.9 percent for the same period last year. The decrease of expense-to-revenue ratio was mainly attributable to the restructuring expenses incurred in the previous year, resulting in a lower administration expense from its previous resource actions, which offset the higher marketing expenses for smartphone launches during the year under review as the Group brings its new Moto brand products to more countries. Including the disposal gains from non-core properties and Chengdu joint venture of US$553 million, restructuring costs of US$159 million, and non-cash M&A accounting charges of US$298 million, the Group's reported profit before taxation was US$490 million against US$277 million loss recorded in the previous year. The Group's profit attributable to equity holders was US$535 million against US$128 million loss recorded in the previous year.

Performance of Product Business Groups

During the fiscal year ended March 31, 2017, Lenovo continued to strengthen its PC business while transforming its Mobile and Data Center businesses to develop a solid foundation for its long-term growth.

PC and Smart Device Business Group (PCSD)

During the year under review, despite challenges in macro-economic conditions, currency volatility, and supply constraints and cost increase in key components, the global PC industry has started showing a gradual trend of stabilization, driven by the higher commercial refresh demand. The Group continued to outperform the PC market as the number one player with record high market share for the full year period under review, through the solid execution of its strategy to capture opportunities from market consolidation, and focused innovation for fast growing product segments. The Group recorded a strong double-digit growth in the gaming and detachable segments, up 34 percent and 69 percent year-on-year, respectively.

For the fiscal year ended March 31, 2017, the Group's global PC unit shipments decreased 1 percent year-on-year to 55.7 million, against a market decline of 3 percent. Lenovo's market share continued to increase and achieved a record high level. Its worldwide PC market share was 21.4 percent for the fiscal year, an increase of 0.4 percentage point year-on-year, according to industry estimates.

The Group's commercial PC unit shipments for the fiscal year increased 4 percent year-on-year, against a 1 percent increase from the market. Lenovo's market share in the worldwide commercial PC market has increased by 0.5 percentage point year-on-year to 22.9 percent for the fiscal year. The Group's consumer PC unit shipment for the fiscal year has declined by 6 percent year-on-year, which was slightly better than the market. Its latest market share for fiscal year was 19.6 percent, an increase of 0.1 percentage point year-on-year, according to industry estimates.

The Group's PC plus Tablet shipments reached 66.6 million for the fiscal year, largely flat against a market decline of 8 percent. The Group continued to solidify its worldwide number one position in the combined PC plus Tablet market and its market share reached 15.4 percent for the fiscal year, increasing 1.1 percentage points year-on-year, according to industry estimates.

For the fiscal year ended March 31, 2017, revenue of the Group's PCSD business was US$30.1 billion, representing approximately 70 percent of the Group's total revenue, and a year-on-year decrease of 2 percent. The Group further expanded its margin for the PCSD business despite the market challenges during the year. The business group recorded a pre-tax profit of US$1,494 million, up 2 percent year-on-year. Pre-tax profit margin was 5.0 percent, up 0.3 percentage point year-on-year, thanks to improved efficiency.

Mobile Business Group (MBG)

The Group's strategic shift in its mobile business in the fiscal year under review has started showing signs of strengthening, leading to a strong performance in ROW (rest of the world/outside China) markets, while repositioning its China business.

The Group recorded strong shipments growth in Latin America and signs of breaking through in Western Europe, while keeping its solid position in emerging countries like India, with shipments year-on-year growth of 8 percent, 36 percent, and 11 percent, respectively, during the fiscal year. The Group's innovative new products like Moto Z, Moto Mods, and the new generation of Moto G, continued to receive encouraging customer response and increased activation rates. In China, the Group continued to record a decline in both revenue and shipments as it was under transformation that includes rebuilding the brand and re-aligning its channel strategy. Therefore, the Group's worldwide smartphone shipments for the year recorded a decline of 22 percent year-on-year and its worldwide smartphone market share was 3.5 percent for the fiscal year.

Mobile business revenue was US$7,707 million, representing approximately 18 percent of the Group's total revenue, decreasing about 10 percent year-on-year for the fiscal year ended March 31, 2017. Successful new products such as Moto G and Moto Z and a streamlined product portfolio resulted in an increase of the average selling price that mitigated the impact of shipments decline to its revenue.

Owing to increase in branding and marketing expenses to support new product launches and increased key component costs, the business group recorded an operational loss before taxation for the period under review of US$566 million if excluding non-cash M&A related accounting charges.

Data Center Business Group (DCG)

The global server market recorded a slow performance last year largely due to slower traditional enterprise demand, competition in hyperscale market in China, and cost increases in key components especially in the second half of the fiscal year.

The Group has kick-started its transformation plan during the year, building a direct sales force, channel and solution capabilities with a focus on creating a solid foundation for future profitable growth. The new business leader has been on board since last November and has led the implementation of the transition strategy.

Despite uncertainties in the macro environment and challenges in its transformation, the business started seeing early signs of stabilization in the second half of the fiscal year, especially in key markets outside of China. The Group's Global Accounts business has recorded a solid double digit year-on-year growth. In the meantime, the Group also continued its solid performance in High Performance Computing (HPC) business and is currently ranked as the worldwide number 2 HPC company on the Top 500 list. The Group continued to leverage its existing strategic partnerships to bring comprehensive solutions integrating storage, networking software and services. In China, the Group has also kick-started transformation actions to refine its hyperscale business model to strike a balance between growth and profitability.

For the fiscal year ended March 31, 2017, revenue of the data center business was US$4,069 million, representing approximately 9 percent of the Group's total revenue, a decrease of 11 percent year-on-year as it was still undergoing its business transformation. With the slower revenue performance and components cost increase in the second half of the fiscal year, the Group's data center business recorded an operational loss before taxation of US$343 million if excluding the non-cash M&A related accounting charges during the year.

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 year under review, the Group continued to invest in several new smart devices and smart home/healthcare application developers and obtained great recognition from the venture capital industry.

Revenue from the ecosystem, cloud computing, and other products such as consumer electronic businesses from previous acquisitions was US$1,183 million, representing approximately 3 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 year 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 record high market share of 37.1 percent, according to industry estimates, and continued to uphold its profitability by leveraging its leadership position.

Competition in the China smartphone market remained very keen. The Group's smartphone business was undergoing its transformation plan to prepare for a more focused brand and re-aligned channel strategy, and as a result, it recorded a shipment decline during the year under review. The Group has also started the transformation of its data center business in China with a plan to increase direct sales coverage and refine hyperscale business to drive more profitable growth over time. Hence the performance during the year under review was impacted by its business model transformation, along with the impact of component cost increase.

In spite of the transformation in the mobile and data center businesses and impact of key component cost increases, profit before taxation in the region remained solid thanks to its strong PCSD business. The pre-tax profit was US$539 million and pre-tax profit margin was 4.6 percent, remained flat year-on-year.

Americas (AG)

Americas accounted for 30 percent of the Group's total revenue. The Group delivered strong PC growth in AG during the year under review. Its PC unit shipments increased by 6 percent year-on-year, outperformed the market by 9 percentage point. Its market share increased by 1.3 percentage points from a year ago to 14.9 percent for the fiscal year under review, according to industry estimates. The solid performance was driven by the strong growth of its PC unit shipments in North America, which grew by 10 percent year-on-year against a market growth of 1 percent.

The Group's Moto brand smartphone products continued its strong shipments growth in Latin America and enjoyed good customer feedback during the year under review. The Moto G products continued to bring strong momentum across the region, while its innovative Moto Z and Moto Mod products created a new premium category. As a result, the Group's smartphone business in Americas further improved its profitability for the fiscal year under review, despite its shipment performance was slower due to its transformation in North America. The Group's data center business continued to invest in enhancing its sales capabilities and started to see signs of stabilization in its revenue performance in the second half of the fiscal year. It achieved strong revenue growth of its Global Accounts and won new deals from leading retailer and public cloud clients in North America.

The Group recorded a profit before taxation of US$157 million in the region, versus a loss of US$121 million recorded in the previous year, and its pre-tax profit margin was 1.2 percent, against a negative pre-tax margin at 0.9 percent a year ago, thanks to its stable PC margin performance and profit improvement in smartphone business.

Asia Pacific (AP)

Asia Pacific accounted for 16 percent of the Group's total revenue. As the Group has higher exposure in the emerging countries in the region that were impacted by the slowing macro environment, resulting in its PC unit shipments for the year decreasing by 11 percent year-on-year against a market decline of 3 percent. But the Group maintained its number two position in the PC market with market share of 16.0 percent.

The Group's smartphone business continued its focus on improving its average selling price in the region and achieved revenue growth while remaining a strong player in India during the year under review. This occurred despite a slight decline in shipments due to component supply constraints and the intensified competition in some emerging areas in the region. The Group's data center business continued to undertake its transition actions, and started to see early signs of stabilization in the second half of the fiscal year.

Loss before taxation was US$65 million and pre-tax profit margin was negative 0.9 percent, against a positive 1.2 percent in the previous year, mainly due to the transition in its smartphone and data center businesses.

Europe-Middle East-Africa (EMEA)

EMEA accounted for 26 percent of the Group's total revenue. During the year under review, the Group stabilized its PC business in EMEA, and its PC unit shipments were flat year-on-year, against a market decline of 2 percent year-on-year while achieved its record high market share at 20.4 percent, increased by 0.4 percentage point year-on-year.

The Group's smartphone business has successfully broken through in the Western Europe market during the year under review. Despite this success, shipments were down year-on-year largely due to its transformation in emerging areas in the region. Its data center business experienced a slower end market demand from macro uncertainty surrounding Brexit, and undertook transition actions such as enhancing its sales force and investing in the product portfolio, hence impacted its overall performance during the year under review.

As a result, the Group incurred US$337 million loss before taxation, a pre-tax profit margin of negative 3.0 percent, in EMEA during the year under review against a profit of US$126 million in the previous year, as it invested in marketing and branding to drive its smartphone business, and transform its data center business.

Outlook

Looking forward, the supply constraints of key components in the industry and cost increases will continue to bring short-term challenges to the Group's business environment. The Group will continue to execute its strategy diligently to drive sustainable profitable growth over time.

For PCSD, the Group will continue to strengthen performance of its core PC business by leveraging industry consolidation, while driving growth from launching more innovative products, and focusing on fast growing segments and vertical markets.

For the Mobile business, the Group will continue its brand building and expand its scale across geographies leveraging its streamlined innovative product portfolios, and broaden global carrier relationships and channel coverage. In China, the Group will continue to execute its business transformation plan of brand rebuilding, re-align channel strategy, and prepare for new product launches. Through its previous resource actions, the Group's mobile business has now established a new competitive operating model and organizational structure to capture efficiency, which is set to help the profitability improvement of the business over time.

For Data Center business, the Group has its new leader on board to implement its transformation strategy and build the critical business structure to drive future business growth. The Group will continue to build a world-class portfolio of solutions and provide its end-to-end global sales and marketing teams with more sophisticated channel programs on top of its core competence. It will also focus on increasing its attach rate in networking, storage and services to enhance profit. These transformation strategies may require time to be effective, but the Group remains confident of returning DCG business to profitable growth over time.

Meanwhile, the Group will continue to develop new smart devices, powered by cloud and enriched with services. The Group is exploring smart home, smart office, smart healthcare and other areas, as well as leveraging AI, 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.

Despite market conditions that will remain challenging in the short term, the Group exited the year with stronger organization allowing for sharper customer focus and more compelling product portfolio across all our business. Together with its competitive cost structure and solid execution, the Group remains confident in its vision and strategy to drive long-term profitable growth.

FINANCIAL REVIEW

Results for the year ended March 31, 2017

	2017 *US$'million*	2016 *US$'million*	Year-on-year change
Revenue	**43,035**	44,912	(4)%
Gross profit	**6,106**	6,624	(8)%
Gross profit margin	**14.2%**	14.8%	(0.6)pts
Operating expenses	**(5,434)**	(6,686)	(19)%
Operating profit/(loss)	**672**	(62)	N/A
Other non-operating expenses – net	**(182)**	(215)	(15)%
Profit/(loss) before taxation	**490**	(277)	N/A
Profit/(loss) for the year	**530**	(145)	N/A
Profit/(loss) attributable to equity holders of the Company	**535**	(128)	N/A
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	**US 4.86 cents**	US (1.16) cents	N/A
Diluted	**US 4.86 cents**	US (1.16) cents	N/A

For the year ended March 31, 2017, the Group achieved total sales of approximately US$43,035 million. Profit attributable to equity holders for the year was approximately US$535 million, as compared with loss attributable to equity holders of US$128 million reported last year. The loss attributable to equity holders reported 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 year was 0.6 percentage points down from 14.8 percent reported last year. Basic earnings per share and diluted earnings per share were US4.86 cents, as compared with basic and diluted loss per share of US1.16 cents reported last year.

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

	2017 ***US$'000***	2016 *US$'000*
China	**11,794,773**	12,358,639
AP	**7,011,595**	7,154,662
EMEA	**11,187,313**	11,794,698
AG	**13,041,050**	13,604,098
	43,034,731	44,912,097

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

Operating expenses analyzed by function for the years ended March 31, 2017 and 2016 are as follows:

	2017	2016
	US$'000	*US$'000*
Other income – net	**10,891**	2,185
Selling and distribution expenses	**(2,680,631)**	(2,372,833)
Administrative expenses	**(1,851,990)**	(2,108,747)
Research and development expenses	**(1,361,691)**	(1,491,370)
Other operating income/(expenses) – net	**450,253**	(714,993)
	(5,433,168)	(6,685,758)

Operating expenses for the year decreased by 19 percent as compared with last year. Other income for the year mainly represents net gain on disposal of an available-for-sale financial asset of US$12 million (2016: US$2 million). During the year, the Group announced resource actions and incurred US$146 million severance costs to further enhance efficiency and competitiveness in view of industrial challenges. With that, employee benefit costs decreased by US$129 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$66 million. 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 year is mainly attributable to gain on monetizing certain non-core assets and disposal of a joint venture totaling US$555 million, offset with severance costs and net exchange loss. The impact of currency fluctuations during the year presented a challenge, the Group recorded a net exchange loss of US$111 million (2016: US$126 million) for the year. Key expenses by nature comprise:

	2017	2016
	US$'000	*US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(155,583)**	(166,116)
Amortization of intangible assets	**(432,996)**	(432,075)
Employee benefit costs, including	**(3,173,774)**	(3,302,749)
- *long-term incentive awards*	***(180,892)***	*(161,097)*
- *severance and related costs*	***(146,368)***	*(212,475)*
Rental expenses under operating leases	**(95,990)**	(80,527)
Net foreign exchange loss	**(110,968)**	(126,004)
Advertising and promotional expenses	**(888,883)**	(726,173)
Inventories write off	**-**	(173,424)
Loss on impairment and disposal of assets	**(7,303)**	(310,201)
Gain on disposal of property, plant and equipment and prepaid lease payments	**336,172**	5,863
Gain on disposal of a joint venture	**218,366**	-
Dilution gain of interest in an associate	**14,260**	-
Others	**(1,136,469)**	(1,374,352)
	(5,433,168)	(6,685,758)

Other non-operating expenses (net) for the years ended March 31, 2017 and 2016 comprise:

	2017	2016
	US$'000	*US$'000*
Finance income	**27,795**	32,816
Finance costs	**(231,627)**	(236,751)
Share of profits/(losses) of associates and joint ventures	**21,411**	(11,095)
	(182,421)	(215,030)

Finance income mainly represents interest on bank deposits.

Finance costs for the year 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.

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

	3 months ended March 31, 2017 ***US$'million***	3 months ended March 31, 2016 *US$'million*	Year-on-year change
Revenue	**9,579**	9,133	5%
Gross profit	**1,368**	1,518	(10)%
Gross profit margin	**14.3%**	16.6%	(2.3)pts
Operating expenses	**(1,294)**	(1,270)	2%
Operating profit	**74**	248	(70)%
Other non-operating expenses – net	**(59)**	(55)	7%
Profit before taxation	**15**	193	(92)%
Profit for the period	**104**	176	(41)%
Profit attributable to equity holders of the Company	**107**	180	(41)%
Earnings per share attributable to equity holders of the Company			
Basic	**US 0.97 cents**	US 1.63 cents	US (0.66) cents
Diluted	**US 0.97 cents**	US 1.62 cents	US (0.65) cents

For the three months ended March 31, 2017, the Group achieved total sales of approximately US$9,579 million. Profit attributable to equity holders for the period was approximately US$107 million, representing a decrease of US$73 million as compared with the corresponding period of last year. Gross profit margin for the period was 2.3 points down from 16.6 percent reported in the corresponding period of last year. Basic earnings per share and diluted earnings per share were US0.97 cents, representing a decrease of US0.66 cents and US0.65 cents respectively as compared with the corresponding period of last year.

Sales by geographical segment are as follows:

	3 months ended March 31, 2017 ***US$'000***	3 months ended March 31, 2016 *US$'000*
China	**2,280,680**	2,351,177
AP	**1,733,379**	1,584,441
EMEA	**2,623,964**	2,478,217
AG	**2,940,676**	2,718,917
	9,578,699	9,132,752

Operating expenses analyzed by function for the three months ended March 31, 2017 and 2016 are as follows:

	3 months ended March 31, 2017 ***US$'000***	3 months ended March 31, 2016 *US$'000*
Other income – net	**275**	-
Selling and distribution expenses	**(658,275)**	(535,546)
Administrative expenses	**(509,446)**	(476,481)
Research and development expenses	**(338,672)**	(351,726)
Other operating income – net	**211,473**	94,046
	(1,294,645)	(1,269,707)

Operating expenses for the period increased by 2 percent as compared with the corresponding period of last year. Increased advertising and promotional expenses, employee benefit costs, rental expenses and loss on impaitment of assets are offset by gain on disposal of a joint venture. The impact of currency fluctuations during the period presented a challenge, the Group recorded a net exchange loss of US$38 million (2016: US$28 million) for the period. Key expenses by nature comprisese:

	3 months ended March 31, 2017 *US$'000*	3 months ended March 31, 2016 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(37,484)**	(42,483)
Amortization of intangible assets	**(104,664)**	(103,549)
Employee benefit costs, including	**(797,985)**	(690,476)
- *long-term incentive awards*	***(45,850)***	*(51,285)*
- *severance and related costs*	***(10,391)***	-
Rental expenses under operating leases	**(25,415)**	(17,690)
Net foreign exchange loss	**(38,302)**	(27,832)
Advertising and promotional expenses	**(199,347)**	(138,903)
Loss on impairment of assets	**(7,303)**	-
Gain on disposal of a joint venture	**218,366**	-
Dilution gain of interest in an associate	**14,260**	-
Others	**(316,771)**	(248,774)
	(1,294,645)	(1,269,707)

Other non-operating expenses (net) for the three months ended March 31, 2017 and 2016 comprise:

	3 months ended March 31, 2017 *US$'000*	3 months ended March 31, 2016 *US$'000*
Finance income	**10,070**	7,983
Finance costs	**(67,388)**	(58,037)
Share of losses of associates and joint ventures	**(1,355)**	(4,653)
	(58,673)	(54,707)

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

Capital Expenditure

The Group incurred capital expenditure of US$803 million (2016: US$935 million) during the year ended March 31, 2017, mainly for the acquisition of property, plant and equipment, prepaid lease payments, additions in construction-in-progress and intangible assets.

Liquidity and Financial Resources

At March 31, 2017, total assets of the Group amounted to US$27,186 million (2016: US$24,933 million), which were financed by equity attributable to owners of the Company of US$3,223 million (2016: US$3,000 million), perpetual securities of US$844 million and non-controlling interests (net of put option written on non-controlling interest) of US$28 million (2016: US$26 million), and total liabilities of US$23,091 million (2016: US$21,907 million). At March 31, 2017, the current ratio of the

Group was 0.81 (2016: 0.82).

The Group had a solid financial position. At March 31, 2017, bank deposits, cash and cash equivalents totaled US$2,951 million (2016: US$2,079 million), of which 45.1 (2016: 41.7) percent was denominated in US dollar, 29.0 (2016: 29.5) percent in Renminbi, 6.6 (2016: 5.3) percent in Euro, 5.2 (2016: 7.7) percent in Japanese Yen, and 14.1 (2016: 15.8) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At March 31, 2017, 78.5 (2016: 92.6) percent of cash are bank deposits, and 21.5 (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 March 31, 2017, the facility was utilized to the extent of US$400 million (2016: US$800 million, 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 March 31, 2017 (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.

On March 16, 2017, the Group completed the issuance of 5-Year US$500 million notes bearing annual interest at 3.875% due in March 2022; and completed the issuance of US$850 million perpetual securities in the form of cumulative preferred shares bearing annual dividend at 5.375%, with a performance guarantee from the Company. Moveover, on April 6, 2017, the Group completed the issuance of an additional US$150 million perpetual securities under the same terms. The proceeds have been used for repayment of the outstanding amount under the promissory note issued to Google Inc. and for general corporate purposes including working capital.

The Group has also arranged other short-term credit facilities. At March 31, 2017, the Group's other total available credit facilities amounted to US$10,710 million (2016: US$10,661 million), of which US$1,584 million (2016: US$1,277 million) was in trade lines, US$293 million (2016: US$366 million) in short-term and revolving money market facilities and US$8,833 million (2016: US$9,018 million) in forward foreign exchange contracts. At March 31, 2017, the amounts drawn down were US$1,086 million (2016: US$540 million) in trade lines, US$8,216 million (2016: US$6,872 million) being used for the forward foreign exchange contracts, and US$70 million (2016: US$46 million) in short-term bank loans.

At March 31, 2017, the Group's outstanding borrowings represented by the term bank loan of US$398 million (2016: US$396 million), short-term bank loans of US$70 million (2016: US$746 million), notes of US$2,569 million (2016: US$2,109 million). When compared with total equity of US$4,095 million (2016: US$3,026 million), the Group's gearing ratio was 0.74 (2016: 1.07). The net debt position of the Group at March 31, 2017 is US$86 million (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 March 31, 2017, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$8,216 million (2016: US$6,872 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

Contingent Liabilities

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

Human Resources

At March 31, 2017, 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 units are subject to a vesting schedule of up to two years. Executive and non-executive directors and senior management of the Company are not eligible to participate in the Plan.

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

	Note	2017 US$'000	2016 US$'000
Revenue	2	**43,034,731**	44,912,097
Cost of sales		**(36,929,215)**	(38,288,160)
Gross profit		**6,105,516**	6,623,937
Other income - net	3	**10,891**	2,185
Selling and distribution expenses		**(2,680,631)**	(2,372,833)
Administrative expenses		**(1,851,990)**	(2,108,747)
Research and development expenses		**(1,361,691)**	(1,491,370)
Other operating income/(expenses) - net		**450,253**	(714,993)
Operating profit/(loss)	4	**672,348**	(61,821)
Finance income	5(a)	**27,795**	32,816
Finance costs	5(b)	**(231,627)**	(236,751)
Share of profits/(losses) of associates and joint ventures		**21,411**	(11,095)
Profit/(loss) before taxation		**489,927**	(276,851)
Taxation	6	**40,514**	132,276
Profit/(loss) for the year		**530,441**	(144,575)
Profit/(loss) attributable to:			
Equity holders of the Company		**535,084**	(128,146)
Perpetual securities holders		**1,872**	-
Other non-controlling interests		**(6,515)**	(16,429)
		530,441	(144,575)
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	7(a)	**US 4.86 cents**	US (1.16) cents
Diluted	7(b)	**US 4.86 cents**	US (1.16) cents
Dividends	8	**378,375**	379,316

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2017	2016
	US$'000	*US$'000*
Profit/(loss) for the year	**530,441**	(144,575)
Other comprehensive income/(loss):		
<u>Item that will not be reclassified to profit or loss</u>		
Remeasurements of post-employment benefit obligations, net of taxes	**42,390**	(24,662)
<u>Items that have been reclassified or may be subsequently reclassified to profit or loss</u>		
Fair value change on available-for-sale financial assets, net of taxes	**8,713**	216
Investment revaluation reserve reclassified to consolidated income statement on disposal of available-for-sale financial assets	**(12,640)**	154
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes		
- Fair value gain/(loss), net of taxes	**96,993**	(120,839)
- Reclassified to consolidated income statement	**(13,993)**	(85,571)
Currency translation differences	**(85,423)**	(307,081)
Other comprehensive income/(loss) for the year	**36,040**	(537,783)
Total comprehensive income/(loss) for the year	**566,481**	(682,358)
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	**571,124**	(665,929)
Perpetual securities holders	**1,872**	-
Other non-controlling interests	**(6,515)**	(16,429)
	566,481	(682,358)

CONSOLIDATED BALANCE SHEET

	Note	**2017**	2016
		US$'000	*US$'000*
Non-current assets			
Property, plant and equipment		**1,236,250**	1,391,494
Prepaid lease payments		**473,090**	337,929
Construction-in-progress		**413,160**	231,110
Intangible assets		**8,349,145**	8,661,087
Interests in associates and joint ventures		**32,567**	40,439
Deferred income tax assets		**1,435,256**	1,000,572
Available-for-sale financial assets		**255,898**	139,572
Other non-current assets		**122,221**	164,410
		12,317,587	11,966,613
Current assets			
Inventories		**2,794,035**	2,637,317
Trade receivables	*9(a)*	**4,468,392**	4,403,507
Notes receivable		**68,333**	130,718
Derivative financial assets		**53,808**	27,021
Deposits, prepayments and other receivables	*10*	**4,333,351**	3,548,760
Income tax recoverable		**199,149**	140,237
Bank deposits		**196,720**	152,336
Cash and cash equivalents		**2,754,599**	1,926,880
		14,868,387	12,966,776
Total assets		**27,185,974**	24,933,389

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**2017**	2016
		US$'000	*US$'000*
Share capital	*14*	**2,689,882**	2,689,882
Reserves		**533,719**	310,318
Equity attributable to owners of the Company		**3,223,601**	3,000,200
Perpetual securities	*15*	**843,677**	-
Other non-controlling interests		**240,844**	238,949
Put option written on non-controlling interest	*11(a)(iii)*	**(212,900)**	(212,900)
Total equity		**4,095,222**	3,026,249
Non-current liabilities			
Borrowings	*13*	**2,966,692**	2,505,112
Warranty provision	*11(b)*	**280,421**	290,857
Deferred revenue		**537,428**	532,780
Retirement benefit obligations		**370,207**	442,874
Deferred income tax liabilities		**221,601**	222,679
Other non-current liabilities	*12*	**380,557**	2,152,578
		4,756,906	6,146,880
Current liabilities			
Trade payables	*9(b)*	**5,649,925**	4,266,687
Notes payable		**835,613**	234,661
Derivative financial liabilities		**67,285**	150,864
Other payables and accruals	*11(a)*	**10,004,614**	8,305,844
Provisions	*11(b)*	**873,405**	1,157,257
Deferred revenue		**586,536**	710,164
Income tax payable		**246,465**	188,968
Borrowings	*13*	**70,003**	745,815
		18,333,846	15,760,260
Total liabilities		**23,090,752**	21,907,140
Total equity and liabilities		**27,185,974**	24,933,389

CONSOLIDATED CASH FLOW STATEMENT

	Note	**2017** ***US$'000***	2016 *US$'000*
Cash flows from operating activities			
Net cash generated from operations	*16*	**2,697,332**	841,292
Interest paid		**(173,659)**	(194,841)
Tax paid		**(403,851)**	(354,190)
Net cash generated from operating activities		**2,119,822**	292,261
Cash flows from investing activities			
Purchase of property, plant and equipment		**(117,873)**	(203,231)
Purchase of prepaid lease payments		**(175,570)**	(176,101)
Sale of property, plant and equipment and prepaid lease payments		**411,872**	91,723
Interests acquired in associates and joint ventures		**(11,024)**	(5,815)
Net proceeds from disposal of a joint venture		**78,497**	-
Payment for construction-in-progress		**(345,685)**	(400,585)
Payment for intangible assets		**(164,326)**	(147,447)
Purchase of available-for-sale financial assets		**(124,110)**	(69,255)
Net proceeds from disposal of available-for-sale financial assets		**11,897**	4,915
Repayment of contingent consideration and deferred considerations		**(983,335)**	-
(Increase)/decrease in bank deposits		**(44,384)**	18,803
Dividends received		**38,674**	532
Interest received		**27,795**	32,816
Net cash used in investing activities		**(1,397,572)**	(853,645)
Cash flows from financing activities			
Acquisition of additional interest in a subsidiary		**(20,439)**	-
Contribution to employee share trusts		**(119,042)**	(171,317)
Dividends paid		**(376,898)**	(379,367)
Issue of perpetual securities		**841,805**	-
Capital contribution from other non-controlling interests		**6,023**	20,000
Proceeds from borrowings		**3,223,391**	1,480,075
Repayments of borrowings		**(3,905,564)**	(1,895,416)
Issue of notes		**495,821**	640,895
Net cash generated from/(used in) financing activities		**145,097**	(305,130)
Increase/(decrease) in cash and cash equivalents		**867,347**	(866,514)
Effect of foreign exchange rate changes		**(39,628)**	(61,829)
Cash and cash equivalents at the beginning of the year		**1,926,880**	2,855,223
Cash and cash equivalents at the end of the year		**2,754,599**	1,926,880

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											
	Share capital US$'000	Investment revaluation reserve US$'000	Employee share trusts US$'000	Share-based compensation reserve US$'000	Hedging reserve US$'000	Exchange reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Perpetual securities US$'000	Other non-controlling interests US$'000	Put option written on non-controlling interest US$'000	Total US$'000
At April 1, 2016	**2,689,882**	**962**	**(52,897)**	**13,161**	**(88,328)**	**(1,141,195)**	**83,363**	**1,495,252**	–	**238,949**	**(212,900)**	**3,026,249**
Profit/(loss) for the year	–	–	–	–	–	–	–	**535,084**	**1,872**	**(6,515)**	–	**530,441**
Other comprehensive (loss)/income	–	**(3,927)**	–	–	**83,000**	**(85,423)**	–	**42,390**	–	–	–	**36,040**
Total comprehensive (loss)/income for the year	–	**(3,927)**	–	–	**83,000**	**(85,423)**	–	**577,474**	**1,872**	**(6,515)**	–	**566,481**
Transfer to statutory reserve	–	–	–	–	–	–	**2,214**	**(2,214)**	–	–	–	–
Vesting of shares under long-term incentive program	–	–	**60,711**	**(72,368)**	–	–	–	–	–	–	–	**(11,657)**
Share-based compensation	–	–	–	**182,700**	–	–	–	–	–	–	–	**182,700**
Contribution to employee share trusts	–	–	**(119,042)**	–	–	–	–	–	–	–	–	**(119,042)**
Change in ownership interest in a subsidiary	–	–	–	–	–	–	**(22,826)**	–	–	**2,387**	–	**(20,439)**
Issue of perpetual securities (Note 15)	–	–	–	–	–	–	–	–	**841,805**	–	–	**841,805**
Capital contribution from other non-controlling interests	–	–	–	–	–	–	–	–	–	**6,023**	–	**6,023**
Dividends paid	–	–	–	–	–	–	–	**(376,898)**	–	–	–	**(376,898)**
At March 31, 2017	**2,689,882**	**(2,965)**	**(111,228)**	**123,493**	**(5,328)**	**(1,226,618)**	**62,751**	**1,693,614**	**843,677**	**240,844**	**(212,900)**	**4,095,222**
At April 1, 2015	2,689,882	592	(11,441)	9,852	118,082	(834,114)	75,712	2,035,078	–	235,378	(212,900)	4,106,121
Loss for the year	–	–	–	–	–	–	–	(128,146)	–	(16,429)	–	(144,575)
Other comprehensive income/(loss)	–	370	–	–	(206,410)	(307,081)	–	(24,662)	–	–	–	(537,783)
Total comprehensive income/(loss) for the year	–	370	–	–	(206,410)	(307,081)	–	(152,808)	–	(16,429)	–	(682,358)
Transfer to statutory reserve	–	–	–	–	–	–	7,651	(7,651)	–	–	–	–
Vesting of shares under long-term incentive program	–	–	129,861	(187,504)	–	–	–	–	–	–	–	(57,643)
Deferred tax charge in relation to long-term incentive program	–	–	–	(4,847)	–	–	–	–	–	–	–	(4,847)
Share-based compensation	–	–	–	195,660	–	–	–	–	–	–	–	195,660
Contribution to employee share trusts	–	–	(171,317)	–	–	–	–	–	–	–	–	(171,317)
Capital contribution from other non-controlling interests	–	–	–	–	–	–	–	–	–	20,000	–	20,000
Dividends paid	–	–	–	–	–	–	–	(379,367)	–	–	–	(379,367)
At March 31, 2016	2,689,882	962	(52,897)	13,161	(88,328)	(1,141,195)	83,363	1,495,252	–	238,949	(212,900)	3,026,249

Notes

1 General information and basis of preparation

The financial information relating to the years ended March 31, 2017 and 2016 included in the FY2016/17 annual results announcement does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended March 31, 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 and will deliver the financial statements for the year ended March 31, 2017 in due course.

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

<u>Basis of preparation</u>

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

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

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

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

The adoption of these newly effective amendments to existing standards does not result in substantial changes to the Group's accounting policies or financial results.

The following new standards and amendments to existing standards, which are considered appropriate and relevant to the Group's operations, have been issued but are not effective for the year ended 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, Consolidated financial statements and investments in associates	Date to be determined

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

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

Under HKFRS 9, trade receivables of the Group are likely to be classified as FVOCI instruments, and the timing of recognition and amount of relevant impairment provision may be revised when ECL is referenced. The Group currently holds certain investments in equity instruments which are classified as FVOCI instruments. The relevant fair value changes will not be recycled to the profit or loss upon disposal of the investments.

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

HKFRS 16, Leases
HKFRS 16 requires almost all leases of lessees to be recognized on the balance sheet, as the distinction between operating and finance leases is removed. The accounting for lessors will not significantly change. Under the new standard, the right to use the leased item and the duty to pay rent are recognized as an asset and a financial liability respectively. The only exceptions are short-term and low-value leases. The standard will affect primarily the accounting for operating leases of the Group. Either a full retrospective or a modified retrospective approach adoption of the standard is permitted.

Based on the assessment performed, the Group is in the opinion that the adoption of above new standards and amendments to standards will not result in a significant effect on its consolidated financial statements.

2 Segment information

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

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

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

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

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

	2017		2016	
	Revenue from external customers	**Adjusted pre-tax income/ (loss)**	Revenue from external customers	Adjusted pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
China	**11,794,773**	**539,137**	12,358,639	563,245
AP	**7,011,595**	**(65,155)**	7,154,662	88,516
EMEA	**11,187,313**	**(336,666)**	11,794,698	125,710
AG	**13,041,050**	**157,452**	13,604,098	(120,748)
Segment total	**43,034,731**	**294,768**	44,912,097	656,723
Unallocated:				
Headquarters and corporate expenses		**(57,160)**		(173,623)
Restructuring costs		**(159,481)**		(596,195)
Finance income		**18,263**		28,114
Finance costs		**(207,563)**		(188,823)
Impairment of an available-for-sale financial asset		**(1,005)**		-
Net gain on disposal of available-for-sale financial assets		**11,575**		1,653
Dividend income from available-for-sale financial assets		**321**		532
Share of profits/(losses) of associates and joint ventures		**21,411**		(11,095)
Gain on disposal of a joint venture		**218,366**		-
Gain on disposal of property, plant and equipment and prepaid lease payments		**336,172**		5,863
Dilution gain of interest in an associate		**14,260**		-
Consolidated profit/(loss) before taxation		**489,927**		(276,851)

(b) Segment assets for reportable segments

	2017	2016
	US$'000	*US$'000*
China	**7,754,296**	7,064,692
AP	**3,497,366**	3,229,634
EMEA	**3,282,761**	3,445,913
AG	**6,633,117**	6,535,732
Segment assets for reportable segments	**21,167,540**	20,275,971
Unallocated:		
Deferred income tax assets	**1,435,256**	1,000,572
Derivative financial assets	**53,808**	27,021
Available-for-sale financial assets	**255,898**	139,572
Interests in associates and joint ventures	**32,567**	40,439
Unallocated bank deposits and cash and cash equivalents	**1,075,639**	898,577
Unallocated inventories	**823,619**	755,799
Unallocated deposits, prepayments and other receivables	**1,829,387**	1,355,219
Income tax recoverable	**199,149**	140,237
Other unallocated assets	**313,111**	299,982
Total assets per consolidated balance sheet	**27,185,974**	24,933,389

(c) Segment liabilities for reportable segments

	2017	2016
	US$'000	*US$'000*
China	**4,884,148**	4,332,504
AP	**1,631,624**	1,924,875
EMEA	**1,569,619**	1,762,689
AG	**3,375,555**	3,559,616
Segment liabilities for reportable segments	**11,460,946**	11,579,684
Unallocated:		
Income tax payable	**246,465**	188,968
Deferred income tax liabilities	**221,601**	222,679
Derivative financial liabilities	**67,285**	150,864
Unallocated borrowings	**2,966,692**	3,198,749
Unallocated trade and notes payables	**4,249,522**	2,506,235
Unallocated other payables and accruals	**3,570,065**	2,522,636
Unallocated provisions	**237,907**	174,534
Unallocated other non-current liabilities	**25,070**	1,293,625
Other unallocated liabilities	**45,199**	69,166
Total liabilities per consolidated balance sheet	**23,090,752**	21,907,140

(d) Analysis of revenue by significant category

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

	2017	2016
	US$'000	*US$'000*
PC and Smart Device Business Group ("PCSD")	**30,075,953**	30,795,368
Mobile Business Group ("MBG")	**7,707,448**	8,547,824
Data Center Group ("DCG")	**4,068,488**	4,553,374
Others	**1,182,842**	1,015,531
	43,034,731	44,912,097

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**	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
	US$'000	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*	***US$'000***	*US$'000*
Depreciation and amortization	**197,306**	165,098	**131,623**	139,091	**183,927**	202,568	**229,250**	233,844	**742,106**	740,601
Finance income	**225**	2,048	**1,344**	311	**147**	398	**7,816**	1,945	**9,532**	4,702
Finance costs	**3,818**	3,867	**6,958**	10,593	**4,925**	19,516	**8,363**	13,952	**24,064**	47,928
Additions to non-current assets (Note)	**174,458**	316,831	**62,392**	21,127	**38,818**	18,004	**141,348**	152,615	**417,016**	508,577

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

(f) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$6,122 million (2016: US$6,171 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At March 31, 2017

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

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 March 31, 2017 (2016: Nil).

3 Other income – net

	2017 ***US$'000***	2016 *US$'000*
Impairment of an available-for-sale financial asset	**(1,005)**	-
Net gain on disposal of available-for-sale financial assets	**11,575**	1,653
Dividend income from available-for-sale financial assets	**321**	532
	10,891	2,185

4 Operating profit/(loss)

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

	2017 ***US$'000***	2016 *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**269,107**	266,100
Amortization of intangible assets	**472,999**	474,501
Employee benefit costs, including	**3,580,788**	3,749,425
- long-term incentive awards	***177,523***	*161,097*
- severance and related costs	***146,368***	*212,475*
Rental expenses under operating leases	**112,340**	99,417
Inventories write off	**-**	173,424
Loss on impairment and disposal of assets	**7,303**	310,201
Gain on disposal of property, plant and equipment and prepaid lease payments	**(336,172)**	(5,863)
Gain on disposal of a joint venture	**(218,366)**	-

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

For the year ended March 31, 2016, 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

	2017	2016
	US$'000	*US$'000*
Interest on bank deposits	**23,975**	30,623
Interest on money market funds	**3,820**	2,184
Others	**-**	9
	27,795	32,816

(b) Finance costs

	2017	2016
	US$'000	*US$'000*
Interest on bank loans and overdrafts	**38,546**	31,911
Interest on notes	**103,489**	100,950
Interest on promissory note	**52,746**	38,632
Factoring costs	**28,905**	49,469
Commitment fee	**440**	4,601
Interest on contingent/deferred considerations and put option liability	**3,434**	7,125
Others	**4,067**	4,063
	231,627	236,751

6 Taxation

The amount of taxation in the consolidated income statement represents:

	2017	2016
	US$'000	*US$'000*
Current tax		
Hong Kong profits tax	**2,043**	(8,488)
Taxation outside Hong Kong	**411,397**	379,220
Deferred tax	**(453,954)**	(503,008)
	(40,514)	(132,276)

Hong Kong profits tax has been provided for at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the year. Taxation outside Hong Kong represents income and irrecoverable withholding taxes of subsidiaries operating in the Chinese Mainland and overseas, calculated at rates applicable in the respective jurisdictions.

7 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 year after adjusting shares held by employee share trusts for the purposes of awarding shares to eligible employees under the long term incentive program.

	2017	2016
Weighted average number of ordinary shares in issue	**11,108,654,724**	11,108,654,724
Adjustment for shares held by employee share trusts	**(99,384,505)**	(22,234,783)
Weighted average number of ordinary shares in issue for calculation of basic earnings/(loss) per share	**11,009,270,219**	11,086,419,941
	US$'000	*US$'000*
Profit/(loss) attributable to equity holders of the Company	**535,084**	(128,146)

(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 year ended March 31, 2017 and anti-dilutive for the year ended March 31, 2016.

	2017	2016
Weighted average number of ordinary shares in issue for calculation of basic earnings/(loss) per share	**11,009,270,219**	11,086,419,941
Adjustment for long-term incentive awards	**11,377,359**	-
Weighted average number of ordinary shares in issue for calculation of diluted earnings/(loss) per share	**11,020,647,578**	11,086,419,941
	US$'000	*US$'000*
Profit/(loss) attributable to equity holders of the Company used to determine diluted earnings/(loss) per share	**535,084**	(128,146)

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 Dividends

	2017 ***US$'000***	2016 *US$'000*
Interim dividend of HK6.0 cents (2016: HK6.0 cents) per ordinary share, paid on November 28, 2016	**85,948**	85,996
Proposed final dividend – HK20.5 cents (2016: HK20.5 cents) per ordinary share	**292,427**	293,320
	378,375	379,316

9 Ageing analysis

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

	2017	2016
	US$'000	*US$'000*
0 – 30 days	**2,923,083**	3,246,600
31 – 60 days	**985,251**	617,199
61 – 90 days	**283,050**	240,470
Over 90 days	**381,387**	405,410
	4,572,771	4,509,679
Less: provision for impairment	**(104,379)**	(106,172)
Trade receivables – net	**4,468,392**	4,403,507

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

	2017	2016
	US$'000	*US$'000*
0 – 30 days	**3,497,382**	3,013,430
31 – 60 days	**1,098,575**	789,183
61 – 90 days	**846,804**	347,257
Over 90 days	**207,164**	116,817
	5,649,925	4,266,687

10 Deposits, prepayments and other receivables

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

	2017	2016
	US$'000	*US$'000*
Deposits	**19,018**	13,207
Other receivables	**3,326,928**	2,811,260
Prepayments	**987,405**	724,293
	4,333,351	3,548,760

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

11 Provisions, other payables and accruals

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

	2017	2016
	US$'000	*US$'000*
Accruals	**2,066,687**	2,048,551
Allowance for billing adjustments (i)	**1,611,495**	1,904,076
Deferred considerations (ii)	**686,301**	-
Written put option liability (iii)	**223,703**	-
Other payables (iv)	**5,416,428**	4,353,217
	10,004,614	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) 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 March 31, 2017, 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$698 million

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

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

The put option liability shall be re-measured 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.

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

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

(b) The components of provisions are as follows:

	Warranty *US$'000*	**Environmental restoration** *US$'000*	**Restructuring** *US$'000*	**Total** *US$'000*
Year ended March 31, 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

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

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

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

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

12 Other non-current liabilities

Details of other non-current liabilities are as follows:

	2017 *US$'000*	2016 *US$'000*
Deferred considerations (Note 11(a)(ii))	**25,072**	1,383,555
Guaranteed dividend to non-controlling shareholders of a subsidiary (a)	**-**	8,195
Environmental restoration (Note 11(b))	**6,122**	6,073
Written put option liability (Note 11(a)(iii))	**-**	221,499
Government incentives and grants received in advance (b)	**95,774**	144,919
Deferred rent liabilities	**102,756**	112,934
Others	**150,833**	275,403
	380,557	2,152,578

(a) 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.

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

13 Borrowings

	2017	2016
	US$'000	*US$'000*
Current liabilities		
Short-term loans (i)	**70,003**	745,815
Non-current liabilities		
Term loan (ii)	**397,687**	396,365
Notes (iii)	**2,569,005**	2,108,747
	2,966,692	2,505,112
	3,036,695	3,250,927

(i) The majority of the short-term bank loans are denominated in United States dollar. As at March 31, 2017, the Group has total revolving and short-term loan facilities of US$1,393 million (2016: US$1,466 million) which has been utilized to the extent of US$70 million (2016: US$746 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 March 31, 2017 (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 would be used for general corporate purposes including working capital, and acquisition activities.

On March 16, 2017, the Group completed the issuance of 5-Year US$500 million notes bearing annual interest at 3.875% due in March 2022. The proceeds would be used to repay some or all of the amounts outstanding under the promissory note issued to Google Inc. in relation to the acquisition of Motorola Mobility Group, and for the working capital and general corporate purposes.

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at March 31, 2017 and 2016 are as follows:

	2017	2016
	US$'000	*US$'000*
Within 1 year	**70,003**	745,815
Over 1 to 3 years	**1,892,768**	396,365
Over 3 to 5 years	**1,073,924**	2,108,747
	3,036,695	3,250,927

The fair value of the notes as at March 31, 2017 was US$2,633 million (2016: US$2,192 million). The carrying amounts of other borrowings approximate their fair values as the impact of discounting is not significant.

14 Share capital

	2017		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 year	**11,108,654,724**	**2,689,882**	11,108,654,724	2,689,882

15 Perpetual securities

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

On March 31, 2017, the Group announced an additional issuance of perpetual securities amounted to US$150 million under the same terms. The US$150 million perpetual securities, which are fungible with and form a single series with the aforementioned US$850 million perpetual securities, were issued on April 6, 2017.

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

	2017	2016
	US$'000	*US$'000*
Profit/(loss) before taxation	**489,927**	(276,851)
Share of (profits)/losses of associates and joint ventures	**(21,411)**	11,095
Finance income	**(27,795)**	(32,816)
Finance costs	**231,627**	236,751
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**269,107**	266,100
Amortization of intangible assets	**472,999**	474,501
Share-based compensation	**177,523**	161,097
Impairment of an available-for-sale financial asset	**1,005**	-
Impairment of property, plant and equipment	**7,303**	134,454
Gain on disposal of property, plant and equipment and prepaid lease payments	**(336,172)**	(5,863)
Gain on disposal of a joint venture	**(218,366)**	-
Dilution gain of interest in an associate	**(14,260)**	-
Net gain on disposal of available-for-sale financial assets	**(11,575)**	(1,653)
Loss on disposal of construction-in-progress	**-**	184
Loss on disposal of intangible assets	**417**	976
Dividend income	**(321)**	(532)
Fair value change on financial instruments	**(27,366)**	21,069
(Increase)/decrease in inventories	**(156,718)**	317,108
(Increase)/decrease in trade receivables, notes receivable, deposits, prepayments and other receivables	**(580,005)**	1,172,555
Increase/(decrease) in trade payables, notes payable, provisions, other payables and accruals	**2,354,218**	(1,759,818)
Effect of foreign exchange rate changes	**87,195**	122,935
Net cash generated from operations	**2,697,332**	841,292

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

During the year ended March 31, 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the respective trustee of the long-term incentive program and the employee share purchase program of the Company purchased a total of 175,395,998 shares from the market for award to employees upon vesting. Details of these programs will be set out in the 2016/17 Annual Report of the Company.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the annual results of the Group for the year ended March 31, 2017. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended March 31, 2017, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and where appropriate, met the recommended best practices in the CG Code, with the exception that the roles of the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "CEO") have not been segregated as required by code provision A.2.1 of the CG Code.

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

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

Apart from the foregoing, the Company met the recommended best practices in the CG Code as to be disclosed in the respective sections of the 2016/17 Annual Report. Particularly, the Company published quarterly financial results and business reviews in addition to interim and annual results. Quarterly financial results enhanced the shareholders' ability to assess the performance, financial position and prospects of the Company. The quarterly financial results were prepared using the accounting standards consistent with the policies applied to the interim and annual financial statements.

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

May 25, 2017

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