Lenovo Group Limited | 2016/17 Annual Report

Stock Code 992

Different is better

ABOUT LENOVO

Lenovo (HKSE: 992) (ADR: LNVGY) is a US$43 billion global Fortune 500 company and a leader in providing innovative consumer, commercial, and enterprise technology. Our portfolio of high-quality, secure products and services covers PCs (including the legendary Think and multimode YOGA brands), workstations, servers, storage, smart TVs and a family of mobile products like smartphones (including the Moto brand), tablets and apps. Join us on LinkedIn, follow us on Facebook or Twitter (@Lenovo) or visit us at www.lenovo.com.

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different creates better

Moto Z and Moto Mods

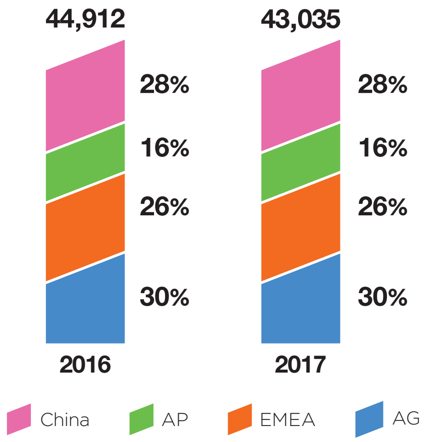
FINANCIAL HIGHLIGHTS

For the year ended March 31	2017 US$ million	2016 US$ million	Year-on-year Change
Group Results			
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)%
Expense-to-revenue ratio (%)	**12.6**	14.9	(2.3) pts
EBITDA[1]	**1,581**	838	89%
Pre-tax income/(loss)	**490**	(277)	N/A
Pre-tax income/(loss) margin (%)	**1.1**	(0.6)	N/A
Profit/(loss) attributable to equity holders of the Company	**535**	(128)	N/A
EPS – basic (US cents)	**4.86**	(1.16)	N/A
EPS – diluted (US cents)	**4.86**	(1.16)	N/A
Interim dividend per share (HK cents)	**6.0**	6.0	Nil
Final dividend per share (HK cents)[2]	**20.5**	20.5	Nil
Total dividend per share (HK cents)	**26.5**	26.5	Nil
Cash and Working Capital			
Bank deposits and cash and cash equivalents	**2,951**	2,079	42%
Total borrowings	**(3,037)**	(3,251)	(7)%
Net debt	**(86)**	(1,172)	(93)%
Cash conversion cycle (days)	**(10)**	1	N/A

Notes:
1 Excluding "other income - net".
2 Subject to shareholders' approval at the forthcoming annual general meeting.

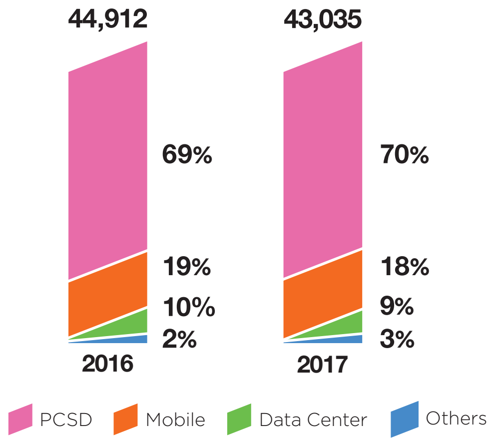
Revenue Analysis by Geography

for the year ended March 31 (US$ million)



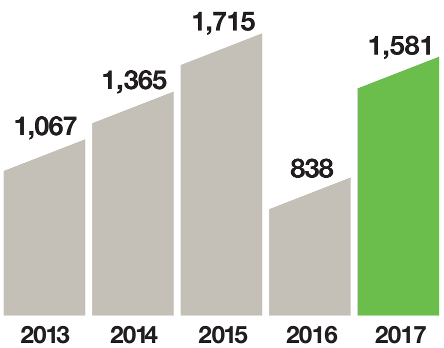
Revenue Analysis by Business Group

for the year ended March 31 (US$ million)



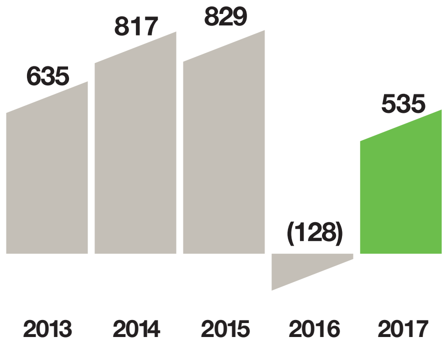
EBITDA[1]

for the year ended March 31 (US$ million)



Profit/(loss) Attributable to Equity Holders of the Company

for the year ended March 31 (US$ million)



Note:

1 Excluding "other income - net".

Y-Series Legion Y520


different
rocks better

CHAIRMAN AND CEO STATEMENT

Now we are well positioned to reap the benefits of our transformation with a stronger performance across our existing businesses as well as new lines of devices and services driven by the Cloud. I am confident in both our strategy and team and that Lenovo's best days are yet to come.

FY2016/17 has been a year of transformation for Lenovo – balancing growth and profitability in our core business, while building our smartphone and data center businesses into growth engines. We continued to deliver solid performance in our core PC business, driven by success in fast-growing areas such as gaming PCs, Chromebooks, workstations, detachables and Millennial PCs. At the same time our smartphone business has started to see good traction, in particular from key growth markets such as India and Brazil, which together have contributed significantly to our overall performance in mobile. In the Data Center business we continued our transformation journey by reinvigorating the business with a new leader to speed up our return to growth and secure our future ambitions. Outside of our three core business units we continue to focus on short-, medium- and long-term investments and opportunities in emerging technologies through both our Research and Technology teams, as well as our Lenovo Capital and Incubator Group.

Externally the trading environment across all our geographies and businesses was challenging – something encountered by our whole industry. Emerging markets faced continued currency volatility; the PC market remained flat; industry component costs increased significantly in the second half of the year; growth and spending in China slowed, and global economic uncertainty resulting from both Brexit and the new US administration have made the last 12 months one of the most unpredictable years to do business in.

Despite these external hurdles we achieved some key successes. We built a strategy and structure that will guide strong execution worldwide and enable our diversified business to flourish in the years ahead. By doing so we have reinforced our foundations for a new era of long-term growth and position as a global technology leader.

ACHIEVEMENTS IN 2016/2017

- Record market share of 21.4% in PCs. Focused on new high-growth markets such as gaming PCs (grew 34%); detachables (grew 69%); Millennial PCs (grew 219%); Chromebooks (grew 88%) and workstations (grew 10%). Continued to deliver industry-beating profitability.

- Attracted industry-leading talent to our executive team – Kirk Skaugen joined from Intel as Executive Vice President and President of the Data Center Group; Laura Quatela from roles at Alcatel-Lucent and Kodak as Senior Vice President and Chief Legal Officer, and Dr Yong Rui from Microsoft as Senior Vice President and Chief Technology Officer.

Moto Z and Mods

Smart Home Storage

- Launched the industry's first modular smartphone with the Moto Z – on track to sell 3 million units in the first 12 months since launch.

- Strong progress in key smartphone market of India and Brazil where we ranked as number 2, contributing to our global ranking of number 5 (excluding China).

- Grown our Data Center revenue with key global accounts growing by 16 percent year-on-year.

- Introduced a revolutionary Low Temperature Solder (LTS) manufacturing process, estimated to reduce carbon emissions by 35 percent while also increasing efficiency. Something that in time we will license to the wider technology industry.

- Evolved our focus beyond PCs and tablets to wider 'personal computing' – including launch of award winning Smart Assistant at CES 2017 which achieved 14 awards, as well as launching the industry's first Google Tango enabled augmented reality (AR) device.

- Won some of the industry's highest accolades for product innovation and design – 18 Red Dot Design awards; 6 iF awards; 149 awards across major industry events CES, MWC and IFA. In addition, Laptop Magazine named Lenovo 'Best Laptop Brand' – unseating the incumbent who had held the position for the past five years. The award was based on a combination of innovation; support; value/selection; warranty and design.

- Further recognised for advancements in our brand recognition and value as we were ranked in Interbrand's 100 Best Global Brands for the second year running. We were also ranked as number 1 in Brand Z's top 30 Chinese Global Brands

- Ongoing recognition for our good business practices, including receiving a 100% rating in the Human Rights Corporate Equality Index; included in Corporate Knights World's Most Sustainable Corporations Index and rated 'CSR Gold' by the EcoVadis sustainability assessment platform and in the top 2% of supplier in all categories.

We are very proud of these achievements but overall our results were not as strong as we had hoped. Not only were we hampered by external trading conditions, but the integration of our Motorola Mobility and IBM System X acquisitions was more challenging and took more time than we had initially anticipated. Lenovo has grown from a single business focusing on just PCs to a much broader and more complex portfolio of businesses, each at a different stage of maturity and therefore having different priorities. As a result we have established a multi-business operating system to manage each business differently. Clear ownership is identified and each business can leverage the resources of the corporate platform and build its own capabilities necessary for growth. Alongside this we have our 3-wave strategy.

CHAIRMAN AND CEO STATEMENT

THREE WAVE STRATEGY

Wave 1:
PCs remain our stronghold. We have achieved industry-leading profitability in PCs and smart devices and our aim is to balance this profitability with new growth areas in the wider personal computing space. To do this we will better understand our customers' needs and innovate accordingly. This approach has already helped us to uncover high-growth areas and market segments worth investing in where we can excel. We have taken this one step further with our PC and Smart Devices business by moving away from a structure focused on traditional product areas to one that focus on three customer segments, namely: consumer, commercial and SMB. Each customer segment now has full end-to-end accountability and ownership of its business.

As we evolve our innovation in the wider personal computing space we are confident that we can capitalise on new growth areas as well as benefit from the ongoing consolidation in the traditional PC sector to gain overall share and maximise efficiencies.

Wave 2:
Over the past two years Lenovo has strategically expanded and diversified through acquisitions. Our focus now is on how to turn these into profit engines. In our Mobile Business Group, we have simplified our offering to a single, smarter global product portfolio that optimises costs and unifies the portfolio under one Moto brand. We have refocused efforts on key growth markets and are targeting markets where we know we can gain share. We have invested in our carrier relationships across the world to drive growth and opportunity and our Moto Z is on track to sell 3 million units in its first 12 months of launch. Our target is to achieve breakeven in the second half of fiscal year 17/18.

In our Data Center Business, we have restructured our business around five of the fastest growing market segments: Hyperscale Infrastructure; Software Defined Data Center; High Performance Computing and Artificial Intelligence; Solutions-based Data Center Infrastructure, and Services. We have recruited new talent where needed to drive these segments and are bolstering our sales capabilities in all areas to ensure we can meet our goal to become one of the world's top three trusted data center players.

Wave 3:
Our third wave capitalizes on the opportunities that an era of 'Device + Cloud' presents – where we can give wings of connectivity to existing devices as well as create new devices that provide specific services. We are looking at three core areas: intelligent devices; intelligent cloud and intelligent services. Together this focus, fuelled by Artificial Intelligence (AI), has the power to change the way we live, the way we work and the societies that we live in.

Yoga Book

Although Lenovo has traditionally been seen as a device company, we know the future will be 'no service, no device' – meaning our devices have to provide specific services for our users. We have already made great strides in this 3rd wave – from the likes of Lenovo Connect, an MVNO fuelled E-Sim card that makes users always online and always connected, to some of the exciting Device+Cloud technologies such as our smart home assistant launched in January at CES.

VISION FOR THE FUTURE

The vision for our future is very clear. *In this Smart Internet era, Lenovo will provide smart devices that integrate applications, services and the best user experience, as well as robust cloud infrastructure to make life easier and better, and work more productive and efficient.*

But in today's business environment we recognize that we will not win a customer if we do not win their heart first. We always focus on the best product quality, delivery, user experience and services we can for customers – but we know we can do more. Every employee now has customer-centric performance measures built into their development and across the business we are tracking key indicators to ensure that every element of our value-chain is thinking about what is important to our customers.

We also recognize that we need to do things differently. The entire company has embraced and is aligned to a common idea that "Different is Better". From the fundamentally different innovations we continually bring to market, to the way we challenge how we do business to make it better for our customers and partners. From thinking differently about how we approach a seemingly everyday task, to acting differently in all that we do.

Although we expect trading conditions to remain tough in many areas we remain confident and positive about the future. Our focus this year has been to maintain our industry leading profitability in PCs while building our mobile and data center businesses into new growth and profit engines. This focus means we are accelerating our transformation from merely a 'device' player to a 'Device + Cloud' one. We know it is not easy to balance strong profitability in our core business and fully integrate the two acquired businesses and also make the transformation to a Device + Cloud company. We have worked diligently to finish the hard part of the job and have built the right foundations over the past fiscal year. Now we are well positioned to reap the benefits of that transformation with a stronger performance across our existing businesses as well as new lines of devices and services driven by the Cloud.

I am confident in both our strategy and team and that Lenovo's best days are yet to come.

Thank you.

Yang Yuanqing
Chairman and Chief Executive Officer

LENOVO MANAGEMENT TEAM

Yang Yuanqing
Chairman and
Chief Executive Officer

Gianfranco Lanci
Corporate President and
Chief Operating Officer

Aymar de Lencquesaing
Executive Vice President,
Chairman and President of
Motorola

Gao Lan
Senior Vice President,
Human Resources

He Zhiqiang
Senior Vice President and President of Lenovo Capital and Incubator Group

Qiao Jian
Senior Vice President and Co-President of the Mobile Business Group

Yong Rui
Senior Vice President and Chief Technology Officer

Kirk Skaugen
Executive Vice President and President of the Data Center Group

Wong Wai Ming
Executive Vice President and Chief Financial Officer


different
thinks better

ThinkPad X1 Carbon

MANAGEMENT'S DISCUSSION & ANALYSIS

BUSINESS REVIEW

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.

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.

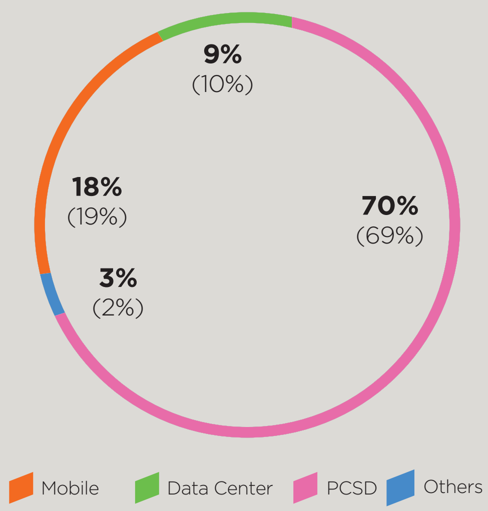
For the fiscal year ended March 31, 2017, the Group's gross profit was US$6,106 million, a decrease of 8 percent year-on-year, while gross margin decreased by 0.6 percentage point year-on-year to 14.2 percent, impacted largely by component cost increase arising from their supply constraints across various 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.

ThinkPad X1 Carbon

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.

Revenue by Business Group (%)



Moto G5

MANAGEMENT'S DISCUSSION & ANALYSIS

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.

ThinkPad X1 Carbon

MANAGEMENT'S DISCUSSION & ANALYSIS

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.

MANAGEMENT'S DISCUSSION & ANALYSIS

MATERIAL RISKS OF THE GROUP

The following are key risks that the Group considers to be of great significance to the Group as it stands today. They have the potential to affect the Group's business adversely and materially.

For each risk there is a description of the possible impact of the risk on the Group should it occur, and the mitigation plan to manage the risk.

The Group also faces risk and uncertainties in common with other businesses. These have not been set out as key risks below.

This list is likely to change over time as different risks take on larger or smaller significance. The size, complexity and spread of the business and the continually changing environment in which the Group operates also mean that the list cannot be an exhaustive list of all significant risks that could affect the Group.

Risk Description	Key Risk Mitigations
Business Risk	
The Group operates in a highly competitive industry which faces rapid changes in market trends, consumer preferences and constantly evolving technological advances in hardware performance, software features and functionality. It faces aggressive product and price competition from competitors.	Continual reviews of competition and market trends. Maintain a competitive position through commitments to innovate and build a broad product portfolio and grow brand name to differentiate the Group and gain market recognition.
It faces risks associated with implementing its strategic initiatives as the scale and breadth of its business models and operations expand and evolve.	Execution of clear strategy to protect and drive profitability in the core PC business, while continuing to attack the faster growing Mobile and Data Center businesses.
Failure to respond effectively to changes in market trends or consumer preferences at competitive prices against the backdrop of global slowdown in the traditional PC market could harm its competitive position.	

Risk Description	Key Risk Mitigations
The Group operates globally and as such its results could be impacted by global and regional changes in macro-economic and socio political conditions and regulatory environments. Adverse economic conditions may result in postponements or decreased spending amid concern over weak economic conditions. In addition, they may contribute to potential supply chain volatility, causing potential product shortages. Increase uncertainty driven by growing concerns over political conditions and changes in regulatory or legal regulations in one or several countries may increase the cost of operations and expose the Group to potential liability.	The Group has diversified its geographic sources of revenue and profit to reduce its dependency on any single country or region. It vigilantly tracks and monitors the developments of the political conditions and legal and regulatory changes, and maintains compliance programs.
The Group offers products that are complex. Failure to maintain an effective quality management system, including at the Group's development and manufacturing facilities and its supply chain, could have a material adverse effect on its business and operations, brand image and customers' loyalty.	The Group adopts a proactive quality management approach, which includes identifying risks throughout all aspects of the business. The Group has a robust internal Quality Management System, (QMS) integrated within its business management system. The Group is ISO 9001 certified by Bureau Veritas (BVC) and in China by the Electronics Standardization Institute, (CESI). It is committed to maintaining a QMS to ensure it meets customer, social, legal and environmental responsibilities.

Risk Description	Key Risk Mitigations
Cyber Attack and Security Risk	
The Group could be impacted negatively if it sustains cyber-attacks and other data security breaches that disrupt its operations or damage its reputation. The Group manages and stores various proprietary information and sensitive or confidential data relating to its operations. In addition, the Group's cloud computing business routinely processes, stores and transmits large amounts of data for its customers, including sensitive and personally identifiable information. The Group may be subject to attack from hackers and other malicious software programs that attempt to penetrate its networks and exploit any security vulnerability in its system and products. Hardware, operating system software, product software and applications that the Group produces or procures from third parties may contain "bugs" that could unexpectedly interfere with the operation of the system or may present unidentified security risk. Breaches of the Group's security measures and misappropriation of proprietary information, sensitive or confidential data about the Group and its customers could lead the Group to loss of reputation, disruption in business operations, exposure to potential litigation and liability and result in a loss of revenue and increased cost. The Group is subject to law and regulation in countries where it operates relating to the collection, use, and security of customer, consumer and employee data. The Group needs to conduct normal business activities which includes the collection, use and retention of personal data pursuant to these activities. The Group is required to notify individuals or regulators of a data security breach.	The Group will continue to invest in the following: a) Enhanced cyber security controls and information security, product security and privacy awareness. b) Compliance with mandatory privacy and security standards and protocols imposed by law, regulation, industry standards, or contractual obligations. c) Policies and processes to ensure hardware, operating system software, product software and applications that the Group produces or procures from third parties protects and responsibly uses customer data.

Risk Description	Key Risk Mitigations
Financial Risk	
As the Group operates globally, significant or prolonged economic instability or financial market deterioration may materially and adversely impact the Group's financial condition. The Group is exposed to a variety of financial risks, such as foreign currency risk, cash flow risk, credit risk and liquidity risks.	The Group Treasury department has put in place a financial risk management programme that focuses on the unpredictability of financial markets and seeks to minimize the potential adverse impact on the Group's financial performance. For more analysis, see "Notes To The Financial Statements" (pages 181 to 184)
Due to the international nature of our business and continuous changes in local and international tax rules and regulations, the application of such rules and regulations to our operations and transactions involves inherent uncertainty and may affect our tax position and the value of tax assets and liabilities carried in the balance sheet.	The Group Tax department carefully monitors developments in our business and in the global tax environment in order to make sure rules and regulations are applied appropriately and risks are mitigated where possible.
Intellectual property risk (IP risk)	
The Group could suffer if it does not develop and protect its own intellectual property or its suppliers are not able to develop or protect desirable technology or technology licenses. The risks include: • higher business cost as a result of increased licensing demands from patent holders; • loss or diminished value of intellectual property as an asset, as a result of legal findings of unenforceability and challenges to title or ownership; • the legal costs to defend against legal action alleging intellectual property infringement and any potential resulting settlement or damages; • design-around costs and negative impact to customer relationships.	Take full advantage of legal protections by registering trademarks and applying for patents. For licensed IP, take appropriate steps to assure its continued validity. Risk transfer to suppliers by contract terms to minimize risk and obtain indemnification from suppliers. Monitor, develop and execute litigation settlement strategy. Use patent portfolio if appropriate to decrease potential damages.

Risk Description	Key Risk Mitigations
Supply Risk	
The Group's supply chain operations could be disrupted by: • Catastrophic events • Unfavorable changes in business, political or economic factors. The occurrence of any of the above in our own or our suppliers' manufacturing activities and logistic hubs could result in significant losses and harm our revenue, profitability and adversely affect our competitive position, and require substantial expenditures and recovery time in order to fully resume operations.	Utilise cost and operational analysis to understand potential impacts. Ensure broad supplier sourcing (i.e. avoidance of sole/single sources), financial/business stability tracking and disaster recovery planning to minimize impact of regional catastrophes and ensure adaptation plans in place. To focus on the Group's ongoing efforts to optimise the efficiency of its supply chain.
The Group could suffer if it is not able to ensure supply of products and component parts during period of shortage and to negotiate for favorable pricing. The shortage and increase in price could harm the business by adversely affecting product availability and profitability.	

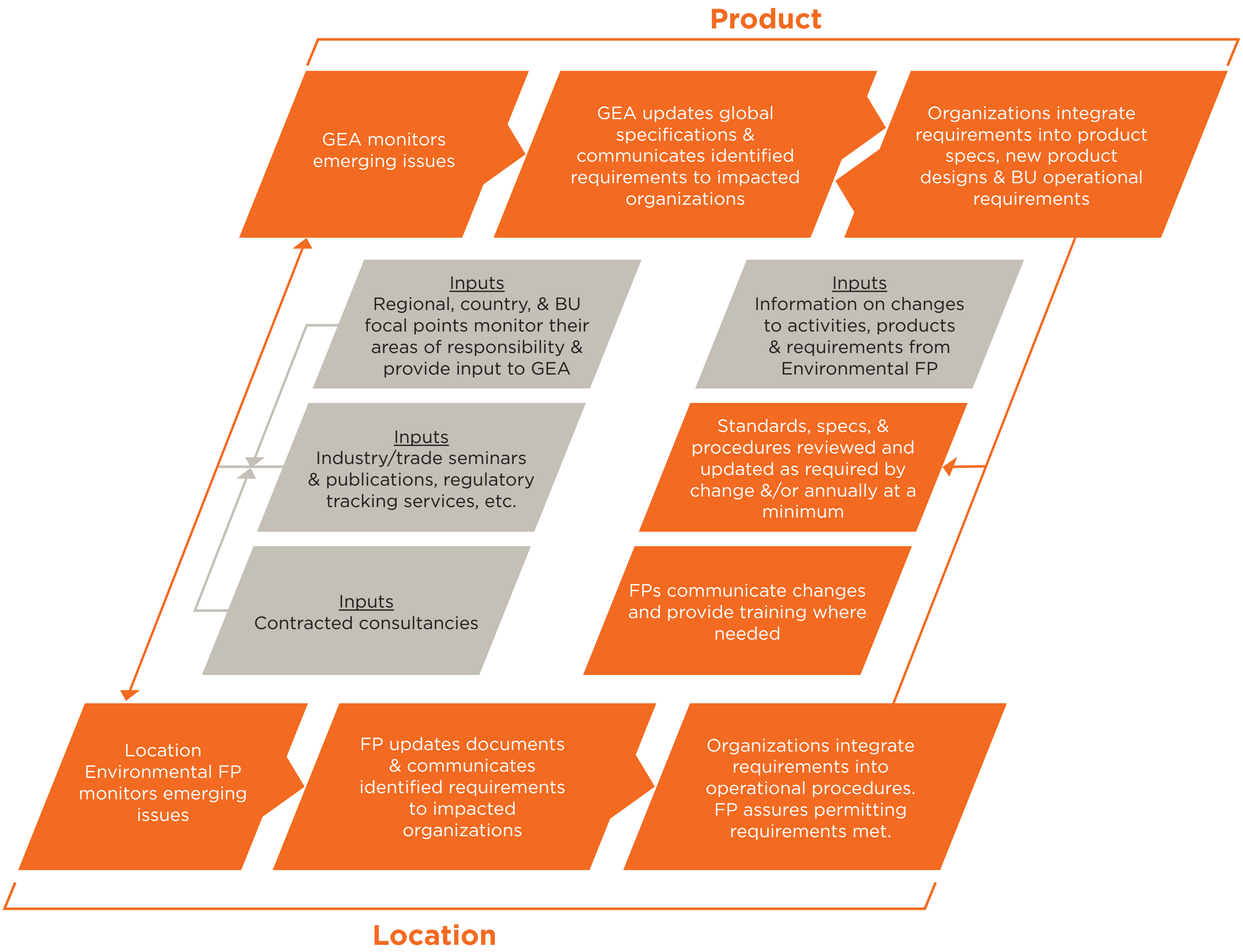
Risk Description	Key Risk Mitigations
Human Capital Risk	
The Group faces intense competition for skilled and experience workers due to fast-changing market dynamics and an increasingly diversified business landscape. For ongoing success, the Group must continue to attract, retain and motivate key talent across the enterprise, and ensure smooth transitions throughout the ongoing business transformation.	Focus human capital initiatives and strategic workforce planning in the areas of talent acquisition, development, rewards, and retention to address challenges proactively and support the business transformation in an environment of intense competition. Drive continuous improvements in competitive reward strategies and evolve compensation and benefits programs into a more differentiated model to support an increasingly diverse business landscape and employee population. Further invest in employee and leadership development programs to build employee engagement, accelerate the internal movement of top talent, and ensure strength of the leadership pipeline.

ENVIRONMENT

Lenovo views being a good environmental steward as an essential part of our commitment to being a responsible corporate citizen. A central element of this commitment is complying with all applicable laws and regulations wherever we do business. Compliance is at the core of Lenovo's Environmental Affairs Policy which applies to all global operations, employees, and contractors performing work on behalf of Lenovo. This policy forms the foundation for Lenovo's ISO 14001 certified Environmental Management System (EMS) which includes processes for evaluating legal and voluntary requirements and ensuring compliance across Lenovo's global development and manufacturing operations for personal computers, workstations, servers, storage, monitors, accessories, and mobile device hardware.

Compliance is driven by the Global Environmental Affairs (GEA) organization and supported by a global network of internal Environmental Affairs Focal Points (EAFPs), Environmentally Conscious Products Focal Points (ECPs), and external partners. Reliable, established processes with defined roles ensure that Lenovo continues to remain in compliance. The process for ensuring environmental compliance for Lenovo products and locations is shown below.

Process for Establishing, Monitoring & Maintaining Compliance



Lenovo supports its commitment to compliance through internal and external audits of its own facilities and those of its suppliers. The environmental and health and safety management systems at both its manufacturing and development sites are subjected to internal audits at least annually. These sites also undergo third-party environmental and health and safety audits at least once every three years, with most sites being audited twice every three years.

Lenovo's Robust EMS Ensures Environmental Compliance

	FY2016/17	FY2015/16	FY2014/15	FY2013/14	FY2012/13
Total monetary value of significant environmental fines	0	0	0	0	0
Number of environmental fines paid	0	0	0	0	0
Total number of non-monetary environmental performance-related sanctions	0	0	0	0	0

Environmental and sustainability risks are included in Lenovo's official Enterprise Risk Management (ERM) process. The ERM evaluation template includes environmental, social, governance and other risk categories. Annually, each business unit is required to identify risks, assess their impacts on Lenovo's strategy execution and develop risk mitigation plans.

In addition, at least annually, Lenovo conducts a Significant Environmental Aspect evaluation as part of Lenovo's ISO 14001 EMS. This process evaluates Lenovo's significant, or material environmental aspects. Under the EMS, once the significant environmental aspects are identified, objectives and targets for each are set and progress is monitored and measured. Results regarding Lenovo's FY2016/17 objectives and targets, as well as other facets of its environmental performance, will be published in the FY2016/17 Sustainability Report.

STAKEHOLDERS

Lenovo actively manages its relationships with customers, employees, suppliers, investors, regulators, members of the communities in which it operates, and other stakeholders whose actions can affect the company's performance and value. Key mechanisms for engaging with stakeholders include:

- Customer focus groups, surveys and direct customer interaction
- Employee surveys, Lenovo-organized community service events, and others
- Supplier audits, conferences and quarterly business reviews
- Phone conferences and meetings with industry trade groups on regulatory issues
- Ongoing interactions with local communities
- Responding to investor, analyst and non-governmental organization (NGO) surveys

In addition to these and other formal stakeholder interactions, Lenovo engages with individual stakeholder groups on an ad-hoc basis as needed.

More information about Lenovo's sustainability programs can be found in the Sustainability Overview on pages 116 to 128 of this Annual Report.

TALENT AND CULTURE

Accelerating the Transformation

In 2016 we further clarified our vision to pursue "Device + Cloud" opportunities. Aligned to this vision is our Three-Wave Strategy which we have specified as: continuing to innovate in existing businesses and maintain our leadership position in PCs; building our Mobile and Data Center businesses into new growth and profit engines; proactively increasing core competitiveness in the next generation of Smart Device and Artificial Intelligence. To support this strategy, we introduced our 3x3 Multi-Business Operating System. This system provides each business in Lenovo the flexibility needed to unleash productivity, empower ownership, and ignite entrepreneurship and creativity.

"Definitely, our goals go beyond just numbers... We also strive to transform from a product centric to a customer centric company, to become an innovation leader and a globally respected company." – Yuanqing Yang, Chairman and CEO

MANAGEMENT'S DISCUSSION & ANALYSIS

Entrepreneurship and customer centricity were key themes of our leadership transformation in 2016/17. Our top leaders from across the globe engaged in cross-team sessions at Leading@Lenovo and the Annual Global Leadership Team Meeting to deep dive on Multi Business Operating System execution, discuss ways to increase customer engagement in every part of our value chain, and further drive transformation in the areas of customer centricity and enhancing entrepreneurship.

"In China we have a saying: 'If you break nothing, you build nothing.' So, how do we break what we need to break, and build the right things? We must build the right mindset first – to be positive, passionate, and proactive. We must reignite our passion for entrepreneurship. This is our DNA…" – Yuanqing Yang, Chairman and CEO

We launched a major refresh of Lenovo's corporate culture called "We Are Lenovo," and are actively emphasizing the principals and behaviors in the core areas of Customer Focus, Teamwork, Entrepreneurship, and Innovation. These principals are at the center of our talent and culture integration efforts and are being embedded into our people processes and reward structures across the company. This renewed focus is providing clear guidance as we continue to create an even stronger, more vibrant foundation for our future success.

Employee Performance and Compensation

Lenovo has always driven a strong Commitment and Ownership culture and is putting more emphasis on Customer Orientation, which is reinforced by our approach to performance management. Lenovo follows a rigorous pay for performance standard at all levels of our professional workforce. This approach includes annual goal setting and review, group calibration of individual ratings to ensure fair assessment, and pay decisions tied to both team performance and individual contribution. This methodology ensures that top contributors are paid competitively relative to the market and share in the company's success.

Talent Management and Succession Planning

Lenovo's 2016-17 annual Organizational and Human Resource Planning (OHRP) process resulted in clear strategic organization and talent changes for the upcoming fiscal year. Most notably, the end-to-end management structures of PCSD, MBG and DCG were further defined, with both PCSD and DCG aligning their organizations by key segments. Targeted leadership moves were made to support these changes, including the internal promotion of critical talent in PCSD, and key external leadership hires in MBG and DCG. Additionally, both the newly hired Chief Technology Officer and Chief Legal Officer ushered in strategic changes within their respective organizations to further drive Lenovo's 'Device + Cloud' Transformation. Finally, the Global CX Office was established to align and integrate customer experience efforts across the enterprise.

"Customer centricity is not just for new businesses or product lines, but a mission for all businesses and teams" – Yuanqing Yang, Chairman and CEO

Talent Acquisition

In today's intensely dynamic high technology markets, putting the right talent in the right place at the right time is a clear priority for Lenovo. Lenovo's global talent acquisition activities are closely linked to the annual OHRP process, which drives the organization's hiring for planned talent gaps. Close alignment with the business also allows for quick response to any unplanned talent gaps driven by attrition. Lenovo's long-term talent acquisition vision and strategy remain steadily focused on building the employment brand, further developing its global talent acquisition capability and investing in programs to hire the next generation of Lenovo employees.

Training and Development
At Lenovo our commitment to developing employees begins with New Employee Orientation and continues throughout their career with the company. We have enhanced our management development pathway to provide support for managers during their leadership progression at Lenovo. Every employee is responsible for creating and maintaining an Individual Development Plan (IDP), which includes an assessment of strengths and skill gaps, and actions needed for future development and career growth. Instructor-led professional development courses and forums are made available throughout the year, in addition to rich online learning resources provided on demand via our global learning management system. All new managers receive targeted training in how to manage and help their teams as they develop their careers at the company. In addition to formal training, Lenovo's 70-20-10 approach to employee development recognizes that employees learn through three distinct types of experiences: on the job assignments (70%), developmental coaching and mentoring relationships (20%), and coursework and training (10%). Lenovo also places a high priority on executive development, bringing leaders together twice a year to share best practices, learn from external experts and drive strategic alignment across the enterprise.

BRAND BUILDING
Lenovo has always believed that Different is Better, and over the years this mindset has led us to a dramatically different approach to the business we're in, to the products we develop and to the way we see ourselves in the world.

Being different took us from being a small PC manufacturer in China to one of the largest technology companies in the world, with operations in over 160 countries. Being different lead us to make three category-defining acquisitions: of ThinkPad, of Motorola Mobility and of the IBM x86 server business. And being different made us not only one of Interbrand's 100 best global brands but also one of Boston Consulting Group's 50 Most Innovative companies and Corporate Knight's 100 Most Sustainable brands.

However, the biggest impact that being different has had on Lenovo is making us more customer-centric. Pushing us to go out into the world to find others who share the belief that Different is Better. And we found a lot. Our most rabid consumer fans are those who care deeply about being different. They will do anything to stand out from the crowd, and passionately seek out products that look, feel and operate differently from anything else on the market. And in business, our best customers also believe that Different is Better. Over their careers, they have consistently proven that having a different IT solution can not only drive meaningful business results, but can also give IT a seat at the management table.

This year, we embraced this philosophy that Different is Better and made it our official brand idea. We kicked it off with all employees at the start of our fiscal year, then made it the centerpiece of everything we did in marketing. We focused the majority of our marketing efforts on five key product lines that prove that Different is Better. In smartphones, we introduced the world to Moto Z and Mods. In consumer PCs, we showcased the YOGA 910 and game-changing YOGA Book. In gaming PCs, we showed the world why Legion is different and better. In commercial PCs, ThinkPad continued the tradition of strong differentiation with a major update to our X1 line. And with our datacenter business, we are starting to show the world how Lenovo truly thinks differently about the datacenter.

To truly bring this Different is Better philosophy to life with our customers, we extended it to every point where they experienced the brand. We developed broad advertising and PR to raise awareness. We embedded it deeply into all of our social and digital interactions. We injected it into our website and our major events. We rebranded many key retail installations. And we included it in our packaging design.

And the world responded. The buzz around Lenovo is growing and people are embracing both the Different is Better mantra and our premium range of products and services. However, we are just getting started. Over the next 12 months we are driving an even more unified Different is Better campaign across all customer touchpoints. And continuing to drive an increased focus on showing the world that Different is Better, through our brand, our business and – most importantly - our products.

FINANCIAL HIGHLIGHT

RESULTS

For the year ended March 31	2017 US$'000	2016 US$'000
Revenue	**43,034,731**	44,912,097
Gross profit	**6,105,516**	6,623,937
Gross profit margin	**14.2%**	14.8%
Operating expenses	**(5,433,168)**	(6,685,758)
Operating profit/(loss)	**672,348**	(61,821)
Other non-operating expenses – net	**(182,421)**	(215,030)
Profit/(loss) before taxation	**489,927**	(276,851)
Profit/(loss) for the year	**530,441**	(144,575)
Profit/(loss) attributable to equity holders of the Company	**535,084**	(128,146)
Earnings/(loss) per share attributable to equity holders of the Company (US cents)		
– Basic	**4.86**	(1.16)
– Diluted	**4.86**	(1.16)
EBITDA*	**1,581,086**	837,692
EBITDA* before restructuring and one-time charges	**1,740,567**	1,760,547
Profit before taxation before restructuring and one-time charges	**649,408**	646,004
Net income before restructuring and one-time charges	**694,565**	794,709
Dividend per ordinary share (HK cents)		
– Interim dividend	**6.0**	6.0
– Proposed final dividend	**20.5**	20.5

* Excluding "other income – net"

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. Analyses of sales by segment are set out in Business Review section.

	2017		2016	
For the year ended March 31	**Revenue from external customers US$'000**	**Adjusted pre-tax income/(loss) US$'000**	Revenue from external customers US$'000	Adjusted pre-tax income/(loss) US$'000
China	**11,794,773**	**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)
	43,034,731	**294,768**	44,912,097	656,723

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

For the year ended March 31	**2017 US$'000**	2016 US$'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:

For the year ended March 31	**2017** **US$'000**	2016 US$'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:

For the year ended March 31	2017 US$'000	2016 US$'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.

FINANCIAL POSITION

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

Non-current assets	2017 US$'000	2016 US$'000
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

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 11 percent is mainly attributable to current year depreciation, partly offset by the Group's further investments in office equipment and headquarters in China.

Prepaid lease payments
Prepaid lease payments represent the land use rights in respect of the manufacturing sites and headquarters in China. Increase of 40 percent is mainly due to the land use rights acquired for the new headquarter in China.

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, customer relationships, patent and technology and internal use software. Decrease of 4 percent is mainly due to amortization during the year.

Interests in associates and joint ventures
Interests in associates and joint ventures are decreased by 19 percent mainly attributable to disposal of a joint venture, which is partly offset by share of profits from principal business activities of respective associates and joint ventures and additional investments.

Deferred income tax assets
Increase in deferred income tax assets 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 83 percent mainly attributable to additional investments during the year, and partly offset by disposal of listed equity securities.

Other non-current assets
Other non-current assets amounted to US$122 million as at March 31, 2017, representing a decrease of 26 percent over last year, which is mainly attributable to decrease of indirect tax recoverable.

Current assets	2017 US$'000	2016 US$'000
Inventories	**2,794,035**	2,637,317
Trade receivables	**4,468,392**	4,403,507
Notes receivable	**68,333**	130,718
Derivative financial assets	**53,808**	27,021
Deposits, prepayments and other receivables	**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

Inventories

Inventories of the Group are increased by 6 percent which is in line with business plan with more raw materials purchased.

Trade receivables and Notes receivable

Trade receivables and notes receivable remained stable, which is in line with business activities during the fourth quarter of current year.

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 parts components sold in the ordinary course of business. Increase is in line with the increase in business activities during the fourth quarter of current year and attributable to receivable arising from disposal of a joint venture.

Total equity

Total equity amounted to US$4,095 million as at March 31, 2017. The increase in total equity is due to the issuance of perpetual securities of US$850 million by a wholly owned subsidiary during the year.

Non-current liabilities	**2017 US$'000**	2016 US$'000
Borrowings	**2,966,692**	2,505,112
Warranty provision	**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	**380,557**	2,152,578
	4,756,906	6,146,880

Borrowings

Borrowings (classified as non-current) increased by US$462 million is mainly due to the issuance of 5-Year US$500 million notes bearing annual interest at 3.875% due in March 2022. The proceeds would be used for repayment of part of the outstanding amount under the promissory note issued to Google Inc. and for general corporate purposes including working capital.

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 20 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.

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 combinations and accelerated tax depreciation.

Other non-current liabilities

Other non-current liabilities mainly comprise government incentives and grants received in advance and deferred rent for offices. The decrease of 82 percent over last year is mainly due to the classification of deferred consideration to Google Inc. and written put option liability in connection with a joint venture to current liabilities based on their maturity terms.

Current liabilities	**2017 US$'000**	2016 US$'000
Trade payables	**5,649,925**	4,266,687
Notes payable	**835,613**	234,661
Derivative financial liabilities	**67,285**	150,864
Other payables and accruals	**10,004,614**	8,305,844
Provisions	**873,405**	1,157,257
Deferred revenue	**586,536**	710,164
Income tax payable	**246,465**	188,968
Borrowings	**70,003**	745,815
	18,333,846	15,760,260

Trade payables and Notes payable

Trade payables and notes payable increased in line with more purchases activities during the fourth quarter of current year.

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 fourth quarter of current year.

Provisions
Provisions comprise warranty liabilities (due within one year), environmental restorations and restructuring provision. The decrease of 25 percent over last year 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 year.

Borrowings
Borrowings (classified as current) amounted to US$70 million as at March 31, 2017, representing a decrease of 91 percent, which is mainly attributable to the net repayment of revolving loans and short term loans during the year.

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.

MANAGEMENT'S DISCUSSION & ANALYSIS

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. Moreover, 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), and 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.

FUTURE PROSPECTS

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.

Y-Series Legion Y720


different
imagines better
Yoga Book

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

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CORPORATE GOVERNANCE PRINCIPLES AND STRUCTURE

The board of directors (the "**Board**") and the management of Lenovo Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") strive to attain and uphold a high standard of corporate governance and to maintain sound and well-established corporate governance practices for the interest sake of shareholders and other stakeholders including customers, suppliers, employees and the general public. The Company abides strictly by the governing laws and regulations of the jurisdictions where it operates and observes the applicable guidelines and rules issued by regulatory authorities. It regularly undertakes review of its corporate governance system to ensure it is in line with international and local best practices.

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**") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**"), 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.

Since November 3, 2011, Mr. Yang Yuanqing ("**Mr. Yang**") has been performing both the roles as the Chairman and the CEO. 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 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 ("**Mr. 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 disclosed in the respective sections of this 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 also prepared using the accounting standards consistent with the policies applied to the interim and annual financial statements.

CORPORATE GOVERNANCE REPORT

The Board has established a clear governance structure and the overall approach have been designed to support and work within our organizational structure to meet the challenges of the future.

Governance Structure

** a management committee comprising the CEO and certain members of the senior management*

KEY MATTERS RESERVED TO THE BOARD DECISION

The Board has adopted a schedule of key matters relating to the strategy, financial and governance which are for decision by the Board. The table on page 61 sets out these key matters reserved by the Board for decision.

BOARD COMMITTEES STRUCTURE

The Board has delegated authority for its key governance functions to three main committees with the responsibilities outlined on page 67. Details of the activities and decisions taken by these committees during the year are shown in the relevant committee reports.

CEO, LENOVO EXECUTIVE COMMITTEE AND DELEGATED AUTHORITIES

Chief Executive Officer who manages the business in line with the strategy agreed by the Board and is accountable to it. Details of the responsibilities of CEO are set out on page 47.

The Chief Executive Officer is supported by the Lenovo Executive Committee which helps to implement strategy and manage operational performance. The Chief Executive Officer has also established authorities framework adopted by the Group through which he delegates certain management decisions to specific individuals and management.

LEADERSHIP

Board Roles

As of the date of this annual report, there are eleven Board members consisting of one executive director, two non-executive directors and eight independent non-executive directors. The Board has a coherent framework with clearly defined responsibilities and accountabilities designed to safeguard and enhance long-term shareholder value and provide a robust platform to realise the strategy of the Group. A summary of responsibilities of leadership of the Company and those of the Lead Independent Director is given in the diagram below.

CHAIRMAN

Mr. Yang Yuanqing

- leads the Board in the determination of its strategy and in the achievement of its objectives
- provides leadership and manages the Board to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate, complete and reliable information in a timely manner
- approves the Board's agenda, taking full account of the issues and concerns of Board members. Board agendas are structured to allow adequate and sufficient time for the discussion of the items on the agenda, in particular, strategic matters
- facilitates and encourages active engagement of Board members, particularly on matters of the Group's strategy or other major proposals, by drawing on directors' skills, experience and knowledge
- ensures good corporate governance practices and procedures are established and effective communication with shareholders and other stakeholders

NON-EXECUTIVE DIRECTORS

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

Non-executive directors:

Mr. Zhu Linan
Mr. Zhao John Huan

- participate in Board meetings to bring an independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct
- take the lead where potential conflicts of interests arise
- scrutinise the Group's performance in achieving agreed corporate goals and objectives, and monitoring performance reporting
- make a positive contribution to the development of the Group's strategy and policies through independent, constructive and informed comments
- engage with senior management and other relevant parties, such as the external or internal auditors as well as the Company's legal department, to ensure that the various concerns and issues relevant to the management and oversight of the business and operations of the Company and the Group are properly addressed

LEAD INDEPENDENT DIRECTOR

Mr. William O. Grabe

- chairs the Nomination and Governance Committee meeting and/or the Board meeting when considering (i) the combined roles of Chairman and CEO; (ii) assessment of the performance of Chairman and/or CEO
- calls and chairs meeting(s) with all independent non-executive directors at least once a year on such matters as are deemed appropriate and provide feedbacks to Chairman and/or CEO
- serves a key role in the Board evaluation process
- responds directly to shareholders and other stakeholders questions and comments that are directed to the Lead Independent Director or to the independent non-executive directors as a group, when appropriate
- if requested by major shareholders, ensures that he is available, when appropriate, for consultation and direct communication
- performs other duties as the Board may designate

CHIEF EXECUTIVE OFFICER

Mr. Yang Yuanqing

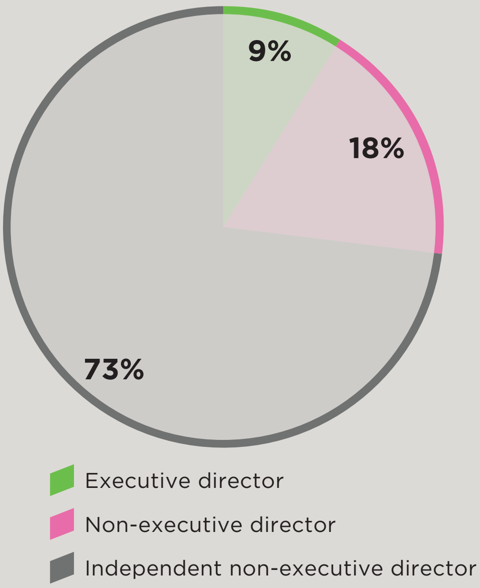
- formulates and recommends the strategy of the Group to the Board
- executes the strategy agreed by the Board
- makes and implements operational decisions and managing the business day-to-day
- leads the business and the management team

Board Composition

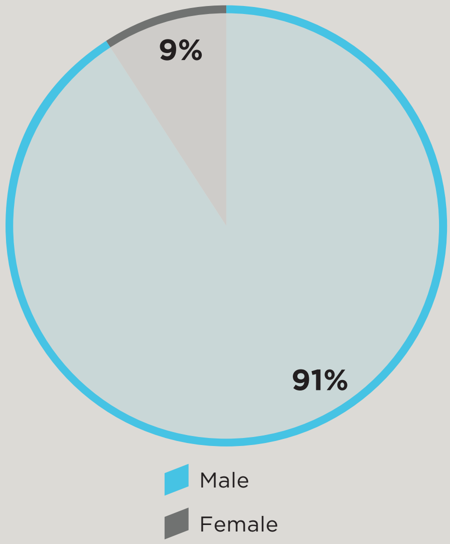
The structure, size and composition (including, for example, gender, age, and length of service) of the Board will be reviewed from time to time by the Nomination and Governance Committee to ensure that the Board has a balance of skill and expertise for providing effective leadership to the Company and meeting the needs of the Group.

The Board diversity mix is shown below while the detailed biographies and snapshot of the Board's experience are set out on pages 133 to 136 of this annual report.

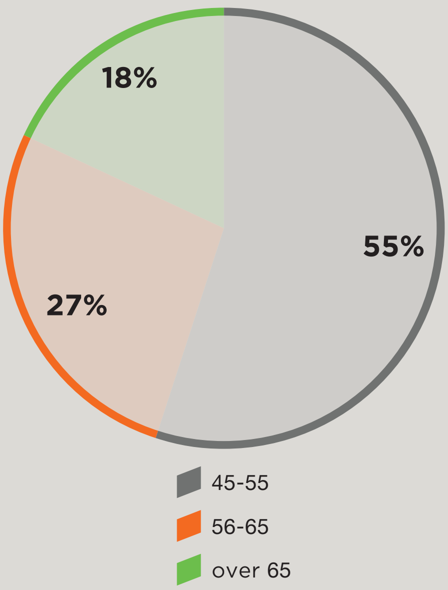
DESIGNATION



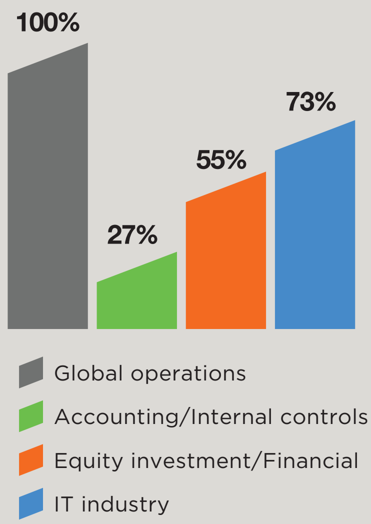
GENDER



AGE GROUP



AREAS OF EXPERIENCE



Key Features of the Board Composition

Diversity	The Board adopted a Board diversity policy (the "**Board Diversity Policy**") which relates to the selection of candidates for the Board. A summary of the Board Diversity Policy including the views and measurable objectives is set out on page 50 of this report.
Independence	The current composition of the Board exceeds the requirements under rule 3.10A of the Listing Rules, as more than half of its members are independent non-executive directors, thus exhibiting a strong independent element which enhances independent judgement.
	Mr. Grabe, an independent non-executive director of the Company was appointed as Lead Independent Director for enhancing corporate governance of the Company. The roles and responsibilities of the Lead Independent Director are set out on page 47 of this report.
	The Company has maintained on its website and Hong Kong Exchanges and Clearing Limited's website (the "**HKEx's website**") an updated list of its directors identifying their roles and functions and whether they are independent non-executive directors.
	Independent non-executive directors are also identified as such in all corporate communications that disclose the names of directors of the Company.
Professional qualification	Mr. Nicholas C. Allen, an independent non-executive director of the Company, has the appropriate professional qualifications, or accounting or related financial management expertise, as required under the Listing Rules.
Relationship among directors	Mr. Zhu Linan and Mr. Zhao John Huan, non-executive directors of the Company, also serve on the board of directors of Legend Holdings Corporation, which company held approximately 31.47% of the total number of shares in issue of the Company as of March 31, 2017 according to the interest as recorded in the register maintained under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "**SFO**") The details are set out on page 92 of this report.
	To the best knowledge of the Board members, there are no other relationship among the members of the Board as of the date of this annual report except for the relationships (including financial, business, family, and other material and relevant relationships) as mentioned in this report and in the biographies of directors set out on pages 133 to 136 of this annual report.

Appointment and Election

Diversity

The Board values diversity as a factor in selecting candidates to serve on the Board, and believes that the diversity which exists in its composition provides significant benefits to the Board and the Company.

The Board believes that a key success factor of an effective Board is that it comprises a range and balance of skills, experience, knowledge and independence, with individuals that work as a team. The Board Diversity Policy which relates to the selection of candidates for the Board was adopted to ensure that diversity in its broadest sense continues to remain a feature of the Board. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires being effective. The details of the appointment process can be found on page 51 of this report.

The Nomination and Governance Committee has been delegated with the responsibilities for the review of the Board Diversity Policy on an annually basis. During the fiscal year 2016/17, the Nomination and Governance Committee reviewed the below measurable objectives and the progress in achieving these objectives:

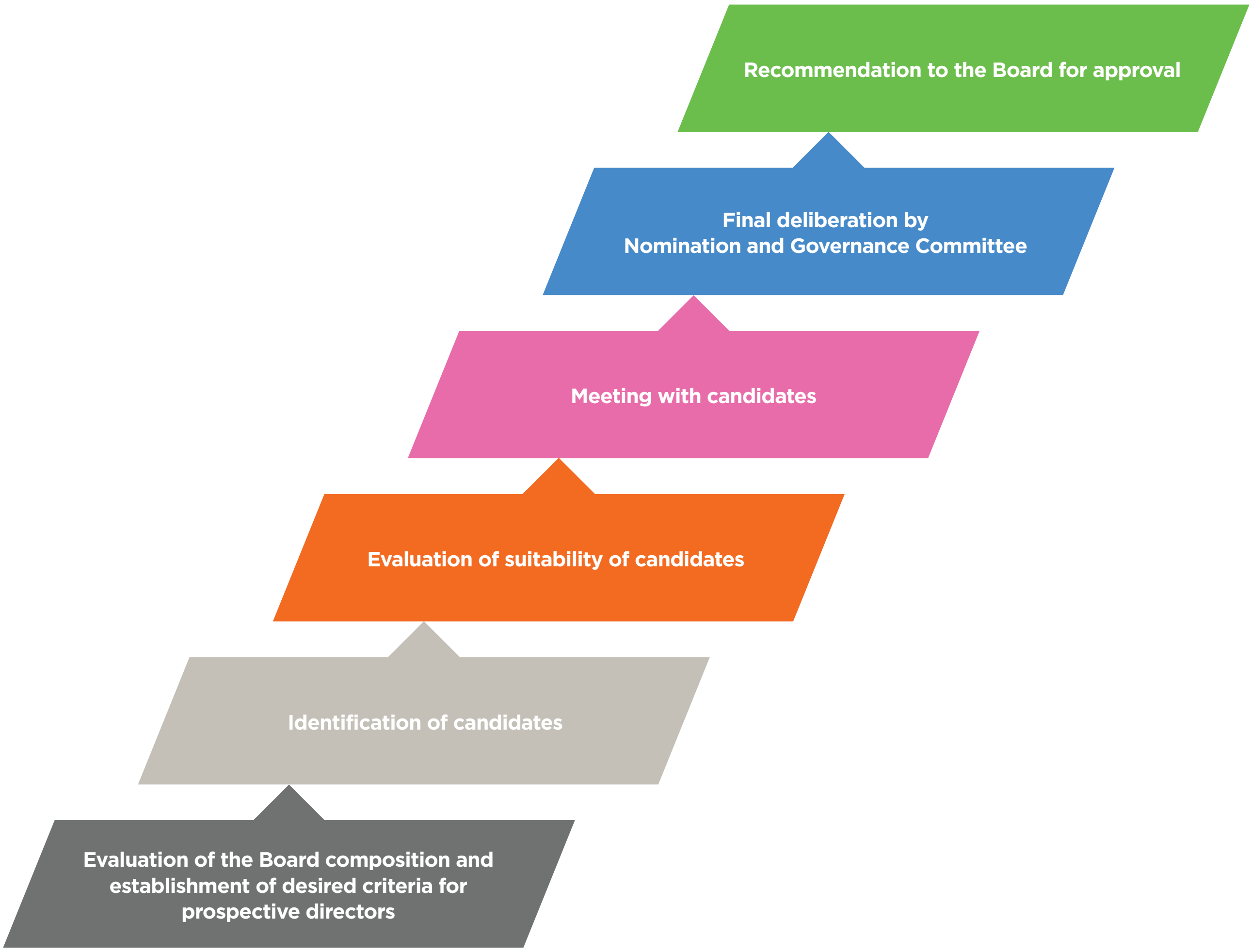
Measurable Objectives		**Progress for Achieving Objectives**
Objective 1	Consider candidates for appointment as independent non-executive directors from a wide pool of backgrounds, skills, experience and perspectives that would complement the existing Board	• Re-designation of Mr. Gordon Robert Halyburton Orr ("**Mr. Gordon Orr**") from non-executive director to independent non-executive director • In the ordinary course of the Board succession process
Objective 2	Report annually against the objectives and other initiatives taking place within the Company which promote diversity	• The Board evaluation process includes an assessment of the Board's diversity helping to objectively consider the Board composition and effectiveness • FY2017/18 and ongoing
Objective 3	Report annually on the outcome of the composition and structure of the Board as well as any issues and challenges the Board is facing when considering the diverse make-up of the Company	• Make use of the Board evaluation process as an important means of monitoring the progress • Remain committed to getting the right balance of the composition of the Board and work towards understanding and managing some of the challenges we face in the global information technology sector, particularly in internet, mobile, software and clouds areas • FY2017/18 and ongoing

Appointment process
The Board recognises the need to ensure the Board and senior management are always well resourced, with the suitable people in terms of skills and experience to deliver the Group's strategy.

There is a formal and transparent procedure for the appointment of new directors to the Board, the primary responsibility of which has been delegated to the Nomination and Governance Committee. The Nomination and Governance Committee is composed of the Chairman and three independent non-executive directors. This composition ensures that any decisions made are impartial and are in the best interest of the Company.

The Nomination and Governance Committee's assessment of the candidates includes, but is not limited to, consideration of the relevant knowledge and diversity of backgrounds, skills, experience and perspectives that would complement the existing Board.

The Nomination and Governance Committee also ensures that candidates satisfy the requisite skills and core competencies to be deemed fit and proper, and to be appointed as director. The nomination process involves the following six stages:

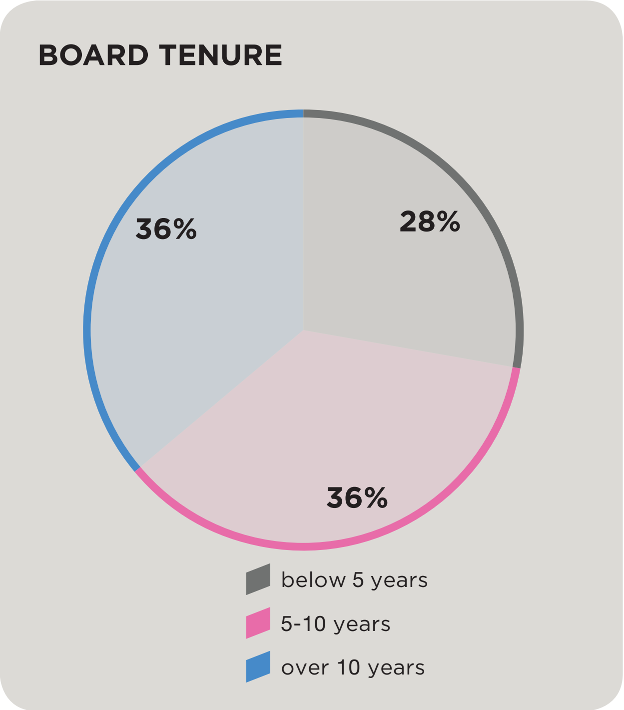


Succession

The Nomination and Governance Committee regularly reviews the structure, size and composition (including the skills, knowledge and experience) required of the Board and makes recommendations to the Board as appropriate. The Board has satisfied itself that the appropriate plan has in place for orderly succession to the Board as well as procedures to ensure an appropriate balance of skills on the Board and its committees. The Board and the Nomination and Governance Committee have regularly discussed and reviewed Board composition and succession planning during the year and this will continue in the fiscal year 2017/18.

Tenure

In accordance with the articles of association of the Company (the "**Articles of Association**"), all directors are subject to retirement by rotation. At each annual general meeting, one-third of the directors for the time being shall retire from office. The retiring directors shall be eligible for re-election. New appointments either to fill a casual vacancy or as an addition to the Board are subject to re-election by shareholders of the Company at the next following annual general meeting of the Company. The chart beside this paragraph shows the tenure of the Board members as of March 31, 2017.



All non-executive directors (including independent non-executive directors) have entered into letters of appointment with the Company for a term of three years. Their terms of appointment shall be subject to retirement from office by rotation and re-election at the annual general meeting in accordance with the Articles of Association.

The Company agreed that the independence of directors is an important principle of the Company. In line with the best practices on corporate governance, the Board adopted the principle that each term of an independent non-executive director of the Company shall not be more than three years and shall, subject to re-election by shareholders at any subsequent annual general meeting of the Company, be renewable for additional three-year terms up to a total of nine years. At the recommendation of the Nomination and Governance Committee, the Board may invite an independent non-executive director to serve for an additional three-year term extending up to a total of twelve years subject to re-election at any subsequent annual general meeting of the Company.

Independence

The independent non-executive directors do not participate in the day-to-day management of the Company and do not engage in any business dealing or other relationships with the Group (other than in situations permitted by the applicable regulations) in order to ensure that they remain truly capable of exercising independent judgement and act in the best interests of the Company and its shareholders.

On September 1, 2016, Mr. Gordon Orr was re-designed from a non-executive director to an independent non-executive director. The Board was satisfied and had demonstrated to the satisfaction of the Stock Exchange that the re-designation of Mr. Gordon Orr as an independent non-executive director was justified for the following reasons:

1. Mr. Gordon Orr retired from all his management duties in McKinsey & Company in August 2015, and he has been sitting on the Board solely in his personal capacity to protect the interests of all the shareholders of the Company as a whole;

2. prior to his re-designation as an independent non-executive director, Mr. Gordon Orr has been a non-executive director of the Company. As a non-executive director, he has not taken part in the day-to-day management of the Company and has not had any executive or management role or function in the Company or any of its subsidiaries except for attending meetings of the Board of the Company. The Company considers that his non-executive role in the Company has no impact on his independence;

3. to the best knowledge of the directors of the Company, Mr. Gordon Orr is not financially dependent on the Company and he is independent of any connected person and substantial shareholder of the Company; and

4. the Company believes that Mr. Gordon Orr is able to exercise his professional judgement and draw upon his extensive knowledge in strategic planning, risk management, internal control and corporate governance matters for the benefit of the Company and its shareholders as a whole, in particular, the independent shareholders.

Independence Assessment

Before and on appointment

- Nomination and Governance Committee will evaluate the suitability of the candidates, including an assessment of his/her independence
- Upon his/her appointment, he/she is required to confirm with the Stock Exchange his/her independence having regard to the criteria under rule 3.13 of the Listing Rules

Ongoing process

- Each of the independent non-executive directors is required to inform the Stock Exchange and the Company as soon as practicable if there is any change in his or her own personal particulars that may affect his or her independence
- The independent non-executive directors are required to confirm with the Company whether he/her has any financial, business, family or other material/relevant relationship with each other on a semi-annual basis
- All directors have continuing duty to update the Company on any changes to their other appointments which will be reviewed by the Company

Annual assessment

- Each of the independent non-executive directors is required to confirm with the Company his/her independence having regard to the criteria under rule 3.13 of the Listing Rules
- Nomination and Governance Committee will assess and review the independence of independent non-executive directors annually

CORPORATE GOVERNANCE REPORT

In light of the above, the Company is in the opinion that his connection with the Company as a non-executive director prior to his re-designation as an independent non-executive director will not affect his independence as an independent non-executive director and he will be able to carry out his duties as an independent non-executive director impartially and independently.

Each of the independent non-executive directors has made a confirmation of independence pursuant to rule 3.13 of the Listing Rules. On May 24, 2017, the Nomination and Governance Committee conducted an annual review of the independence of all independent non-executive directors of the Company for the year ended March 31, 2017. Having taken into account the factors as set out in rule 3.13 of the Listing Rules in assessing the independence of independent non-executive directors, the Nomination and Governance Committee (with the relevant committee member abstaining from voting on the resolution concerning his own independence) concluded that all of the independent non-executive directors satisfied the criteria of independence as set out in the Listing Rules.

In addition, the Nomination and Governance Committee affirmed that all independent non-executive directors of the Company provided a strong independent element on the Board, were free from any business or other relationship which could materially interfere with the exercise of their judgement, and remained independent for the year ended March 31, 2017.

Conflicts of interest

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company. The Board has a set procedure and guidance to deal with the actual or potential conflicts of interest of directors as follows:

- The Board deals with each appointment on its individual merit and takes into consideration all the circumstances.

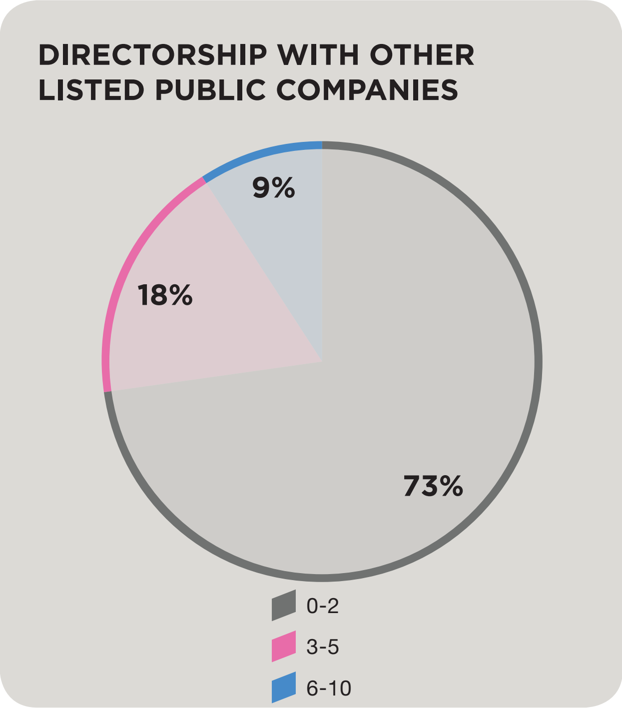
- Prior to taking additional responsibilities or external appointments, directors are obliged to ensure that they will be able to meet the time commitment expected of them in their role at the Company and do not have any potential conflicts that may arise when take up a position with another company.

- Decisions regarding transactions with directors and their related parties are always dealt with by other directors, such as matter regarding the remuneration of executive director is handled by the Compensation Committee.

- Under the Articles of Association, directors are also required to declare their direct or indirect interests, if any, in any proposal, transaction, arrangement or contract that is significant in relation to the Company's business and the director's interest or his/her associate's interest or the interest of the entity connected with the director is material.

All potential conflicts of interest will be recorded, which are reviewed on an annual basis by the Nomination and Governance Committee to ensure that the procedures are working effectively.

Commitments
All directors are committed to devote sufficient time and attention to the affairs of the Company. Directors are given guidelines on their time commitments to the affairs of the Company and corresponding confirmations were received from the directors in their letters of appointment. Directors have also disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies or organisations. Directors are reminded to notify the Company in a timely manner and bi-annually confirm to the Company of any changes of such information. The chart beside shows the number of directorship of the directors with other listed public companies as at March 31, 2017.



With respect to those directors who stand for election or re-election at the forthcoming annual general meeting, all of their directorships held in listed public companies in the past three years are also set out in the document accompanying the notice of the forthcoming annual general meeting.

Share ownership
The Board has adopted stock ownership guidelines for non-employee directors. The Board believes that share ownership aligns the interests of its directors with the long-term interests of the shareholders and further promotes the Company's commitment to sound corporate governance. In general, these guidelines require non-employee directors to maintain a certain level of equity awards granted to them for so long as he or she is a director of the Company.

Directors' Securities Transactions
The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules from time to time and devised based on the principles of the Model Code a comprehensive and operative company policy to govern securities transactions by directors and designated senior management of the Company. All directors of the Company have confirmed, after specific enquiry, their compliance with the required standard during the year.

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.

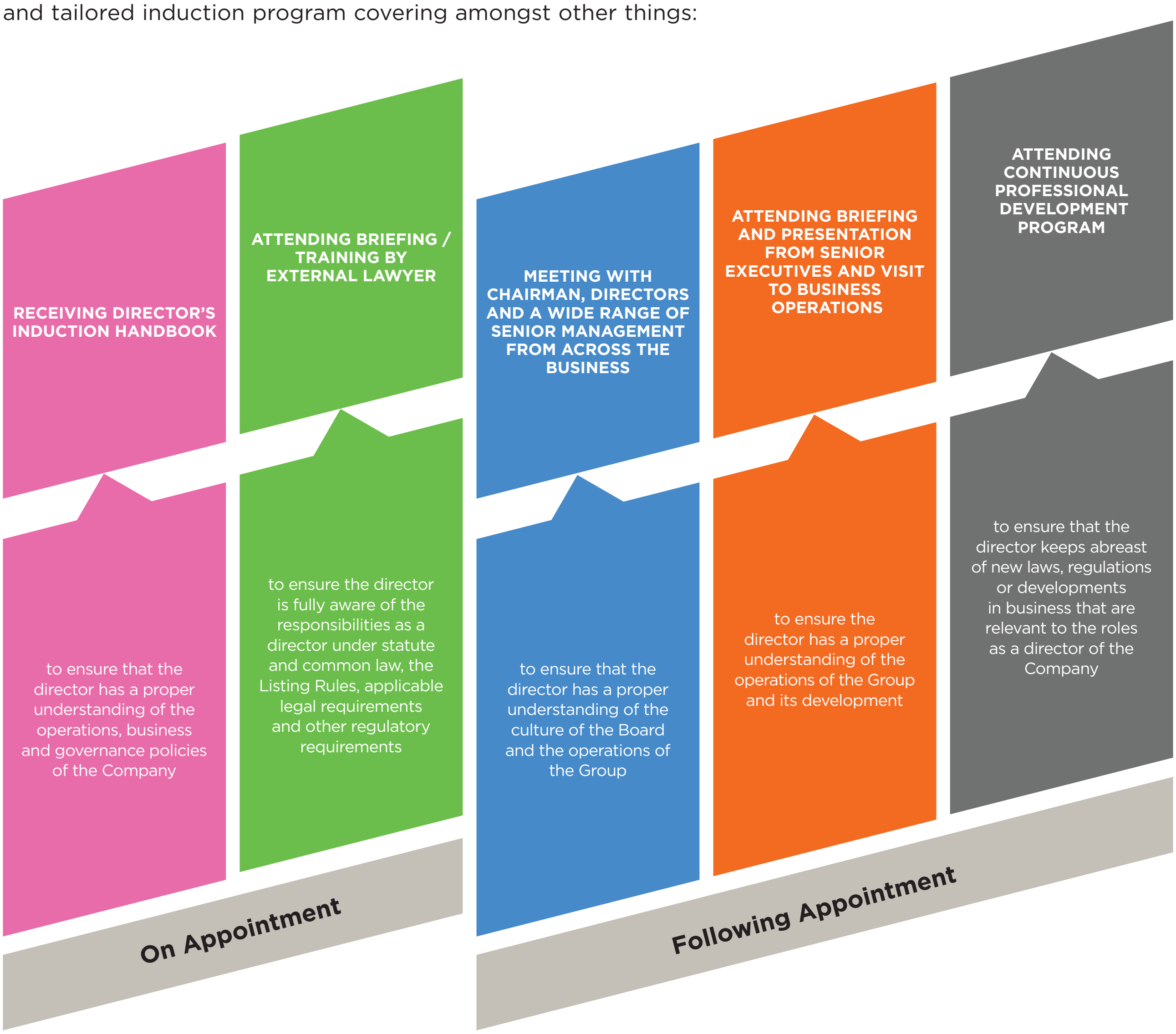
Induction and Continuous Professional Development

The Company is aware of the requirement to regularly review and agree with each director their training needs. Keeping up-to-date with key business developments is essential for directors to maintain and enhance their effectiveness.

Induction program

For new director

Upon joining the Company, directors are provided with a bespoke induction program to further their understanding of the nature of the Company, its business and the markets in which it operates, and also enhance their knowledge of the Group, its operation and staff. Induction program is tailored to each new director, depending on the experience and background of the director. Normally, a comprehensive, formal and tailored induction program covering amongst other things:



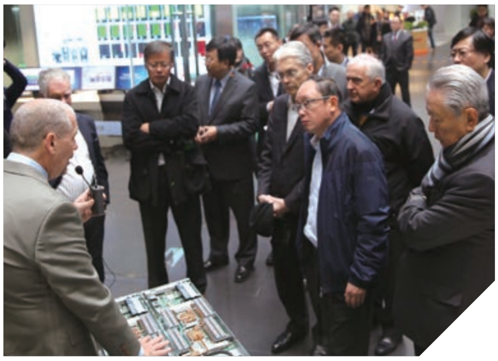
For new Board committee members
Directors to be appointed to the Board committee are provided with an induction handbook which is designed to provide Board committee members with information regarding the roles of a committee member, making the most of their time on the committee, meeting annual agendas, and general information about the respective Board committee of the Company.

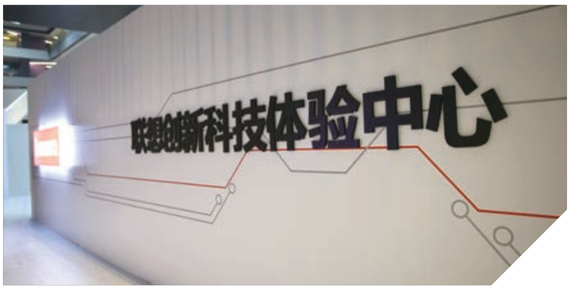
Continuous professional development program
As part of the continuous professional development program, the Board members from time to time receive presentations from senior executives in the business on matters of significance. Financial plans, including budgets and forecasts, are regularly discussed at Board meetings. The Company would arrange appropriate visits and seminars covering the Group's operations, the industry and governance matters for directors to facilitate their understanding of the Group's businesses and have a better awareness of the risks associated with the Group's operations.

During the year, the trainings and activities for the Board were set out below:

Site Visit

Directors visited Lenovo Headquarters (Beijing) New Campus, Converged Infrastructure Solution Lab and Lenovo Enterprise Innovation Center. During the visits, directors were provided with updates and tech demo showcase and met with senior management. These arrangements provided the Board a better understanding of the latest technology and innovation of the Group and an insight into the business operations and the strategic direction of the Group.





In order to enhance greater interaction between Board members and senior management, the Company also arranged directors to attend the Global Leadership Team ("**GLT**") annual meeting in Munich, Germany. The GLT meeting presented an excellent opportunity for Lenovo's leaders to work together, share ideas, identify challenges and, most importantly, develop solutions.

CORPORATE GOVERNANCE REPORT

Industry Congress

Lenovo operates in an industry which is rapidly changing in terms of market trends, consumer preferences and technologies. In order to keep directors updated with the latest technologies and products development in the industry, the Company has made arrangements for directors to attend Consumer Electronics Show and Mobile World Congress (the "**MWC**") in Las Vegas and Barcelona respectively. During the visits, directors were given the best product reviews, product demos and displays that showcase the technologies of the Company and also those of other players in the market. These events provided excellent opportunities for directors not only to acquire the most advanced technological knowledge in the market, but also to meet with the senior management of the Company and other innovators, builders, technologists and customers there.

Board Meeting in Barcelona during the MWC
In March 2017, the Board attended the MWC in Barcelona. Taking this opportunity, the Board also held a Board meeting in Barcelona focusing on strategy discussion. As part of the meeting and visit, the Board received presentations from senior management on strategic topics of the Group and the latest technologies and products development in the industry. In addition to the MWC, the Board also visited Barcelona Supercomputing Center.

Barcelona Supercomputing Center

Experts Briefing and Seminar

The Company has arranged in-house seminars for directors to keep them abreast of the affairs relating to the Company. The directors are also encouraged to attend relevant external professional programs at the Company's expense to keep abreast of issues facing the changing business environment within which the Group operates.

During the year, the Company arranged experts briefing and in-house seminar for directors on topics relating to Esports, Big Data and New US Administration.

Regulatory Updates

Directors are updated on a continuing basis by the Company Secretary on any new regulations and guidelines, as well as any amendments thereto issued by the Stock Exchange and other regulatory authorities, particularly the effects of such new or amended regulations and guidelines on directors specifically, and the Company and the Group.

In addition, director's induction handbook which contains organization structure, Board policies, corporate rules and policies, and other legal reference information will be updated regularly and made available on internal electronic platform of the Company for directors' review.

The Board considers the aforementioned training attended and/or participated in by the directors, and the continuing legal updates provided to the directors, as adequate to enhance the directors' skills and knowledge to carry out their duties as directors.

All directors are required to provide the Company with their training records on annually basis and such records are maintained by the Company Secretary for regular review by the Nomination and Governance Committee. The Nomination and Governance Committee will, on a continuing basis, evaluate and determine the training and development needs of the directors, particularly on relevant new laws and regulations and essential practices for effective corporate governance, to enable the directors to sustain their active participation in Board deliberations and effectively discharge their duties.

In addition to directors' attendance at meetings and review of relevant materials provided by senior management during the year, the professional trainings attended by the directors are set out as follows:

Type of training / Name of directors	Reading regulatory updates/ Company Policies	Visiting the place of operations, Company's facilities and meeting with local management	Attending experts briefing/ seminar/ conference relevant to the Company's business or director's duties
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 *(Note)*	√	√	√

Note: Mr. Gordon Orr was re-designated as an independent non-executive director of the Company with effect from September 1, 2016.

Remuneration of Directors and Senior Management

A formal and transparent procedure for fixing the remuneration packages of directors and senior management is in place. Details of remuneration policies, remuneration payable to senior management and other relevant information are set out in the Compensation Committee Report of this annual report on pages 103 to 115.

Company Secretary

The Company Secretary, Mr. Mok Chung Fu, Eric is responsible for facilitating the Board process, as well as communications among Board members with shareholders and management. During the year, the Company Secretary undertook appropriate professional training to update his skills and knowledge.

EFFECTIVENESS

Board's Responsibilities and Delegation

The Group is controlled through the Board who is responsible for steering the success of the Group by overseeing the overall strategy and directing and supervising its affairs in a responsible and effective manner. The Board also sets the Group's core values and adopts proper standards to ensure that the Company operates with integrity and complies with the relevant rules and regulations.

The Company has a formal schedule of matters specifically reserved to the Board and those delegated to management. The management is responsible for the daily operations and administration function of the Group under the leadership of the CEO. The Board has given clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the Company or entering into any commitments on behalf of the Group. The types of decisions to be delegated by the Board to management include implementation of the strategy and direction determined by the Board, operation of the Group's businesses, preparation of financial statements and operating budgets, and compliance with applicable laws and regulations. These arrangements will be reviewed periodically to ensure that they remain appropriate to the Company's needs. A list of senior management and their biographies are set out on pages 137 to 138 of this annual report.

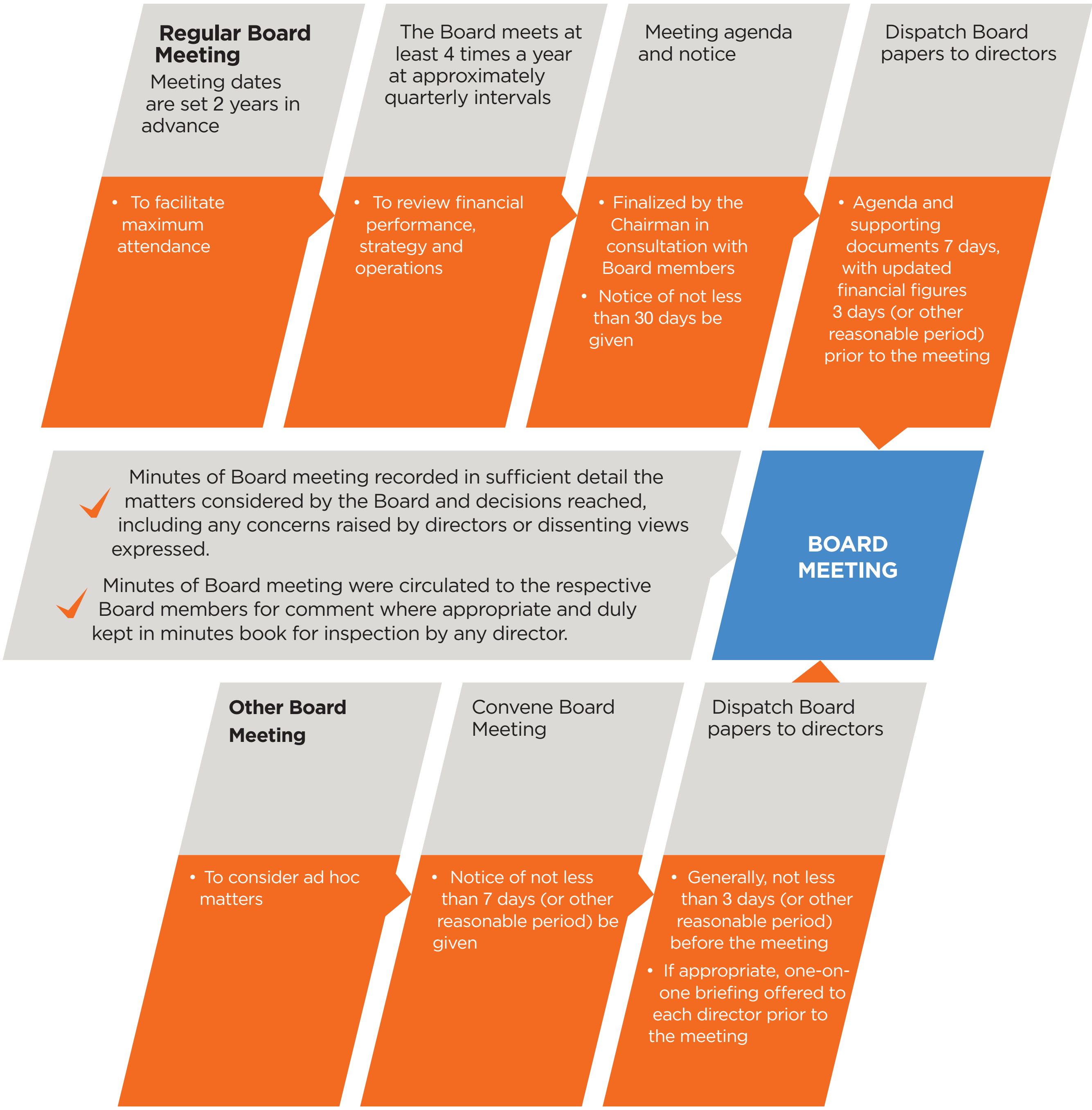
Key Matters Reserved for Board Approval

Group strategy and management	Financial
• formulation of the Group's strategy and long term objectives • approval of changes to capital structure • approval of major capital and equity transactions • approval of major disposals and acquisitions	• approval of the Group's financial statements and results announcements • recommendation on appointment or reappointment of external auditor • recommendation or declaration of dividend • monitoring the Group's businesses against plan and budget
Board membership and committees	**Corporate governance and sustainability**
• appointment to the Board • setting of terms of reference of Board committees	• review the performance of Board and its committees • approval of shareholder communications, circular and notices of meetings • review sustainability practices and approval of sustainability report of the Group • review and approval of certain Group's policies, for example, Board Diversity Policy, Continuous Disclosures Policy and Shareholders Communication Policy

CORPORATE GOVERNANCE REPORT

Board Process

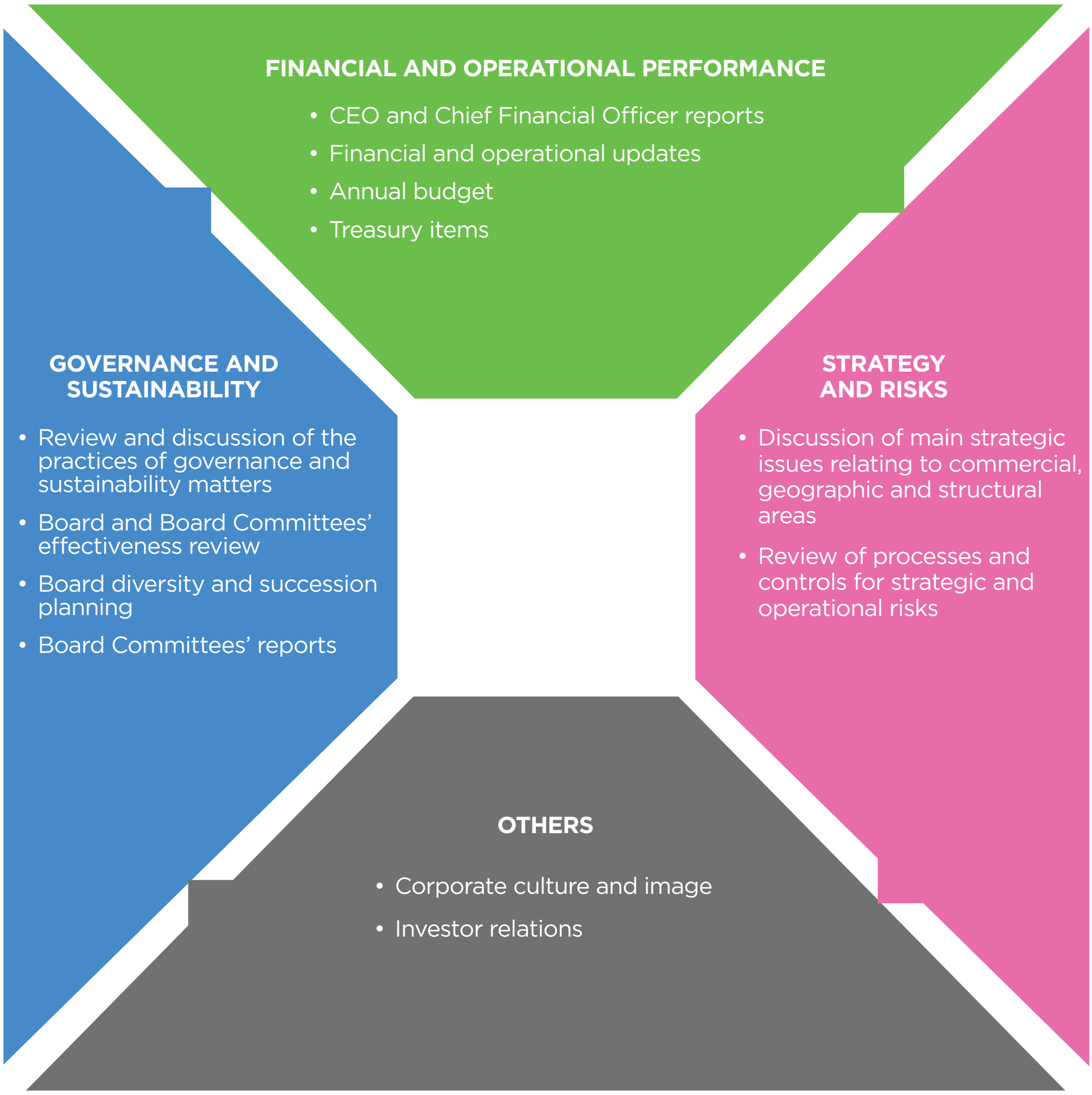
The Board recognises the importance of providing timely and appropriate information to directors so as to enable them to make informed decisions and to perform their duties and responsibilities effectively.



Other Key Features of Board Process	
Timely updates and discussion	The directors are supplied in a timely manner with all relevant documentation and financial information to assist them in the discharge of their duties. Monthly updates of the financial performance of the Company are furnished to the Board between regular Board Meetings.
	In addition to standing agenda items, there may be discussions on "deep-dive" topics. During the year "deep-dive" presentations included the Group's specific strategy and business in a specific market.
	Senior management are invited to attend Board meetings, where appropriate, to report on matters relating to their areas of responsibility, and also to brief and present details to the directors on recommendations submitted for the Board's consideration. Additional information or clarification may be required to be furnished, particularly with respect to complex and technical issues tabled to the Board.
	The Company has established continuous disclosure policy (the "**Continuous Disclosure Policy**") and its implementation guideline on monitoring, reporting and disseminating inside information. The critical concerns of the Group's operations and developments are communicated and addressed to the Board in a timely manner.
Executive sessions	As a good corporate governance practices, separate executive sessions were arranged for (i) the Chairman to meet with non-executive directors in the absence of management and (ii) the Lead Independent Director to meet with other independent non-executive directors in the absence of executive director and management to discuss matters relating to any issue or other matters such persons would like to raise.
	To enhance communication with and contribution from all the directors, the Chairman meets with each non-executive director on a one-on-one basis at least once a year.
Professional advices	All directors have direct access to the Chief Legal Officer and the Company Secretary of the Company who are responsible for advising the Board on corporate governance and compliance issues.
	Written procedures are in place for directors to seek, at the Company's expense, independent professional advice in performing directors' duties. No request was made by any director for such advice during the year.
Access to information	All directors were provided with a tablet and a notebook to gain access to meeting materials of the Board and Board committees meetings through an electronic platform.
Communication with senior management	To enhance the communication between directors and senior management and have an understanding of management planning, directors are invited to attend Lenovo's GLT event and participate in small group discussions with relevant senior management.
Indemnification and insurance	As permitted by the Articles of Association, a director or a former director of the Company may be indemnified out of the Company's assets against any liability incurred by the director to a person other than the Company or an associated company of the Company that attaches to such director in his or her capacity as a director of the Company, to the extent permitted by law. Such permitted indemnity provision has been in force since the adoption of the new articles of association of the Company on July 2, 2014.
	The Company has arranged appropriate insurance to cover the liabilities of the directors arising from corporate activities. The insurance coverage is reviewed on an annual basis.

Board Activities

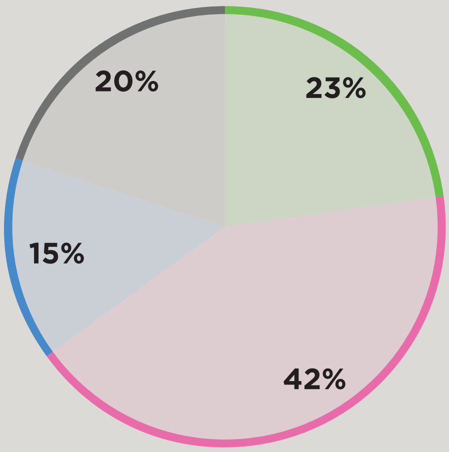
Board activities are structured to assist the Board in achieving its goal to support and advise senior management on the delivery of the Group's strategy within a transparent governance framework. The diagram below shows the key areas of focus for the Board, which appear as items on the Board's agenda at relevant times throughout the financial year. Concentrated discussion of these items assists the Board in making the most appropriate decision based on the long-term opportunities for the business.



Main activities during FY2016/17

During the fiscal year 2016/17, a total of five Board meetings were held, of which four Board meetings were primarily to review quarterly business performance and strategy execution and the remaining one was for reviewing specific strategy in the geography and business. Given the geographical spread of the Group's business, in addition to the meetings in Hong Kong, Beijing and the United States, the Company also held a meeting in Barcelona with a particular focus on reviewing the strategies and business of Mobile Business Group which also provided an opportunity for directors to attend the Mobile World Congress. Offsite Board meetings give the Board further insights into the business of the Group. The below chart shows how the Board allocated its agenda time during the year.

THE BOARD
Allocation of agenda time



	FY2016/17	FY2015/16
Financial and operational performance	23%	35%
Strategic matters	42%	38%
Governance, sustainability, training and Board Committee's reports	15%	14%
Others matters (including Ad hoc projects and human resources matters)	20%	13%

Directors are expected to attend all meetings of the Board and the Committees on which they serve and to devote sufficient time to the Company to perform their duties. Where Directors are unable to attend meetings they receive papers for that meeting giving them the opportunity to raise any issues with the Chairman in advance of the meeting.

At each scheduled meeting the Board receives updates from the CEO and Chief Financial Officer on the financial and operational performance of the Group and any specific developments in their areas of the business for which they are directly responsible and of which the Board should be aware. Chairman of the respective Board committees would also report on matters discussed and/or approved at the relevant Board committees' meetings held prior to the Board meetings. Meetings are structured so as to allow for consideration and debate of all matters.

CORPORATE GOVERNANCE REPORT

The main matters and areas that the Board reviewed and considered at its five meetings during the year were as follows:

FINANCIAL AND OPERATIONAL PERFORMANCE

Throughout the year the Board received and discussed:

- reports from the CEO and the Chief Financial Officer on performance of operations of different business groups
- information on the financial performance of the Group
- approved FY2017/18 annual budget and operating plan
- approved FY2016/17 financial results and the respective results announcements and reports
- declared/recommended the declaration of dividends
- reviewed updates on capital market
- approved the medium term note programme
- approved the sale of properties and equity interests in joint venture

STRATEGIC MATTERS

The Board continued to focus on overseeing the execution of the strategy.

The Board:

- received regular business developments reports
- received updates on strategy in different business groups
- held a strategy meeting, focusing on the business groups' and corporate's strategies, industry trends and competitors' strategies

GOVERNANCE AND SUSTAINABILITY

The Board dealt with governance and sustainability matters, including:

- approved the re-designation of Mr. Gordon Orr as independent non-executive director and appointment to the Audit Committee and the Compensation Committee
- approved the cessation of Mr. Zhu Linan and appointment of Mr. Zhao John Huan as member of the Compensation Committee
- received reports from the three Board committees
- approved and recommended the re-appointment of external auditor
- discussed the Board matrix and the recommendations following the Board evaluation
- received the update on sustainability and also discussed and approved FY2015/16 sustainability report
- received the directors' professional trainings

OTHERS

Talents

The SVP of HR updated the Board during the year on:

- refreshment of Lenovo culture
- organization human resources planning

Corporate image

Received the update on marketing from the Chief Marketing Officer

Investor Relations

Received the report and presentations from investor relations team

Board Committees

As at the date of this annual report, the Company has preserved three Board committees (the "**Board Committees**") with defined terms of reference (which are posted on the Company's website and HKEx's website) – Audit Committee, Compensation Committee, and Nomination and Governance Committee. The terms of reference of Audit Committee, Compensation Committee, and Nomination and Governance Committee reference those set out in the CG Code prevailing from time to time.

BOARD OF DIRECTORS

Chairman and Executive Director

Mr. Yang Yuanqing *(CEO)*

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 *(Lead Independent Director)*

Mr. William Tudor Brown

Ms. Ma Xuezheng

Mr. Yang Chih-Yuan Jerry

Mr. Gordon Robert Halyburton Orr

Key Responsibilities

- Set strategy, mission and values
- Provide leadership of the Company and direction for management
- Collective responsibility and accountability to shareholders for the long term success of the Group
- Review the performance of management and the operating and financial performance of the Group

AUDIT COMMITTEE

Chairman

Mr. Nicholas C. Allen

Members

Ms. Ma Xuezheng

Mr. William Tudor Brown

Mr. Gordon Robert Halyburton Orr

Key responsibilities

- Assist the Board in carrying out its oversight responsibilities in relation to financial reporting, risk management and internal control, and in maintaining a relationship with external auditors

COMPENSATION COMMITTEE

Chairman

Ms. Ma Xuezheng

Members

Mr. William O. Grabe

Mr. William Tudor Brown

Mr. John Huan Zhao

Mr. Gordon Robert Halyburton Orr

Key responsibilities

- Assist the Board to assess and making recommendation on the compensation policy; and to determine the compensation level and package for the Chairman of the Board, CEO, other directors and senior management

NOMINATION AND GOVERNANCE COMMITTEE

Chairman

Mr. Yang Yuanqing

Members

Mr. Nobuyuki Idei

Mr. William O. Grabe

Dr. Tian Suning

Key responsibilities

- Assist the Board in overseeing Board organization, succession planning, and developing the corporate governance principles and policy and responsible for the assessment of the performance of the Chairman of the Board and/or the CEO and the independence of independent non-executive directors

The Board may also establish committees on an ad hoc basis to approve specific projects as deemed necessary. Should the need arise, the Board will authorize an independent board committee comprising the independent non-executive directors to review, approve and monitor connected transactions (including continuing connected transactions) that should be approved by the Board.

All Board Committees follow the same principles and procedures as those of the Board and are provided with sufficient resources to perform their duties. The Board Committees will report to the Board on a regular basis, including their decisions or recommendations to the Board, unless there are legal or regulatory restrictions on their ability to do so. The member list of the Board Committees is also posted on the Company's website and HKEx's website.

Audit Committee

The Audit Committee is delegated by the Board to perform its duties within its terms of reference. Details of the Audit Committee, including its membership, responsibilities and main activities during the fiscal year 2016/17, are summarized in the Audit Committee Report as stated on pages 95 to 102 of this annual report.

Compensation Committee

The Compensation Committee is delegated by the Board to perform its duties within its terms of reference. Details of the Compensation Committee, including its membership, responsibilities and work done during the fiscal year 2016/17, are summarized in the Compensation Committee Report as stated on pages 103 to 115 of this annual report.

Nomination and Governance Committee

Membership

The Nomination and Governance Committee (defined as "**Committee**" in this section) of the Board of the Company as at the date of this annual report is comprised of four members, a majority of whom are independent non-executive directors of the Company.

The members who held office during the year and up to the date of this annual report are:

Chairman	Mr. Yang Yuanqing	Chairman, CEO and executive director	
Member	Mr. Nobuyuki Idei	Independent non-executive director	
Member	Mr. William O. Grabe	Independent non-executive director and Lead Independent Director	
Member	Dr. Tian Suning	Independent non-executive director	(appointed on September 1, 2016)

More information on the skills and experience of the members of the Committee may be found in the directors' biographies set out on pages 133 to 136 of this annual report.

Responsibilities

The Committee is delegated by the Board with responsibility to review the composition of the Board and Board committees to ensure they are properly constituted and balance in terms of skills, experience and diversity. In addition to this, it is also responsible for:

- making recommendation to the Board on succession planning for directors and CEO;

- assessment of the performance of the Chairman and/or CEO and making proposals to the Compensation Committee;

- monitoring corporate governance issues and developments to ensure that the Company is in line with the international best practices;

- reviewing and determining the director induction and continuous professional development programs; and

- reviewing and monitoring the annual Board and Board committees' evaluation and the progress of the implementation actions.

Key Features

- The Committee's terms of reference which clearly deal with its membership, authority, duties and frequency of meetings are published on the Company's website and HKEx's website.

- The Committee is provided with sufficient resources to perform its duties.

- The Committee is authorised to obtain outside legal or other independent professional advice in performing its duties at the Company's expense. No request was made by any member for such advice during the year.

- Chief Legal Officer and Company Secretary are invited to attend the Committee meetings in order to provide insight and enhance the Committee's awareness of corporate governance issues and developments.

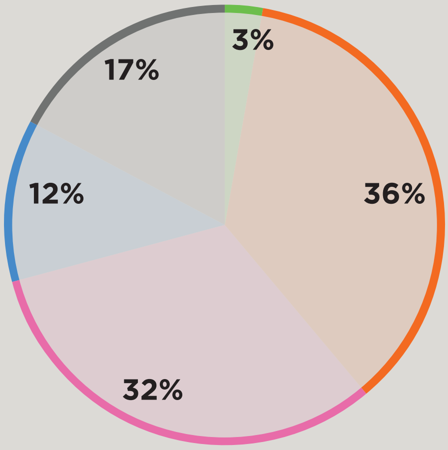
- The chairman of the Committee being also the Chairman and CEO, is required to excuse himself from the agenda items relating to succession planning of the Chairman and/or CEO and the assessment of performance of the Chairman and/or CEO.

Main Activities During FY2016/17

In the fiscal year ended March 31, 2017, the Committee held two meetings. The attendance record of the Committee's members is set out on page 72 in this report and the chart below shows how the Committee allocated its time during the fiscal year 2016/17.

NOMINATION AND GOVERNANCE COMMITTEE

Allocation of agenda time



	FY2016/17	FY2015/16
Board and Board Committees' compositions	3%	6%
Assessment of the performance of the Chairman and CEO	36%	36%
Corporate Governance	32%	31%
Board and Board Committees' evaluation	12%	9%
Others	17%	18%

The main matters and areas that the Committee reviewed and considered during the year were as follows:

Board and Board committees' compositions	• Reviewed and recommended to the Board on the structure, size and composition of the Board including the diversity and balance of skill, knowledge and experience of the directors. • Considered and recommended the re-designation of Mr. Gordon Orr as an independent non-executive director. • Considered and recommended the appointment of Mr. Gordon Orr as a member of the Audit Committee and the Compensation Committee. • Considered and recommended the appointments of Mr. Zhao John Huan and Dr. Tian Suning as a member of the Compensation Committee and the Committee respectively. • Reviewed and discussed the progress against Board diversity targets.
Assessment of the performance of the Chairman and CEO	• Assessed the performance of the Chairman and CEO for the fiscal year 2015/16 and provided recommendation to the Compensation Committee. • Reviewed the arrangement of same person acting as Chairman and CEO.

Corporate Governance	• Reviewed corporate governance disclosures in 2015/16 annual report and 2016/17 interim report. • Reviewed and assessed the independence of independent non-executive directors and affirmed the Committee's view over their independence. • Reviewed and discussed the continuous professional development programs for the directors of the Company. • Reviewed the policies and practices on corporate governance, and the compliance with legal and regulatory requirements of the Group.
Board and Board Committees' evaluation	• Discussed and approved the proposed actions to be taken in response to the findings of 2015/16 Board and Board Committees' evaluation. The Committee also reviewed reports on the status of the action plan to monitor the progress being made.

Board and Board Committees Meetings

During the year ended March 31, 2017, the overall attendance rate of directors at Board and Board Committees meetings was 95% (2015/16: 100%).

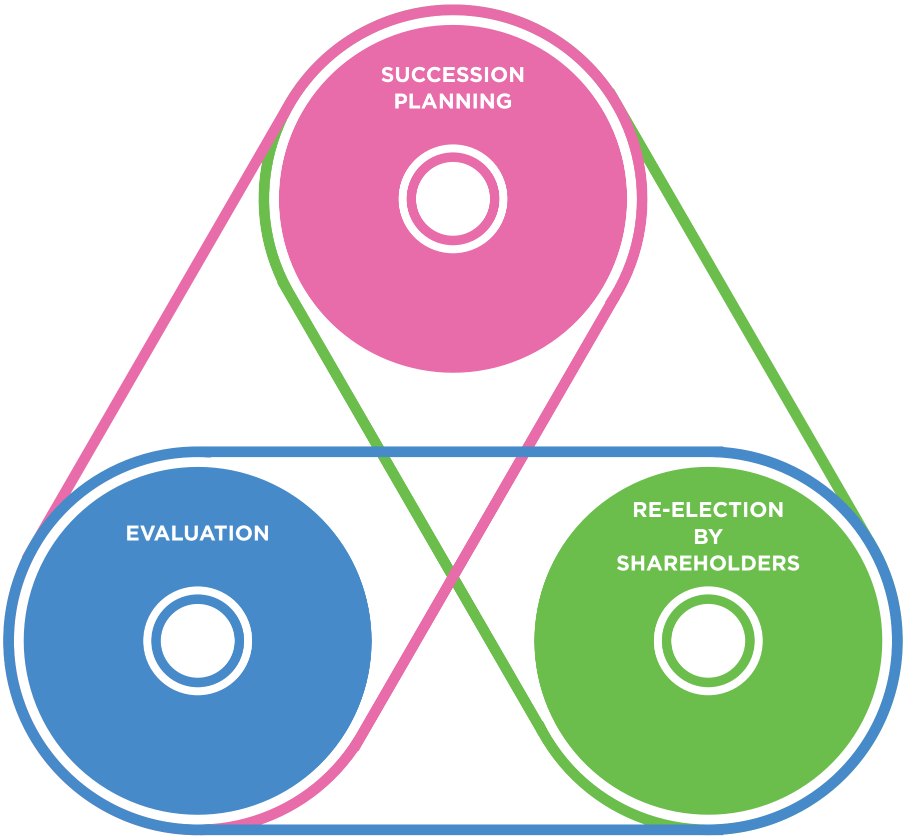
The individual attendance records of each director at the meetings of the annual general meeting, Board, Audit Committee, Compensation Committee, and Nomination and Governance Committee during the year ended March 31, 2017 are set out below:

	Meetings attended/held				
Name of directors	**Board** *(Notes 1 & 2)*	**Audit Committee** *(Notes 1 & 4)*	**Compensation Committee** *(Note 1)*	**Nomination and Governance Committee** *(Notes 1 & 9)*	**Annual General Meeting** *(Notes 3 & 4)*
Executive director					
Mr. Yang Yuanqing *(Chairman & CEO)*	5/5	–	–	2/2	1/1
Non-executive directors					
Mr. Zhu Linan *(Note 5)*	3/5	–	2/2	–	0/1
Mr. Zhao John Huan *(Note 6)*	4/5	–	2/2	–	0/1
Independent non-executive directors					
Dr. Tian Suning *(Note 7)*	5/5	–	–	0/1	0/1
Mr. Nicholas C. Allen	5/5	4/4	–	–	1/1
Mr. Nobuyuki Idei	5/5	–	–	2/2	1/1
Mr. William O. Grabe *(Lead Independent Director)*	5/5	–	4/4	2/2	1/1
Mr. William Tudor Brown	4/5	4/4	4/4	–	1/1
Ms. Ma Xuezheng	5/5	4/4	4/4	–	0/1
Mr. Yang Chih-Yuan Jerry	5/5	–	–	–	0/1
Mr. Gordon Robert Halyburton Orr *(Note 8)*	5/5	2/2	2/2	–	1/1

Notes:
(1) The attendance figure represents actual attendance/the number of meetings a director is entitled to attend.
(2) The Board held four regular meetings and one strategic meeting during the year.
(3) The Company held the annual general meeting on July 7, 2016.
(4) Representatives of the external auditor participated in every Audit Committee meeting and the annual general meeting held during the year.
(5) Mr. Zhu Linan ceased to be a member of Compensation Committee of the Company with effect from September 1, 2016.
(6) Mr. Zhao John Huan was appointed as a member of Compensation Committee of the Company with effect from September 1, 2016.
(7) Dr. Tian Suning was appointed as a member of Nomination and Governance Committee of the Company with effect from September 1, 2016.
(8) Mr. Gordon Orr was re-designated as an independent non-executive director of the Company and also appointed as a member of both Audit Committee and Compensation Committee of the Company with effective from September 1, 2016.
(9) For corporate governance reasons, Mr. Yang Yuanqing was required to excuse himself from the agenda item relating to assessment of the performance of the Chairman and CEO of the Nomination and Governance Committee meeting to avoid conflict of interest.

Board and Board Committees' Effectiveness Review

The Board is aware of the importance of continually assessing its own performance in support of the leadership of the Group. The Board has a formal process, led by the Nomination and Governance Committee, for the evaluation of the performance of the Board and Board Committees, to ensure that they continue to act effectively and efficiently and to fulfill their respective duties. The process involves the following ways:



Succession Planning

The Board is ultimately responsible for succession planning for directorships and key management roles. During the year, the Board and the Nomination and Governance Committee have discussed and reviewed Board composition and succession planning to ensure that the successors for key roles are identified and their performance are also assessed.

Evaluation

The Board believes that the evaluation is helpful and provides a valuable opportunity for continuous improvement. The objectives of the evaluation were to build on the improvements made since the last evaluation, thereby improving the collective contribution of the Board as a whole and also the competence and effectiveness of each individual director.

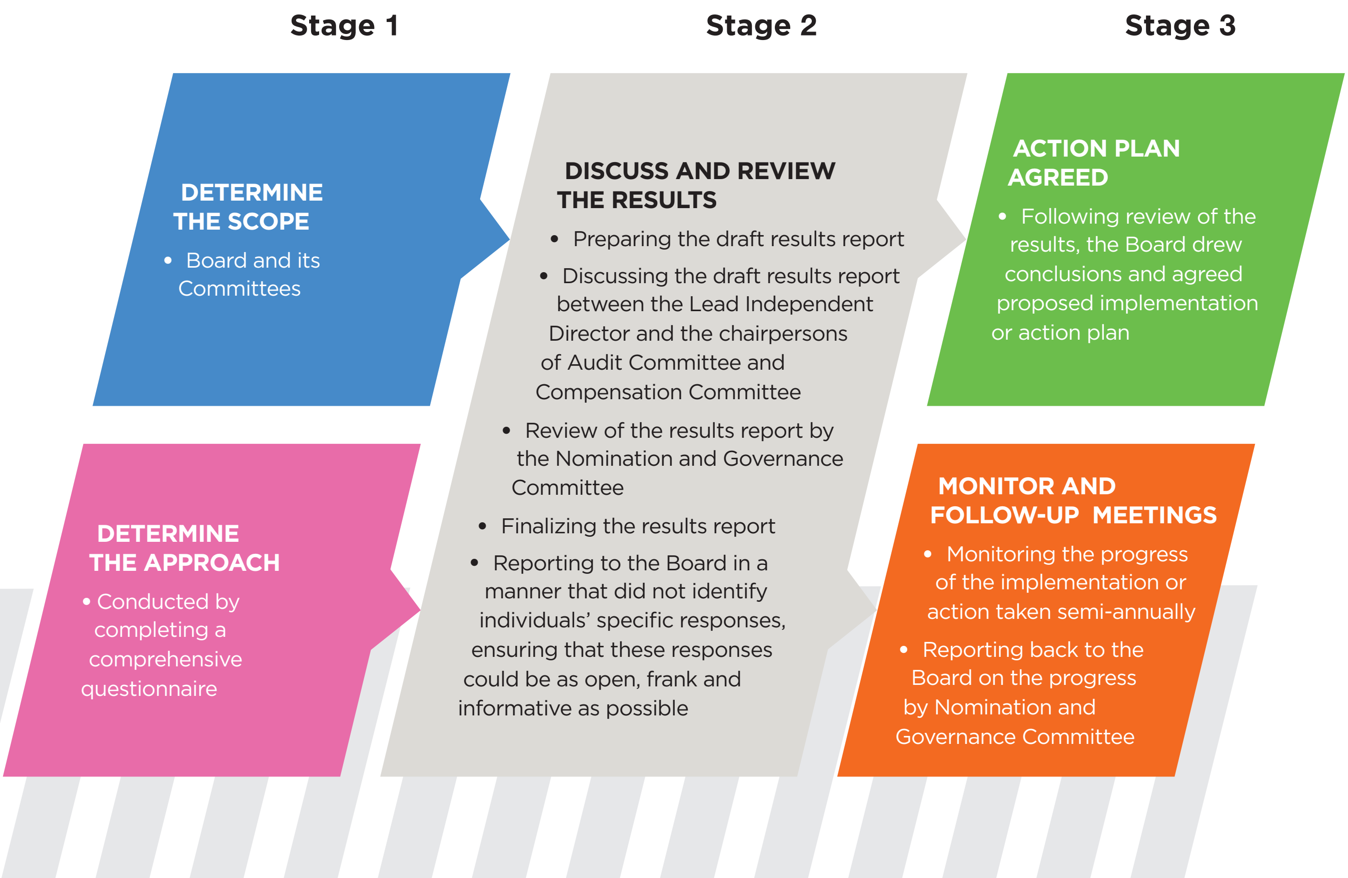
Mr. Grabe, the Lead Independent Director, is delegated with authority to take a key role in the Board evaluation process. Mr. Grabe, in consultation with the Chairman and supported by the Chief Legal Officer and the Company Secretary, will compile and circulate a comprehensive questionnaire for completion by all directors, the aim of which is to evaluate the performance and effectiveness of the Board and its committees.

The evaluation covered:

- Board processes and their effectiveness
- Time management of Board meetings
- Board composition and dynamics
- Strategic and operational oversight
- Succession planning
- Board support

Evaluation process

The evaluation process involves the following three stages:



Evaluation results
A consolidated report of the outputs from the evaluation will be prepared by Nomination and Governance Committee for review and consideration by the Board. The results of the evaluation and the implementation or action plan will be thoroughly discussed at a Board meeting.

Re-election by Shareholders

Pursuant to the Articles of Association, one-third of the directors for the time being shall retire from office at each annual general meeting. The retiring directors shall be eligible for re-election. New appointments either to fill a casual vacancy or as an addition to the Board are also subject to re-election by shareholders at the next following annual general meeting of the Company. The Nomination and Governance Committee has conducted a review of each director seeking re-election. The sufficient biographical and other information on those directors seeking re-election are provided in the annual report and the circular to enable shareholders to make an informed decision.

ACCOUNTABILITY AND AUDIT

Financial Reporting
The Board acknowledges its responsibility for presenting a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. The Board is also responsible for the preparation of financial statements for each financial year which gives a true and fair view of the state of affairs of the Group on going concern basis while the external auditor's responsibilities to shareholders are set out in the Independent Auditor's Report on pages 148 to 152 of this annual report.

The practices of the Company on the timeline for publication of financial results and the related reports are set out below:

Annual Results
• Announced within 2 months • Published the annual report within 14 days following the annual results announcement
Interim Results
• Announced within 1.5 months • Published the interim report within 14 days following the interim results announcement
Quarterly Results
• Announced within 45 days

Risk Management and Internal Control

At Lenovo, risk is defined as a potential action, event or circumstance that could impact the Company's ability, favorably or unfavorably, to meet its strategic goals. Risk is an inherent part of the Company and needs to be understood and managed properly to provide a foundation for the Company's sustained growth.

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's risk management and internal control systems. In line with the commitment to deliver sustainable value, Lenovo adopts a holistic risk management and internal controls framework to proactively manage risks. This framework is put into effect by the Board and the Audit Committee to support the Board in monitoring risk exposures, the design and operating effectiveness of the underlying risk management and internal controls systems.

Board	• Has overall responsibility for the Lenovo's risk management and internal control system. • Oversees the actions of management and monitors the overall effectiveness of the risk management system and internal audit function. • Oversees and reviews processes and controls for strategic and operational risk and monitors the effectiveness of the established controls through the Audit Committee.
Audit Committee	• Supports the Board in monitoring the performance of the risk management system and key risks and internal control systems. • Reviews the effectiveness of the Company's Internal Audit function. • Reviews the reports submitted by external auditor, which summarized matters arising from their audit with management's responses and/or comments to the findings. • Reviews risks raised during annual risk registration exercise, and other risks and concerns. • Approves Company's risk tolerance.
Internal Audit	• Supports the Audit Committee in reviewing effectiveness of internal controls system. • Capitalizes on the audit processes to independently assess the effectiveness of established system of controls. • Independent investigations regarding certain allegations of fraud and violations of Lenovo's Code of Conduct (the "Code") and other company policies.

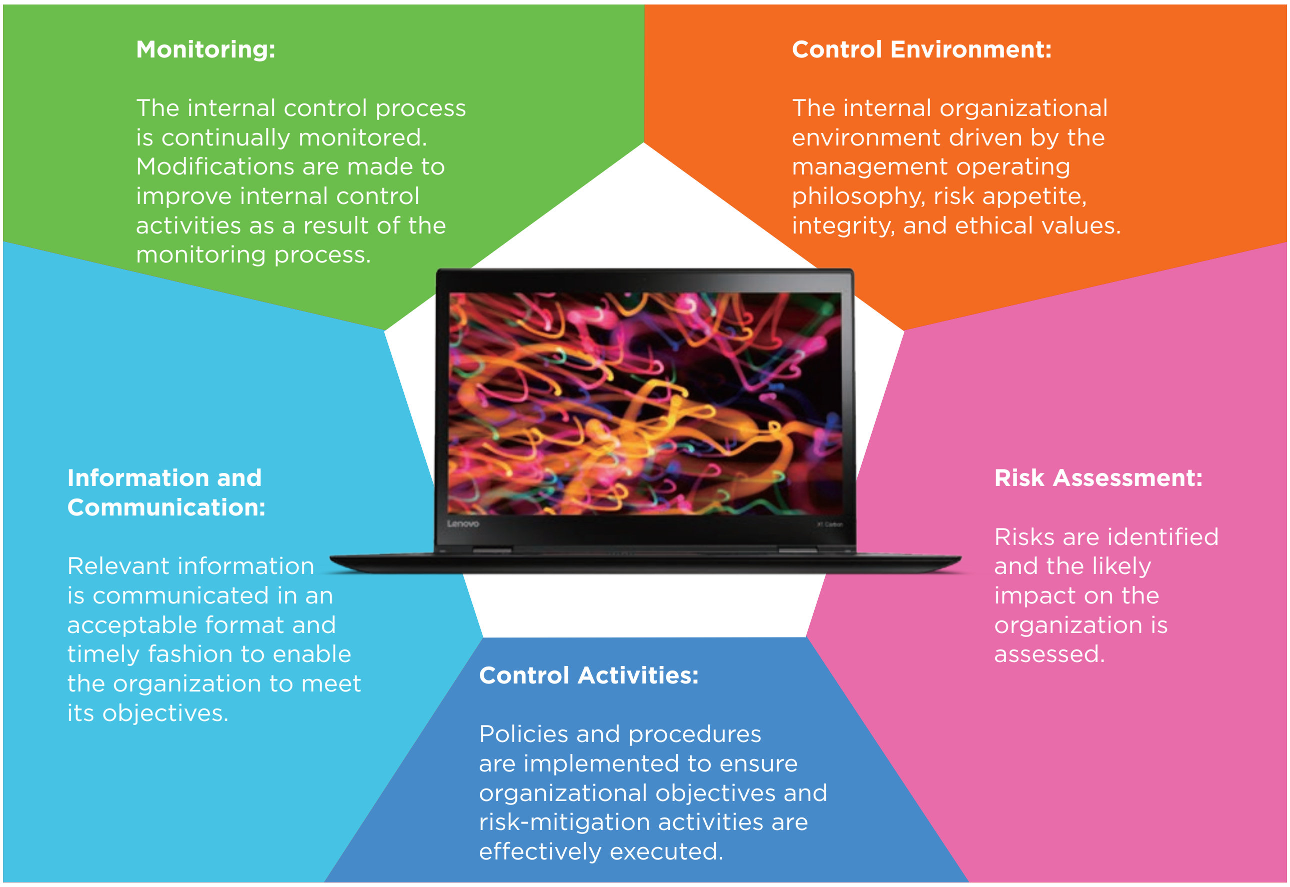
Senior Management	• Provide leadership and guidance for the balance of risk and return. • Designs, implements and reviews Lenovo's risk management framework. • Ensures that salient risks are highlighted to the Audit Committee, along with the status of actions taken to manage these risks.
Enterprise Risk Management ("ERM")	• Responsible to design, implement, review and update Lenovo's ERM framework. • Coordinates the risk identification and assessment process, highlights identified risks to the Audit Committee, along with the status of actions taken to manage these risks. • Risk projects.
Business Functions	• ERM Risk Champions are appointed in each functions where risk ownership is established. • Identify risk, assess and initiate control and mitigation measures in their areas of responsibility. • Establish group-wide policies and guidelines where appropriate. • Quarterly management disclosure and certification process trigger reporting of unusual items, occurring in of the ordinary course of our business, which raise significant financial or business risks.

This risk management and internal control framework is in place to improve communication of identified risks with management, measure the impact of the identified risks and facilitate implementation of coordinated mitigating measures.

CORPORATE GOVERNANCE REPORT

Internal Control

For many years, the Company has had an integrated approach for internal control which is consistent with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control framework.



Within this framework, management is responsible for setting the appropriate tone from the top, performing risk assessments, and owning the design, implementation and maintenance of internal controls. Other teams such as Finance, Legal, and Human Resources provide assistance and expertise to management to assist it in undertaking its responsibilities. The Board and its Audit Committee oversee the actions of management and monitor the effectiveness of the established controls, assisted by assurance provided by the external and internal auditors. Lenovo's internal control framework is designed to manage rather than eliminate the risk of failure to achieve business objectives, and as such, provides reasonable (rather than absolute) assurance against material misstatement or loss.

Management of internal controls

Essential to this internal control system are well defined policies and procedures that are properly documented and communicated to employees. The corporate policies form the basis of all the Company's major guidelines and procedures and set forth the control standards required for the functioning of the Company's business entities. The policies address legal, regulatory, and operational topics, including, for example, intellectual property, data privacy, employee health and safety, delegation of authority, information security, and business continuity.

Additionally, Lenovo has a strong corporate culture based on good business ethics and accountability. The Code, which applies to all employees, forms the basis of Lenovo's commitment to conducting all business with uncompromising integrity and ethical behavior. The Code also helps employees determine when to ask for advice, and how to obtain it. All Lenovo employees are required to comply with the Code, which is available in multiple languages and is accessible on the Company's website and internal intranet, and to participate in regular training to reinforce the Company's commitment to compliance and conducting business with integrity. Lenovo regards any violation of the Code as a serious matter and is committed to investigating all reported concerns. Furthermore, in keeping with best practices, Lenovo has developed and implemented numerous policies to reinforce the Code and provide specific guidance to employees regarding compliance with rules and laws related to bribery and corruption. These policies include an Anti-Bribery and Anti-Corruption Policy, a Conflict of Interest Policy, and a policy with specific guidance on accepting or receiving gifts, entertainment, travel or corporate hospitality.

Along with establishing guidelines, principles and values, Lenovo recognizes that an environment where employees feel free to bring concerns to management is also required to make the Company's internal control system successful. Lenovo provides employees with multiple confidential methods to raise concerns and Lenovo's corporate policy on reporting unlawful or inappropriate conduct makes it clear that all reports will be kept anonymous and confidential to the extent possible.

Most importantly, if employees seek advice, raise a concern relating to a potential compliance issue, report suspected misconduct, or cooperate with an investigation, Lenovo will not tolerate any form of retaliation or harassment.

Another feature of Lenovo's internal control system is the execution of key control self-testing by management to reasonably assure that internal controls are working as intended and that necessary actions have been taken to address control weaknesses. Specific employees with controls knowledge and expertise have been identified within the business to further assist management with designing, executing, and monitoring controls. The Group Controller oversees controls related activities of these individuals across all organizations and process owners.

This comprehensive internal controls framework established by the Company covers all activities and transactions. Management performs periodic enterprise wide risk assessments and continuously monitors and reports progress of action plans to address these key risks. Management also assesses business risks when formulating corporate strategies, and tracks and reports on the implementation of strategic initiatives, business plans, budgets and financial results regularly to the Board. Additionally, as part of Lenovo's commitment to financial integrity, all relevant senior executives regularly verify the accuracy and completeness of the quarterly financial statements and confirm compliance with key internal controls.

To assist the Board's Audit Committee in its oversight and monitoring activities, the Company maintains an independent, worldwide Internal Audit function. Internal Audit provides objective assurance to the Audit Committee that the system of internal controls is effective and operating as intended. The mission of Internal Audit is to provide the Board and Lenovo management with:

- Independent and objective assessment of Lenovo's system of internal controls;
- Guidance to Lenovo stakeholders for improving risk management;
- Proactive support to improve Lenovo's control posture; and
- Independent investigations regarding certain allegations of fraud and violations of the Code and other company policies.

To enable it to fulfill its mission, Internal Audit has unrestricted access to all corporate operations, records, data files, computer programs, property, and personnel. To preserve the independence of the Internal Audit function, the Head of Internal Audit reports directly to the Audit Committee on all audit matters and to the Chief Financial Officer on administrative matters. The Head of Internal Audit is authorized to communicate directly with the Chairman of the Board, the Audit Committee Chair and other Board members as deemed necessary. To help ensure the quality of the Internal Audit function and provide assurance that the Internal Audit function is in conformity with the standards of the Institute of Internal Auditors, Internal Audit has implemented a comprehensive and continuous quality assurance program covering all Internal Audit activities. In addition, the Audit Committee periodically commissions an independent, external quality assurance review of the Internal Audit function.

In selecting the audits to perform each year, Internal Audit performs a risk assessment using information collected from process owners, the enterprise risk management team, senior executives, the external auditor and the Board along with an analysis of prior audit issues and other data. Internal Audit develops an audit plan that prioritizes areas with significant risks or deemed to be strategic in nature to the business. The audit plan is reviewed by the Audit Committee, which is also given quarterly updates on the performance of the plan and key findings. As necessary throughout the year, the audit plan will be modified to reflect emerging risks or changes to business plans. Ad hoc reviews of areas of concern identified by management or the Audit Committee may also be performed. During the last year, Internal Audit issued multiple reports covering all significant operational and financial units worldwide. In keeping with best practices, Internal Audit regularly monitors the status of management action plans resulting from audit findings to ensure completion and reports progress each quarter to the Audit Committee. Audit Committee reporting also includes identified key control issues to provide the Audit Committee full visibility to the status of Lenovo's control environment.

Furthermore, Internal Audit is responsible for investigating certain allegations of potential violations of the Code, or any other company policies as appropriate. Internal Audit partners with Legal, Ethics and Compliance, Human Resources, and other subject matter experts where necessary to ensure the appropriate expertise when performing these investigations. Management and the Audit Committee are informed of the results of these investigations, any resulting required actions, and status updates on actions.

Inside information
Regarding procedures and internal controls for the handling and dissemination of inside information, the Company:

(i) is aware of its obligations under the SFO and the Listing Rules and the overriding principle that inside information should be announced immediately if it is the subject to the requirements and the safe harbors as provided in SFO;

(ii) conducts its affairs with close regard to the applicable laws and regulations prevailing in Hong Kong;

(iii) has included in the Code a strict prohibition on the unauthorized use of non-public or inside information;

(iv) has established a Continuous Disclosures Policy along with its guidance notes for monitoring, reporting and disseminating inside information to our shareholders, investors, analysts and media. These policies and guidance notes also identify who are the Company's authorized spokespersons and their responsibilities for communications with stakeholders; and

(v) has communicated to all relevant staff regarding the implementation of the Continuous Disclosures Policy and the relevant trainings are also provided.

Control effectiveness

The Board, through the Audit Committee of the Company, conducts a continuous review of the effectiveness of the internal control system operating in the Company and considers it to be adequate and effective. The review covers all material controls, including financial, operational and compliance controls, and risk management functions. The Board is not aware of any significant areas of concern which may affect the shareholders. The Board is satisfied that the Company has fully complied with the code provisions on internal controls as set forth in the CG Code.

Enterprise Risk Management

Lenovo's ERM framework is effected by Lenovo's Board of Directors and management team, and is applied in strategy setting and across all major functions of the Company. It involves:

- The ERM team, who is responsible to design, implement, review, and update Lenovo ERM framework.

- All Lenovo major functions, where risk ownership is established via the appointment of ERM Champions in each function.

Lenovo recognizes that risk management is the responsibility of everyone within Lenovo, and that risk is best managed when business functions take responsibility and are accountable for risks. Rather than being a separate and standalone process, risk management is therefore incorporated as part of Lenovo annual strategic planning process across all major functions of the Company. During strategy planning, all business functions are required to identify material risks that may impact their strategy objectives. They also identify, assess and evaluate operational risks. Many aspects of risks are considered, including and not limited to:

- Business continuity
- Financial impact
- Reputational risk
- Safety and Health
- External Regulations
- Social Responsibility

Plans to mitigate the identified risks are, at the same time, developed for implementation, to continuously deliver sustainable value.

With this practical and effective framework, risk management features are integrated into each function. Critical and major risks of the business functions, especially in view of the changing business environment, are identified and assessed based on risk assessment matrix that helps to rank the risks and prioritize risk management effort to determine the appropriate risk mitigation plans.

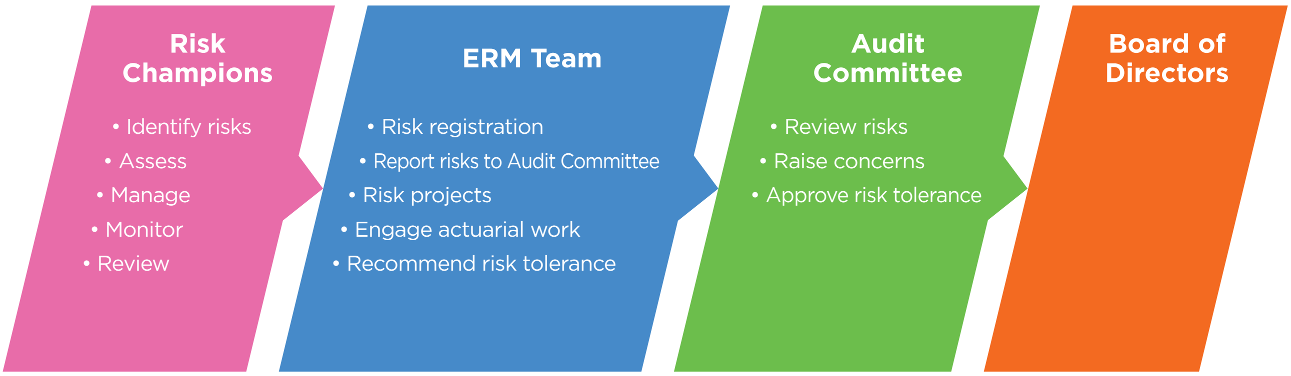
Risk Rating Matrix

IMPACT		LIKELIHOOD: 1 Remote	2 Unlikely	3 Possible	4 Almost Certain
4	Extreme	H	H	VH	VH
3	High	M	M	H	H
2	Moderate	L	L	M	M
1	Low	L	L	L	L

Risk Rating

VH	Very High
H	High
M	Moderate
L	Low

The risks are monitored and reviewed by each business function as well as at the group level. And at least annually, the ERM team coordinates the risk identification and assessment process and the identified risks are highlighted to the Audit Committee, along with the status of actions taken to manage these risks.



Details of some of these risks may be found under "Material Risks of the Group" on pages 22 to 27. This framework will continue to be strengthened to create a robust and holistic risk management culture to safeguard the value of the Company.

At the enterprise level, Lenovo's risk tolerance is also reviewed periodically, and changes are approved by the Audit Committee. The ERM team engages actuarial studies to quantify risks, and the Company's risk tolerance is adjusted when appropriate. The risk tolerance represents the amount of risk the Company is willing to undertake in the pursuit of its strategic and business objectives. Where necessary, ERM employs risk transfer strategies through insurance management. ERM also initiates risk projects to improve risk awareness.

External Auditor

Independence of external auditor

The Group's external auditor is PricewaterhouseCoopers ("**PwC**"), who is remunerated mainly for its audit services provided to the Group. The Company has adopted a policy on engagement of the external auditor for non-audit services, under which the external auditor is required to comply with the independence requirements under the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants. The external auditor may provide certain non-audit services to the Group given that these do not involve any management or decision making functions for and on behalf of the Group; do not perform any self-assessments; and do not act in an advocacy role for the Company. The engagement of the external auditor for permitted and approved non-audit services shall be approved by the Audit Committee if the value of such non-audit services is equal to or above US$320,000.

During the year, PwC provided audit and non-audit services to the Group.

Remuneration of external auditor

The fees paid or payable to PwC for audit and non-audit services for the financial year ended March 31, 2017 and the comparative figures for the financial year ended March 31, 2016 are as follows:

Nature of services	**2017 US$mn**	**2016 US$mn**
Audit services	**7.7**	7.0
Non-audit services		
– Tax	**1.8**	2.0
– IT	**1.9**	1.3
– Advisory	**0.4**	0.8
– Other services	**0.9**	1.2
Total	**12.7**	12.3

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

Lenovo establishes an investor relations team to promote open, transparent, efficient and consistent communications with shareholders, investors and equity analysts. The team commits to proactively providing the investment community all necessary information, data and services in a timely manner, in order to help participants in the investment community to better understand the Company's strategy, operations and new development.

Communications with Investors

During the fiscal year 2016/17, the Company's senior management team presented its annual and quarterly earnings results through webcast, conference calls, social media and face-to-face meetings to communicate with shareholders, investors and analysts. Through various investor relations activities such as analyst briefings, conference calls and global investor roadshows, the senior management team presented and communicated with investors and analysts on the Company's strategy and development.

Lenovo Tech World Event

June 9, 2016 | San Francisco, CA

Continuing the success of Lenovo Tech World 2015 in Beijing, the Company held the event in San Francisco in 2016 to showcase Lenovo's dedication to and investment in innovation. Lenovo hosted global equity analysts and investors to its Lenovo Tech World event, where it outlined the trend of future technology, vision of future devices including smartphones, wearables and smart connected devices and demonstrated R&D concept projects

At the event, the attending equity analysts and investors had the opportunity to have face-to-face interactions with the Company's C-suite management team and leaders of the Company's different business units, helping the attendees to have more thorough understanding of the Company's strategy and future plans of the businesses. Most of the attendees found the event very useful and it well positioned Lenovo's leadership in the global tech industry.

Plant Visits

During the fiscal year, in order to help the investor community better understand the company's strategy, the Company also cooperated with different securities houses in organizing trips to the Company's brand experience center in Beijing.

Social Media Engagement

With the rise of the social media, the Company and its Investor Relations team have been devoting efforts in leveraging various social media platforms to blast out updates on results announcements and key company events, with aim to have multi-point engagement via social media with the Company's stakeholders. Lenovo Investor Relations team also proactively pushed out updates and key event news wrap up, e.g. Lenovo Tech World, Consumer Electronics Show, Mobile World Congress and results announcements, to provide an one-stop snapshot to the investors. During the fiscal year, the followers of and mentions to the Company's social media platforms have continued to increase.

Please follow Lenovo at:

Investor Conferences

In addition to regular one-on-one investor meetings, the senior management team also participated in the following investor conferences held by major international investment banks to maintain active communications with institutional investors around the world.

Investor Conferences Attended FY2016/17

Date	Conference	Location
April 2016	Credit Suisse Asia Investment Conference	Hong Kong
June 2016	Haitong International TMT Corporate Day	Hong Kong
June 2016	UBS Taiwan Conference 2015	Taipei
June 2016	Yuanta Annual Forum	Taipei
September 2016	Citi Global Technology Conference	New York
September 2016	Credit Suisse Asian Technology Conference	Taipei
September 2016	CLSA Investor's Forum 2016	Hong Kong
November 2016	CIMB Smartphone Corporate Day	Hong Kong
November 2016	J.P. Morgan Global TMT Conference	Hong Kong
November 2016	Morgan Stanley Asia Pacific Summit	Singapore
December 2016	CCBI China Technology Conference	Hong Kong
December 2016	Huatai Securities 2016 Investment Forum	Shenzhen
March 2017	Bank of America Merrill Lynch "Taiwan, Technology & Beyond" Conference	Taipei
March 2017	Credit Suisse Asia Investment Conference	Hong Kong
March 2017	Daiwa Investment Conference	Tokyo

CORPORATE GOVERNANCE REPORT

Market Recognition
The Company's continuous effort in investor relations has been well-recognized by the investment community.

Institutional Investor Magazine's ranking of 2016 All-Asia Executive Team
Lenovo was named as one of the top-ranked companies in Institutional Investor Magazine's ranking of 2016 All-Asia Executive Team, by being awarded the follows in Technology/Hardware sector.
- 3rd in Best Investor Relations Program – Nominated by the Sell Side
- 3rd in Best CFO – Wai Ming Wong
- 1st in Best Website

HKIRA Investor Relations Awards
Lenovo has won the following HKIRA Investor Relations Awards organized by the Hong Kong Investor Relations Association ("HKIRA"). It was the second year Lenovo has been awarded the Best IR by CFO (Large Cap). This is truly a vote of confidence from the investment community for the IR excellence Lenovo achieved in the past year.
- Best IR By CFO (Large Cap)
- Best IRO (Large Cap)
- Best IR Presentation Collaterals (Large Cap)

HKMA Best Annual Reports Awards
Lenovo's fiscal year 2015/16 annual report which themed as "Different for the Sake of Being Better" has won the "Excellence Award for H Share & Red Chip Entries" by The Hong Kong Management Association (HKMA), fully demonstrates our leading international best practices of our Annual Report is being highly recognized.

Index Recognition
Lenovo is currently a constituent stock of the following indices:

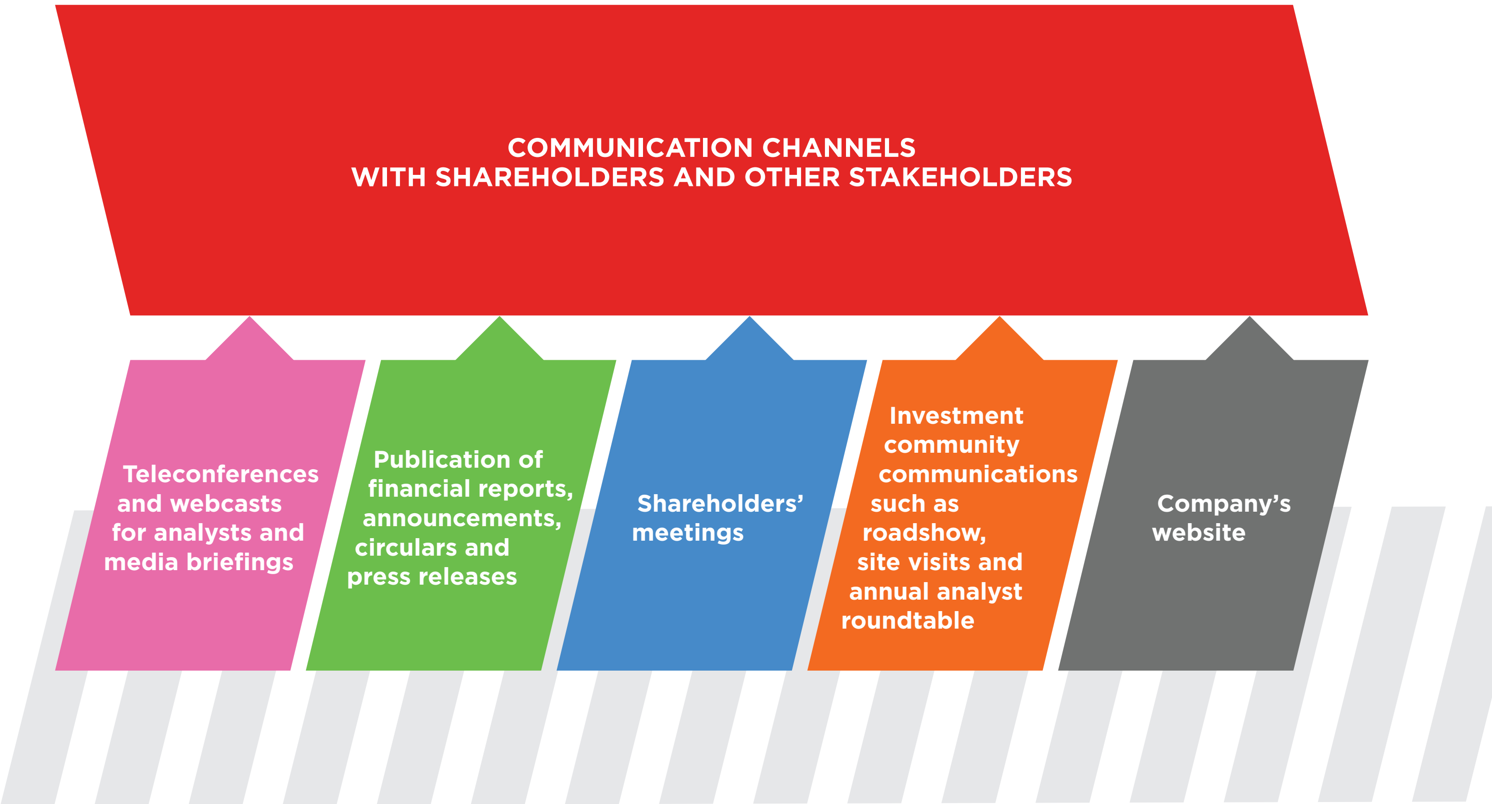
- Main Board of Hang Seng Index
- MSCI China Free Index
- MSCI Information Technology Index
- Hang Seng Composite Index
- Hang Seng Mainland Composite Index
- Hang Seng Commerce & Industry Index
- Hang Seng China-Affiliated Corporations Index
- Hang Seng Corporate Sustainability Index
- Global Compact 100
- FTSE China 50 Index

The investor relations team will continue to endeavor to do the best in providing award-winning investor relations services.

SHAREHOLDERS

Communications with Shareholders

The Company is committed to safeguard shareholders' interests and believes that effective communication with shareholders and other stakeholders is essential for enhancing investor relations and investor understanding of the business performance and strategies of the Group. To achieve this, the Company has established the shareholders communication policy (the "**Shareholders Communication Policy**") setting out various formal channels of communication with shareholders and other stakeholders for ensuring fair disclosure and comprehensive and transparent reporting of the Company's performance and activities. The Nomination and Governance Committee of the Company will review the Shareholders' Communication Policy on a regular basis to ensure its effectiveness.



Constructive use of the general meetings

The annual general meeting and other general meetings of the Company are the primary forum for communication by the Company with its shareholders and for shareholder participation. The Board encourages shareholders to participate in general meetings as it provides a valuable opportunity to discuss the Company, its corporate governance and other important matters. Notice of the annual general meeting and related papers are sent to shareholders at least 20 clear business days prior to the date of the annual general meeting. The information sent to shareholders includes a summary of the business to be covered at the annual general meeting, where a separate resolution is prepared for each substantive matter.

The Company arranged a question and answer session in the annual general meeting for shareholders and media to communicate directly with Chairman and senior management. The Company also arranged a product display at the annual general meeting venue to update shareholders on the latest products strategy of the Company.

2016 Annual General Meeting

The annual general meeting of the Company held on July 7, 2016 (the "**2016 Annual General Meeting**") was attended by, among others, the CEO, Chief Financial Officer, chairpersons of the Audit Committee, Compensation Committee and Nomination and Governance Committee or his/her delegates, the Lead Independent Director, and representatives of the external auditor PwC and other professional consultant to answer questions raised by shareholders at the meeting.

Separate resolutions were proposed on each issue, including the re-election of individual retiring directors. The matters resolved and the percentages of votes cast in favour of the resolutions are summarised below:

Matters Being Voted Upon	Percentage of Affirmative Votes
Received and considered the audited consolidated financial statements and the reports of the directors and the independent auditor for the year ended March 31, 2016	99.99%
Declaration of a final dividend for the issued shares of the Company for the year ended March 31, 2016	99.95%
Re-election of retiring directors and authorization of the Board to fix directors' fees	99.55% to 99.96% with respect to each individual resolution
Re-appointment of PwC as auditor and authorization of the Board to fix auditor's remuneration	99.54%
Approval of granting the general mandate to the directors to allot, issue and deal with the additional Company's shares not exceeding 20% of the aggregate number of shares in issue of the Company	65.50%
Approval of granting the general mandate to the directors to buy back the Company's shares not exceeding 10% of the aggregate number of share in issue of the Company	99.43%
Approval of extending the general mandate to the directors to issue new shares by adding the number of shares bought back	66.05%

All of the resolutions proposed at the 2016 Annual General Meeting were decided by way of poll voting. Procedures for conducting the poll were explained by the Chairman at the commencement of this meeting. The poll was conducted by Tricor Abacus Limited, the Company's share registrar, as scrutineer and the details of poll voting results were posted on the Company's website (www.lenovo.com/hk/publication) and HKEx's website (www.hkex.com.hk) on July 7, 2016.

2017 Annual General Meeting

All shareholders are encouraged to attend and participate in the Company's 2017 annual general meeting. Details of the proposed resolutions for the 2017 annual general meeting are set out in the circular which will be dispatched to the Company's shareholders with this annual report.

Shareholders' Rights

Procedures for convening a general meeting

Shareholder(s) representing at least 5% of the total voting rights of the Company of all the shareholders having a right to vote at general meetings may, in accordance with the requirements and procedures set out in Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Companies Ordinance**"), request the Board to convene a general meeting by requisition, by stating the general nature of the business to be dealt at a general meeting and depositing the signed requisition at the registered office of the Company for the attention of the Company Secretary in hard copy form.

Procedures for putting forward proposals at an annual general meeting

(a) Shareholder(s) representing at least 2.5% of the total voting rights of all the shareholders of the Company having a right to vote on the resolution at the annual general meeting or (b) at least 50 shareholders having a right to vote on the resolution at the annual general meeting may, in accordance with the requirements and procedures set out in Companies Ordinance, requisition for the circulation of resolutions to be moved at annual general meetings and circulation of statements of not more than 1,000 words with respect to the matter referred to in the proposed resolution. Such written request must (i) state the resolution and signed by all the requisitionists in one or more documents in like form; and (ii) be deposited in hard copy form at the registered office of the Company for the attention of the Company Secretary not less than six weeks before the annual general meeting; or if later, the time at which notice is given of that annual general meeting.

The detailed procedures for shareholders to convene and put forward proposals at an annual general meeting or general meeting, including proposing a person other than a retiring director for election as a director are set out in the Corporate Governance section of the Company's website. Shareholders may send their enquiries requiring the Board's attention to the Company at the registered address of the Company.

Constitutional documents

Rights of the shareholders are also provided under the Articles of Association. During the year under review, there are no changes in the Articles of Association. An up to date consolidated version of the Articles of Association is available on the Company's website and the HKEx's website.

Shareholding Structure

Shareholding as recorded in the register of members of the Company as of March 31, 2017

According to the register of members of the Company as of March 31, 2017, there were 901 registered shareholders of whom 97.89% had their registered addresses in Hong Kong. However, the actual number of investors in the ordinary shares of the Company (the "**Shares**") may be larger than that as a substantial portion of the Shares are held through nominees, custodian houses and HKSCC Nominees Limited.

(i) Details of registered shareholders by domicile as of March 31, 2017 are as follows:

Domicile	Number of shareholders	Percentage of shareholders	Number of shares held	Percentage of the total number of shares in issue
Canada	2	0.22%	50,000	0.00%
China	8	0.89%	1,134,000	0.01%
Hong Kong	882	97.89%	11,107,366,724	99.99%
Macau	2	0.22%	40,000	0.00%
Malaysia	2	0.22%	20,000	0.00%
Philippines	1	0.11%	2,000	0.00%
United Kingdom	3	0.34%	18,000	0.00%
United States of America	1	0.11%	24,000	0.00%
Total	**901**	**100.00%**	**11,108,654,724**	**100.00%**

(ii) Details of registered shareholders by size of shareholding as of March 31, 2017 are as follows:

Size of shareholding	Number of shareholders	Percentage of shareholders	Number of shares held	Percentage of the total number of shares in issue
1-2,000	259	28.74%	367,605	0.00%
2,001-10,000	402	44.62%	2,766,000	0.03%
10,001-100,000	214	23.75%	6,975,585	0.06%
100,001-1,000,000	20	2.22%	6,396,000	0.06%
1,000,001 and above	6	0.67%	11,092,149,534	99.85%
Total	**901**	**100.00%**	**11,108,654,724**	**100.00%**

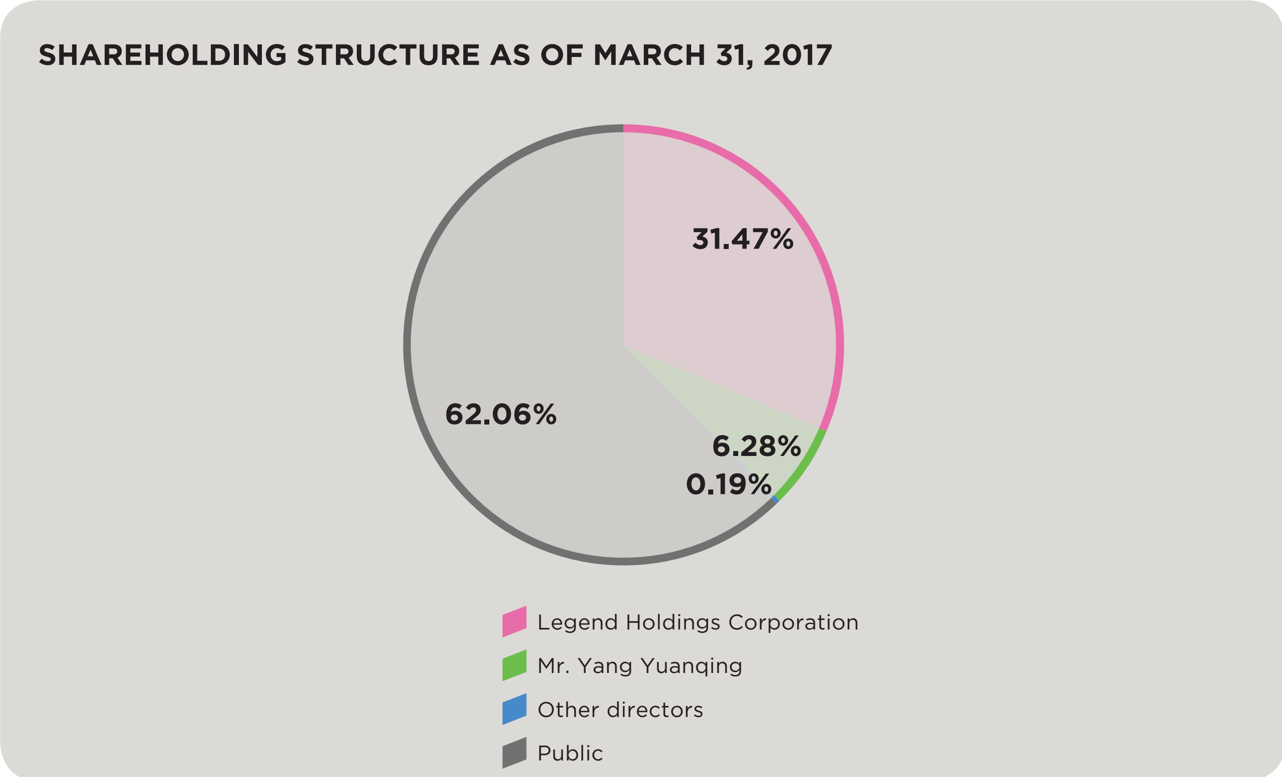
Remarks:

(i) A board lot size comprises 2,000 Shares.

(ii) According to the addresses registered/shown on the register of members of the Company.

(iii) 70.94% of all the issued Shares were held through HKSCC Nominees Limited.

Shareholding structure according to the interest disclosed under the Securities and Futures Ordinance as of March 31, 2017



Remarks:
(i) The approximate percentage of shareholding is calculated based on the aggregate long positions held in the total number of shares in issue of the Company (other than the positions held in or pursuant to equity derivatives) by the relevant holder or group of holders as recorded in the registers maintained under the SFO.
(ii) The approximate percentage of shareholding is calculated on the basis of 11,108,654,724 Shares of the Company in issue as of March 31, 2017.

KEY SHAREHOLDERS INFORMATION

Listing Information

Lenovo Group Limited's Shares are listed on the Stock of Exchange of Hong Kong. In addition, Shares are traded in the United States through an American Depositary Receipt (ADR) Level 1 Programme.

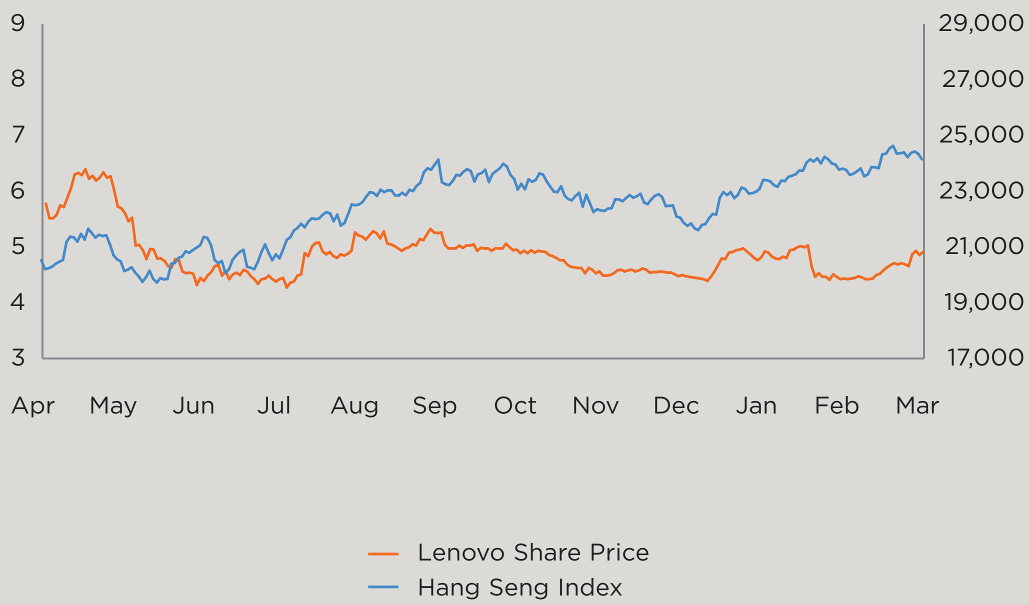
Market Capitalization and Public Float

As at March 31, 2017, the market capitalization of listed shares of the Company was approximately HK$56.88 billion based on the total number of 11,108,654,724 issued Shares of the Company and the closing price of HK$5.12 per share.

The daily average number of traded Shares was approximately 62.70 million Shares over an approximate free float of 6,894 million Shares in the fiscal year 2016/17. The highest closing price for the Share was HK$6.52 per share on April 19, 2016 and the lowest was HK$4.52 per share on July 11, 2016.

Ordinary Shares (as of March 31, 2017)	
Listing	Hong Kong Stock Exchange
Stock code	992
Board lot size	2,000 Shares
Ordinary shares outstanding as of March 31, 2017	11,108,654,724 Shares
Free float	6,894 million Shares
Market capitalization as of March 31, 2017	HK$56.88 billion (Approx. US$7.29 billion)

(Lenovo's share price Apr 1, 2016 to Mar 31, 2017)



CORPORATE GOVERNANCE REPORT

American Depositary Receipts Level I Program	
Ordinary share to ADR	20:1
Stock code	LNVGY
Basic Earnings per Share	
Basic earnings per share for the year ended March 31, 2017	4.86 U.S. cents
Dividend per Share	
Dividend per ordinary share for the year ended March 31, 2017	
– Interim	6.0 HK cents
– Final[1]	20.5 HK cents
Financial Calendar 2016/2017 (Hong Kong Time)	
First Quarter Results Announcement	August 18, 2016
Interim Results Announcement	November 3, 2016
Third Quarter Results Announcement	February 16, 2017
Annual Results Announcement	May 25, 2017
Annual General Meeting	July 6, 2017

The investor relations team values and is eager to hear suggestions and comments from shareholders and investors. For enquiries from institutional investors and equity analysts please contact ir@lenovo.com.

Note:
1 Subject to shareholders' approval at the forthcoming annual general meeting.

AUDIT COMMITTEE REPORT

THE AUDIT COMMITTEE

The audit committee (the "**Audit Committee**") of the board of directors (the "**Board**") of Lenovo Group Limited (the "**Company**") has been established since 1999 and as at the date of this annual report, is comprised of four members, all of whom including the Audit Committee chairman are independent non-executive directors.

The members who held office during the year and up to the date of this annual report are:

Chairman	Mr. Nicholas C. Allen	Independent non-executive director	
Member	Ms. Ma Xuezheng	Independent non-executive director	
Member	Mr. William Tudor Brown	Independent non-executive director	
Member	Mr. Gordon Robert Halyburton Orr	Independent non-executive director	(appointed on September 1, 2016)

The chairman, Mr. Allen has appropriate professional qualifications being a fellow of the Institute of Chartered Accountants in England and Wales and a member of Hong Kong Institute of Certified Public Accountants, and experience in accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). More information on the skills and experience of the members of Audit Committee may be found in the directors' biographies set out on pages 133 to 136 of this annual report.

RESPONSIBILITIES

The Audit Committee is delegated by the Board with responsibility to provide an independent review of the financial reporting, and assess the effectiveness of risk management and internal control systems. It also reviews the adequacy of the Company's internal audit function and manages the Company's relationship with PricewaterhouseCoopers ("**PwC**"), the external auditor. The main responsibilities of the Audit Committee can be grouped into below different areas of competency:

AUDIT COMMITTEE
Main areas of oversight

FINANCIAL REPORTING
- The quality and acceptability of accounting policies and practices
- The clarity of the disclosures and compliance with financial reporting standards
- Material areas in which significant judgements have been applied

RISK MANAGEMENT AND INTERNAL CONTROL
- Effectiveness of risk management and internal control systems
- Internal audit plan and scope of the internal audit work
- Analysis of main areas of risk
- Adequacy and efficiency of internal audit function

EXTERNAL AUDIT
- Appointment or re-appointment and their remuneration
- Scope and status of the audit work
- Areas of key audit focus
- Independence and performance of external auditor

OTHERS
- Tax and treasury matters
- Key litigation and legal exposures
- Compliance with ethical rules and concerns

AUDIT COMMITTEE REPORT

Key Features

- The Audit Committee's terms of reference which clearly deal with its membership, authority, duties and frequency of meetings are published on the websites of the Company and Hong Kong Exchanges and Clearing Limited.
- The Audit Committee meets with external auditor, Chief Financial Officer, Chief Legal Officer, Chief Auditor and management of the accounting and financial reporting functions of the Company at least four times a year at quarterly intervals and is provided with sufficient resources to perform its duties.
- The Audit Committee is authorised to obtain outside legal or other independent professional advice in performing its duties at the Company's expense. No request was made by any member for such advice during the year.
- Other management from the business is also invited to attend certain meetings from time to time in order to provide insight and enhance the Audit Committee's awareness of key issues and developments.
- Separate executive sessions were arranged for the Audit Committee to meet with external auditor, Chief Auditor and Chief Legal Officer in the absence of management to discuss matters relating to any issues arising from the audit and any other matters such persons would like to raise.
- External auditor, Chief Auditor and Chief Legal Officer have direct access to the Audit Committee should they wish to raise any concerns outside formal meetings.
- In addition to standing agenda items, the Audit Committee may also request to discuss on particular "deep-dive" topics.
- The chairman will report back to the Board after each of the Audit Committee meeting on its decisions or recommendations.

MAIN ACTIVITIES DURING FY2016/17

The work of the Audit Committee follows an agreed annual work plan and principally falls under three main areas: financial reporting; risk management and internal control; the oversight of external audit and the management of the Company's relationship with PwC. The timetable of the Audit Committee for the fiscal year 2016/17 is set out in the below diagram.

SPECIFIC ITEMS

MAY

- **Annual results, including review of:**
  - reports to the Audit Committee from Chief Financial Officer, Chief Auditor and external auditor
  - draft annual report incorporating directors' report, corporate governance report and financial statements
  - draft results announcement
- Review and assess of enterprise risk management
- Review of the performance and independence of external auditor
- Review of annual agenda of the Audit Committee
- Meeting with external auditor in the absence of management
- Meeting with Chief Auditor and Chief Legal Officer in the absence of management
- **Recommendations to the Board on:**
  - the annual results, annual report and related results announcement
  - re-appointment of external auditor

AUGUST/FEBRUARY

- **Quarterly results, including review of:**
  - reports to the Audit Committee from Chief Financial Officer, Chief Auditor and external auditor
  - draft results announcement
- Review of the Ethics and Compliance program of the Group including the whistleblowing arrangements
- **Recommendations to the Board on the quarterly results and related results announcement**

NOVEMBER

- **Interim results, including review of:**
  - reports to the Audit Committee from Chief Financial Officer, Chief Auditor and external auditor
  - draft interim report
  - draft results announcement
- Meeting with external auditor in the absence of management
- Meeting with Chief Auditor and Chief Legal Officer in the absence of management
- **Recommendations to the Board on the interim results, interim report and related results announcement**

STANDING ITEMS

FINANCIAL REPORTING

- Key accounting items
- Key assumptions, judgements and estimates
- Key litigation and legal exposures

RISK MANAGEMENT AND INTERNAL CONTROL

- Internal audit planning methodology/ approach
- Summary of internal audit and investigations
- Non-audit services provided by the external auditor
- Internal control of the Group including key control issues

EXTERNAL AUDIT

- Audit plan
- Scope and status of the audit work
- Area of key audit focus
- Significant accounting matters

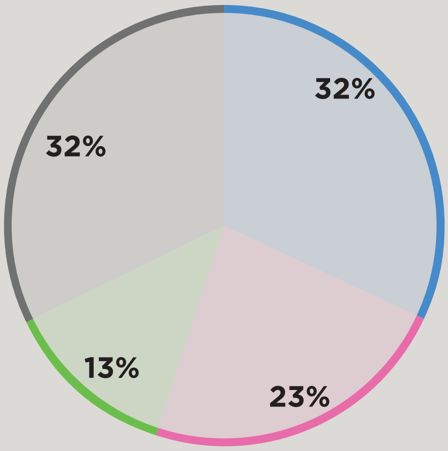
OTHERS

- Minutes of previous meeting
- Reports on actions taken or status of follow-up items arose from previous meetings
- Discuss on particular "deep-dive" topics

AUDIT COMMITTEE REPORT

In the fiscal year ended March 31, 2017, the Audit Committee held four meetings, with all members in attendance at each meeting. The attendance record of the Audit Committee's members is set out in the Corporate Governance Report on page 72 and the chart below shows how the Audit Committee allocated its time during the fiscal year 2016/17.

AUDIT COMMITTEE
Allocation of agenda time



	FY2016/17	FY2015/16
Financial reporting	32%	39%
Risk management and internal control	23%	16%
External audit	13%	14%
Others (including compliance, tax and treasury matters)	32%	31%

At each meeting, the Audit Committee received reports and presentations on key financial reporting, internal control and audit matters from management who attend the meetings to report on significant issues and respond to queries raised by the Audit Committee. The main matters and areas that the Audit Committee reviewed and considered at its four meetings during the year and how the Audit Committees discharges its responsibilities were as follows:

FINANCIAL REPORTING

With the support of the external auditor, the Audit Committee assessed whether suitable accounting policies had been adopted, whether management had made appropriate estimates and judgements and whether disclosures were in compliance with the financial reporting standards. The Audit Committee:

- Reviewed and recommended to the Board for approval the audited financial results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended March 31, 2016 together with the related annual results announcement and the annual report incorporating the directors' report and corporate governance report after discussion with the management and external auditor;

- Reviewed and recommended to the Board for approval the unaudited interim financial results of the Group for the six months ended September 30, 2016 together with the related interim results announcement and the interim report after discussion with the management and external auditor;

- Reviewed and recommended to the Board for approval the unaudited financial results of the Group for the three months ended June 30, 2016 and for the nine months ended December 31, 2016 together with its respective results announcements after discussion with the management and external auditor;

- Received reports from and met with external auditor and internal auditor to discuss the scope of their review and findings;

- Reviewed and discussed with management on significant judgements and key assumptions together with presentational and disclosure issues associated with accounting standards and interpretive guidance affecting the Group's financial statements and financial results announcements; items reviewed and discussed included (a) net current liabilities position and deferred income tax assets; (b) the accounting treatment for business realignment plan; (c) the accounting treatment on the Group's goodwill; and (d) the accounting provisions and treatments for indirect tax receivables, inventories and employees benefits plans;

RISK MANAGEMENT AND INTERNAL CONTROL

To discharge the responsibility of reviewing and monitoring the effectiveness of the Group's risk management and internal control systems, the Audit Committee received regular reports from the Chief Auditor and if required from management including legal and other business units. At each meeting, the Audit Committee reviewed the process for identifying, assessing and reporting key risks and control issues of Group. The Audit Committee:

- Discussed the yearly internal audit plan of the Group to ensure adequate scope, coverage over the activities of the Group and the resource requirements of internal audit to carry out its functions and also reviewed the results of the internal audit work quarterly;

- Reviewed the effectiveness of the internal control system (including the adequacy of resources, staff qualification and experience, training programmes and budget of the Group's internal audit, accounting and financial reporting function) operating in the Group and reviewed the corrective actions taken by management;

- Reviewed the enterprise risk management (the "**ERM**") of the Group including Group ERM approach, risk management status and conclusion, risk registration, risk management updates and actions plans for fiscal year 2015/16 ERM projects;

- Reviewed the management letter point status and reviewed the actions/processes undertaken by the Group;

- Reviewed the IT strategy, key programs for fiscal year 2016/17, improvement and risk assessment on cybersecurity of the Group;

EXTERNAL AUDIT

To discharge the responsibility of overseeing the Board's relationship with the external auditor and monitoring the external auditor's performance, objectivity and independence and also the effectiveness of the audit process, the Audit Committee:

- Reviewed and considered the external auditor's statutory audit scope and results for the fiscal year 2015/16, including their plan and the terms of engagement, and the letter of representation to be given by the Board in respect of the financial year ended March 31, 2016;

AUDIT COMMITTEE REPORT

- Reviewed and considered the external auditor’s audit plan and scope for the fiscal year 2016/17;
- Reviewed the results of the audit and the reports submitted by external auditor, which summarised matters arising from their audit on the Group during the year ended March 31, 2017, together with management’s responses and/or comments to the findings;
- Assessed the external auditor’s independence and objectivity including a review of the non-audit services provided by the external auditor;
- Evaluated the performance of PwC and recommended to the Board for approval of the re-appointment PwC as external auditor of the Group for the year ended March 31, 2017;

OTHERS

During the fiscal year 2016/17, the Audit Committee also:

- Reviewed the succession planning of the finance organization of the Group;
- Received and reviewed the reports from Chief Legal Officer regarding key litigation and other legal matters of the Group;
- Reviewed the Ethics and Compliance program including the whistleblowing procedure of the Group for employees to raise concerns about possible improprieties in financial reporting, internal controls or other matters, and the enhancements to this program;
- Reviewed the tax update for the Group including the key tax issues and actions had been taken from management;
- Reviewed an update from Lenovo Capital and Incubator Group;
- Reviewed the overall property strategy of the Group;
- Reviewed the new finance operation model including the benefit, model structure and implementation timeline;
- Reviewed and approved the Audit Committee report for incorporating into the annual report for the fiscal year 2015/16;
- Reviewed and approved the annual agenda of the Audit Committee for the fiscal year 2016/17.

REVIEW OF FINANCIAL RESULTS

At the meeting held on May 24, 2017, the Audit Committee:

- reviewed the key accounting judgements and policies adopted by the Group and confirmed that these are appropriate. The significant areas of judgement identified by the Audit Committee, in conjunction with management and the external auditor, together with a number of other areas that the Audit Committee deemed to be significant in the context of the consolidated financial statements of the Group for the year ended March 31, 2017 are set out in the Independent Auditor's Report on pages 149 to 150;

- after discussion with management and the external auditor, and having considered the Group's financial position, the Audit Committee was satisfied that the Group and the Company had adequate resources to continue in operational existence for the foreseeable future and confirmed to the Board that it was appropriate for the consolidated financial statements of the Group for the year ended March 31, 2017 to be prepared on a going concern basis; and

- reviewed the consolidated financial statement of the Group for the year ended March 31, 2017 in conjunction with the narrative sections of this annual report. The Audit Committee satisfied that, taken as a whole, this annual report was present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board the approval of the audited consolidated financial statements of the Group for the year ended March 31, 2017 together with the related annual results announcement and this annual report incorporating the directors' report and corporate governance report.

REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Group's internal control system covers every activity and transaction. Within this framework, management performs periodic enterprise wide risk assessments and continuously monitors and reports the progress of actions plans to address the key risks. Further information about the risk management and internal controls framework and control processes are set out in the Corporate Governance Report on pages 76 to 82.

Based on the information and confirmation received from management, external auditor and internal auditor, the Audit Committee concluded that for the year ended March 31, 2017, the Group's risk management and internal control systems were adequate and effective. The Audit Committee also confirmed that the Group had, in the fiscal year 2016/17, satisfactorily complied with the code provisions on risk management and internal control as set forth in the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE REPORT

RECOMMENDATION FOR RE-APPOINTMENT OF THE EXTERNAL AUDITOR

The Audit Committee recognizes the importance of maintaining the independence of the external auditor. Consistent with its terms of reference, the Audit Committee has evaluated PwC's qualifications, performance, and independence, including that of the lead audit partner. The Company has established a policy pursuant to which non-audit services, provided by the external auditor must be pre-approved by the Audit Committee. This policy is more fully described in the Corporate Governance Report on page 83. The Audit Committee has concluded that provision of the non-audit services described in that section was compatible with maintaining the independence of PwC. In addition, PwC has provided the Audit Committee an independence statement confirming that for the year ended March 31, 2017 and thereafter to the date of this annual report, they are independent of the Group in accordance with the independence requirements of the Hong Kong Institute of Certified Public Accountants.

Based on the review and discussions referred to above, the Audit Committee was satisfied with the external auditor's work, its independence and objectivity, and therefore recommended the re-appointment of PwC as the Group's external auditor for the financial year ending March 31, 2018 for shareholders' approval at the forthcoming annual general meeting to be held on July 6, 2017.

PRIORITIES FOR FY2017/18

Looking ahead, the priorities of the Audit Committee for the fiscal year 2017/18 are:

- To stay focused on financial accounting and reporting, audit quality, risk management and internal controls.

- To remain vigilant on the impacts of the economic conditions on the Group.

Members of the Audit Committee
Mr. Nicholas C. Allen *(Chairman)*
Ms. Ma Xuezheng
Mr. William Tudor Brown
Mr. Gordon Robert Halyburton Orr

COMPENSATION COMMITTEE REPORT

THE COMPENSATION COMMITTEE

The compensation committee (the "**Committee**") of the board of directors (the "**Board**") of Lenovo Group Limited (the "**Company**") as of the date of this annual report is comprised of five members, all of whom are non-executive directors of the Company (the "**Non-executive Directors**") and majority of whom including the Committee chairman are independent non-executive directors of the Company (the "**Independent Non-executive Directors**").

The members who held office during the year and up to the date of this annual report are:

Chairman	Ms. Ma Xuezheng	Independent Non-executive Director	
Member	Mr. William Tudor Brown	Independent Non-executive Director	
Member	Mr. William O. Grabe	Independent Non-executive Director and Lead Independent Director	
Member	Mr. Gordon Robert Halyburton Orr	Independent Non-executive Director	(appointed on September 1, 2016)
Member	Mr. Zhao John Huan	Non-executive Director	(appointed on September 1, 2016)
Member	Mr. Zhu Linan	Non-executive Director	(ceased on September 1, 2016)

More information on the skills and experience of the members of the Committee may be found in the directors' biographies set out on pages 133 to 136 of this annual report.

RESPONSIBILITIES

The Committee is delegated by the Board with the responsibility to (i) review the Company's structure and aggregate value of compensation programs for the chairman of the Board ("**Chairman**"), chief executive officer ("**CEO**"), other directors and senior management; (ii) establish a formal and transparent procedure for developing policy on compensation; (iii) determine the compensation level and package paid to the Chairman, CEO, other directors and senior management; and (iv) review the recommendation from independent consultant on the compensation of Non-executive Directors.

COMPENSATION COMMITTEE REPORT

Key Features

- The Committee's terms of reference which clearly deal with its membership, authority, duties and frequency of meetings are published on the websites of the Company and Hong Kong Exchanges and Clearing Limited.
- The Committee meets with management and external independent professional adviser at least four times a year at quarterly intervals and is provided with sufficient resources to perform its duties.
- The Committee is authorised to obtain outside independent professional advice in performing its duties at the Company's expense.
- The Committee shall ensure that no director is involved in deciding his or her own individual compensation.
- Separate executive session was arranged for the Committee to meet with its independent consultant in the absence of executive director and management to discuss matters relating to any issues and any other matters such persons would like to raise.
- The chairman will report back to the Board after each of the Committee meeting regarding decisions or recommendations.

SUMMARY OF WORK IN 2016/17

In the fiscal year ended March 31, 2017, the Committee held four meetings, with all members in attendance at each meeting. The attendance record of the Committee's members is set out in the Corporate Governance Report on page 72.

The main matters and areas that the Committee reviewed and considered at its four meetings during the year were as follows:

Review of Company and Market Information

- Reviewed the market positioning for the compensation of CEO and senior management including pay levels and pay mix;
- Reviewed updates on long-term incentives ("LTI") spend versus budget;
- Reviewed the analysis and the recommendations from an independent consultant the FY2016/17 Non-executive Directors' compensation package and submitted the same to the Board for approval;
- Reviewed market data and relevant trends and challenges for the broader technology industry, in particular United States and China;
- Reviewed pay efficiency to understanding of the affordability and sustainability of compensation for the entire company;
- Reviewed the holding power and share ownership positions of both Executive and Non-executive Directors;

- Reviewed new senior executive hires;
- Reviewed degree of alignment between CEO pay and performance;

Compensation Program

- Reviewed and approved the FY2015/16 bonus and FY2016/17 compensation for Chairman and CEO;
- Reviewed the Non-executive Directors' compensation;
- Reviewed and approved the FY2015/16 bonus and FY2016/17 proposed target compensation for senior management;
- Reviewed and approved changes relating to FY2015/16 Global Leadership Plan Restrictive Share Unit vesting;
- Reviewed and approved the FY2016/17 transition LTI arrangement and the Corporate and BG Metrics for top executives;
- Reviewed and approved the employee share purchase plan ("ESPP") and reported back any issues;
- Reviewed and approved the adoption of amended restricted share units plan and share appreciation rights plan;
- Reviewed the top executive LTI implementation;
- Reviewed and approved the FY2017/18 LTI budget;

Others

- Reviewed the Compensation Committee Report for incorporating into the annual report for the fiscal year 2015/16; and
- Reviewed and approved the annual agenda of the Committee for the fiscal year 2016/17.

COMPENSATION POLICY

Overall Principles

Lenovo recognizes the importance of attracting and retaining top-caliber talent and is strongly committed to effective corporate governance. Consistent with this philosophy, the Company has a formal, transparent and performance-driven compensation policy covering its directors, senior management and general employees.

Generally, Lenovo's compensation serves to support the Company's business strategy, assist in the attraction and retention of top talent, reinforce the Company's performance driven culture, as well as reflecting market practices of other leading international IT enterprises, with particular focus on Lenovo's closest competitors.

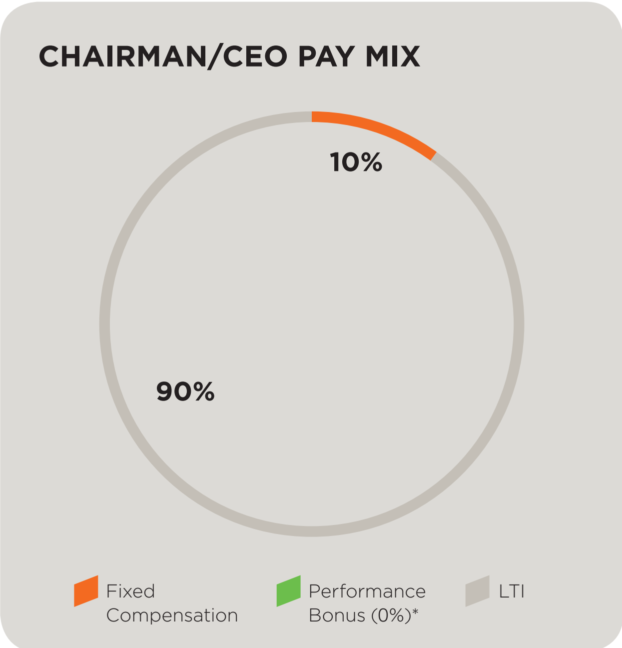
The Committee makes regular reviews of Lenovo's compensation practices to ensure they reflect the overall principles and objectives stated above.

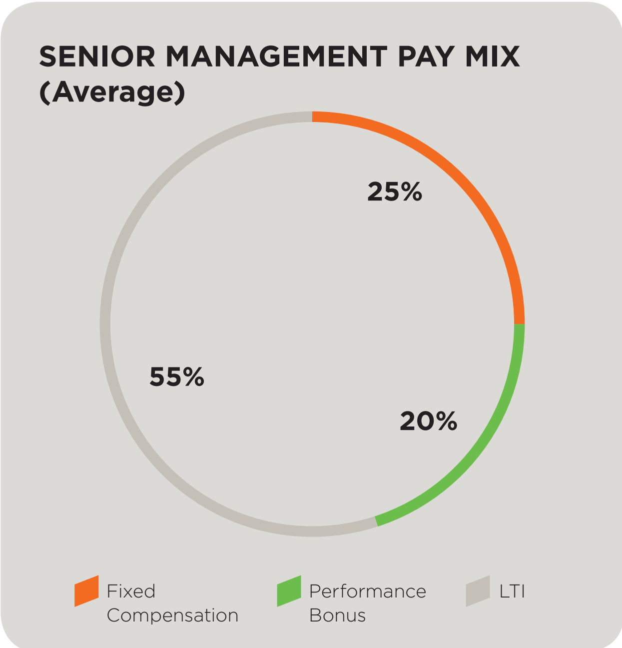
Non-executive Directors
The Committee regularly reviews the compensation of Non-executive Directors to ensure its appropriateness considering the Non-executive Directors' time commitment, workload, job requirements and responsibilities versus Lenovo's peer companies and the broader market. Details of the current package and the review carried out in this fiscal year are set out in the section headed "Remuneration Reviews" below.

Chairman/CEO and Senior Management
To ensure Lenovo's compensation for the Chairman/CEO and senior management reflect the policy and principles described above, the Committee considers a number of relevant factors in the determination of their compensation. Such factors include: salaries and total compensation paid by peer companies, job responsibilities and scope, employment conditions elsewhere in the Company, market practices, the Company's business performance and individual performance.

The compensation structure of Lenovo's Chairman/CEO and senior management consists of base salaries, allowances, performance-based bonuses, LTI, retirement benefits, and benefits-in-kind. These components and their mix are described below.

The Chairman/CEO pay mix chart reflects FY2016/17 emoluments disclosed in note 11 to the financial statements. The senior management pay mix chart reflects average FY2016/17 emoluments including LTI that were awarded in June 2016.





* In the context of FY2015/16 performance, Mr. Yang Yuanqing decided not to accept any of the annual bonus offered to him for the FY2016/17.

Fixed Compensation

Fixed compensation includes base salary, allowances and benefits-in-kind (e.g. medical, dental and life insurance, etc.). Base salary and allowances are set and reviewed annually for each position, reflecting competitive market positioning for comparable positions, market practices, as well as the Company's performance and individual contribution to the business. Allowances are provided to facilitate temporary and permanent staff relocations. Benefits-in-kind are reviewed regularly taking into consideration relevant industry and local market practices.

Performance Bonus

The Chairman/CEO and senior management are eligible to receive performance bonuses. The amounts paid under the plan are based on the performance of the Company using select financial and non-financial metrics, its subsidiaries, relevant performance groups and/or geographies as appropriate, as well as individual performance.

Long-Term Incentive Program ("LTI Program")

The Company operates a 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, while reinforcing direct alignment with shareholders.

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.

In fiscal year 2016/17, the Company did not issue any new shares under this program, and the program is currently operated through purchasing existing shares from the market.

Retirement Benefits
The Company operates a number of retirement schemes for its employees, including executive directors and senior management. These schemes are reviewed regularly and are intended to deliver benefit levels that are consistent with local market practices. Details of the retirement schemes are set out in the directors' report on pages 141 to 144.

General Employees
As at March 31, 2017, the Group had a headcount of more than 52,000 worldwide.

Lenovo believes that employees are its most important strategic resource and recognizes that each employee must be valued as an individual and treated fairly and equitably. Lenovo's compensation philosophy supports this value and targets compensation competitively within the relevant competitive market, with significant opportunity for increased pay based on performance. Through the compensation program, Lenovo seeks to identify and reward exceptional performance in ways that send clear messages about the Company's priorities and values.

Similar to senior management, employees at Lenovo are eligible for fixed compensation including base salary, allowances and benefits-in-kind. Eligible employees would also receive performance bonus based on individual and company performance. In addition, selected top-performing employees are eligible to participate in the LTI Program.

REMUNERATION REVIEWS

The Committee regularly reviews the Company's compensation programs to ensure alignment with its stated objectives as well as competitiveness in the talent market. Typically, reviews for base salary, performance bonus, and LTI awards are conducted on a yearly basis. Non-executive Directors' fees are reviewed for alignment with market practice on an annual basis as well.

Fiscal Year 2016-17 Non-executive Directors Review

In May 2016, the Committee engaged an independent international compensation consulting firm to conduct an analysis of the compensation package of the Non-executive Directors to ensure its appropriateness considering the Non-executive Directors' time commitment, workload, job requirements and responsibilities versus Lenovo's peer companies and the broader market. Overall, both cash retainer and annual LTI award remained constant at US$92,500 and US$200,000*, respectively. Final recommendations as subsequently approved by the Board (comprising executive director of the Company only) based on the delegation from shareholders of the Company are summarized in the table below:

Compensation Element	2016/17	2015/16
Cash Retainer	**$92,500 USD**	$92,500 USD
LTI Award	**$200,000 USD**	$200,000 USD
Total Remuneration	**$292,500 USD**	$292,500 USD

* The LTI award consists of SARs and RSUs, which can be settled in either Lenovo shares or cash equivalent upon exercise. SARs and RSUs are subject to a three-year vesting period and are otherwise subject to the same terms and conditions of the SAR and RSU schemes described above.

Consistent with prior practice, the chairman of the Audit Committee of the Company received an additional cash payment equal to US$27,500 (approximately HK$214,500), while the chairman of the Compensation Committee of the Company received an additional cash payment equal to US$20,000 (approximately HK$156,000), and the Lead Independent Director received an additional cash payment equal to US$35,000 (approximately HK$273,000) per year.

Further details of the compensation of the Non-executive Directors are included in note 11 to the financial statements. SAR and RSU awards outstanding for Non-executive Directors as of March 31, 2017 under this scheme are presented in the "Long-Term Incentive Scheme" section of this report.

Fiscal Year 2016-17 Chairman/CEO and Senior Management Review

Fixed Compensation

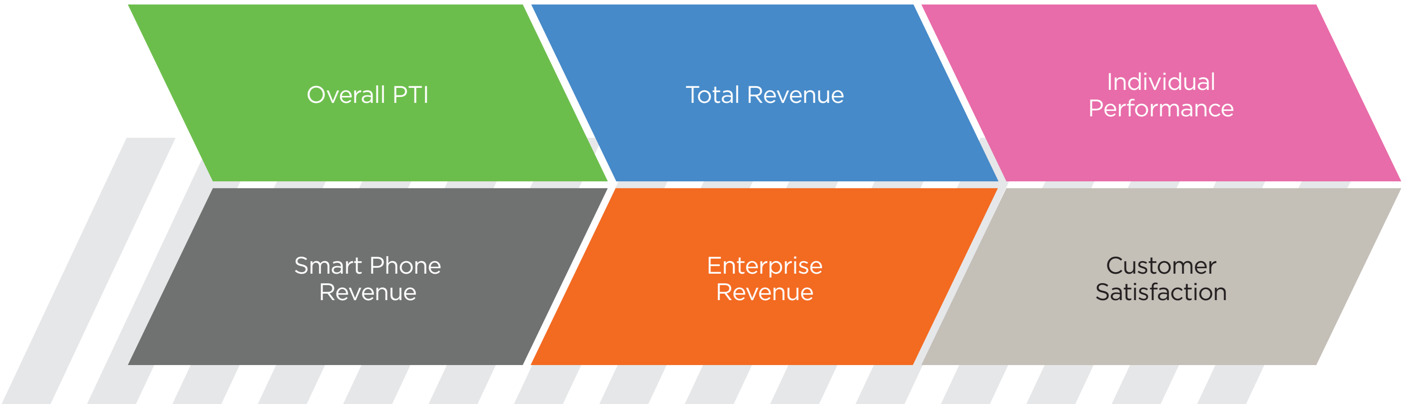
As a part of its annual review process, the Committee had reviewed and approved base pay for the Chairman/CEO and senior management in May 2016, effective July 1, 2016.

Base salary for the Chairman/CEO remained constant at RMB8,808,815 (approximately US$1,309,607 (Note: the translation of RMB into USD is based on the exchange rate of RMB1.00 to USD0.14867 and is for information purposes only) (actual pay delivered in local currency). No changes were also made to the base salaries for senior management.

COMPENSATION COMMITTEE REPORT

Performance Bonus

Chairman/CEO and senior management's fiscal year 2016/17 performance bonus payouts were approved in the May 2017 Committee meeting. Final bonus payouts for Chairman/CEO and senior management were determined based on overall pre-tax income, total revenue, smart phone revenue, enterprise revenue, customer satisfaction as well as individual performance.



Approved performance bonus payments for the fiscal year 2016/17 will be delivered in June 2017.

LTI Program

The most recent full cycle of LTI awards including both SARs and RSUs was made in June of 2016. Selected executives, including the Chairman/CEO and senior management also received performance-based RSU awards based on Lenovo's pre-tax income during the most recent fiscal year. The next cycle of LTI awards including SARs and RSUs is expected to be in June 2017.

Employee Share Purchase Plan (ESPP)

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.

For fiscal year 2016/17, the Company did not issue any new shares under this plan, and the plan is currently operated through purchasing existing shares from the market.

Remuneration of Senior Management

The remuneration of senior management fell within the following bands for the year ended March 31, 2017:

Remuneration bands	Number of senior management
US$837,754 to US$902,196	1
US$1,159,967 to US$1,224,409	1
US$1,353,295 to US$1,417,737	1
US$2,835,476 to US$2,899,917	1
US$3,866,558 to US$3,930,999	1
US$5,413,181 to US$5,477,622	1
US$6,315,378 to US$6,379,819	1
US$13,597,395 to US$13,661,836	1

Emoluments of Directors for FY2016/17 and Five Highest Paid Individuals

Details of the emoluments of directors and the five highest paid individuals are set out in note 11 to the financial statements.

Fiscal Year 2016-17 Employees Review

Fixed Compensation

Each year, management conducts a market review to ensure fixed compensation changes are aligned and competitive with market trends. The review incorporates input from several external survey providers and formal assessments of individual performance. Any approved market-based merit increases were effective from July 1, 2016.

Performance Bonus

Performance bonus for general employees is based on individual performance and performance of their respective business unit or "Performance Group". For fiscal year 2016/17, there were a total of approximately 60 different Performance Groups within the Company each with their unique performance metrics and targets. For the fiscal year 2016/17 performance bonus, mid-year progress payment was made in December 2016, and full payment based on annual business outcomes will be trued-up in June 2017 based on approved final bonus funding.

Bonus Target X Performance Group Score X Individual Performance Modifier = **Final Bonus Payout**

Performance Group scores may range from 0% to 300% based on final results against targets. Individual Performance Modifiers range from 0% to 150% and are linked to the employee Performance Ratings and progress against established Key Performance Indicators (KPIs).

LTI Program

For fiscal year 2016/17, 18.6% of eligible employees (excluding executive directors) received an award under the LTI Program. These awards were granted in June of 2016.

LONG-TERM INCENTIVE PROGRAM

The Company implemented the LTI Program to attract, retain, reward and motivate Executive and Non-executive Directors, senior management and selected top-performing employees of the Company and its subsidiaries.

The movements in the share awards of the Executive and Non-executive Directors during the fiscal year are as follows:

				Number of units							
Name	**Award type**	**Fiscal Year of Award**	**Effective price** (HK$)	**As at April 1, 2016** (Unvested)	**Awarded during the year**	**Vested during the year**	**Exercised during the year**	**Lapsed/ nullified during the year** (Note 2)	**As at March 31, 2017** (Unvested)	**Total outstanding as at March 31, 2017**	**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	–	–	7,260,030	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 – 06.01.2019
	RSU	12/13	8.22	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	–	–	–	–	–
Mr. Zhu Linan	SAR	12/13	6.36	–	–	–	–	–	–	91,438	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	121,362	–	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 – 08.19.2019
	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 – 08.19.2019
	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

Name	Award type	Fiscal Year of Award	Effective price (HK$)	Number of units: As at April 1, 2016 (Unvested)	Awarded during the year	Vested during the year	Exercised during the year	Lapsed/ nullified during the year (Note 2)	As at March 31, 2017 (Unvested)	Total outstanding as at March 31, 2017	Vesting period (mm.dd.yyyy)
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	36,725	–	–	11.30.2010 – 11.30.2012
	SAR	10/11	4.59	–	–	–	237,001	221,105	–	–	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	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 – 08.19.2019
	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	100,277	–	–	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	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 – 08.19.2019
	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. 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	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 – 08.19.2019
	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

Name	Award type	Fiscal Year of Award	Effective price (HK$)	Number of units: As at April 1, 2016 (Unvested)	Awarded during the year	Vested during the year	Exercised during the year	Lapsed/ nullified during the year (Note 2)	As at March 31, 2017 (Unvested)	Total outstanding as at March 31, 2017	Vesting period (mm.dd.yyyy)
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	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 – 08.19.2019
	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
	RSU (Deferral)	16/17	5.03	–	49,162	49,162	–	–	–	–	Note 1
	RSU (Deferral)	16/17	4.69	–	52,726	52,726	–	–	–	–	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	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 – 08.19.2019
	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	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 – 08.19.2019
	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

Name	Award type	Fiscal Year of Award	Effective price (HK$)	Number of units As at April 1, 2016 (Unvested)	Awarded during the year	Vested during the year	Exercised during the year	Lapsed/ nullified during the year (Note 2)	As at March 31, 2017 (Unvested)	Total outstanding as at March 31, 2017	Vesting period (mm.dd.yyyy)
Mr. Yang Chih-Yuan Jerry	SAR	12/13	8.63	–	–	–	–	–	–	24,593	02.20.2014 – 20.02.2016
	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	24,802	–	12,400	–	–	12,402	37,202	11.16.2015 – 11.16.2017
	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 – 08.19.2019
	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	6,069	–	3,034	–	–	3,035	3,035	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 – 09.18.2018
	SAR	16/17	5.38	–	615,761	–	–	–	615,761	615,761	08.19.2017 – 08.19.2019
	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 nullified in accordance with the operation of the SAR plan rules.

OTHER SHAREHOLDER ORIENTED FEATURES

Share Ownership Guidelines

Lenovo maintains share ownership guidelines for selected executives, including the Chairman/CEO and senior management. The guidelines help to align executives with shareholders and focus executives on the long-term performance of Lenovo by requiring certain levels of share ownership. The guidelines (expressed as a multiple of base salary) vary by role and level and are expected to be achieved within 5 years of becoming an eligible executive. If the guideline is not achieved, executives are required to retain a minimum portion of vested shares delivered through Lenovo's incentive plans until the guideline is met. The guideline is then expected to be maintained throughout the executive's remaining employment. As of fiscal year end, 91% of executives covered by the guidelines have achieved the targeted level of ownership, and with the upcoming annual LTI grant in June 2017, 100% of executives covered by the guidelines will achieve the targeted level of ownership. Additionally, the Non-executive Directors are subject to similar guidelines and are in full compliance.

Claw Back Policy

Lenovo maintains a claw back policy for selected executives, including the Chairman/CEO and senior management. The policy states that in the event of a restatement of the Company's previously issued financial statements as a result of errors, omission, fraud or non-compliance, the Board may, in its discretion, attempt to recover all or a portion of compensation, with respect to any fiscal year in which the Company's financial results are negatively affected by such restatement.

Members of the Compensation Committee

Ms. Ma Xuezheng *(Chairman)*
Mr. William Tudor Brown
Mr. William O. Grabe
Mr. Zhao John Huan
Mr. Gordon Robert Halyburton Orr

SUSTAINABILITY OVERVIEW

SUSTAINABILITY

As Lenovo continues to transform itself to become the leading Device + Cloud company, our journey has always been guided by serving the needs of customers in the more than 160 countries where we do business. Customers' needs and priorities have inspired not only Lenovo's innovative products and services, but have helped guide the Company's sustainability and corporate social initiatives. More than ever, we recognize that consumers want to interact and engage with companies that care about making their lives and experiences more valuable and rewarding. That is why for Lenovo our business success and corporate responsibility have always been intrinsically linked – and we apply the same purposeful approach to both. Lenovo cares about the environmental and social impact of every business decision we make and continues to work hard for a better future for the Company, its employees, its customers, as well as the local communities and the planet in which we all reside.

Lenovo proactively addresses sustainability and corporate social responsibility issues through its Enterprise Risk Management (ERM) framework. The Company's Board of Directors and management team apply this framework across all major functions of the Company. Lenovo's corporate governance framework includes a Corporate Sustainability Policy, signed and endorsed by Chairman and CEO Yuanqing Yang that outlines the social, environmental and economic principles that guide the Company's operation. The policy is available at http://www.lenovo.com/sustainability.

In August 2016, the Board of Directors was presented an annual update on Lenovo's sustainability and corporate responsibility risks. The update included a review of key performance areas for FY 2015/16 and a request for ongoing support for specific initiatives, including renewable energy, philanthropic giving and issuing a statement on slavery and human trafficking.

Lenovo's annual Sustainability Report provides a full accounting of the Company's environmental and social responsibility performance for the previous fiscal year. The scope of the report is determined by a Sustainability Materiality Assessment, a process where Lenovo evaluates and determines its significant, or material, sustainability topics.

Lenovo has continued its role as a signatory to the United Nations Global Compact, a public-private strategic policy initiative for businesses committed to aligning operations and strategies with ten universally-accepted principles in the areas of human rights, labor, environment and anti-corruption. In addition, many of Lenovo's initiatives align with the United Nations Sustainable Development Goals (SDGs), which are detailed in our latest Sustainability Report.

Lenovo is committed to ethical corporate citizenship and sustainability practices in all of its activities. This steadfast commitment is critical for the future of the Company, its customers and the communities with which it interacts.

A selection of Lenovo's FY 2016/17 sustainability achievements are summarized below. More information can be found in Lenovo's annual Sustainability Report
available at http://www.lenovo.com/sustainability.

Key Recognitions from the Global Community:

- Corporate Knights 2017 Global 100 Most Sustainable Corporations in the World Index
  - Lenovo was selected for inclusion for the third consecutive year
- 2016 Hang Seng Corporate Sustainability Index
  - Lenovo received an AA rating and the best overall score in our industry
- United Nations Global Compact 100 Sustainability Index
  - Lenovo has been a constituent of the index since its inception in 2013
- 2016 CDP Climate Change Leadership Level
  - Lenovo scored A-, "Leadership Level," on CDP's questionnaire assessing progress toward environmental stewardship through climate change mitigation and adaption
- Hong Kong Oxfam ESG 2016 Survey
  - Lenovo ranked 5th overall among Hang Seng 50 companies and rated highest in human rights, supply chain and environmental management
- Corporate Equality Index 2017
  - Lenovo received a perfect score of 100 percent on corporate policies and practices related to LGBT workplace equality, earning distinction as "Best Places to Work for LGBT Equality"
- Channel NewsAsia 2016 Sustainability Ranking
  - Lenovo ranked 20th and was the only Hong Kong-listed company in the top 20
- HKICPA 2016 Best Corporate Governance Awards
  - Lenovo received "special mention" in the Sustainability and Social Responsibility Awards
- EcoVadis 2016 CSR "Gold" Ranking
  - Lenovo scored 71/100 in this European assessment platform placing in the top 2 percent of suppliers in all categories

UN GLOBAL COMPACT

WE SUPPORT

ETHICS AND COMPLIANCE

Lenovo promotes a culture that demands the highest ethical standards of business conduct and a commitment to compliance with all laws and regulations wherever it operates. Its policies and programs align with its objective to operate ethically in all Lenovo business activities.

Lenovo has an Ethics and Compliance Office (ECO) that works in partnership with its business units across the globe to ensure they operate within the letter and spirit of its legal and ethical obligations. Led by Lenovo's Chief Ethics and Compliance Officer, ECO plays a critical role in providing the resources and information employees need to make well-informed choices and decisions.

An integral part of its ethics and compliance program is Lenovo's Code of Conduct that applies to all employees worldwide.

The Code establishes clear expectations for employee compliance with policies related to lawful and ethical business conduct and behavior. The Code is available in seven languages and is accessible on Lenovo's website along with other corporate policies at http://www.lenovo.com/CSRPolicies. Each newly hired Lenovo employee receives training and information about its ethics and compliance program. All employees are required to participate in subsequent mandatory training sessions held on a regular basis.

Lenovo's updated Code of Conduct was released in May 2016

Privacy

Lenovo recognizes that privacy is of great importance to individuals everywhere – customers, web site visitors, product users, employees…everyone. This is why the Company has established as a core Lenovo value the responsible use and protection of personal and other information under the Company's care.

To ensure adherence to Lenovo privacy policies, principles and processes, the Company maintains a global Privacy Program led by the Legal Department and a cross-functional Privacy Working Group that is comprised of key partners drawn from Information Security, Product Security, Product Development, Marketing, E-Commerce, Service and Repair, Human Resources and other groups.

Key projects of the Privacy Program include:

- Frontline engagement with Lenovo's business teams on privacy due diligence and application of key privacy principles
- Internal and external privacy policies development and governance
- Pre-launch privacy review processes for products, software, websites, marketing programs, internal applications, and vendor relationships
- Employee privacy awareness and training initiatives
- Contractual support
- Tracking and application of legal requirements and industry best practices
- Privacy audit and assessment
- Incident response planning and processes

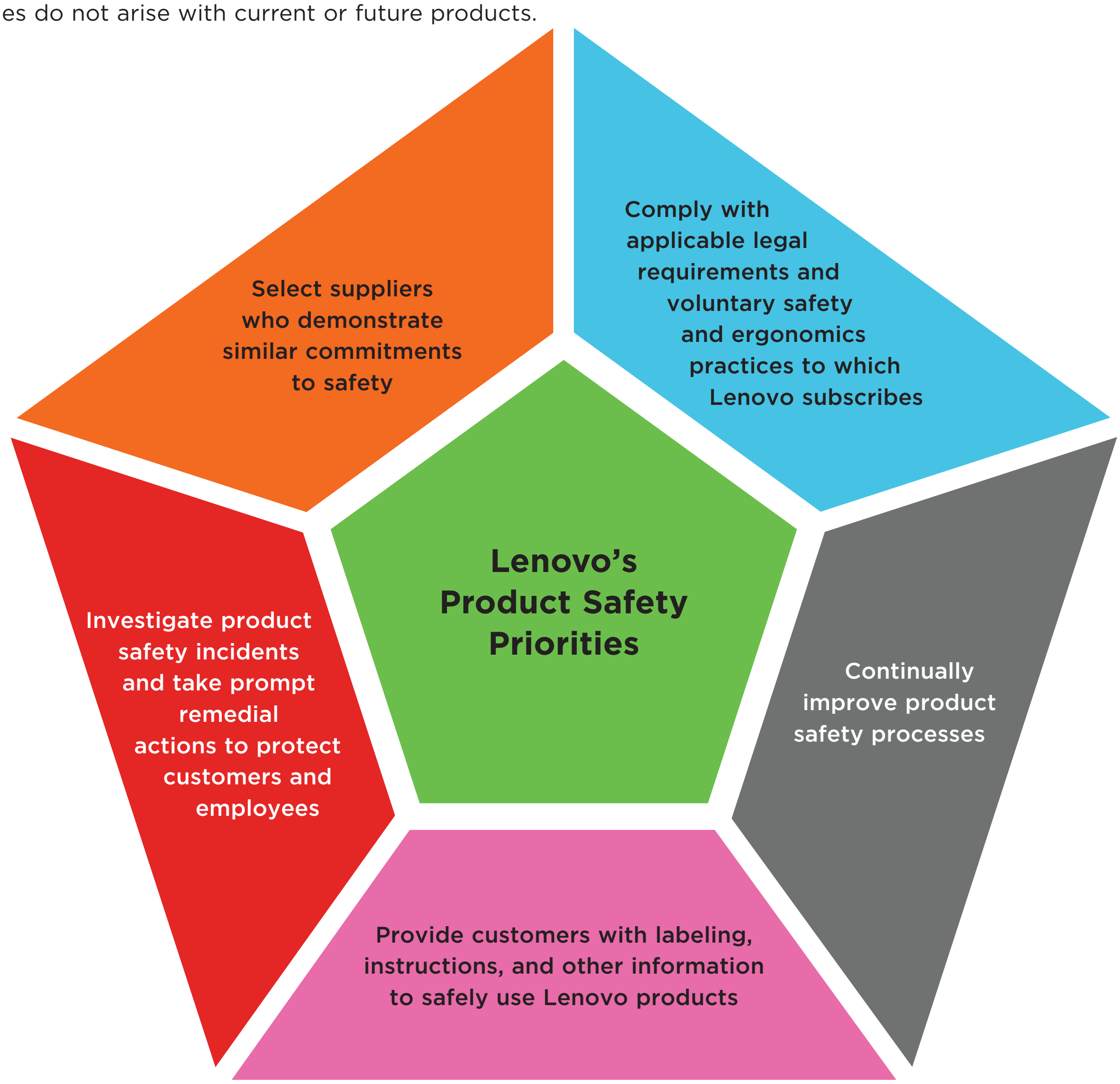
Questions or concerns about Lenovo's privacy policies and programs can be addressed to privacy@lenovo.com.

Lenovo expects the highest standards of ethical conduct from its employees and has a clear non-retaliation policy that protects employees who seek guidance on ethical or compliance issues or report any information pertaining to potential violations of law, Company policy or the Code of Conduct in locations where it is legal to do so. Lenovo provides formal, confidential mechanisms for reporting such concerns, all of which are addressed and tracked to resolution.

PRODUCT RESPONSIBILITY

Lenovo is committed to providing high-quality products that are not only safe to operate but are safe throughout their lifecycle. Corporate strategies, policies and guidelines have been designed to support this commitment. Lenovo strives to ensure that our products meet all applicable legal requirements as well as voluntary safety and ergonomics practices to which Lenovo subscribes wherever our products are sold. See Lenovo's product safety priorities below.

Lenovo's Quality Policy forms the foundation of its Quality Management System, which is ISO (International Organization for Standardization) 9001 certified. To maintain the highest level of quality in its products, Lenovo employs an active, closed-loop process whereby feedback mechanisms provide quick resolution to customer issues. When product issues are discovered, Lenovo performs a root cause analysis and feeds the results back into manufacturing, development and test organizations to ensure similar issues do not arise with current or future products.



SUSTAINABILITY OVERVIEW

MANUFACTURING AND SUPPLY CHAIN OPERATIONS

Manufacturing Operations

Lenovo's manufacturing business model combines both Company-owned manufacturing capabilities with original design manufacturer (ODM) partnerships and joint-venture manufacturing. This hybrid model provides a competitive advantage so we can bring new innovations to market more efficiently while ensuring greater control over both product development and supply chain operations. Lenovo's manufacturing operation is global, which allows us to tailor our products to regional markets.

All Lenovo global manufacturing locations are ISO 9001 (Quality), ISO 14001 (Environmental) and OHSAS 18001 (Health and Safety) certified. As required by these globally-accepted standards, objectives and targets are implemented annually at each Lenovo manufacturing facility to ensure continual improvement and a safe and healthy work environment for our employees. In addition, Lenovo encourages its suppliers to achieve OHSAS 18001 certification through voluntary initiatives.

Occupation Health and Safety

Providing a safe and healthy working environment for all Lenovo employees is essential to the Company's productivity and values. The Company's Global Occupation Health and Safety (OHS) organization has established world-class standards for employee workplace safety through our Occupational Safety and Health Management System that delivers health and safety programs and processes throughout our global manufacturing footprint. We accomplish this through education, prevention, checks and controls that are vital to achieving the Company's objectives for innovation, productivity and continual improvement.

Countries with health & safety-certified (OHSAS 18001) Lenovo manufacturing locations

Brazil	China	India	Japan	Mexico	U.S.A

Lenovo is committed to continually improving the sustainability performance of its manufacturing organizations, and utilizes programs and tools of the Electronic Industry Citizenship Coalition (EICC) for guidance. Lenovo ensures compliance with the EICC Code of Conduct by conducting regular occupational health, safety and environmental assessments at all internal global manufacturing locations and key outsourced manufacturing suppliers to provide high levels of regulatory and external management systems compliance.

Supply Chain Operations

Lenovo expects its suppliers to not only provide the highest quality parts, products and services, but also to conduct business ethically, responsibly and sustainably.

First and foremost, suppliers are contractually required through purchase order terms and conditions and other formal agreements to comply with all legal, regulatory and various additional sustainability requirements. They are required to implement and maintain documented quality and environmental management systems that meet ISO 9001/14001 requirements, to follow all laws regarding environmental and workplace conditions, to comply with restricted materials requirements and to provide necessary declarations.

Lenovo implements the EICC Code of Conduct contractually with our suppliers. Lenovo's own Supplier Code of Conduct is also contractually executed with suppliers and incorporates the EICC code as a component. The EICC code covers elements of labor, environmental and health concerns. In particular, it addresses child labor, forced labor, working hours, overtime, time off, recruitment fees and flow-down of requirements upstream to all levels. Lenovo strives to directly validate compliance of 95 percent of its suppliers by procurement spend with independent third-party audits.

Regarding supplier environmental impacts, Lenovo's Corporate Environmental Standards policy requires the procurement team to identify areas of environmental risk based on specific criteria and then conduct prescribed actions to ensure risk is mitigated. Suppliers with the highest risk are audited before use and on a regular schedule. Additionally, suppliers are required to report their policy goals, GHG emissions, water usage, waste generation and renewable energy use annually and are tracked on their reduction efforts.

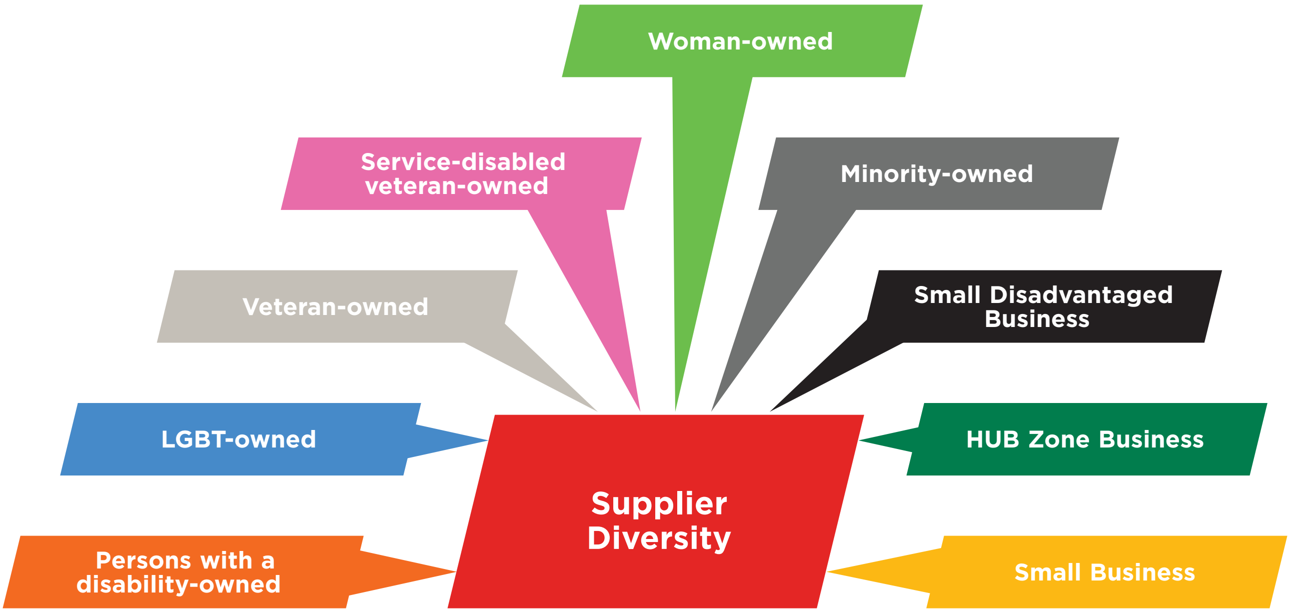
Lenovo recognizes the importance of concerns regarding the sourcing of materials containing tin, tantalum, tungsten and gold (3T/G). When sourced from regions experiencing political and social conflict, which may include the Democratic Republic of the Congo or surrounding countries, these materials are referred to as "conflict minerals." We fully support the efforts of the EICC, Conflict Free Smelter Initiative (CFSI), NGOs and governmental bodies to solve this complex issue, and have supported these efforts with our EICC membership dues since 2006 and direct participation in EICC programs. Also, Lenovo has formally joined the EICC Responsible Raw Materials Initiative (RRMI) to focus on conflict materials beyond 3T/G.

Lenovo's activities regarding conflict minerals include:

Industry-leading Conflict Minerals policy validated by independent third-party review
Engaging suppliers through formal contracts and directly validating their due diligence efforts via independent third-party EICC audits
Participating in CFSI Conflict Mineral conferences and workgroups
Holding regular education sessions for internal employees, publishing quarterly newsletters and providing supplier training as needed
Extensively employing the EICC Conflict Minerals Reporting Template (CMRT) for Reasonable Country of Origin Inquiry (RCOI) efforts across 95 percent of our procurement spend and our supply chain
Utilizing the EICC Conflict Free Smelter Program (CFSP) and the Smelter Information Exchange (SET) to identify the status of smelters reported as being in our supply chain
Reporting the program status to Lenovo's Chief Sustainability Executive
Publicly reporting the smelters and refiners in our supply chain

Supplier Diversity
Through our Supplier Diversity Program, Lenovo is committed to maximizing the inclusion of diverse suppliers in our business relationships through identifying opportunities, developing and incubating relationships, creating processes that encourage diverse supplier integration, and building on the Company's already strong culture of inclusion – The Lenovo Way.

To increase diversity in our business relationships, Lenovo seeks to include the following suppliers:



In addition to being active in local and regional events and organizations, Lenovo partners with a variety of national and regional organizations, such as National Minority Supplier Development Council (NMSDC), and Women's Business Enterprise National Council (WBENC) to facilitate supplier identification and program development. Lenovo currently conducts more than US$150 million in business annually with small and/or certified diverse suppliers in the United States.

For more information, please visit our Supplier Diversity website at www.lenovo.com/supplierdiversity.

THE ENVIRONMENT

Lenovo continually strives to reduce the impact of its operations and products on the environment. Lenovo's Environmental Affairs Policy, which applies to all operations and forms the foundation of Lenovo's Environmental Management System (EMS), provides the backbone for Lenovo's strategy. The Environmental Affairs Policy is available at http://www.lenovo.com/environment.

Lenovo's approach to environmental risk and ensuring compliance is described in the Management Discussion and Analysis section on page 27. Lenovo also acts to ensure compliance in its supply chain, with Lenovo personnel performing environmental audits at the sites of its largest suppliers and those organizations whose services potentially present significant environmental risks. Lenovo also requires that its suppliers comply with the Electronics Industry Citizenship Coalition (EICC) Code of Conduct and verify this compliance through third-party audits. Regarding Lenovo's own Supplier Code of Conduct, compliance is enforced contractually.

Climate Change
Climate change has been identified as a significant environmental risk and opportunity for Lenovo and is evaluated as part of the processes described below.

1) As part of Lenovo's Enterprise Risk Management system process, at least annually climate change risks are evaluated and incorporated as needed into a prioritized list of overall risks to the Company.

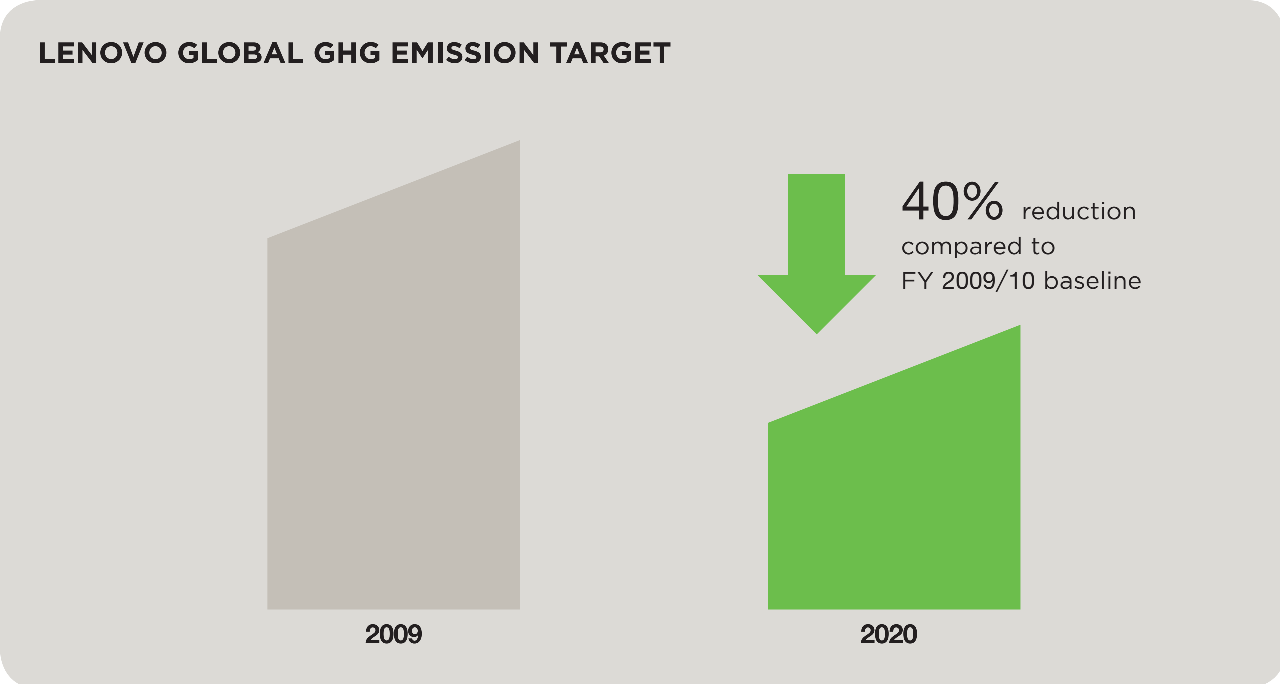
2) As part of Lenovo's ISO 14001 Environmental Management System (EMS), at least annually environmental risks including climate change are evaluated and assigned a quantified score for use in establishing objectives and targets under the EMS.

3) Climate change is also considered as part of Lenovo's Sustainability Reporting Materiality Assessment process.

The foundation of Lenovo's climate change strategy is Lenovo's Climate and Energy Policy, which supports the conclusions as presented by the Fifth Assessment Report (AR5) of the Intergovernmental Panel on Climate Change (IPCC) – "Climate Change 2014." Lenovo concurs with the findings and agrees that specific actions are needed to stabilize atmospheric greenhouse gas (GHG) levels and hold global average temperatures to acceptable increases. The actions supported by Lenovo include reducing global emissions by 40-to-70 percent between 2010 and 2050 and attaining zero emissions by 2100. These actions align with the global scientific community's generally accepted recommendations for maintaining global warming below two degrees Celsius over the 21st century relative to pre-industrial levels.

Lenovo's climate change strategy receives input from the very highest levels of our organization. Lenovo's Executive Committee and Board of Directors directed Lenovo to establish a second-generation Scope 1 and 2 GHG emissions reductions goal. This new goal was officially released in FY15/16 and calls upon Lenovo to reduce our Scope 1 and 2 GHG emissions by 40 percent by 2020 relative to our FY09/10 adjusted baseline. This second-generation target for GHG emission reductions aligns with our customers' and investors' expectations and follows the latest scientific findings of climate science. In support of this goal, in May 2015 the Lenovo Board of Directors has recommended that Lenovo achieve 30 megawatts of direct renewable generation by 2020. Lenovo took a significant step forward toward this goal with the commissioning of a rooftop solar installation that went operational in Hefei, China in October 2016 and will produce 3.9 megawatts of onsite-generated renewable energy annually.

SUSTAINABILITY OVERVIEW



While we have demonstrated good progress during the early stages of GHG reduction and renewable energy commitments, we are keenly aware there is still much to be done. In light of growth, we realize that accomplishing our goals moving forward will be a significant challenge. With a continued focus on energy efficiency, Lenovo's global teams continue to work to identify and implement energy reduction, renewable energy and carbon offset opportunities that provide the most cost-effective path to meeting our second generation targets.

A 3.9 MW solar plant at a joint Lenovo/Compal manufacturing site in Hefei, China began generating power in October 2016. The plant will save 3,900 tons of carbon emissions annually.

In addition to our work to address these high-level corporate goals, Lenovo also has established more detailed climate change-related goals as part of Lenovo's EMS. For FY 2016/17, Lenovo had the following global targets in place related to climate change:

- New products must show improved energy efficiency relative to the previous generation of the product.
- Ensure select products are compliant with preferred voluntary energy standards.

- Continue to support external development of product carbon footprint (PCF) methodologies and standards.

- Ensure product carbon footprint is published for all new Lenovo products.

- Specified organizations will establish global action plans to reduce combined Scope 1 and Scope 2 GHG emissions by 40 percent by March 31, 2020, relative to FY 2009/10. The plan will be reviewed and updated annually, at a minimum.

- Maintain global energy intensity at +/- 5 percent of FY 2015/16 rate.

Results of Lenovo's programs to address these targets will be reported in Lenovo's FY 2016/17 Sustainability Report. In addition, Lenovo responded to the 2016 CDP climate change survey and received an A-, placing Lenovo in the leadership category. Lenovo's annual climate change report including climate change risk and opportunities analysis is publicly available at http://www.cdproject.net. For additional details on Lenovo's GHG emissions inventory and management, see Lenovo's Sustainability Reports and Climate Change website at http://www.lenovo.com/climate.

Lenovo discourages the use of polystyrene packaging wherever possible. In 2016 Lenovo began replacing EPS packaging for ThinkVision monitors with recycled molded fiber (paper pulp).

Transport and Packaging

Lenovo considers transport and packaging to be among its significant environmental aspects. Emissions arise from different types of transportation and distribution activities throughout Lenovo's value chain, including emissions from product transport and the business travel of Lenovo employees. Lenovo works closely with its partners to ship products in the most environmentally responsible manner, supports green logistics initiatives such as Green Freight Asia, and encourages employees to utilize technology to reduce travel.

Packaging can affect transportation emissions in addition to the environmental impacts of resource use and disposal. Lenovo continually improves its packaging to reduce size and weight and utilize more environmentally friendly materials as part of its Environmentally Conscious Product Program (see photo).

Company-wide transport and packaging objectives and targets are established annually and published in Lenovo's Sustainability Report, along with results of the reporting year's objectives and targets.

SUSTAINABILITY OVERVIEW

Waste and Water

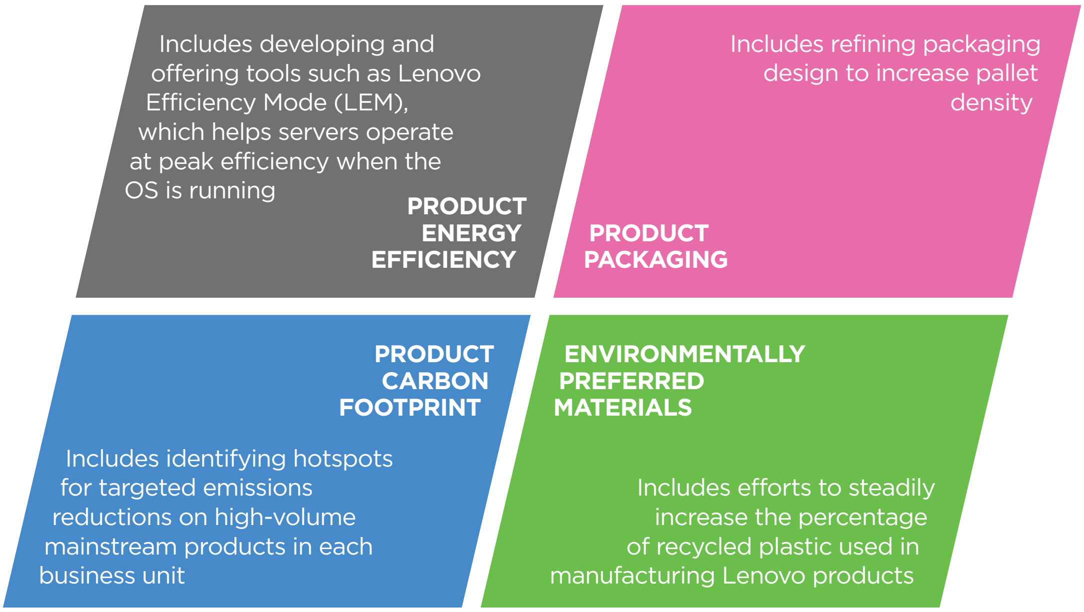
Lenovo is committed to reducing and recycling waste and conserving water. Lenovo tracks waste intensity and works to identify and implement opportunities to reduce waste quantities. Lenovo tracks and monitors water consumption in its operations even though it does not have any wet processes; water is used only for human consumption and sanitation. Details on performance relative to waste and water targets are available in Lenovo's Sustainability Report. For additional details on Lenovo's waste and water inventory, see Lenovo's Sustainability Reports and website: http://www.lenovo.com/waterandwaste.

Lenovo's energy, GHG emissions, waste, and water data are all third-party verified by Bureau Veritas. Lenovo's Scope 1 and 2 GHG emissions and associated source data are verified to a reasonable level of assurance. Please see verification statements at http://www.lenovo.com/climate and http://www.lenovo.com/waterandwaste.

Environmentally Conscious Products Program

Lenovo's Environmentally Conscious Products Program is included in its EMS and incorporates an expectation for year-on-year improvement. Lenovo's corporate-wide environmental standards and specifications require the designers of all Lenovo IT products to consider certain environmentally conscious design practices to facilitate and encourage reuse and recycling and to minimize resource consumption.

Lenovo's priority is to use environmentally preferable materials whenever applicable. In adhering to this precautionary approach, Lenovo supports restricting the intentional addition of materials that are potentially concerning when economically and technically viable alternatives exist.



Take Back and Recycling

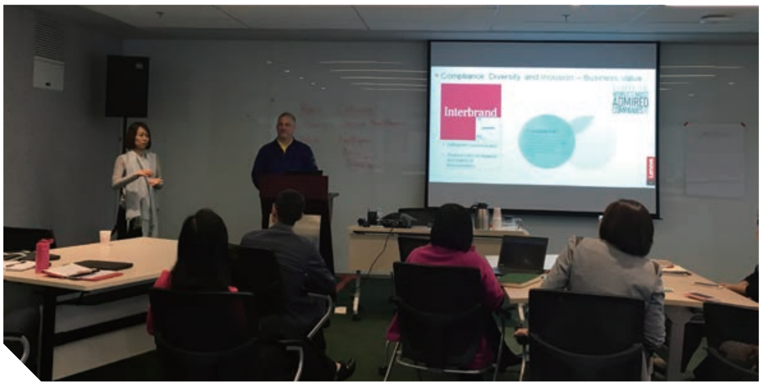
Lenovo offers product take-back and recycling programs for both consumer and business customers worldwide. Lenovo offers these programs in most major markets where it does business, with many of those programs free to the consumer. For business customers, Lenovo's Asset Recovery Service (ARS) provides computer take-back, data destruction, refurbishment and recycling services.

OUR PEOPLE

Lenovo believes its employees are its most valuable strategic assets and that a strong company culture is a key differentiator. Lenovo is a global company with an incredible amount of diversity. Because of our diversity, it makes good business sense to honor our employees' differences and leverage their life experiences to better serve our customers. Lenovo goes beyond diversity with a focus on creating an inclusive environment with the intended outcome of each employee feeling valued, respected, and a sense of belonging.

The foundation of our respect for employees is our commitment to non-discrimination and a work environment free from harassment regardless of race, color, religion, gender, gender identity or expression, national origin, ethnicity, sexual orientation, sex, age, disability, veteran status or any other characteristic protected by law.

Lenovo's "Commitment to Diversity and Non-discrimination" policy documents and formalizes Lenovo's commitments to ensuring equal opportunity and maintaining a diverse workforce. We are also an Affirmative Action – Equal Opportunity Employer in the United States.



Lenovo's employee-related standards, policies and benefits are designed to be best-in-class, attracting and retaining top talent and enabling them to achieve their full potential.

A well-trained and educated workforce is particularly important to Lenovo, since we operate in a technology industry that is continually changing and innovating. As such, training and education is a key focus area to ensure that our business is successful.

Being a successful employer and hiring/retaining employees is critical to Lenovo's business success. Our human resource efforts and initiatives are designed to ensure that Lenovo is a desirable place to work. Our ability to hire, train and retain employees successfully ensures that we are making the correct investments in our human capital.

SUSTAINABILITY OVERVIEW

Lenovo measures our employment success across five key elements: compensation, benefits, work-life balance, performance/recognition/development and career opportunities.

Lenovo understands that an unhealthy or dangerous workplace could have significant negative implications for its employees, the quality of its products, and the Company's standing as a legally compliant and responsible corporate citizen.

Lenovo's Occupational Health and Safety (OHS) organization is committed to ensuring the implementation of an effective health and safety management system. Please see the Manufacturing and Supply Chain Operations section for more information.

SOCIAL INVESTMENTS

Lenovo believes that giving back to the communities where it operates is integral to good corporate citizenship. Lenovo focuses its giving on promoting digital inclusion, education, entrepreneurship, natural disaster recovery and community development.

2016 Lenovo Day of Service in China

Throughout the year, employee groups organize events and activities that are conducted on behalf of local charities, donating time and often their expertise. Lenovo provides each employee with 32 hours of paid time off annually to participate in volunteer activities (eight hours per quarter). In North America, Lenovo also matches 50 percent of employee donations of $50 or more to eligible charities.

For more information about social investments, please see Lenovo's Sustainability Report.

DIRECTORS' REPORT

The directors of Lenovo Group Limited (the "Company") submit their report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended March 31, 2017.

PRINCIPAL BUSINESS AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in note 37 to the financial statements.

Details of the analyses of the Group's performance for the year by operating segment are set out in note 5 to the financial statements.

BUSINESS REVIEW

A discussion and analysis of the activities as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2016, and an indication of likely future development in the Group's business, can be found in the "Five-Year Financial Summary", "Chairman and CEO Statement", "Management's Discussion and Analysis" and "Sustainability Overview" sections of this annual report. These discussions form part of this directors' report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 153 of this annual report.

The state of affairs of the Group and of the Company as at March 31, 2017 is set out in the consolidated balance sheet on pages 155 to 156 of this annual report and the company balance sheet in note 31(a) to the financial statements respectively.

The consolidated cash flows of the Group for the year are set out in the statement on page 157 of this annual report.

An interim dividend of HK6.0 cents (2016: HK6.0 cents) per share, amounting to a total of approximately HK$666.5 million (approximately US$86.0 million) (2016: approximately HK$666.5 million (approximately US$86.0 million)), was paid to shareholders during the year.

The directors have 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 of the Company 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.

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

RESULTS AND APPROPRIATIONS *(continued)*

(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.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results for the year and of the assets and liabilities of the Group as at March 31, 2017 and for the last four financial years are set out on page 247 of this annual report.

DISTRIBUTABLE RESERVES

At March 31, 2017, the distributable reserves of the Company amounted to US$713,824,000 (2016: US$335,170,000).

BANK BORROWINGS

Particulars of bank borrowings as at March 31, 2017 are set out in note 27 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to US$2,150,000 (2016: US$1,878,000).

SHARE CAPITAL

Details of movement of share capital of the Company during the year are set out in note 29 to the financial statements. No share was issued during the year.

DEBENTURES ISSUED

(1) The Company issued US$500,000,000 3.875% note due 2022 on March 16, 2017 under the medium term note programme established by the Company on November 30, 2016. The notes were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the note are set out in note 27 to the financial statements.

(2) Lenovo Perpetual Securities Limited ("LPSL"), a wholly-owned subsidiary of the Company, issued an aggregate of US$1,000,000,000 perpetual securities ("Perpetual Securities") to independent third parties and the net proceeds from the issues of Perpetual Securities were on-lent to the Company through the issue of the following non-transferrable intra-group subordinated capital notes to LPSL:

   (i) US$850,000,000 5.375% notes issued on March 16, 2017; and

   (ii) US$150,000,000 5.375% notes issued on April 6, 2017.

   The Perpetual Securities were listed on the Official List of the Singapore Exchange Securities Trading Limited. Details of the Perpetual Securities are set out in note 30 to the financial statements.

The proceeds of the issues in (1) and (2) above amounting to about US$1,500,000,000 were used to repay the amounts outstanding under the promissory note issued to Google Inc. in relation to the Company's acquisition of Motorola Mobility Holdings LLC. Further details of the issues are disclosed in the respective announcements which are available in the websites of Hong Kong Exchanges and Clearing Limited and the Company.

DIRECTORS' REPORT

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered by the Company during the year or subsisted at the end of the year save for the "Long-Term Incentive Program" and the "Employee Share Purchase Plan" as disclosed in the Compensation Committee Report and note 29 to the financial statements.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Particulars of the Company's principal subsidiaries, associates and joint ventures as at March 31, 2017 are set out in notes 37 and 18 to the financial statements respectively.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 18% of its goods and services to its five largest customers. The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

The largest supplier	20%
Five largest suppliers combined	41%

None of the directors of the Company, their close associates or any shareholder (which to the knowledge of the directors own more than 5% of the number of issued shares of the Company) had an interest in the major suppliers noted above.

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 plan of the Company purchased a total of 175,395,998 shares from the market for award to employees upon vesting. Details of these program and plan are set out under sections headed "Long-Term Incentive Program" and "Employee Share Purchase Plan" in the Compensation Committee Report on page 107 and page 110 respectively of this annual report.

DIRECTORS

The directors during the year and up to the date of this report are:

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
(re-designated from non-executive director to independent non-executive director on September 1, 2016)

DIRECTORS *(continued)*

In accordance with article 107 of the Company's articles of association, Mr. Nobuyuki Idei, Mr. William O. Grabe, Ms. Ma Xuezheng and Mr. Yang Chih-Yuan Jerry will retire by rotation at the AGM and, being eligible, have offered themselves for re-election.

The Company has received from each of the independent non-executive directors an annual confirmation of his/her independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Nomination and Governance Committee has duly reviewed the independence of each of these directors. The Company considered that all independent non-executive directors meet the independence guidelines set out in rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The list of directors who have served on the boards of directors of the subsidiaries of the Company during the year ended March 31, 2017 or during the period from April 1, 2016 to the date of this report is available on the Company's website (http://www.lenovo.com/ww/lenovo/list_direct.html).

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Honorary Chairman

Mr. Liu Chuanzhi, 73, has been the Honorary Chairman and Senior Advisor of the Company since November 3, 2011. Mr. Liu is the founder of the Group and held the positions of executive director, non-executive director and chairman of the Board at different times from 1993 until his resignation from the Board on November 3, 2011. As our Honorary Chairman, Mr. Liu is not a director or an officer of the Company or of any subsidiary of the Company, and does not have any management role in the Company or any of its subsidiaries. He obtained his graduate certificate from the Radar Navigation Department of People's Liberation Army Institute of Telecommunication Engineering (中國人民解放軍軍事電信工程學院雷達導航系) (now known as Xidian University) in China in 1967 and has substantial experiences in corporate management. Mr. Liu is the chairman of the board and executive director of Legend Holdings Corporation (HKSE listed), a company holding substantial interests in the issued shares of the Company.

Biography of directors

Chairman and executive director

Mr. Yang Yuanqing, 52, is the Chairman of the Board, Chief Executive Officer and an executive director of the Company. He is also a director and a shareholder of Sureinvest Holdings Limited which holds interests in the issued shares of the Company. Mr. Yang assumed the duties of chief executive officer on February 5, 2009. Prior to that, he was the chairman of the Board from April 30, 2005. Before taking up the office as chairman, Mr. Yang was the chief executive officer and has been an executive director since December 16, 1997.

Mr. Yang has more than 29 years of experience in the field of computers. Under his leadership, Lenovo has been China's best-selling PC brand since 1997 and is the leading PC vendor, one of the major players in global smartphone and x86 server markets. Mr. Yang holds a master's degree from the Department of Computer Science at the University of Science and Technology of China. Mr. Yang is currently a director of Baidu, Inc. (NASDAQ listed). Mr. Yang is also a guest professor at the University of Science and Technology of China and a member of the International Advisory Council of Brookings Institute.

DIRECTORS' REPORT

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of directors *(continued)*

Non-executive directors

Mr. Zhu Linan, 54, has been a non-executive director of the Company since April 30, 2005. Mr. Zhu graduated with a master's degree in electronic engineering from Shanghai Jiao Tong University and has more than 20 years of management experience. He was previously a senior vice president of the Group. Mr. Zhu is currently an executive director, president and member of executive committee of Legend Holdings Corporation (HKSE listed), a company holding substantial interests in the issued shares of the Company and he also serves as director of its various members. He is a non-executive director of CAR Inc. (HKSE listed). He was previously a non-executive director of Peak Sport Products Co., Limited (HKSE listed).

Mr. Zhao John Huan, 54, has been a non-executive director of the Company since November 3, 2011. Mr. Zhao holds a master's degree in business administration from the Kellogg School of Management at Northwestern University, dual master's degrees in electric engineering and physics from Northern Illinois University and a bachelor's degree in physics from Nanjing University. He is currently an executive director, executive vice president and member of executive committee of Legend Holdings Corporation (HKSE listed), a company having substantial interests in the issued shares of the Company and the chairman and president of Hony Capital Limited.

Besides, he currently holds the following positions: non-executive director of China Glass Holdings Limited, the chairman of the board, executive director and chief executive officer of Best Food Holding Company Limited (formerly known as Lee & Man Handbags Holding Limited), the chairman of the board and non-executive director of Hospital Corporation of China Limited (all HKSE listed) and the deputy chairman of Shanghai Environment Group Co., Ltd. 上海環境集團股份有限公司 and a non-executive director of Shanghai Jin Jiang International Hotels Development Co., Ltd. 上海錦江國際酒店發展股份有限公司 (both listed on the Shanghai Stock Exchange), a non-executive director of Zoomlion Heavy Industry Science and Technology Co., Ltd. 中聯重科股份有限公司 (HKSE and Shenzhen Stock Exchange listed).

Mr. Zhao was previously a director of Wumart Stores, Inc., New China Life Insurance Company Ltd., CSPC Pharmaceutical Group Limited and Chinasoft International Limited (all HKSE listed), Fiat Industrial S.p.A. (MTA Italian Stock Exchange listed) and the deputy chairman of Shanghai Chengtou Holding Co., Ltd.上海城投控股股份有限公司 (Shanghai Stock Exchange listed).

Independent non-executive directors

Dr. Tian Suning, 53, has been an independent non-executive director of the Company since August 2, 2007. He is the founder and chairman of a Chinese focused private equity fund China Broadband Capital Partners, L.P.. He is currently an independent director of Shanghai Pudong Development Bank Co., Ltd. (Shanghai Stock Exchange listed) and an executive chairman of the holding company of AsiaInfo. He is also an independent non-executive director of Taikang Life Insurance Company Ltd.. From 1993 till 1999, he was co-founder and chief executive officer of AsiaInfo Holdings LLC (formerly listed on NASDAQ). He was previously a non-executive director of China Jiuhao Health Industry Corporation Limited (HKSE listed), an independent non-executive director of MasterCard Incorporated (NYSE listed) and a vice chairman of PCCW Ltd. (HKSE listed) between 2005 and 2007. Dr. Tian holds a Ph.D. in natural resource management from Texas Tech University and a M.S. degree in ecology from Chinese Academy of Sciences.

Biography of directors *(continued)*

Independent non-executive directors *(continued)*

Mr. Nicholas C. Allen, 62, has been an independent non-executive director of the Company since November 6, 2009. Mr. Allen received a bachelor of arts degree in economics/social studies from Manchester University, United Kingdom. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Allen has extensive experience in accounting and auditing and was a partner of PricewaterhouseCoopers until his retirement in June 2007. Mr. Allen is an independent non-executive director and the chairman of the board of directors of Link Real Estate Investment Trust (HKSE listed) and an independent non-executive director of CLP Holdings Limited (HKSE listed). He was previously an independent non-executive director of Hysan Development Company Limited (HKSE listed) and VinaLand Limited (London Stock Exchange AIM listed).

Mr. Nobuyuki Idei, 79, has been an independent non-executive director of the Company since September 28, 2011. Mr. Idei is the founder and chief executive officer of Quantum Leaps Corporation, an executive advisory company. Until retiring in June 2005, for more than a decade, Mr. Idei held a wide variety of leadership positions at Sony Corporation (Tokyo Stock Exchange, Osaka Securities Exchange, NYSE and London Stock Exchange listed), including chairman and group chief executive officer. He was also the chairman of Sony's advisory board from June 2005 to June 2012.

Mr. Idei currently serves on the boards of directors of FreeBit Co., Ltd. and Monex Group, Inc. (both Tokyo Stock Exchange listed) and Stripe International Inc.. Mr. Idei is also chairman of the National Conference on Fostering Beautiful Forests in Japan. Mr. Idei holds a bachelor's degree in political science and economics from Waseda University in Tokyo.

He has served on the boards of directors of Nestlé S.A., Electrolux, General Motors Company, Accenture plc and Baidu, Inc. and also served in a number of other advisory positions including as counselor to the Bank of Japan, vice chairman of Nippon Keidanren (Japan Business Federation) and chairman of the IT Strategy Council, an advisory committee to Japan's Prime Minister.

Mr. William O. Grabe, 79, has been an independent non-executive director of the Company since February 8, 2012 and was appointed as the lead independent director of the Company on May 23, 2013. Before that, he was a non-executive director of the Company since May 17, 2005. Mr. Grabe is currently a director of the following listed companies: Gartner Inc. (NYSE listed), Covisint Corporation (NASDAQ listed) and QTS Realty Trust, Inc. (NYSE listed). He was previously an independent director of Compuware Corporation. Mr. Grabe is an advisory director of General Atlantic LLC. He formerly served as a managing director of General Atlantic LLC and has been associated with General Atlantic Group since 1992. Prior to that, he served as a corporate vice president and officer of IBM.

Mr. William Tudor Brown, 58, has been an independent non-executive director of the Company since January 30, 2013. Mr. Brown is a Chartered Engineer and holds an MA (Cantab) Degree in electrical sciences from Cambridge University. He is a Fellow of the Institution of Engineering and Technology and a Fellow of the Royal Academy of Engineering. He was awarded as Member of the Order of the British Empire (MBE) on June 15, 2013.

Mr. Brown was one of the founders of ARM Holdings plc ("ARM") (London Stock Exchange and NASDAQ listed). During the years with ARM, he held a broad range of leadership positions including engineering director, chief technical officer, executive vice president for global development, chief operating officer and president. He had responsibility for developing high-level relationships with industry partners and governmental agencies and for regional development. He also served as a director of ARM from October 2001 to May 3, 2012. Before joining ARM, he was the principal engineer at Acorn Computers Ltd., working exclusively on the ARM research & development programme since 1984.

Mr. Brown is currently an independent non-executive director of Xperi Corporation (formerly known as Tessera Technologies, Inc) (NASDAQ listed), Semiconductor Manufacturing International Corporation (HKSE listed) and a board member of Marvell Technology Group Ltd. (NASDAQ listed). He was previously an independent non-executive director of P2i Limited. He also served on the UK Government Asia Task Force until May 2012.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of directors *(continued)*

Independent non-executive directors *(continued)*

Ms. Ma Xuezheng, 64, was re-designated as an independent non-executive director of the Company on November 7, 2013. Prior to that, she was a non-executive Vice Chairman of the Company since 2007. Before becoming a non-executive director, she was an executive director and the chief financial officer of the Company at different times between 1997 and 2007 and held directorship in various subsidiaries of the Company. She is currently managing partner of Boyu Capital Advisory Company Limited and a non-executive director of the Securities and Futures Commission following her resignation from the Main Board and GEM Listing Committees of the HKSE on November 14, 2013. In addition, she is also a non-executive director of Unilever N.V. (NYSE and Euronext Amsterdam listed) and Unilever PLC (NYSE and London Stock Exchange listed). She was formerly a non-executive director of Wumart Stores, Inc. and STELUX Holdings International Limited (both HKSE listed) and an independent non-executive director of Standard Chartered Bank (Hong Kong) Limited. Ms. Ma holds a bachelor of arts degree from Capital Normal University.

Mr. Yang Chih-Yuan Jerry, 48, has been an independent non-executive director of the Company since November 6, 2014. Prior to that, he was the board observer of the Company since February 20, 2013. He holds a master's degree and a bachelor's degree of science in electrical engineering from Stanford University and served on the board of trustees of Stanford University until September 2015.

Mr. Yang co-founded Yahoo! Inc. (NASDAQ listed) and served as its chief executive officer from June 2007 to January 2009. He also served as a member of the board of directors of Yahoo! Inc. until January 17, 2012. During such appointment, Mr. Yang focused on corporate strategy and technology vision. Mr. Yang was also instrumental in building strategic business partnerships, international joint ventures and recruiting key talent.

Mr. Yang also served as a director of Yahoo! Japan Corporation (Tokyo Stock Exchange listed) from January 1996 to January 2012, an independent director of Cisco Systems, Inc. (NASDAQ listed) from July 2000 to November 2012. Mr. Yang is currently an independent director of Workday Inc. and Alibaba Group Holding Limited (both NYSE listed).

Mr. Gordon Robert Halyburton Orr, 54, was re-designated as an independent non-executive director of the Company on September 1, 2016. Prior to that, he was a non-executive director of the Company since 2015. He holds a Master of Arts degree in Engineering Science from Oxford University, United Kingdom and a Master of Business Administration degree from Harvard University.

Mr. Orr joined McKinsey & Company ("McKinsey") in 1986 and held a broad range of senior positions in McKinsey until his retirement in August 2015. During the years with McKinsey, he was Greater China Managing Partner and subsequently Senior Partner (1999-2015), Managing Partner of McKinsey Asia (2008-2014) and Member of McKinsey's global Operating Committee (2008-2015). He also served on McKinsey's Global Shareholder's Board (2003-2015) and chaired the Governance and Risk Committee.

In the past 20 years, Mr. Orr has served a broad range of clients in Asia, with primary focus on China and technology related sectors across Asia. Mr. Orr is currently an independent non-executive director of Swire Pacific Limited (HKSE listed). He is also a board member of the China-Britain Business Council.

Biography of senior management

Mr. Gianfranco Lanci, 62, joined the Group in April, 2012 and is currently the Corporate President and Chief Operating Officer of the Company responsible for running all of the Group's five geographies, the PC and the Smart Device Business Group. Before taking up the office as Corporate President, Mr. Lanci was COO and Executive Vice President of the Company and President of the PC Group, EMEA and AP. Mr. Lanci has substantial experience across the PC business, including leadership roles at Texas Instruments and Acer. He was appointed as President of Acer Inc. in 2005 and in 2008 became Chief Executive Officer and President. Under his leadership, he led Acer to the number two position globally and number one in EMEA while recording record profitability for three consecutive years. He holds a degree in engineering from the Politecnico of Turin.

Mr. Aymar de Lencquesaing, 58, joined the Group in 2013 and is currently the Executive Vice President of the Company, Co-President of the Mobile Business Group and the Chairman and President of Motorola. In this capacity, Mr. de Lencquesaing co-leads Lenovo's mobile business, including R&D, product, supply chain and the Asia Pacific, North America, Latin America and EMEA geographies.

Prior to that, Mr. de Lencquesaing was the president of North America geography, responsible for sales, daily operations, growth and profitability of the region – encompassing the United States and Canada, and led the region to achieve record PC market share. Before taking up the North America geography, he was president of the EMEA geography. Under his leadership, EMEA reached record market share and profitability across a diverse region including more than 120 countries, supported by 50 offices. Before joining the Group, Mr. de Lencquesaing held numerous global leadership roles with companies in both the US and Europe including corporate vice president of Capgemini, Senior Vice President of Acer and President and CEO of Packard-Bell. Mr. de Lencquesaing graduated from the ESSEC business school in France.

Ms. Gao Lan, 51, joined the Group in 2009 and is currently the Senior Vice President of Human Resources, responsible for human resources, organizational development, global talent, compensation and benefits, as well as nurturing the company's culture. Prior to this, Ms. Gao held several Vice President roles leading the HR functions of many teams, including Emerging Markets Group, APLA & China Geography, People & Organization Capability and HR Strategy & Operations. Before joining the Group, Ms. Gao held senior positions in HR in various multinational companies. Ms. Gao holds a bachelor degree of science from Nankai University, a master degree of philosophy from Cambridge University in the UK, studied human resource management at the Western Management Institute of Beijing and completed the Leadership Excellence for Business HR Program at Stanford University in the US.

Mr. He Zhiqiang, 54, joined the Group in 1986 and is currently the Senior Vice President of the Company and President of Lenovo Capital and Incubator Group. This group is responsible for driving innovation through investment in startups, spinning off new businesses and exploring new technologies. Prior to that, Mr. He held various leadership positions in the Group including the President of the Ecosystem and Cloud Services Business Group and was the Chief Technology Officer overseeing Lenovo's Research & Technology initiatives and systems. Mr. He holds a bachelor's degree in computer communication from Beijing University of Posts and Telecommunications and a master's degree in computer engineering from the Institute of Computing Technology of the Chinese Academy of Sciences.

Ms. Qiao Jian, 49, joined the Group in 1990 and is currently the Senior Vice President and Co-President of the Mobile Business Group focusing on Lenovo's Mobile business in China. Prior to that, Ms. Qiao was the Senior Vice President of Human Resources. Ms. Qiao held various senior positions in the Group including Senior Vice President of Strategy and Planning and Vice President of Human Resources in China – both before and after the acquisition of IBM's PC Division. Ms. Qiao has extensive experience in strategy, marketing and branding and human resources. She holds a bachelor's degree in management science from Fudan University and holds an EMBA from the China Europe International Business School.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of senior management *(continued)*

Yong Rui, PhD, 47, joined the Group in November 2016 as Senior Vice President and Chief Technology Officer of the Company, overseeing Lenovo's corporate technical strategy, research and development directions, and Lenovo's corporate Research and Technology (R&T) organization, which covers intelligent devices, artificial intelligence, big data analytics, cloud computing, 5G and smart lifestyle-related technologies. Before joining the Group, Dr. Rui had an 18-year career with Microsoft holding various senior roles in R&D including Deputy Managing Director of Microsoft Research Asia (MSRA), GM of Microsoft Asia-Pacific R&D (ARD) China Innovation Group, and other leadership positions ranging from strategy, basic research, to technology incubation and product development.

Dr. Rui is a Fellow of the Institute of Electrical and Electronics Engineers (IEEE), International Association of Pattern Recognition (IAPR) and International Society for Optics and Photonics (SPIE), and a Distinguished Scientist of Association of Computing Machinery (ACM). He holds 60 issued US and international patents, and is a recipient of the prestigious 2016 IEEE Computer Society Technical Achievement Award. Dr. Rui received his BS from Southeast University, his MS from Tsinghua University, and his PhD from University of Illinois at Urbana-Champaign (UIUC).

Mr. Kirk Skaugen, 46, joined the Group in November 2016 as an Executive Vice President of the Company and the President of the Data Center Group. In this capacity he leads the end-to-end data center business including research and development, supply chain, quality, service, and sales and marketing across Lenovo's five geographies. Mr. Skaugen worked with Intel for 24 years having most recently led its Data Center and Connected Systems Group and Client Computing Group as senior vice president. His responsibilities have included Intel server, storage, cloud computing, high performance computing, networking, communications infrastructure and Internet of the Things strategy and solutions. As head of Client Computing, Mr. Skaugen was responsible for Intel's largest revenue and profit contributor including Intel's PC, tablet, and phone businesses. He has also served as general manager of Intel's Asia Pacific Solutions Group responsible for software, system integrator and CIO relationships across the Asia region. Mr. Skaugen holds a bachelor of science in electrical engineering from Purdue University.

Mr. Wong Wai Ming, 59, is currently the Executive Vice President of the Company and the Chief Financial Officer. He was previously an investment banker for more than 15 years and also held senior management positions in listed companies in Hong Kong. He was an independent non-executive director of the Company from March 30, 1999 until his appointment to the position of Chief Financial Officer in 2007. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales and holds a bachelor's degree in management sciences from the Victoria University of Manchester in the United Kingdom.

DIRECTORS' SERVICE CONTRACTS

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any director proposed for re-election at the AGM.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No other transactions, arrangements or contracts that is significant in relation to the Group's business to which the Company, its holding company, any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company or his or her connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INDEMNITIES AND INSURANCE

As permitted by the articles of association of the Company, a director or a former director of the Company may be indemnified out of the Company's assets against any liability incurred by the director to a person other than the Company or an associated company of the Company that attaches to such director in his or her capacity as a director of the Company, to the extent permitted by law. Such permitted indemnity provision is in force throughout the year and up to the date of this report.

The Company has also taken out and maintained directors' and officers' liability insurance throughout the year, which provides appropriate cover for certain legal actions brought against its directors and officers.

DIRECTORS' INTERESTS

As at March 31, 2017, 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules were as follows:

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

	Capacity and number of shares/underlying shares held					
Name of director	**Interests in shares/ underlying shares**	**Personal interests**	**Family interests**	**Corporate/ Trust interests**	**Aggregate long position**	**Approximate percentage of interests** *(Note 2)*
Mr. Yang Yuanqing	Ordinary shares	75,353,389	–	622,804,000 *(Note 3)*	698,157,389	
	Share awards	196,744,653	–	–	196,744,653	
					894,902,042	8.06%
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	851,192	–	–	851,192	
	Share awards	2,492,604	–	–	2,492,604	
					3,343,796	0.03%
Mr. Nicholas C. Allen	Ordinary shares	677,305	–	–	677,305	
	Share awards	2,729,606	–	–	2,729,606	
					3,406,911	0.03%
Mr. Nobuyuki Idei	Ordinary shares	364,147	–	–	364,147	
	Share awards	2,313,690	–	–	2,313,690	
					2,677,837	0.02%
Mr. William O. Grabe	Ordinary shares	2,036,592	–	744,281	2,780,873	
	Share awards	2,729,606	–	–	2,729,606	
					5,510,479	0.05%
Mr. William Tudor Brown	Ordinary shares	251,041	–	–	251,041	
	Share awards	1,948,765	–	–	1,948,765	
					2,199,806	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	149,951	–	–	149,951	
	Share awards	1,744,816	–	–	1,744,816	
					1,894,767	0.02%
Mr. Gordon Robert Halyburton Orr	Ordinary shares	19,376	–	–	19,376	
	Share awards	1,022,234	–	–	1,022,234	
					1,041,610	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	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 headed "Long-Term Incentive Program" in the Compensation Committee Report.
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 602,804,000 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 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 March 31, 2017, 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the long-term incentive program of the Company, the Board or the trustee of the program shall select the employees (including but not limited to the directors) of the Group for participation in the program, and determine the number of shares to be awarded.

Details of the movements in the share awards for the year ended March 31, 2017 are set out under the section headed "Long-Term Incentive Scheme" in the Compensation Committee Report and in the note 29 to the financial statements.

Save as disclosed in the sections headed "Directors' Interests" of this report, and "Long-Term Incentive Program" of the Compensation Committee Report, at no time during the year ended March 31, 2017 was the Company or a specified undertaking of the Company a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at March 31, 2017, 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:

Name	Long position/ short position	Capacity and number of shares/ underlying shares held		Aggregate long and short positions	Approximate percentage of interests *(Note 1)*
		Beneficial owner	Corporate interests		
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%

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".

Save as disclosed above, as at March 31, 2017, 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.

RETIREMENT SCHEME ARRANGEMENTS

The Company contributes toward retirement income protection for its employees through the provision of defined benefit pension plans, defined contribution plans, and/or contributions to various public retirement schemes in certain jurisdictions. These benefits form an important part of the Company's total compensation and benefits program that is designed to attract and retain highly skilled and talented employees.

Defined Benefit Pensions Plans

Chinese Mainland – Retirement Schemes

The Group participates in respective local municipal government retirement schemes in the mainland of China ("Chinese Mainland") whereby it is required to make an annual contribution of no more than 20% of three times the monthly average salaries as set out by the local municipal government each year. The local municipal governments undertake to assume the retirement benefit obligations of all retirees of the qualified employees in the Chinese Mainland. In July 2006, the Group has established a supplemental retirement program for its employees in Chinese Mainland. This is a defined contribution plan, with voluntary employee participation.

In addition to the above, the Group has defined benefit and/or defined contribution plans that cover substantially all regular employees, and supplemental retirement plans that cover certain executives. Information on the principal pension plans sponsored by the Group is summarized in this section.

RETIREMENT SCHEME ARRANGEMENTS *(continued)*

Defined Benefit Pensions Plans *(continued)*

United States of America ("US") – Lenovo Pension Plan

The Company provides US regular, full-time and part-time employees who were employed by IBM prior to being hired by the Company and who were members of the IBM Personal Pension Plan ("PPP") with non-contributory defined benefit pension benefits via the Lenovo Pension Plan. As of December 31, 2015, the plan was frozen.

The Lenovo Pension Plan consists of a tax-qualified plan and a non-tax-qualified (non-qualified) plan. The qualified plan is funded by Company contributions to an irrevocable trust fund, which is held for the sole benefit of participants and beneficiaries. The non-qualified plan, which provides benefits in excess of US Internal Revenue Service limitations for tax-qualified plans, is unfunded.

Pension benefits are calculated using a five year average final pay formula that determines benefits based on a participant's salary and years of service, including prior service with IBM. The benefit is reduced by the amount of the IBM PPP benefit accrued to May 1, 2005, which will be paid by IBM's trust.

For the year ended March 31, 2017, an amount of US$1,790,780 was charged to the income statement with respect to the qualified and non-qualified plans.

The principal results of the most recent actuarial valuation of the plan at March 31, 2017 were the following:

- The actuarial valuation was prepared by Fidelity. The actuaries involved are fully qualified under the requirements of US law.

- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:

– Discount rate:	3.25%
– Expected return on plan assets:	3.25%
– Future salary increases:	N/A

- The qualified plan was 57% funded at the actuarial valuation date.

- There was a net liability of US$44,085,869 under the qualified plan for this reason at the actuarial valuation date.

Japan – Pension Plan

The Company operates a hybrid plan that consists of a defined contribution up to the annual tax-deductible limit plus a cash balance plan with contributions of 7% of pay. The plan is funded by Company contributions to a qualified pension fund, which is held for the sole benefit of participants and beneficiaries.

For the year ended March 31, 2017, an amount of Yen 1,066,684,120 was charged to the income statement with respect to this plan.

The principal results of the most recent actuarial valuation of the plan at March 31, 2017 were the following:

- The actuarial valuation was prepared by JP Actuary Consulting Co., Ltd. The actuaries involved are fully qualified under the requirements of Japanese law.

- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:

– Discount rate:	0.75%
– Expected return on plan assets:	0.75%
– Future salary increases:	Age-group based

- The plan was 62% funded at the actuarial valuation date.

- There was a net liability of Yen 9,810,625,134 under this plan at the actuarial valuation date.

RETIREMENT SCHEME ARRANGEMENTS *(continued)*

Defined Benefit Pensions Plans *(continued)*

Germany – Pension Plan

The Company operates a hybrid plan that provides a defined contribution for some participants and a final pay defined benefit for other participants, depending on which former IBM plan they were in. The Company also operates a defined benefit plan for Motorola Mobility employees.

Employees hired by IBM before January 1, 1992 have a defined benefit based on a final pay formula. Employees hired from 1992 to 1999 have a combination of a defined benefit based on a final pay formula and a defined contribution plan with employee required contributions of 7% of pay above the social security ceiling and a 100% company match. Employees hired in or after 2000 have a combination of a cash balance plan with an employer contribution of 2.95% of pay below the social security ceiling, and a voluntary defined contribution plan where employees can contribute specific amounts through salary sacrifice. Employees of Motorola Mobility have a defined benefit based on a final pay formula.

The plan is partially funded by Company and employee contributions to an insured support fund with DBV-Winterthur up to the maximum tax-deductible limits. In line with standard practice in Germany, the remainder is unfunded (book reserve).

For the year ended March 31, 2017, an amount of EUROS 3,701,308 was charged to the income statement with respect to this plan.

The principal results of the most actuarial valuation of the plan at March 31, 2017 were the following:

- The actuarial valuation was prepared by Kern, Mauch & Kollegen (Motorola Mobility valuation prepared by WillisTowersWatson). The actuaries involved are fully qualified under German law.

- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:

– Discount rate:	1.50%
– Future salary increases:	Age-group based
– Future pension increases:	2.00%

- The plans were 29% funded at the actuarial valuation date.

- There was a net liability of EUROS 139,086,358 under this plan at the actuarial valuation date.

Defined Contribution Plans

United States of America ("US") – Lenovo Savings Plan

U.S. regular, full-time and part-time employees of Lenovo (United States) Inc., including employees of Motorola Mobility LLC, are eligible to participate in the Lenovo Savings Plan, which is a tax-qualified defined contribution plan under section 401(k) of the Internal Revenue Code. The Motorola Mobility 401(k) Plan merged into the Lenovo Savings Plan effective December 31, 2015. The Company matches 100% of the employee's contribution up to the first 6% of the employee's eligible compensation. Employee contributions are voluntary. All contributions, including the Company match, are made in cash, in accordance with the participants' investment elections. The Company match is immediately vested.

RETIREMENT SCHEME ARRANGEMENTS *(continued)*

Defined Contribution Plans *(continued)*

US Lenovo Executive Deferred Compensation Plan

The Company also maintains an unfunded, non-qualified, defined contribution plan, the Lenovo Executive Deferred Compensation Plan, which allows eligible executives to defer compensation, and to receive Company matching contributions, with respect to amounts in excess of Internal Revenue Service limits for tax-qualified plans. Compensation deferred under the plan, as well as Company matching contributions are recorded as liabilities.

Deferred compensation amounts may be directed by participants into an account that replicates the return that would be received had the amounts been invested in similar Lenovo Savings Plan investment options. Company matching contributions, are directed to participant accounts and fluctuate based on changes in the stock prices of the underlying investment portfolio.

United Kingdom ("UK") – Lenovo Stakeholders Plan

UK regular, full-time, part-time and fixed term Lenovo contract employees are eligible to participate in the Lenovo Stakeholders Plan, which is a tax-qualified defined contribution "stakeholder" plan. For employees hired after April 30, 2005, the Company contributes 6.7% of an employee's eligible salary to the employee's pension account each year until he/she is 35, and then contributes 8.7% of salary after that age. The employer contributions are dependent on employee paying no less than 3% of salary to the same fund.

Prior employees of IBM receive Company contributions varying from 6.7% to 30% of eligible compensation depending on their service and the prior IBM plan they participated in.

Canada – Defined Contribution Pension Plan

Canadian regular, full-time and part-time employees are eligible to participate in the Defined Contribution Pension Plan, which is a tax-qualified defined contribution plan. The Company contributes 3% to 6% of the employee's eligible compensation, depending on years of service. All contributions are made in cash, in accordance with the participants' investment elections.

Hong Kong – Mandatory Provident Fund

The Group operates a Mandatory Provident Fund Scheme for all qualified employees employed in Hong Kong. They are required to contribute 5% of their compensation (subject to the ceiling under the requirements set out in the Mandatory Provident Fund legislation). The employer's contribution will increase from 5% to 7.5% and 10% respectively after completion of five and ten years of service by the relevant employees.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group conducted certain continuing connected transactions which are required to be disclosed pursuant to rules 14A.49 and 14A.71 of the Listing Rules.

In 2012, the Company and Compal Electronics, Inc. ("Compal", together with its affiliates the "Compal Group") set up a joint venture company, LC Future Center Limited ("LCFC") which is owned as to 51% by the Company and 49% by Compal. As LCFC is a non-wholly owned subsidiary of the Company and Compal is a substantial shareholder of LCFC, Compal has therefore become a connected person of the Company at subsidiary level under the Listing Rules.

The Group and the Compal Group had, prior to the setting up of LCFC, entered into master agreements in relation to (i) the supply of components from the Group to the Compal Group; and (ii) the purchase of products and services from the Compal Group by the Group (together the "Existing CCT Agreements"). Details of these Existing CCT Agreements are set out in the announcements dated May 22, 2015 and September 9, 2015.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

As Compal is a connected person, the Existing CCT Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules and are subject to annual review and reporting requirements.

Details of the Existing CCT Agreements are set out below:

OEM Components Purchase Agreement

Date:	June 20, 2006
Parties:	Lenovo (Singapore) Pte. Ltd., a wholly-owned subsidiary of the Company and Compal
Services provided/received:	The Group shall supply certain components (including but not limited to, electronic components and/or assemblies specified by Compal) to the Compal Group.
Annual cap:	(i) 22/5/2015 – 31/3/2016 The estimated value of the transactions will not exceed US$16,000 million in aggregate under the Existing CCT Agreements or will not exceed US$8,000 million under OEM Components Purchase Agreement
	(ii) 1/4/2016 – 31/3/2017 The estimated value of the transactions will not exceed US$16,000 million in aggregate under the Existing CCT Agreements or will not exceed US$8,000 million under OEM Components Purchase Agreement
	(iii) 1/4/2017 – 31/3/2018 The estimated value of the transactions will not exceed US$16,000 million in aggregate under the Existing CCT Agreements or will not exceed US$8,000 million under OEM Components Purchase Agreement

CONTINUING CONNECTED TRANSACTIONS *(continued)*

System Purchase Agreement

Date:	January 19, 2006
Parties:	Lenovo (Singapore) Pte. Ltd. (whose rights and obligations were assigned to Lenovo PC HK Limited pursuant to an assignment and novation agreement) and Compal
Services provided/received:	The Compal Group shall supply to the Group: (i) certain products, including but not limited to, (a) computer system units and the associated documentation, packaging, software packages; (b) any component when separately purchased from the system unit; (c) other materials, such as hard drives, memory cards and modems; and (d) other related computer and mobile products; and (ii) certain services, including but not limited to, activities, tasks and work items related to the manufacture and support of the products.
Annual cap:	(i) 22/5/2015 – 31/3/2016 The estimated value of the transactions will not exceed US$16,000 million in aggregate under the Existing CCT Agreements or will not exceed US$8,000 million under System Purchase Agreement (ii) 1/4/2016 – 31/3/2017 The estimated value of the transactions will not exceed US$16,000 million in aggregate under the Existing CCT Agreements or will not exceed US$8,000 million under System Purchase Agreement (iii) 1/4/2017 – 31/3/2018 The estimated value of the transactions will not exceed US$16,000 million in aggregate under the Existing CCT Agreements or will not exceed US$8,000 million under System Purchase Agreement

The Existing CCT Agreements were entered into by the Company prior to Compal becoming a connected person of the Company and do not have a fixed period as required under rule 14A.52 of the Listing Rules. The Stock Exchange has granted a waiver from strict compliance with rule 14A.52 of the Listing Rules so as to allow the duration of each of the Existing CCT Agreements to exceed three years.

In accordance with rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company reviewed the continuing connected transactions in the paragraph above and confirmed that the transactions were entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms or better; and

(iii) according to the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

Pursuant to rule 14A.56 of the Listing Rules, the Company's external auditor, PricewaterhouseCoopers ("PwC") was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. PwC has issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the paragraph above in accordance with rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

SIGNIFICANT RELATED PARTY TRANSACTIONS

During the year, the Group entered into certain transactions with parties regarded as "related parties" under applicable accounting principles. Details of the significant related party transactions undertaken in the normal course of business are set out in note 32 to the financial statements. None of these transactions constitutes a discloseable connected transaction as defined under the Listing Rules.

AUDITOR

The financial statements for the year have been audited by PwC who retire and, being eligible, offer themselves for re-appointment.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, as at the date of this report, there is sufficient public float of more than 25% of the Company's total number of issued shares as required under the Listing Rules.

On behalf of the Board

Y. Yang

Yang Yuanqing
Chairman and Chief Executive Officer
May 25, 2017

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF LENOVO GROUP LIMITED
(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of Lenovo Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 153 to 246, which comprise:

- the consolidated balance sheet as at March 31, 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at March 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS *(continued)*

Key audit matters identified in our audit are summarised as follows:

- Impairment assessment of goodwill and other intangible assets with indefinite useful lives
- Recognition of deferred income tax assets

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill and other intangible assets with indefinite useful lives	
Refer to note 17 to the consolidated financial statements	Our procedures included:
As at March 31, 2017, the Group had goodwill and other intangible assets with indefinite useful lives of US$6,122 million, and in respect of which management is required to perform annual impairment assessment.	• We assessed the reasonableness of key assumptions such as revenue growth, future profitability and discount rates with reference to the business and industry circumstances.
Management has concluded that there is no impairment in respect of the goodwill and other intangible assets with indefinite useful lives. This conclusion was based on a value in use model that required significant management judgement with respect to revenue growth, future profitability and discount rates.	• We reconciled input data to supporting evidence, such as approved forecasts of future profits and strategic plans. • We considered the reasonableness of these forecast of future profits and strategic plans by comparing them against past results achieved. • We assessed management's sensitivity analysis around the key assumptions, to ascertain the extent to which adverse changes, both individually or in aggregate, might impact on the outcome of the impairment assessment of the goodwill and other intangible assets. We found the judgement made by management in relation to the value in use calculations to be reasonable based on the available evidence.

KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Recognition of deferred income tax assets	
Refer to note 20 to the consolidated financial statements	Our procedures included:
As at March 31, 2017, the Group had deferred income tax assets of US$1,435 million. The recognition of the deferred income tax assets involves significant management judgement as to the likelihood of its realization that is dependent on a number of factors, including whether there will be sufficient taxable profits and reversals of taxable temporary differences in future periods.	• We evaluated management's assessment as to whether there will be sufficient taxable profits in future periods by reference to forecasts of future profits and strategic plans and future reversals of taxable temporary differences to support the recognition of deferred income tax assets.
Management has performed its assessment on the recognition of these deferred income tax assets and consider that the realization of these assets is probable as at March 31, 2017.	• We compared management's forecasts of future profits to historical results, and evaluated the assumptions used in those forecasts.
We focused on this area because of the inherent uncertainties involved in forecasting future taxable profits and future reversals of taxable temporary differences.	We found the judgement made by management in relation to the forecast of taxable profits in future periods and future reversals of taxable temporary differences to be reasonable based on the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheng Woon Yin Michael.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, May 25, 2017

CONSOLIDATED INCOME STATEMENT

For the year ended March 31, 2017

	Note	**2017 US$'000**	2016 US$'000
Revenue	5	**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	6	**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)	7	**672,348**	(61,821)
Finance income	8(a)	**27,795**	32,816
Finance costs	8(b)	**(231,627)**	(236,751)
Share of profits/(losses) of associates and joint ventures	18	**21,411**	(11,095)
Profit/(loss) before taxation		**489,927**	(276,851)
Taxation	9	**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	12(a)	**US4.86 cents**	US(1.16) cents
Diluted	12(b)	**US4.86 cents**	US(1.16) cents
Dividends	13	**378,375**	379,316

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31, 2017

	Note	**2017 US$'000**	2016 US$'000
Profit/(loss) for the year		**530,441**	(144,575)
Other comprehensive income/(loss):			
Item that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations, net of taxes	9, 36	**42,390**	(24,662)
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	9, 21	**8,713**	216
Investment revaluation reserve reclassified to consolidated income statement on disposal of available-for-sale financial assets	9	**(12,640)**	154
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes	9		
– 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

At March 31, 2017

	Note	**2017 US$'000**	2016 US$'000
Non-current assets			
Property, plant and equipment	14	**1,236,250**	1,391,494
Prepaid lease payments	15	**473,090**	337,929
Construction-in-progress	16	**413,160**	231,110
Intangible assets	17	**8,349,145**	8,661,087
Interests in associates and joint ventures	18	**32,567**	40,439
Deferred income tax assets	20	**1,435,256**	1,000,572
Available-for-sale financial assets	21	**255,898**	139,572
Other non-current assets		**122,221**	164,410
		12,317,587	11,966,613
Current assets			
Inventories	22	**2,794,035**	2,637,317
Trade receivables	23(a)	**4,468,392**	4,403,507
Notes receivable	23(b)	**68,333**	130,718
Derivative financial assets		**53,808**	27,021
Deposits, prepayments and other receivables	23(c)	**4,333,351**	3,548,760
Income tax recoverable		**199,149**	140,237
Bank deposits	24	**196,720**	152,336
Cash and cash equivalents	24	**2,754,599**	1,926,880
		14,868,387	12,966,776
Total assets		**27,185,974**	24,933,389

CONSOLIDATED BALANCE SHEET

At March 31, 2017

	Note	**2017 US$'000**	2016 US$'000
Share capital	29	**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	30	**843,677**	–
Other non-controlling interests		**240,844**	238,949
Put option written on non-controlling interest	26(a)(iii)	**(212,900)**	(212,900)
Total equity		**4,095,222**	3,026,249
Non-current liabilities			
Borrowings	27	**2,966,692**	2,505,112
Warranty provision	26(b)	**280,421**	290,857
Deferred revenue		**537,428**	532,780
Retirement benefit obligations	36	**370,207**	442,874
Deferred income tax liabilities	20	**221,601**	222,679
Other non-current liabilities	28	**380,557**	2,152,578
		4,756,906	6,146,880
Current liabilities			
Trade payables	25(a)	**5,649,925**	4,266,687
Notes payable	25(b)	**835,613**	234,661
Derivative financial liabilities		**67,285**	150,864
Other payables and accruals	26(a)	**10,004,614**	8,305,844
Provisions	26(b)	**873,405**	1,157,257
Deferred revenue		**586,536**	710,164
Income tax payable		**246,465**	188,968
Borrowings	27	**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

On behalf of the Board

Yang Yuanqing
Chairman and Chief Executive Officer

Ma Xuezheng
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended March 31, 2017

	Note	2017 US$'000	2016 US$'000
Cash flows from operating activities			
Net cash generated from operations	35	**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 consideration		**(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	24	**2,754,599**	1,926,880

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2017

	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, 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
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 30)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**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**

NOTES TO THE FINANCIAL STATEMENTS

1 GENERAL INFORMATION AND BASIS OF PREPARATION

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

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

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

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

Changes in accounting policies and disclosures

The Group has adopted the following new amendments to existing standards that are mandatory for the year ended March 31, 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)*

Changes in accounting policies and disclosures *(continued)*

At the date of approval of these financial statements, the following new standards and amendments to existing standards, which are considered appropriate and relevant to the Group's operations, have been issued but are not effective for the year ended March 31, 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.

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

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. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Subsidiaries

(i) Consolidation

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

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

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

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

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

For subsidiaries which adopted December 31 as their financial year end date for statutory reporting purposes, their financial statements for the years ended March 31, 2016 and 2017 have been used for the preparation of the Group's consolidated financial statements.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Subsidiaries *(continued)*

(ii) Business combinations

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

Acquisition-related costs are expensed as incurred.

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

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

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

(iii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

The potential cash payments related to put options issued by the Group over the equity of a subsidiary are accounted for as financial liabilities when such options may only be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of shares in the subsidiary. The amount that may become payable under the option on exercise is initially recognized at fair value as a written put option liability with a corresponding charge directly to equity.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Subsidiaries *(continued)*

(iv) Disposal of subsidiaries

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

(v) Separate financial statements

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

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

(b) Associates and joint arrangements

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

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

Associates and joint ventures

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Associates and joint ventures *(continued)*

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

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

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

For associates and joint ventures which adopted December 31 as their financial year end date for statutory reporting purposes, their financial statements for the years ended March 31, 2016 and 2017 have been used for the preparation of the Group's consolidated financial statements.

Joint operation

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

(c) Segment reporting

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Translation of foreign currencies

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

(ii) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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

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

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are recognized as other comprehensive income/expense and included in the investment revaluation reserve in equity.

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

(e) Property, plant and equipment

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Construction-in-progress

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

(g) Intangible assets

(i) Goodwill

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

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

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

(ii) Trademarks and trade names

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

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

(iii) Customer relationships

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Intangible assets *(continued)*

(iv) Internal use software

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

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

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

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

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

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

Acquired computer software licenses costs and computer software development costs are amortized using the straight-line method over their estimated useful lives of not more than 5 years.

(v) Patents and technology

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

(h) Impairment of non-financial assets

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

(i) Financial assets

Classification

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

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

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

(ii) Loans and receivables

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

(iii) Available-for-sale financial assets

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial assets *(continued)*

Recognition and measurement

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

Gains and losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category are presented in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognized as other comprehensive income/expense.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously recognized as other comprehensive income/expense are reclassified to the income statement as gains or losses from securities.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognized in the income statement as part of other income when the Group's right to receive payments is established.

Offsetting financial instruments

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of financial assets

(i) Assets carried at amortized cost

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

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

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

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

(ii) Assets classified as available-for-sale

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Derivative financial instruments and hedging activities

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

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

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

(i) Fair value hedge

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

(ii) Cash flow hedge

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

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

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

(iii) Derivatives that do not qualify for hedge accounting

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

(l) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or associates to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognized. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortization of fees recognized in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgment. The fee income earned is recognized on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated income statement within "Other operating income/(expenses) – net".

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

(m) Inventories

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

(n) Trade and other receivables

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

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

(o) Cash and cash equivalents

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Share capital

Ordinary shares are classified as equity.

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

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

(q) Borrowings and borrowing costs

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

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

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

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

(r) Trade and other payables

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

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

(s) Provisions

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

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

(i) Warranty provision

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

(ii) Other provisions

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

(t) Current and deferred income tax

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

(u) Contingent liabilities

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

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

(v) Revenue

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

(i) Sale of goods and services

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

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

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

(v) Revenue *(continued)*

(ii) Interest income

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

(iii) Dividend income

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

(w) Non-base manufacturing costs

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

(x) Employee benefits

(i) Pension obligations

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

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

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

The current service cost of the defined benefit plan, recognized in the income statement in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized as other comprehensive income/expense in the year in which they arise.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Employee benefits *(continued)*

(i) Pension obligations *(continued)*

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

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

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

(ii) Post-employment medical benefits

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

(iii) Long-term incentive program

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Employee benefits *(continued)*

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

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

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

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

(iv) Termination benefit

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

(v) Share options

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

(y) Government grants

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Operating leases (as the lessee)

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

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

(aa) Related party transactions

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

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

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

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

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

(ab) Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

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

(a) Financial risk factors

(i) Foreign currency risk

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

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

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

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(i) Foreign currency risk *(continued)*

	2017			2016		
	United States dollar US$'000	**Renminbi US$'000**	**Euro US$'000**	United States dollar US$'000	Renminbi US$'000	Euro US$'000
Trade and other receivables	**195,839**	**24,535**	**169,571**	119,441	8,883	73,750
Bank deposits and cash and cash equivalents	**29,378**	**26,052**	**81,430**	62,056	43,591	85,161
Trade and other payables	**(532,157)**	**(111,446)**	**(19,468)**	(482,730)	(14,556)	(13,165)
Borrowings	**-**	**(578,103)**	**-**	–	(615,855)	–
Intercompany balances before elimination	**(2,383,059)**	**370,199**	**(367,276)**	(1,911,174)	331,844	(402,243)
Gross exposure	**(2,689,999)**	**(268,763)**	**(135,743)**	(2,212,407)	(246,093)	(256,497)
Notional amounts of forward exchange contracts used as economic hedges	**2,373,294**	**-**	**313,114**	1,910,648	–	430,473
Net exposure	**(316,705)**	**(268,763)**	**177,371**	(301,759)	(246,093)	173,976

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(ii) Cash flow interest rate risk

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

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

(iii) Credit risk

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

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

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

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

(iv) Liquidity risk

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

Surplus cash held by the operating entities over and above balances required for working capital management are transferred to Group Treasury. Group Treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts, At the balance sheet date, the Group held money market funds of US$634,356,000 (2016: US$153,159,000) (Note 24).

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iv) Liquidity risk *(continued)*

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

	Repayable on demand or 3 months or less US$'000	Over 3 months to 1 year US$'000	Over 1 to 3 years US$'000	Over 3 to 5 years US$'000	Total US$'000
At March 31, 2016					
Borrowings	748,387	102,167	624,832	2,189,978	3,665,364
Trade, notes and other payables and accruals	9,594,463	1,043,320	–	–	10,637,783
Contingent considerations	260,590	–	–	–	260,590
Deferred considerations	–	–	1,447,890	–	1,447,890
Guaranteed dividend to non-controlling shareholders of a subsidiary	–	4,743	8,261	–	13,004
Written put option liability	–	–	224,790	–	224,790
Others	–	–	177,576	103,900	281,476
Derivatives settled in net:					
Forward foreign exchange contracts	22,609	–	–	–	22,609
Derivatives settled in gross:					
Forward foreign exchange contracts					
– outflow	5,204,197	527,554	–	–	5,731,751
– inflow	(5,124,000)	(513,602)	–	–	(5,637,602)
At March 31, 2017					
Borrowings	**53,005**	**148,629**	**2,109,617**	**1,133,778**	**3,445,029**
Trade, notes and other payables and accruals	**13,956,373**	**1,623,775**	**-**	**-**	**15,580,148**
Deferred considerations	**-**	**697,890**	**25,072**	**-**	**722,962**
Written put option liability	**-**	**224,790**	**-**	**-**	**224,790**
Others	**-**	**-**	**22,013**	**110,321**	**132,334**
Derivatives settled in net:					
Forward foreign exchange contracts	**1,597**	**-**	**-**	**-**	**1,597**
Derivatives settled in gross:					
Forward foreign exchange contracts					
– outflow	**6,470,583**	**194,434**	**-**	**-**	**6,665,017**
– inflow	**(6,457,668)**	**(195,600)**	**-**	**-**	**(6,653,268)**

3 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Market risks sensitivity analysis

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

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

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

(i) Foreign currency exchange rate sensitivity analysis

At March 31, 2017, if United States dollar had weakened/strengthened by one percent against the major currencies with all other variables held constant, post-tax profit for the year would have been US$2.2 million higher/lower (2016: post-tax loss for the year would have been US$2.2 million lower/higher), mainly as a result of foreign exchange gains/losses on translation of unhedged portion of receivable and payable balances.

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

(ii) Interest rate sensitivity analysis

At March 31, 2017, if interest rate on borrowings had been 25 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been US$4.0 million lower/higher (2016: post tax loss for the year would have been US$3.2 million higher/lower).

At March 31, 2017, if interest rates on customer financing programs had been 25 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been US$3.7 million lower/higher (2016: post tax loss for the year would have been US$3.7 million higher/lower). This analysis is based on the assumption that the interest rates of all the currencies covered by the customer financing programs go up and down at the same time and with the same magnitude; however, such assumptions may not be necessarily true in reality.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Capital risks management

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

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

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as total borrowings (including current and non-current borrowings) divided by total equity. The Group's strategy remains unchanged and the gearing ratios and net debt position of the Group as at March 31, 2017 and 2016 are as follows:

	2017 US$ million	2016 US$ million
Bank deposits and cash and cash equivalents	**2,951**	2,079
Less: total borrowings	**(3,037)**	(3,251)
Net debt position	**(86)**	(1,172)
Total equity	**4,095**	3,026
Gearing ratio	**0.74**	1.07

3 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Fair value estimation

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

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

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

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

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

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

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

Specific valuation techniques used to value financial instruments include:

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

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

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

3 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Fair value estimation *(continued)*

The following table presents the assets and liabilities that are measured at fair value at March 31, 2017 and 2016.

	2017				2016			
	Level 1 US$'000	**Level 2 US$'000**	**Level 3 US$'000**	**Total US$'000**	Level 1 US$'000	Level 2 US$'000	Level 3 US$'000	Total US$'000
Assets								
Available-for-sale financial assets								
Listed equity investments	**24,143**	**-**	**-**	**24,143**	39,294	–	–	39,294
Unlisted equity investments	**-**	**-**	**231,755**	**231,755**	–	–	100,278	100,278
Derivative financial assets	**-**	**53,808**	**-**	**53,808**	–	27,021	–	27,021
	24,143	**53,808**	**231,755**	**309,706**	39,294	27,021	100,278	166,593
Liabilities								
Derivative financial liabilities	**-**	**67,285**	**-**	**67,285**	–	150,864	–	150,864
Deferred considerations	**-**	**-**	**25,072**	**25,072**	–	–	260,590	260,590
Written put option liability	**-**	**-**	**223,703**	**223,703**	–	–	221,499	221,499
	-	**67,285**	**248,775**	**316,060**	–	150,864	482,089	632,953

3 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Fair value estimation *(continued)*

There were no significant transfers of financial assets between Level 1 and Level 2 fair value hierarchy classification during the years ended March 31, 2017 and 2016.

The movements in the financial assets and liabilities included in Level 3 fair value hierarchy for the years ended March 31, 2017 and 2016 are as follows:

Available-for-sale financial assets

	2017 US$'000	2016 US$'000
At the beginning of the year	**100,278**	34,108
Exchange adjustment	**(2,332)**	22
Fair value change recognized in other comprehensive income	**10,704**	–
Additions	**124,110**	69,255
Impairment	**(1,005)**	–
Disposal	**–**	(3,107)
At the end of the year	**231,755**	100,278

Deferred/contingent considerations and written put option liability

	2017 US$'000	2016 US$'000
At the beginning of the year	**482,089**	531,400
Exchange adjustment	**(23)**	6
Settlement	**(236,725)**	(56,442)
Recognized in consolidated income statement	**3,434**	7,125
At the end of the year	**248,775**	482,089
Total losses for the year included in profit or loss under "finance costs"	**3,411**	7,131
Changes in unrealised losses for the year included in profit or loss	**3,411**	7,131

No sensitivity analysis for unlisted equity investments is presented as a reasonably possible change in key assumptions used in the sensitivity analysis would not result in any significant potential financial impact. Sensitivity analysis in respect of written put option liability is disclosed in Note 26(a).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

(a) Impairment of non-financial assets

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

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

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

(b) Income taxes

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

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(b) Income taxes *(continued)*

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

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

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

(c) Warranty provision

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

(d) Revenue recognition

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(d) Revenue recognition *(continued)*

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

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

(e) Retirement benefits

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

(f) Fair value of derivatives and other financial instruments

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(g) Fair value of contingent considerations and written put option liabilities

Certain of the Group's business combination activities involved post-acquisition performance-based contingent considerations. The Group recognizes contingent considerations and the corresponding written put option liabilities at their fair values which are determined in accordance with the terms under those relevant agreements and with reference to the estimated post-acquisition performance of the acquired subsidiaries/businesses. Judgment is required to determine key assumptions (such as growth rate, margins and discount rate) adopted in the estimation of post-acquisition performance of the acquired subsidiaries/businesses. Changes to key assumptions can significantly affect the amounts of future liabilities. Contingent considerations shall be re-measured at their fair value resulting from events or factors emerge after the acquisition date, with any resulting gain or loss recognized in the consolidated income statement.

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

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

5 SEGMENT INFORMATION

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

The LEC considers business from a geographical perspective. The Group has four geographical segments, China, Asia Pacific ("AP"), Europe-Middle East-Africa ("EMEA") and Americas ("AG"), which are also the Group's reportable operating segments.

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

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

5 SEGMENT INFORMATION *(continued)*

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

	2017		2016	
	Revenue from external customers US$'000	**Adjusted pre-tax income/(loss) US$'000**	Revenue from external customers US$'000	Adjusted pre-tax income/(loss) US$'000
China	**11,794,773**	**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)

5 SEGMENT INFORMATION *(continued)*

(b) Segment assets for reportable segments

	2017 US$'000	2016 US$'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

5 SEGMENT INFORMATION *(continued)*

(c) Segment liabilities for reportable segments

	2017 US$'000	2016 US$'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:		
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
Income tax payable	**246,465**	188,968
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 US$'000	2016 US$'000
PC and Smart Device Business Group ("PCSD") (Note)	**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.

5 SEGMENT INFORMATION *(continued)*

(e) Other segment information

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

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

The total of non-current assets other than financial instruments, deferred income tax assets and post-employment benefit assets (there are no rights arising under insurance contracts) located in China and other countries is approximately US$3,880,145,000 (2016: US$3,872,467,000) and US$6,746,288,000 (2016: US$6,954,002,000) respectively.

6 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

NOTES TO THE FINANCIAL STATEMENTS

7 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 (Note 10)	**3,580,788**	3,749,425
Cost of inventories sold	**34,852,885**	36,212,787
Inventories write down	**23,533**	86,807
Inventories write off	**-**	173,424
Auditor's remuneration		
– Audit services (b)	**8,023**	7,201
– Non-audit services	**5,009**	5,340
Rental expenses under operating leases	**112,340**	99,417
Government grants (Note 28(ii))	**(177,357)**	(167,334)
Net foreign exchange loss	**110,968**	126,004
Net gain on foreign exchange forward contracts for cash flow hedges reclassified from equity	**(13,993)**	(85,571)
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 (Note 18)	**(218,366)**	–
Ineffectiveness on cash flow hedges	**(4,380)**	(6,348)

(a) 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".

(b) Of the above audit services fees, US$7,748,000 (2016: US$6,999,000) is payable to the Company's auditor.

8 FINANCE INCOME AND COSTS

(a) Finance income

	2017 US$'000	2016 US$'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 US$'000	2016 US$'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

9 TAXATION

The amount of taxation in the consolidated income statement represents:

	2017 US$'000	2016 US$'000
Current tax		
– Hong Kong profits tax	**2,043**	(8,488)
– Taxation outside Hong Kong	**411,397**	379,220
Deferred tax (Note 20)	**(453,954)**	(503,008)
	(40,514)	(132,276)

9 TAXATION *(continued)*

Hong Kong profits tax has been provided 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.

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

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

	2017 US$'000	2016 US$'000
Profit/(loss) before taxation	**489,927**	(276,851)
Tax calculated at domestic rates applicable in countries concerned	**163,091**	(134,125)
Income not subject to taxation	**(237,916)**	(208,556)
Expenses not deductible for taxation purposes	**144,994**	147,371
Recognition/utilization of previously unrecognized temporary differences/tax losses	**(145,199)**	(6,920)
Effect on opening deferred income tax assets due to change in tax rates	**(1,599)**	(19,230)
Deferred income tax assets not recognized	**55,074**	62,888
(Over)/under-provision in prior years	**(18,959)**	26,296
	(40,514)	(132,276)

The weighted average applicable tax rate for the year was 33.3% (2016: 48.4%). The decrease is caused by changes in tax concessions and profitability of the Group's subsidiaries in respective countries they are operating.

9 TAXATION *(continued)*

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	2017			2016		
	Before tax US$'000	**Tax charge US$'000**	**After tax US$'000**	Before tax US$'000	Tax credit US$'000	After tax US$'000
Fair value change on available-for-sale financial assets	**9,180**	**(467)**	**8,713**	216	–	216
Investment revaluation reserve reclassified to consolidated income statement on disposal of available-for-sale financial assets	**(12,640)**	**-**	**(12,640)**	154	–	154
Fair value change on cash flow hedges	**85,540**	**(2,540)**	**83,000**	(213,774)	7,364	(206,410)
Remeasurements of post-employment benefit obligations (Note 36)	**42,778**	**(388)**	**42,390**	(24,662)	–	(24,662)
Currency translation differences	**(85,423)**	**-**	**(85,423)**	(307,081)	–	(307,081)
Other comprehensive income/(loss)	**39,435**	**(3,395)**	**36,040**	(545,147)	7,364	(537,783)
Deferred tax (Note 20)		**(3,395)**			7,364	

10 EMPLOYEE BENEFIT COSTS

	2017 US$'000	2016 US$'000
Wages and salaries, including severance and related costs of US$146,368,000 (2016: US$212,475,000)	**2,759,039**	2,849,129
Social security costs	**210,465**	271,921
Long-term incentive awards granted (Note 29)	**177,523**	161,097
Pension costs		
– Defined contribution plans	**165,148**	162,418
– Defined benefit plans (Note 36)	**18,011**	19,081
Others	**250,602**	285,779
	3,580,788	3,749,425

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

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

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

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) Directors' and senior management's emoluments

Directors' emoluments comprise payments by the Group to directors of the Company in connection with the management of the affairs of the Company and its subsidiaries. The remuneration of each director and the chief executive who is also a director, for the years ended March 31, 2017 and 2016 is set out below:

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

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

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

	2016							
Name of Director	Fees US$'000	Salaries US$'000	Discretionary bonuses (note i) US$'000	Long-term incentive awards (note ii) US$'000	Retirement payments and employer's contribution to pension schemes US$'000	Housing allowance US$'000	Other benefits-in-kind US$'000	Total US$'000
Executive director								
Mr. Yang Yuanqing (CEO)	-	1,369	7,783	13,037	137	299	19	22,644
Non-executive directors								
Mr. Zhu Linan	93	-	-	187	-	-	-	280
Mr. Zhao John Huan	93	-	-	187	-	-	-	280
Mr. Gordon Robert Halyburton Orr	50	-	-	22	-	-	-	72
Independent non-executive directors								
Mr. William O. Grabe	128	-	-	187	-	-	-	315
Mr. Ting Lee Sen	24	-	-	226	-	-	-	250
Dr. Tian Suning	93	-	-	187	-	-	-	280
Mr. Nicholas C. Allen	120	-	-	187	-	-	-	307
Ms. Ma Xuezheng	113	-	-	187	-	-	-	300
Mr. Nobuyuki Idei	93	-	-	187	-	-	-	280
Mr. William Tudor Brown	93	-	-	184	-	-	-	277
Mr. Yang Chih-Yuan Jerry	93	-	-	163	-	-	-	256
	993	1,369	7,783	14,941	137	299	19	25,541

Notes:

(i) Discretionary bonuses paid for the two years ended March 31, 2017 and 2016 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2016 and 2015 respectively.

(ii) Details of the long-term incentive program of the Company are set out in Note 29. The fair value of the employee services received in exchange for the grant of the long-term incentive awards is recognized as an expense. The total amount to be amortized over the vesting period is determined by reference to the fair value of the long-term incentive awards at the date of grant. The amounts disclosed above represent the amortized amounts for the two years ended March 31, 2017 and 2016.

(iii) Mr. William O. Grabe has elected to defer his receipt of the cash of director's fee into fully vested share units under the long-term incentive program (Note 29) for the two years ended March 31, 2017 and 2016.

(iv) During the years ended March 31, 2017 and 2016, a pension payment of US$1.5 million was made to Mr. Liu Chuanzhi, a retired director.

(v) Mr. Gordon Robert Halyburton Orr was re-designated from a non-executive director to an independent non-executive director of the Company with effect from September 1, 2016.

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

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

During the year, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor any are payable (2016: nil). No consideration was provided to or receivable by third parties for making available directors' service (2016: nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled body corporate and connected entities (2016: nil).

No director of the Company had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the year or at any time during the year (2016: nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2016: one) director whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2016: four) individuals during the year are as follows:

	2017 US$'000	2016 US$'000
Basic salaries, allowances, and other benefits-in-kind	**5,099**	5,389
Discretionary bonuses (note i)	**6,286**	15,553
Retirement payments and employer's contribution to pension schemes	**2,088**	3,484
Long-term incentive awards	**15,297**	11,828
Others	**550**	1,312
	29,320	37,566

Note:

(i) Discretionary bonuses paid for the two years ended March 31, 2017 and 2016 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2016 and 2015 respectively.

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
Emolument bands		
US$3,866,558 – US$3,930,999	**1**	–
US$5,413,181 – US$5,477,622	**1**	–
US$6,315,378 – US$6,379,819	**1**	–
US$6,766,476 – US$6,830,918	**–**	2
US$7,797,558 – US$7,862,000	**–**	1
US$13,597,395 – US$13,661,836	**1**	–
US$16,110,657 – US$16,175,099	**–**	1

12 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 the 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
Adjustments 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

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

(b) Diluted *(continued)*

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

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

13 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

14 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings US$'000	Leasehold improvements US$'000	Plant and machinery US$'000	Furniture and fixtures US$'000	Office equipment US$'000	Motor vehicles US$'000	Total US$'000
At April 1, 2015							
Cost	509,586	541,376	561,909	63,670	533,567	7,609	2,217,717
Accumulated depreciation and impairment losses	71,943	129,408	280,422	35,022	254,235	3,374	774,404
Net book amount	437,643	411,968	281,487	28,648	279,332	4,235	1,443,313
Year ended March 31, 2016							
Opening net book amount	437,643	411,968	281,487	28,648	279,332	4,235	1,443,313
Exchange adjustment	(10,561)	(10,010)	(14,406)	(642)	(6,925)	(512)	(43,056)
Reclassification	(538)	39	550	23	(65)	(9)	-
Additions	5,285	10,379	98,837	8,280	78,904	1,546	203,231
Transfers	138,504	55,567	33,968	1,988	16,300	537	246,864
Disposals	(28,963)	(3,789)	(10,270)	(2,603)	(15,204)	(373)	(61,202)
Depreciation	(15,215)	(57,337)	(88,570)	(9,100)	(91,626)	(1,354)	(263,202)
Impairment recognized	(9)	(105,633)	-	-	(28,812)	-	(134,454)
Closing net book amount	526,146	301,184	301,596	26,594	231,904	4,070	1,391,494
At March 31, 2016							
Cost	610,686	511,353	638,645	65,629	556,994	7,761	2,391,068
Accumulated depreciation and impairment losses	84,540	210,169	337,049	39,035	325,090	3,691	999,574
Net book amount	526,146	301,184	301,596	26,594	231,904	4,070	1,391,494
Year ended March 31, 2017							
Opening net book amount	**526,146**	**301,184**	**301,596**	**26,594**	**231,904**	**4,070**	**1,391,494**
Exchange adjustment	**(6,721)**	**(268)**	**(1,950)**	**(370)**	**(6,702)**	**(10)**	**(16,021)**
Reclassification	**(331)**	**585**	**357**	**(65)**	**(542)**	**(4)**	**-**
Additions	**1,709**	**9,227**	**41,116**	**2,722**	**61,335**	**1,764**	**117,873**
Transfers	**62,062**	**11,844**	**3,689**	**1,109**	**4,617**	**110**	**83,431**
Disposals	**(55,824)**	**(2,297)**	**(3,234)**	**(511)**	**(5,085)**	**(248)**	**(67,199)**
Depreciation	**(15,821)**	**(46,461)**	**(103,497)**	**(8,209)**	**(90,581)**	**(1,456)**	**(266,025)**
Impairment recognized	**-**	**(3,597)**	**-**	**-**	**(3,706)**	**-**	**(7,303)**
Closing net book amount	**511,220**	**270,217**	**238,077**	**21,270**	**191,240**	**4,226**	**1,236,250**
At March 31, 2017							
Cost	**578,103**	**447,879**	**661,786**	**66,197**	**580,635**	**8,479**	**2,343,079**
Accumulated depreciation and impairment losses	**66,883**	**177,662**	**423,709**	**44,927**	**389,395**	**4,253**	**1,106,829**
Net book amount	**511,220**	**270,217**	**238,077**	**21,270**	**191,240**	**4,226**	**1,236,250**

15 PREPAID LEASE PAYMENTS

	2017 US$'000	2016 US$'000
At the beginning of the year	**337,929**	225,111
Exchange adjustment	**(20,011)**	(7,558)
Additions	**175,570**	185,014
Transfers	**-**	(37,082)
Disposals	**(8,501)**	(24,658)
Amortization	**(11,897)**	(2,898)
At the end of the year	**473,090**	337,929

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

16 CONSTRUCTION-IN-PROGRESS

	Buildings under construction		Internal use software		Others		Total	
	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000	2017 US$'000	2016 US$'000
At the beginning of the year	**167,615**	267,859	**15,501**	16,558	**47,994**	27,173	**231,110**	311,590
Exchange adjustment	**(12,702)**	(12,307)	**(724)**	(275)	**(709)**	(1,570)	**(14,135)**	(14,152)
Reclassification	**-**	(1,977)	**-**	-	**-**	1,977	**-**	-
Additions	**111,255**	212,090	**204,192**	53,953	**30,238**	134,542	**345,685**	400,585
Transfers	**(55,494)**	(297,913)	**(62,200)**	(54,720)	**(31,806)**	(114,096)	**(149,500)**	(466,729)
Disposals	**-**	(137)	**-**	(15)	**-**	(32)	**-**	(184)
At the end of the year	**210,674**	167,615	**156,769**	15,501	**45,717**	47,994	**413,160**	231,110

During the year, the Group had capitalised borrowing costs amounting to US$6.9 million (2016: US$8.4 million) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 4.34% (2016: 3.81%).

17 INTANGIBLE ASSETS

(a)

	Goodwill (Note (b)) US$'000	Trademarks and trade names (Note (b)) US$'000	Internal use software US$'000	Customer relationships US$'000	Patent and technology (Note (c)) US$'000	Total US$'000
At April 1, 2015						
Cost	5,220,228	1,435,461	767,962	1,416,281	1,505,808	10,345,740
Accumulated amortization and impairment losses	-	151,886	564,990	107,263	295,858	1,119,997
Net book amount	5,220,228	1,283,575	202,972	1,309,018	1,209,950	9,225,743
Year ended March 31, 2016						
Opening net book amount	5,220,228	1,283,575	202,972	1,309,018	1,209,950	9,225,743
Exchange adjustment	(321,591)	2,882	(1,642)	4,180	(105)	(316,276)
Reclassification	-	-	(227)	-	227	-
Additions	-	-	47,861	-	99,586	147,447
Transfer from construction-in-progress	-	-	79,650	-	-	79,650
Disposals	-	-	(533)	-	(443)	(976)
Amortization	-	(14,018)	(101,797)	(120,725)	(237,961)	(474,501)
Closing net book amount	4,898,637	1,272,439	226,284	1,192,473	1,071,254	8,661,087
At March 31, 2016						
Cost	4,898,637	1,438,131	815,387	1,422,110	1,598,762	10,173,027
Accumulated amortization and impairment losses	-	165,692	589,103	229,637	527,508	1,511,940
Net book amount	4,898,637	1,272,439	226,284	1,192,473	1,071,254	8,661,087
Year ended March 31, 2017						
Opening net book amount	**4,898,637**	**1,272,439**	**226,284**	**1,192,473**	**1,071,254**	**8,661,087**
Exchange adjustment	**(42,899)**	**(3,581)**	**(5,798)**	**(14,768)**	**(1,875)**	**(68,921)**
Additions	**-**	**-**	**49,506**	**-**	**114,820**	**164,326**
Transfer from construction-in-progress	**-**	**-**	**66,069**	**-**	**-**	**66,069**
Disposals	**-**	**-**	**(218)**	**-**	**(199)**	**(417)**
Amortization	**-**	**(2,905)**	**(130,373)**	**(120,958)**	**(218,763)**	**(472,999)**
Closing net book amount	**4,855,738**	**1,265,953**	**205,470**	**1,056,747**	**965,237**	**8,349,145**
At March 31, 2017						
Cost	**4,855,738**	**1,305,073**	**910,972**	**1,387,483**	**1,709,761**	**10,169,027**
Accumulated amortization and impairment losses	**-**	**39,120**	**705,502**	**330,736**	**744,524**	**1,819,882**
Net book amount	**4,855,738**	**1,265,953**	**205,470**	**1,056,747**	**965,237**	**8,349,145**

17 INTANGIBLE ASSETS *(continued)*

(a) *(continued)*

Amortization of US$40,003,000 (2016: US$42,427,000), US$10,658,000 (2016: US$8,407,000), US$314,971,000 (2016: US$330,915,000) and US$107,367,000 (2016: US$92,752,000) are included in the 'cost of sales', 'selling and distribution expenses', 'administrative expenses' and 'research and development expenses' in the consolidated income statement respectively.

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

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

	China US$ million	**AP US$ million**	**EMEA US$ million**	**AG US$ million**	**Total US$ million**
At March 31, 2017					
Goodwill					
- PCSD	**1,032**	**552**	**208**	**336**	**2,128**
- MBG	**-**	**314**	**362**	**984**	**1,660**
- DCG	**468**	**157**	**89**	**354**	**1,068**
Trademarks and trade names					
- PCSD	**209**	**59**	**101**	**67**	**436**
- MBG	**-**	**90**	**104**	**266**	**460**
- DCG	**162**	**54**	**31**	**123**	**370**

	China US$ million	AP US$ million	EMEA US$ million	AG US$ million	Total US$ million
At March 31, 2016					
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 Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amounts to their carrying amounts as at the reporting date. The recoverable amount of a CGU is determined based on value in use. These assessments use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period with a terminal value related to the future cash flow of the CGU extrapolated using constant projection of cash flows beyond the five-year period. The estimated growth rates adopted do not exceed the long-term average growth rates for the businesses in which the CGU operates.

17 INTANGIBLE ASSETS *(continued)*

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

Future cash flows are discounted at the rate of 9%, 11% and 10% for PCSD, MBG and DCG respectively (2016: 9%, 12% and 10% respectively). The estimated compound annual growth rates used for value-in-use calculations under the five-year financial budgets period are as follows:

	2017			2016		
	PCSD	**MBG**	**DCG**	PCSD	MBG	DCG
China	**3%**	**N/A**	**7%**	1%	N/A	10%
AP	**-1%**	**26%**	**5%**	-2%	29%	3%
EMEA	**-1%**	**26%**	**7%**	-1%	28%	4%
AG	**-1%**	**13%**	**16%**	-2%	10%	9%

Management determined budgeted gross margins based on past performance and its expectations for the market development. The budgeted growth rates are based on management expectations, and where considered appropriate, with adjustments made with reference to industry reports which are more conservative for the purpose of goodwill impairment test. The discount rates are pre-tax and reflect specific risks relating to the relevant segments.

The directors are of the view that there was no evidence of impairment of goodwill and trademarks and trade names as at March 31, 2017 arising from the review (2016: nil).

The Group has performed a sensitivity analysis on key assumptions used for the annual impairment test for goodwill. Except for AG's MBG, a reasonably possible change in key assumptions used in the impairment test for goodwill would not cause any CGU's carrying amount to exceed its respective recoverable amount. As at March 31, 2017, the recoverable amount for AG's MBG (calculated based on value in use) exceeded carrying value by US$1,325 million (2016: US$589 million). Had the forecasted compound annual growth rate of AG's MBG been 10.9 percentage point lower than management's estimates (2016: 5.3 percentage point lower), its remaining headroom would be removed.

(c) At March 31, 2017, patent and technology of US$61,939,000 (2016: US$33,069,000) is under development.

18 INTERESTS IN ASSOCIATES AND JOINT VENTURES

	2017 US$'000	2016 US$'000
Share of net assets		
– Associates	**21,992**	9,924
– Joint ventures	**10,575**	30,515
	32,567	40,439

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

Company name	Place of incorporation/ establishment	Interest held indirectly 2017	Interest held indirectly 2016	Principal activities
Associates				
北京閃聯雲視信息技術有限公司 (Beijing Shanlian Yunshi Information Technology Limited) (Note ii)	Chinese Mainland	**23.7%**	23.7%	Distribution and development of IT technology
成都諦聽科技有限公司 (Chengdu Diting Technology Limited) (Note ii)	Chinese Mainland	**17.3%**	17.3%	Distribution and development of IT technology
茄子技術控股有限公司 (Shareit Technology Holdings Inc.) (Note ii)	Cayman Islands	**47.7%**	54.1%	Software development
Joint ventures				
成都聯創融錦投資有限責任公司 (Chengdu Lenovo Rongjin Investment Limited) (Note ii, Note iii)	Chinese Mainland	**-**	49.0%	Property development
Lenovo NNL HK Limited	Hong Kong	**51.0%**	51.0%	Provision of IT services and distribution of IT products
北京聯想金服科技有限公司 (Beijing Lenovo Fintech Co., Ltd.) (Note ii)	Chinese Mainland	**50.0%**	-	Online payment platform development
聯想新視界(北京)科技有限公司 (Lenovo New Vision (Beijing) Technology Co., Ltd.) (Note ii)	Chinese Mainland	**48.2%**	-	Software development

Notes:

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

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

(iii) On March 1, 2017, a wholly-owned subsidiary of the Group, entered into an equity transfer agreement in relation to the disposal of 49% equity interest in Chengdu Lenovo Rongjin Investment Limited ("Lenovo Rongjin") at a consideration of approximately US$235 million. Upon the disposal, the Group does not hold any equity interests in Lenovo Rongjin.

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

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

	2017 US$'000	2016 US$'000
Share of losses of associates	**(2,192)**	(5,168)
Share of profits/(losses) of joint ventures	**23,603**	(5,927)
	21,411	(11,095)

19 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables US$'000	**Assets at fair value through profit and loss** US$'000	**Derivatives used for hedging** US$'000	**Available-for-sale financial assets** US$'000	**Total** US$'000
Assets					
At March 31, 2017					
Available-for-sale financial assets	**-**	**-**	**-**	**255,898**	**255,898**
Derivative financial assets	**-**	**45,024**	**8,784**	**-**	**53,808**
Other non-current assets	**43,184**	**-**	**-**	**-**	**43,184**
Trade receivables	**4,468,392**	**-**	**-**	**-**	**4,468,392**
Notes receivable	**68,333**	**-**	**-**	**-**	**68,333**
Deposits and other receivables	**3,345,946**	**-**	**-**	**-**	**3,345,946**
Bank deposits	**196,720**	**-**	**-**	**-**	**196,720**
Cash and cash equivalents	**2,754,599**	**-**	**-**	**-**	**2,754,599**
	10,877,174	**45,024**	**8,784**	**255,898**	**11,186,880**
At March 31, 2016					
Available-for-sale financial assets	-	-	-	139,572	139,572
Derivative financial assets	-	25,795	1,226	-	27,021
Other non-current assets	57,151	-	-	-	57,151
Trade receivables	4,403,507	-	-	-	4,403,507
Notes receivable	130,718	-	-	-	130,718
Deposits and other receivables	2,824,467	-	-	-	2,824,467
Bank deposits	152,336	-	-	-	152,336
Cash and cash equivalents	1,926,880	-	-	-	1,926,880
	9,495,059	25,795	1,226	139,572	9,661,652

19 FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

	Liabilities at fair value through profit and loss US$'000	Derivatives used for hedging US$'000	Other financial liabilities at amortized cost US$'000	Total US$'000
Liabilities				
At March 31, 2017				
Trade payables	**-**	**-**	**5,649,925**	**5,649,925**
Notes payable	**-**	**-**	**835,613**	**835,613**
Derivative financial liabilities	**53,305**	**13,980**	**-**	**67,285**
Other payables and accruals	**-**	**-**	**9,094,610**	**9,094,610**
Borrowings	**-**	**-**	**3,036,695**	**3,036,695**
Deferred considerations	**25,072**	**-**	**686,301**	**711,373**
Written put option liability	**223,703**	**-**	**-**	**223,703**
	302,080	**13,980**	**19,303,144**	**19,619,204**
At March 31, 2016				
Trade payables	-	-	4,266,687	4,266,687
Notes payable	-	-	234,661	234,661
Derivative financial liabilities	61,311	89,553	-	150,864
Other payables and accruals	260,590	-	8,045,254	8,305,844
Borrowings	-	-	3,250,927	3,250,927
Deferred considerations and guaranteed dividend under other non-current liabilities	-	-	1,391,750	1,391,750
Written put option liability	221,499	-	-	221,499
	543,400	89,553	17,189,279	17,822,232

20 DEFERRED INCOME TAX ASSETS AND LIABILITIES

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

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

	2017 US$'000	2016 US$'000
Deferred income tax assets:		
Recoverable within 12 months	**600,763**	483,600
Recoverable after 12 months	**834,493**	516,972
	1,435,256	1,000,572
Deferred income tax liabilities:		
Recoverable after 12 months	**(221,601)**	(222,679)
Net deferred income tax assets	**1,213,655**	777,893

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

	2017 US$'000	2016 US$'000
At the beginning of the year	**777,893**	276,978
Reclassification and exchange adjustment	**(14,797)**	(4,610)
Credited to consolidated income statement (Note 9)	**453,954**	503,008
(Charged)/credited to other comprehensive income (Note 9)	**(3,395)**	7,364
Charged to share-based compensation reserve	**-**	(4,847)
At the end of the year	**1,213,655**	777,893

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

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

	Provisions and accruals US$'000	Tax losses US$'000	Tax depreciation allowance US$'000	Deferred revenue US$'000	Share-based payment US$'000	Others US$'000	Total US$'000
At April 1, 2015	222,690	115,259	7,543	105,503	69,719	15,772	536,486
Reclassification and exchange adjustments	3,411	(524)	(2,967)	(2,690)	-	72	(2,698)
Credited/(charged) to consolidated income statement	117,394	397,251	9,518	36,959	(47,158)	(4,799)	509,165
Credited to other comprehensive income	-	-	-	-	-	1,086	1,086
Charged to share-based compensation reserve	-	-	-	-	(4,847)	-	(4,847)
At March 31, 2016 and April 1, 2016	**343,495**	**511,986**	**14,094**	**139,772**	**17,714**	**12,131**	**1,039,192**
Reclassification and exchange adjustments	**(39,494)**	**2,987**	**351**	**3,135**	**-**	**(1,639)**	**(34,660)**
Credited/(charged) to consolidated income statement	**146,515**	**389,591**	**1,179**	**(47,375)**	**2,021**	**(1,907)**	**490,024**
Credited to other comprehensive income	**(388)**	**-**	**-**	**-**	**-**	**(3,191)**	**(3,579)**
At March 31, 2017	**450,128**	**904,564**	**15,624**	**95,532**	**19,735**	**5,394**	**1,490,977**

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

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

(a) *(continued)*

At March 31, 2017, the Group did not recognize deferred income tax assets in respect of deductible temporary differences of approximately US$1,574,999,000 (2016: US$2,130,508,000) and tax losses of approximately US$2,435,848,000 (2016: US$2,073,278,000) that can be carried forward against future taxable income, of which, tax losses of US$1,596,982,000 (2016: US$1,394,002,000) can be carried forward indefinitely. The remaining balances of tax losses will expire as follows:

	2017 **US$'000**	2016 US$'000
Expiring in		
– 2017	**-**	4,408
– 2018	**174,129**	194,868
– 2019	**17,558**	62,884
– 2020	**12,337**	26,276
– 2021	**188,426**	236,905
– 2022	**382,929**	68,919
– 2023	**2,436**	13,300
– 2024	**4,778**	14,834
– 2025	**56,273**	56,882
	838,866	679,276

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

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

	Intangible valuation US$'000	Undistributed earnings US$'000	Property valuation US$'000	Accelerated tax depreciation US$'000	Others US$'000	Total US$'000
At April 1, 2015	178,723	51,770	3,142	19,303	6,570	259,508
Reclassification and exchange adjustments	491	2,373	182	(1,198)	64	1,912
(Credited)/charged to consolidated income statement	(23,204)	(1,541)	(23)	31,281	(356)	6,157
Credited to other comprehensive income	-	-	-	-	(6,278)	(6,278)
At March 31, 2016 and April 1, 2016	**156,010**	**52,602**	**3,301**	**49,386**	**-**	**261,299**
Reclassification and exchange adjustments	**(17,244)**	**(5,429)**	**(191)**	**3,012**	**(11)**	**(19,863)**
(Credited)/charged to consolidated income statement	**(9,503)**	**10,504**	**6**	**34,730**	**333**	**36,070**
Credited to other comprehensive income	**-**	**-**	**-**	**-**	**(184)**	**(184)**
At March 31, 2017	**129,263**	**57,677**	**3,116**	**87,128**	**138**	**277,322**

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017 US$'000	2016 US$'000
At the beginning of the year	139,572	73,400
Exchange adjustment	(2,529)	(192)
Fair value change recognized in other comprehensive income	9,180	216
Additions	124,110	69,255
Disposals	(13,430)	(3,107)
Impairment	(1,005)	–
At the end of the year	255,898	139,572
Equity securities, at fair value		
Listed:		
– In Hong Kong	11,039	14,830
– Outside Hong Kong	13,104	24,464
	24,143	39,294
Unlisted	231,755	100,278
	255,898	139,572

22 INVENTORIES

	2017 US$'000	2016 US$'000
Raw materials and work-in-progress	1,273,562	869,203
Finished goods	1,007,413	1,266,334
Service parts	513,060	501,780
	2,794,035	2,637,317

23 RECEIVABLES

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

	2017 US$'000	2016 US$'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

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

At March 31, 2017, trade receivables, net of impairment, of US$637,895,000 (2016: US$739,074,000) were past due. The ageing of these receivables, based on due date, is as follows:

	2017 US$'000	2016 US$'000
Within 30 days	**368,336**	443,507
31 – 60 days	**117,341**	126,597
61 – 90 days	**53,225**	68,293
Over 90 days	**98,993**	100,677
	637,895	739,074

23 RECEIVABLES *(continued)*

(a) *(continued)*

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

	2017 US$'000	2016 US$'000
At beginning of the year	**106,172**	80,705
Exchange adjustment	**5,752**	3
Provisions made	**35,154**	46,955
Uncollectible receivables written off	**(9,495)**	(7,708)
Unused amounts reversed	**(33,204)**	(13,783)
At the end of the year	**104,379**	106,172

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

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

	2017 US$'000	2016 US$'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

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

(d) The carrying amounts of trade receivables, notes receivables, deposits and other receivables approximate their fair values. The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivable mentioned above. As at March 31, 2016, the Group's receivables in the amount of US$2 million were held as collateral for short-term loans obtained.

24 BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2017 US$'000	2016 US$'000
Bank deposits		
– maturing between three to twelve months	**119,292**	88,531
– restricted bank balances	**77,428**	63,805
	196,720	152,336
Cash and cash equivalents		
– cash at bank and in hand	**2,120,243**	1,773,721
– money market funds	**634,356**	153,159
	2,754,599	1,926,880
	2,951,319	2,079,216
Maximum exposure to credit risk	**2,951,319**	2,079,216
Effective annual interest rates	**0%-11.25%**	0%-14.25%

25 PAYABLES

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

	2017 US$'000	2016 US$'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

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

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

26 PROVISIONS, OTHER PAYABLES AND ACCRUALS

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

	2017 US$'000	2016 US$'000
Accruals	**2,066,687**	2,048,551
Allowance for billing adjustments (i)	**1,611,495**	1,904,076
Deferred considerations (ii), (Note 28(i))	**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 combination, the Group is required to pay in cash to the then respective seller 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 the deferred consideration payable to Google Inc. will be due in October 2017, the balance has been reclassified from non-current liabilities to current liabilities at March 31, 2017.

As at March 31, 2017, the potential undiscounted amounts of future payments in respect of the deferred consideration that the Group could be required to make to Google Inc. under the arrangements is 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. If the actual performance of JV Co had been 10% higher/lower than its expected performances, the written put option liability would have increased/decreased by approximately US$4 million with the corresponding loss/gain recognized in consolidated income statement.

In the event that the put option lapses unexercised, the liability will be derecognised with a corresponding adjustment to equity.

As the put option will be exercisable at any time after October 1, 2017, the balance has been reclassified from non-current liabilities to current liabilities at March 31, 2017.

(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.

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

(b) The components of provisions of the Group are as follows:

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

27 BORROWINGS

	2017 US$'000	2016 US$'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

Notes:

(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)

Issue date	Principal amount	Term	Interest rate per annum	Due date	2017 US$'000	2016 US$'000
May 8, 2014	US$1.5 billion	5 years	4.7%	May 2019	1,495,081	1,492,892
June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	578,103	615,855
March 16, 2017	US$500 million	5 years	3.875%	March 2022	495,821	–
					2,569,005	2,108,747

The proceeds from issue of 5-year US$500 million notes during the year 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 at the end of the reporting period are as follows:

	2017 US$'000	2016 US$'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.

27 BORROWINGS *(continued)*

Total bank facilities of the Group are as follows:

	Total facilities		Utilized amounts	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Revolving loans	**1,100,000**	1,100,000	**-**	700,000
Term loan	**400,000**	400,000	**400,000**	400,000
Short-term loans	**292,807**	365,645	**70,000**	45,817
Foreign exchange contracts	**8,833,620**	9,018,134	**8,215,817**	6,871,910
Other trade finance facilities	**1,583,685**	1,277,603	**1,085,974**	540,123
	12,210,112	12,161,382	**9,771,791**	8,557,850

All borrowings are unsecured and the effective annual interest rates at March 31, 2017 (2016: US$2 million with collateral at the same amount recorded as trade receivables) are as follows:

	United States dollar	
	2017	2016
Term loan	**2.63%**	2.43%
Short-term loans	**0%-4.15%**	0%-3.63%

28 OTHER NON-CURRENT LIABILITIES

	2017 US$'000	2016 US$'000
Deferred considerations (i), (Note 26(a)(ii))	**25,072**	1,383,555
Guaranteed dividend to non-controlling shareholders of a subsidiary (ii)	**-**	8,195
Environmental restoration (Note 26(b))	**6,122**	6,073
Written put option liability (Note 26(a)(iii))	**-**	221,499
Government incentives and grants received in advance (iii)	**95,774**	144,919
Deferred rent liabilities	**102,756**	112,934
Others	**150,833**	275,403
	380,557	2,152,578

28 OTHER NON-CURRENT LIABILITIES *(continued)*

Notes:

(i) Pursuant to the completion of business combination, the Group is required to pay in cash to the then respective shareholder/seller deferred considerations. 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. The deferred considerations to NEC Corporation and Google Inc. have been partially settled during the year. The remaining deferred consideration payable to Google Inc. will be due in October 2017 and has been reclassified from non-current liabilities to current liabilities at March 31, 2017.

As at March 31, 2017, the potential undiscounted amounts of future payments in respect of the deferred consideration that the Group could be required to make to NEC Corporation under the arrangements is US$25 million.

(ii) 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 up to March 31, 2017 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.

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

29 SHARE CAPITAL

	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

Long-term incentive program

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

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

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

(i) Share Appreciation Rights ("SARs")

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

(ii) Restricted Share Units ("RSUs")

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

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

29 SHARE CAPITAL *(continued)*

Long-term incentive program *(continued)*

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

	Number of units	
	SARs	RSUs
Outstanding at April 1, 2015	134,107,662	222,495,716
Granted during the year	224,120,431	148,608,870
Vested during the year	(47,321,938)	(126,670,401)
Lapsed/cancelled during the year	(24,683,597)	(58,002,454)
Outstanding at March 31, 2016	286,222,558	186,431,731
Outstanding at April 1, 2016	**286,222,558**	**186,431,731**
Granted during the year	**473,195,957**	**300,802,097**
Vested during the year	**(104,580,378)**	**(65,548,767)**
Lapsed/cancelled during the year	**(99,575,652)**	**(61,002,782)**
Outstanding at March 31, 2017	**555,262,485**	**360,682,279**
Average fair value per unit (HK$)		
– At March 31, 2016	2.08	11.06
– At March 31, 2017	**1.45**	**6.49**

The fair values of the SARs awarded under the long-term incentive program were calculated by applying a Black-Scholes pricing model. For the year ended March 31, 2017, the model inputs were the fair value (i.e. market value) of the Company's shares at the grant date, taking into account the expected volatility of 37.06 percent (2016: 36.07 percent), expected dividends during the vesting periods of 2.74 percent (2016: 2.43 percent), contractual life of 4.5 years (2016: 4.25 years), and a risk-free interest rate of 0.70 percent (2016: 0.56 percent).

The remaining vesting periods of the awards under the long-term incentive program as at March 31, 2017 ranged from 0.25 to 3 years (2016: 0.08 to 3.92 years).

30 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.

31 BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY

(a) Balance sheet of the Company

	At March 31 2017 US$'000	2016 US$'000
Non-current assets		
Property, plant and equipment	**1,548**	2,392
Intangible assets	**5,217**	13,720
Interest in an associate	**1,887**	1,887
Investments in subsidiaries	**8,367,819**	8,207,523
Available-for-sale financial assets	**66,004**	58,064
	8,442,475	8,283,586
Current assets		
Deposits, prepayments and other receivables	**81,736**	96,099
Amounts due from subsidiaries	**3,206,011**	2,877,063
Cash and cash equivalents	**99,600**	44,404
	3,387,347	3,017,566
Total assets	**11,829,822**	11,301,152
Share capital	**2,689,882**	2,689,882
Reserves (Note 31(b))	**839,845**	354,443
Total equity	**3,529,727**	3,044,325
Non-current liabilities		
Borrowings	**2,966,692**	2,505,112
Amount due to a subsidiary	**850,000**	–
Deferred revenue	**-**	114
Other non-current liabilities	**26,149**	1,384,657
	3,842,841	3,889,883
Current liabilities		
Derivative financial liabilities	**68**	7,082
Other payables and accruals	**754,233**	309,384
Borrowings	**-**	692,514
Deferred revenue	**114**	4,692
Amounts due to subsidiaries	**3,702,839**	3,353,272
	4,457,254	4,366,944
Total liabilities	**8,300,095**	8,256,827
Total equity and liabilities	**11,829,822**	11,301,152

On behalf of the Board

Yang Yuanqing
Chairman and Chief Executive Officer

Ma Xuezheng
Director

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

(b) Movement of reserves of the Company

The changes in the reserves of the Company during the years ended March 31, 2017 and 2016 are as follows:

	Investment revaluation reserve US$'000	Share-based compensation reserve US$'000	Exchange reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Total US$'000
At April 1, 2015	(2,979)	159	10,204	8,614	814,506	830,504
Loss for the year	-	-	-	-	(99,556)	(99,556)
Other comprehensive loss	(4,881)	-	-	-	-	(4,881)
Total comprehensive loss for the year	(4,881)	-	-	-	(99,556)	(104,437)
Vesting of shares under long-term incentive program	-	(187,504)	-	-	-	(187,504)
Share-based compensation	-	195,660	-	-	-	195,660
Dividends paid	-	-	-	-	(379,780)	(379,780)
At March 31, 2016	(7,860)	8,315	10,204	8,614	335,170	354,443
At April 1, 2016	**(7,860)**	**8,315**	**10,204**	**8,614**	**335,170**	**354,443**
Profit for the year	**-**	**-**	**-**	**-**	**758,261**	**758,261**
Other comprehensive loss	**(3,584)**	**-**	**-**	**-**	**-**	**(3,584)**
Total comprehensive (loss)/ income for the year	**(3,584)**	**-**	**-**	**-**	**758,261**	**754,677**
Vesting of shares under long-term incentive program	**-**	**(72,368)**	**-**	**-**	**-**	**(72,368)**
Share-based compensation	**-**	**182,700**	**-**	**-**	**-**	**182,700**
Dividends paid	**-**	**-**	**-**	**-**	**(379,607)**	**(379,607)**
At March 31, 2017	**(11,444)**	**118,647**	**10,204**	**8,614**	**713,824**	**839,845**

NOTES TO THE FINANCIAL STATEMENTS

32 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

	2017 US$'000	2016 US$'000
閃聯信息技術工程中心有限公司 (IGRS Engineering Lab Limited) (an associate) – Purchase of goods	**11,811**	5,429
上海視雲網絡科技有限公司 (Shanghai Shiyun Network Technology Limited) (an associate) – Purchase of goods	**295**	751

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

(b) Key management compensation

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

33 COMMITMENTS

(a) Capital commitments

Apart from disclosed elsewhere in these financial statements, on March 31, 2017, the Group had the following other capital commitments:

	2017 US$'000	2016 US$'000
Contracted but not provided for:		
– Property, plant and equipment	**271,369**	393,655
– IT consulting services	**4,401**	43
– Investment in financial assets	**–**	9,800
	275,770	403,498

(b) Commitments under operating leases

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

	2017 US$'000	2016 US$'000
Not later than one year	**48,518**	223,052
Later than one year but not later than five years	**356,335**	433,246
Later than five years	**236,993**	249,339
	641,846	905,637

34 CONTINGENT LIABILITIES

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

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

	2017 US$'000	2016 US$'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

36 RETIREMENT BENEFIT OBLIGATIONS

	2017 US$'000	2016 US$'000
Pension obligation included in non-current liabilities		
Pension benefits	**345,277**	419,132
Post-employment medical benefits	**24,930**	23,742
	370,207	442,874
Expensed in income statement		
Pension benefits (Note 10)	**18,011**	19,081
Post-employment medical benefits	**1,084**	1,489
	19,095	20,570
Remeasurements for:		
Defined pension benefits	**(43,007)**	24,454
Post-employment medical benefits	**229**	208

In Germany, the Group operates a sectionalised plan that has both defined contribution and defined benefit features, including benefits based on a final pay formula. This plan is closed to new entrants. Following the acquisition of System X and Motorola Mobility in 2014, the Group assumed approximately US$148,577,000 of defined benefit obligations in Germany. The defined benefit plan for Motorola's employees in Germany contains less than 20 active employees but a large number of retirees and former employees with benefits which have vested, but where payment will be deferred until they retire. As a result of these acquisitions and decreases in Euro interest rates, the Group's largest pension liabilities are now in Germany.

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

In the United States, the defined benefit plan is closed to new entrants, and now covers only 2% of employees. There is also a supplemental defined benefit plan that covers certain executives.

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

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

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

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(a) Pension benefits

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

	2017 **US$'000**	2016 US$'000
Present value of funded obligations	**511,815**	600,288
Fair value of plan assets	**(300,872)**	(292,742)
Deficit of funded plans	**210,943**	307,546
Present value of unfunded obligations	**134,334**	111,586
Liability in the balance sheet	**345,277**	419,132
Representing:		
Pension benefits obligation	**345,277**	419,132

The principal actuarial assumptions used are as follows:

	2017	2016
Discount rate	**0.5%-3.25%**	0.5%-2.75%
Future salary increases	**0%-2.9%**	0%-2%
Future pension increases	**0%-1.75%**	0%-1.75%
Life expectancy for male aged 60	**23**	21
Life expectancy for female aged 60	**29**	31

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

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

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(a) Pension benefits *(continued)*

2016	Change in assumption	Impact on defined benefit obligation Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 6.0%	Increase by 13.2%
Salary growth rate	0.5%	Increase by 0.1%	Decrease by 1.6%
Pension growth rate	0.5%	Increase by 7.2%	Decrease by 6.7%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		Increase by 1.9%	Decrease by 4%

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

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

(b) Post-employment medical benefits

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

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

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

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

	2017 US$'000	2016 US$'000
Present value of funded obligations	**27,090**	26,494
Fair value of plan assets	**(3,568)**	(4,189)
	23,522	22,305
Present value of unfunded obligations	**1,408**	1,437
Liability in the balance sheet	**24,930**	23,742

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

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

Plan assets of the Group comprise:

	2017			2016		
	Quoted US$'000	**Unquoted US$'000**	**Total US$'000**	Quoted US$'000	Unquoted US$'000	Total US$'000
Pension plan						
Equity instruments						
Information technology	**1,028**	**-**	**1,028**	1,933	–	1,933
Energy	**309**	**-**	**309**	358	–	358
Manufacturing	**4,309**	**-**	**4,309**	3,805	–	3,805
Others	**5,402**	**-**	**5,402**	4,771	–	4,771
	11,048	**-**	**11,048**	10,867	–	10,867
Debt instruments						
Government	**45,944**	**-**	**45,944**	49,895	–	49,895
Corporate bonds (investment grade)	**47,808**	**-**	**47,808**	46,032	–	46,032
Corporate bonds (Non-investment grade)	**2,507**	**-**	**2,507**	1,366	–	1,366
	96,259	**-**	**96,259**	97,293	–	97,293
Others						
Property	**-**	**10,476**	**10,476**	–	14,831	14,831
Qualifying insurance policies	**-**	**48,495**	**48,495**	–	58,455	58,455
Cash and cash equivalents	**22,891**	**-**	**22,891**	20,274	–	20,274
Investment funds	**-**	**41,876**	**41,876**	–	35,322	35,322
Structured bonds	**-**	**69,279**	**69,279**	–	55,600	55,600
Others	**-**	**548**	**548**	–	100	100
	22,891	**170,674**	**193,565**	20,274	164,308	184,582
	130,198	**170,674**	**300,872**	128,434	164,308	292,742
Medical plan						
Cash and cash equivalents	**3,568**	**-**	**3,568**	4,189	–	4,189

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

The weighted average duration of the defined benefit obligation is 12 years.

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

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

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

At March 31, 2017	Less than a year US$'000	Between 1-2 years US$'000	Between 2-5 years US$'000	Over 5 years US$'000	Total US$'000
Pension benefits	**16,924**	**17,254**	**61,741**	**804,416**	**900,335**
Post-employment medical benefits	**860**	**931**	**3,323**	**43,405**	**48,519**
Total	**17,784**	**18,185**	**65,064**	**847,821**	**948,854**

Pension and medical plan assets do not include any of the Company's ordinary shares or US real estate occupied by the Group (2016: nil).

Reconciliation of fair value of plan assets of the Group:

	Pension		**Medical**	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Opening fair value	**292,742**	284,229	**4,189**	5,333
Exchange adjustment	**(12,128)**	9,866	**-**	1
Interest income	**5,862**	5,995	**105**	85
Remeasurements:				
Experience loss	**(6,334)**	(3,504)	**(286)**	(76)
Contributions by the employer	**35,061**	12,770	**41**	21
Contributions by plan participants	**568**	615	**-**	–
Benefits paid	**(14,899)**	(17,229)	**(481)**	(1,175)
Closing fair value	**300,872**	292,742	**3,568**	4,189
Actual return on plan assets	**(472)**	2,491	**(181)**	9

Contributions of US$8,142,000 are estimated to be made for the year ending March 31, 2018.

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

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

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

	Pension		Medical	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Opening defined benefit obligation	**711,874**	671,793	**27,931**	27,887
Exchange adjustment	**(25,189)**	11,432	**(76)**	(480)
Current service cost	**15,950**	16,822	**412**	604
Past service cost	**(1,908)**	(1,928)	**-**	-
Interest cost	**10,157**	10,982	**790**	1,004
Remeasurements:				
(Gain)/loss from change in demographic assumptions	**(3,133)**	(3,498)	**8**	1,187
(Gain)/loss from changes in financial assumptions	**(29,806)**	16,700	**(74)**	(45)
Experience (gain)/loss	**(16,402)**	7,748	**9**	(1,010)
Contributions by plan participants	**568**	615	**-**	-
Benefits paid	**(15,636)**	(17,992)	**(489)**	(1,182)
Curtailments	**(326)**	(800)	**(13)**	(34)
Closing defined benefit obligation	**646,149**	711,874	**28,498**	27,931

During the year, benefits of US$737,000 were paid directly by the Group (2016: US$763,000).

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

	2017 US$'000	2016 US$'000	2015 US$'000	2014 US$'000	2013 US$'000
Present value of defined benefit obligations	**674,647**	739,805	699,680	428,935	445,183
Fair value of plan assets	**304,440**	296,931	289,562	272,420	281,300
Deficit	**370,207**	442,874	410,118	156,515	163,883
Actuarial losses/(gains) arising on plan assets	**6,620**	3,580	(29,070)	(588)	(7,840)
Actuarial (gains)/losses arising on plan liabilities	**(49,398)**	21,082	99,157	(3,400)	25,014
	(42,778)	24,662	70,087	(3,988)	17,174

NOTES TO THE FINANCIAL STATEMENTS

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

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

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

	Pension		Medical	
	2017 US$'000	2016 US$'000	**2017 US$'000**	2016 US$'000
Current service cost	**15,950**	16,822	**412**	604
Past service cost	**(1,908)**	(1,928)	**–**	–
Interest cost	**10,157**	10,982	**790**	1,004
Interest income	**(5,862)**	(5,995)	**(105)**	(85)
Curtailment gains	**(326)**	(800)	**(13)**	(34)
Total expense recognized in the consolidated income statement	**18,011**	19,081	**1,084**	1,489

37 PRINCIPAL SUBSIDIARIES

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

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2017	Percentage of issued capital held 2016	Principal activities
Held directly:					
聯想(北京)有限公司 (Lenovo (Beijing) Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$175,481,300	**100%**	100%	Manufacturing and distribution of IT products and provision of IT services
聯想(上海)有限公司 (Lenovo (Shanghai) Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$10,000,000	**100%**	100%	Distribution of IT products and provision of IT services
Held indirectly:					
聯寶(合肥)電子科技有限公司 (LCFC (Hefei) Electronics Technology Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	US$265,000,000	**51%**	51%	Manufacturing and distribution of IT products

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2017	2016	Principal activities
Lenovo (Asia Pacific) Limited	Hong Kong	HK$3,042,972,340.42	**100%**	100%	Investment holding and distribution of IT products
北京聯想軟件有限公司 (Beijing Lenovo Software Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$5,000,000	**100%**	100%	Provision of IT services and distribution of IT products
Lenovo (Australia & New Zealand) Pty Limited	Australia	AUD45,860,993.40	**100%**	100%	Distribution of IT products
Lenovo (Belgium) BVBA	Belgium	EUR1,317,700,834.94	**100%**	100%	Investment holding and distribution of IT products
Lenovo (Canada) Inc.	Canada	CAD10,000,000	**100%**	100%	Distribution of IT products
Lenovo Computer Limited	Hong Kong	HK$2	**100%**	100%	Procurement agency and distribution of IT products
Lenovo (Danmark) ApS	Denmark	DKK126,000	**100%**	100%	Distribution of IT products
Lenovo (Deutschland) GmbH	Germany	EUR25,100	**100%**	100%	Distribution of IT products
Lenovo Enterprise Solutions (Singapore) Pte. Ltd.	Singapore	SGD55,958,595	**100%**	100%	Manufacturing and wholesaling of computers, computer hardware and peripheral equipment
Lenovo Enterprise Solutions Ltd.	Japan	JPY50,000,000	**100%**	100%	Distribution of IT products
Lenovo (France) SAS	France	EUR1,837,000	**100%**	100%	Distribution of IT products

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2017	Percentage of issued capital held 2016	Principal activities
Lenovo HK Services Limited	Hong Kong	HK$1	**100%**	100%	Provision of business planning, management, global supply chain, finance, and administration support services
Lenovo Global Technology (Asia Pacific) Limited	Hong Kong	US$1	**100%**	-	Investment holding and distribution of IT products
Lenovo Global Technology HK Limited	Hong Kong	US$1	**100%**	-	Procurement agency and distribution of IT products
Lenovo Global Technology (Hong Kong) Distribution Limited	Hong Kong	US$1	**100%**	-	Distribution of IT products
Lenovo (Hong Kong) Limited	Hong Kong	HK$74,256,023	**100%**	100%	Distribution of IT products
惠陽聯想電子工業有限公司 (Lenovo (Huiyang) Electronic Industrial Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$31,955,500	**100%**	100%	Manufacturing and distribution of IT products
Lenovo (India) Private Limited	India	INR8,607,471,514	**100%**	100%	Manufacturing and distribution of IT products
聯想信息產品(深圳)有限公司 (Lenovo Information Products (Shenzhen) Co. Ltd.)[1] (limited liability company (wholly-owned entity))	Chinese Mainland	US$643,966,800	**100%**	100%	Manufacturing and distribution of IT products

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2017	Percentage of issued capital held 2016	Principal activities
Lenovo (Israel) Ltd.	Israel	ILS1,000	**100%**	100%	Distribution of IT products
Lenovo (Italy) S.r.l	Italy	EUR100,000	**100%**	100%	Distribution of IT products
Lenovo (Japan) Ltd.	Japan	JPY100,000,000	**66.64%**	51%	Distribution of IT products
Lenovo Korea LLC	Korea	KRW3,580,940,000	**100%**	100%	Distribution of IT products
Lenovo Mexico, S. de R.L. de C.V.	Mexico	MXN226,308,454	**100%**	100%	Distribution of IT products
聯想移動通信科技有限公司 (Lenovo Mobile Communication Technology Ltd.)[1] (foreign-investment enterprise wholly-owned entity)	Chinese Mainland	RMB187,500,000	**100%**	100%	Manufacturing and distribution of IT products and provision of IT services
聯想移動通信軟件(武漢)有限公司 (Lenovo Mobile Communication Software (Wuhan) Limited)[1] (foreign-investment enterprise wholly-owned entity)	Chinese Mainland	RMB10,000,000	**100%**	100%	R&D of mobile software
摩托羅拉(武漢)移動技術通信有限公司 (Motorola (Wuhan) Mobility Technologies Communication Company Limited)[1] 前稱"聯想移動通信(武漢)有限公司" (formerly known as "Lenovo Mobile Communication (Wuhan) Limited")[1] (foreign-investment enterprise wholly-owned entity)	Chinese Mainland	RMB60,000,000	**100%**	100%	Manufacturing of mobile products
Lenovo PC HK Limited	Hong Kong	HK$2,377,934,829.50 ordinary and HK$1,000,000 non-voting deferred	**100%**	100%	Procurement agency and distribution of IT products

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2017	2016	Principal activities
Lenovo PC International Limited	Hong Kong	HK$4,758,857,784	**100%**	100%	Intellectual properties
Lenovo (Schweiz) GmbH	Switzerland	CHF2,000,000	**100%**	100%	Manufacturing and distribution of IT products
Lenovo (Singapore) Pte. Ltd.	Singapore	SGD1,971,231,035.94	**100%**	100%	Manufacturing and wholesaling of computers, computer hardware and peripheral equipment
Lenovo (South Africa) (Pty) Limited	South Africa	RAND100	**100%**	100%	Distribution of IT products
Lenovo (Spain), S.L.U.	Spain	EUR37,475,456.40	**100%**	100%	Distribution of IT products
Lenovo (Sweden) AB	Sweden	SEK200,200	**100%**	100%	Distribution of IT products
聯想系統集成(深圳)有限公司 (Lenovo Systems Technology Company Limited)[1] (有限責任公司(法人獨資)) (limited liability company (wholly-owned entity))	Chinese Mainland	RMB263,407,660	**100%**	100%	Manufacturing and distribution of IT products
Lenovo Technology (United Kingdom) Limited	United Kingdom	GBP8,629,508	**100%**	100%	Distribution of IT products
Lenovo Technology B.V.	Netherlands	EUR20,000	**100%**	100%	Distribution of IT products
Lenovo Technology Sdn. Bhd.	Malaysia	MYR1,000,000	**100%**	100%	Selling and distribution of computer hardware, software and peripherals and services

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2017	2016	Principal activities
Lenovo Tecnologia (Brasil) Ltda	Brazil	BRL4,317,928,393	**100%**	100%	Manufacturing and distribution of IT products
Lenovo (Thailand) Limited	Thailand	THB243,000,000	**100%**	100%	Distribution of IT products as well as mobile phone, smart phone and tablet, server and storage
Lenovo (United States) Inc.	United States	US$1	**100%**	100%	Distribution of IT products
Lenovo (Venezuela), SA	Venezuela	VEB3,846,897	**100%**	100%	Distribution of IT products
聯想（西安）有限公司 (Lenovo (Xian) Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB10,000,000	**100%**	100%	Provision of IT services and distribution of IT products
LLC "Lenovo (East Europe/Asia)"	Russia	RUB1,910,000	**100%**	100%	Distribution and marketing of IT products
Medion AG	Germany	EUR48,418,400	**79.83%**	79.82%	Retail and service business for consumer electronic products
Motorola Mobility Comércio de Produtos Eletronicos Ltda.	Brazil	BRL739,238,401	**100%**	100%	Developer, owner, licensor and seller of communications hardware and software
Motorola Mobility International Sales LLC	United States	-	**100%**	100%	Holding company

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held		Principal activities
			2017	2016	
Motorola Mobility LLC	United States	-	100%	100%	Developer, owner, licensor and seller of communications hardware and software
NEC Personal Computers, Ltd.	Japan	JPY500,000,000	66.64%	51%	Manufacturing and distribution of IT products
深圳聯想海外控股有限公司 (Shenzhen Lenovo Overseas Holdings Limited)[1] (wholly-foreign owned enterprise)	Chinese Mainland	US$760,822,799.24	100%	100%	Investment management
Stoneware, Inc.	United States	US$861,341.25	100%	100%	Development and distribution of IT products
陽光雨露信息技術服務(北京)有限公司 (Sunny Information Technology Service, Inc.)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB50,000,000	100%	100%	Provision of repair services for computer hardware and software systems

Notes:

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

(ii) All the Chinese Mainland subsidiaries and Motorola's subsidiaries are limited liability companies. They have adopted December 31 as their financial year end date for statutory reporting purposes. For the preparation of the consolidated financial statements, financial statements of these Chinese Mainland subsidiaries and Motorola's subsidiaries for the years ended March 31, 2016 and 2017 have been used.

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

(iv) Medion AG is a publicly traded German stock corporation listed on the Frankfurt am Main stock exchange. The percentage of issued capital held is equivalent to approximately 86.51% (2016: 86.50%) excluding treasury shares.

38 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on May 25, 2017.

FIVE-YEAR FINANCIAL SUMMARY

CONDENSED CONSOLIDATED INCOME STATEMENT

	2017 US$'000	2016 US$'000	2015 US$'000	2014 US$'000	2013 US$'000
Revenue	**43,034,731**	44,912,097	46,295,593	38,707,129	33,873,401
Profit/(loss) before taxation	**489,927**	(276,851)	970,967	1,014,195	801,299
Taxation	**40,514**	132,276	(134,364)	(196,725)	(169,707)
Profit/(loss) for the year	**530,441**	(144,575)	836,603	817,470	631,592
Profit/(loss) attributable to:					
Equity holders of the Company	**535,084**	(128,146)	828,715	817,228	635,148
Perpetual securities holders	**1,872**	–	–	–	–
Other non-controlling interests	**(6,515)**	(16,429)	7,888	242	(3,556)
	530,441	(144,575)	836,603	817,470	631,592
Earnings/(loss) per share attributable to equity holders of the Company					
Basic (US cents)	**4.86**	(1.16)	7.77	7.88	6.16
Diluted (US cents)	**4.86**	(1.16)	7.69	7.78	6.07

CONDENSED CONSOLIDATED BALANCE SHEET

	2017 US$'000	2016 US$'000	2015 US$'000	2014 US$'000	2013 US$'000
Non-current assets	**12,317,587**	11,966,613	11,889,352	4,956,545	4,492,260
Current assets	**14,868,387**	12,966,776	15,507,158	13,400,548	12,389,737
Total assets	**27,185,974**	24,933,389	27,396,510	18,357,093	16,881,997
Non-current liabilities	**4,756,906**	6,146,880	5,841,997	1,870,051	2,110,342
Current liabilities	**18,333,846**	15,760,260	17,448,392	13,462,322	12,091,474
Total liabilities	**23,090,752**	21,907,140	23,290,389	15,332,373	14,201,816
Net assets	**4,095,222**	3,026,249	4,106,121	3,024,720	2,680,181

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

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