THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional adviser.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company nor is it calculated to invite any such offer.

If you have sold or transferred all your shares in Lenovo Group Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

(1) CONNECTED TRANSACTION AND PROPOSED SHARE AND BONUS WARRANTS ISSUANCE UNDER SPECIFIC MANDATE
(2) APPLICATION FOR WHITEWASH WAIVER
(3) SPECIAL DEAL RELATING TO RELEVANT MANAGEMENT PARTICIPATION
AND
(4) NOTICE OF GENERAL MEETING

Joint Financial Advisers to the Company

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

A notice convening the GM of the Company to be held at Marina Room, The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Friday, 3 November 2017 at 9:00 a.m. is set out on pages GM-1 to GM-3 of this circular. A form of proxy for use at the GM is also enclosed. Such form of proxy is also published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.lenovo.com/hk/publication).

A letter from the Board is set out on pages 8 to 26 of this circular and a letter from the Independent Board Committee containing its recommendations to the Independent Shareholders is set out on pages 27 to 28 of this circular. A letter from Anglo Chinese Corporate Finance, Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 48 of this circular.

Whether or not you are able to attend the GM, please complete and sign the enclosed form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the GM or any adjournment thereof. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the GM or any adjournment thereof if they so wish.

Hong Kong, 16 October 2017

TABLE OF CONTENTS

		Page
Definitions		1
Letter from the Board		8
Letter from the Independent Board Committee		27
Letter from the Independent Financial Adviser		29
Appendix I –	**Financial Information of the Group**	I-1
Appendix II –	**First Quarter Results Announcement**	II-1
Appendix III –	**Reports on the First Quarter Results Announcement**	III-1
Appendix IV –	**General Information**	IV-1
Notice of GM		GM-1

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Adjustment Events"	(i) an alteration to the number of Shares by reason of any consolidation or subdivision; (ii) an issue (other than in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalization of profits or reserves; (iii) a Capital Distribution (as defined in the instrument of the Bonus Warrants) being made by the Company to the Shareholders; (iv) an offer of new Shares for subscription by way of rights or a grant of options or warrants to subscribe for new Shares at a price which is less than 90% of the Market Price (calculation as provided in the instrument of the Bonus Warrants) being made by the Company to holders of Shares (in their capacity as such); (v) an issue wholly for cash being made by the Company or any other company of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, in any case the total effective consideration (as defined in the instrument of the Bonus Warrants) per new Share initially receivable for such securities is less than 90% of the Market Price (calculation as provided in the instrument of the Bonus Warrants), or the conversion, exchange or subscription rights of any such issue are modified so that the said total Effective Consideration (as defined in the instrument of the Bonus Warrants) is less than 90% of the Market Price (calculation as provided in the instrument of the Bonus Warrants); (vi) an issue being made by the Company wholly for cash of Shares (other than pursuant to any share option scheme) at a price less than 90% of the Market Price (calculation as provided in the instrument of the Bonus Warrants); and (vii) an offer or invitation by the Company to the holders of the Shares to tender for sale to the Company of Shares or a repurchase or buy-back by the Company of Shares or securities convertible into Shares or any rights to acquire Shares in circumstances where the Directors consider that it may be appropriate to make an adjustment to the exercise price of the Bonus Warrants
"Announcement"	the announcement of the Company dated 29 September 2017 in relation to, amongst others, the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation

"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Bonus Warrants"	the 90,613,689 bonus warrants to be issued by the Company to the Subscriber on the Completion Date, each to subscribe for one Share
"Bonus Warrants Issuance"	the issuance of the Bonus Warrants by the Company to the Subscriber pursuant to the Subscription Agreement
"Business Day(s)"	any day(s) (excluding Saturday, Sunday and public holiday and any day on which a tropical cyclone warning signal number 8 or above is hoisted or on which a "black" rainstorm warning signal is in force between 9:00 a.m. and 5:00 p.m.) on which licensed banks in Hong Kong are generally open for business
"Company"	Lenovo Group Limited, a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Subscription in accordance with the Subscription Agreement
"Completion Date"	the day on which the completion of Subscription takes place, which shall be not later than the 5th Business Day after the date on which all the conditions precedent to the Subscription Agreement are fulfilled or such other date as the Company and the Subscriber may agree in writing
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	director(s) of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the SFC or any delegate of the Executive Director

"Facility Agreement (SHL)"	the facility agreement dated 29 September 2017 (as amended, novated, supplemented, extended or restated from time to time) entered into between SHL (as borrower), Credit Suisse AG Hong Kong Branch (as lender), Credit Suisse AG, Singapore Branch (as arranger), Credit Suisse AG, Singapore Branch (as agent) and Credit Suisse AG, Singapore Branch (as calculation agent), the proceeds of which is to be used, among other purposes, to finance the Share Subscription
"Facility Agreement (Subscriber)"	the facility agreement dated 29 September 2017 (as amended, novated, supplemented, extended or restated from time to time) entered into between the Subscriber (as borrower), Morgan Stanley Bank, N.A. (as lender), Morgan Stanley & Co. International plc (as arranger), Morgan Stanley Senior Funding, Inc. (as agent) and Morgan Stanley & Co. International plc (as calculation agent), the proceeds of which is to be used, among other purposes, to finance the Share Subscription
"First Quarter Results Announcement"	the announcement of the Company dated 17 August 2017 in relation to the first unaudited quarter results of the Group for FY2017/18
"GM"	the general meeting of the Company to be held on 3 November 2017 (or any adjournment thereof) for the Independent Shareholders to consider, and if thought fit, approve, amongst others, the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee established by the Board, comprising all independent non-executive Directors of the Company to advise the Independent Shareholders in connection with the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation

"Independent Financial Adviser"	Anglo Chinese Corporate Finance, Limited, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the terms of the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation
"Independent Shareholders"	Shareholders other than (i) the Subscriber Concert Group; (ii) the Management Participant Shareholders; and (iii) any Shareholder who is involved in or interested in the Subscription, the Specific Mandate, the Whitewash Waiver and/or the Relevant Management Participation or the transactions contemplated thereunder
"Last Trading Day"	29 September 2017, being the last full trading day of Shares immediately prior to the publication of the Announcement, which is also the date of the Announcement
"Latest Practicable Date"	13 October 2017, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"LEL"	Legion Elite Limited, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of RLL and directly held an aggregate of 240,100,000 Shares as of the Latest Practicable Date
"LHL"	Legend Holdings Corporation, a company incorporated in the PRC, the H shares of which are listed on the Stock Exchange (stock code: 3396)
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	a date that is 12 months after the date of the Subscription Agreement, or such other date as the Subscriber and the Company may agree in writing
"Management Participant Shareholders"	Management Participants who are also direct or indirect holders of the Shares

"Management Participants"	consisting of a group of 35 senior management members (including executive vice presidents and senior vice presidents) of the Group who are the initial beneficiaries of the Trust
"Management Participation"	participation of each of the Management Participants in the Subscription through THC and their interests in the Trust as beneficiaries
"Mr. Wong"	Mr. Wong Wai Ming, a director of SHL, the Subscriber, THC and the Trustee and also the Executive Vice President and the Chief Financial Officer of the Company
"Mr. Yang"	Mr. Yang Yuanqing, an executive Director, the Chief Executive Officer and Chairman of the Company and also a director of both SHL and the Subscriber
"PRC"	The People's Republic of China
"Relevant Management Participation"	Management Participation by each of the Management Participant Shareholders
"Relevant Period"	the period commencing 29 March 2017, being the date falling six months before the Last Trading Day, up to and including the Latest Practicable Date
"RLL"	Right Lane Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of LHL
"RMB"	Renminbi, the lawful currency of the PRC
"RSUs"	the outstanding restricted share unit(s) granted under the long term incentive program of the Company
"SARs"	the outstanding share appreciation right(s) granted under the long term incentive program of the Company
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) of the Company

"Share Subscription"	the subscription of the Subscription Shares by the Subscriber pursuant to the terms of the Subscription Agreement
"Share Subscription Price"	the subscription price payable for the Subscription Shares by the Subscriber in connection with the Subscription, which shall equal to HK$4.31 per Share
"Shareholder(s)"	holder(s) of the Share(s)
"SHL"	Sureinvest Holdings Limited, a company incorporated in the British Virgin Islands and an investment holding company held as to 87.14% by Mr. Yang, 4.66% by Mr. Wong and 8.20% by eight other individuals
"Specific Mandate"	the special mandate to be granted by the Independent Shareholders to the Board at the GM for the allotment and issue of the Subscription Shares, the Bonus Warrants and the Warrant Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	Union Star Limited, an exempted company incorporated in the Cayman Islands with limited liability, being the subscriber as named in the Subscription Agreement
"Subscriber Concert Group"	the Subscriber, LHL, RLL, LEL, Mr. Yang, Mr. Wong, SHL, THC, the Trustee, Mr. Liu Chuanzhi, Mr. Zhu Linan, Mr. Zhao John Huan and parties acting in concert with any of them
"Subscription"	the Share Subscription and the Bonus Warrants Issuance
"Subscription Agreement"	the subscription agreement dated 29 September 2017 entered into between the Company and the Subscriber in connection with the subscription of 906,136,890 new Shares and the entitlement of the Subscriber to 90,613,689 units of Bonus Warrants
"Subscription Shares"	a total of 906,136,890 new Shares to be subscribed by the Subscriber pursuant to the Subscription Agreement (excluding any Warrant Shares)
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules

"Takeovers Code"	the Code on Takeovers and Mergers issued by the SFC
"THC"	Harvest Star Limited, an exempted company incorporated in the Cayman Islands with limited liability, being the trust holding company of the Trust, of which the Trustee is the sole shareholder and Mr. Wong is the sole director
"trading day(s)"	any day on which Shares are traded on the Main Board of the Stock Exchange
"Trust"	an employee benefit trust to be established for the purpose of providing a platform for the senior management of the Group to participate in the Subscription and to be constituted by the trust deed which will be executed and delivered by the initial beneficiary and the Trustee
"Trustee"	Red Eagle Group (PTC) Limited, a private trust company incorporated in the British Virgin Islands, being the corporate trustee of the Trust, of which Mr. Yang will be the sole shareholder and Mr. Wong is the sole director
"US$"	United States dollars, the lawful currency of the United States of America
"Warrant Shares"	new Shares to be issued by the Company to the holder(s) of the Bonus Warrants pursuant to the exercise of the subscription rights attached to the Bonus Warrants
"Warrantholders"	registered holders of the Bonus Warrants from time to time
"Whitewash Waiver"	a waiver to be granted by the Executive pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code in respect of the obligation of the Subscriber Concert Group to make a mandatory general offer to the Shareholders for all the equity share capital of the Company not already owned, controlled or agreed to be acquired by the Subscriber Concert Group which may otherwise arise as a result of the allotment and issuance of the Subscription Shares and the Warrant Shares pursuant to the Share Subscription and upon exercise of the Bonus Warrants in full
"%"	per cent.

This circular has been printed in English and Chinese. In the event of any inconsistency, the English text of this circular shall prevail over its Chinese text.

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

Chairman, Chief Executive Officer 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

Registered Office:
23rd Floor
Lincoln House
Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

16 October 2017

To the Shareholders

Dear Sir or Madam,

(1) CONNECTED TRANSACTION AND PROPOSED SHARE AND BONUS WARRANTS ISSUANCE UNDER SPECIFIC MANDATE
(2) APPLICATION FOR WHITEWASH WAIVER
(3) SPECIAL DEAL RELATING TO RELEVANT MANAGEMENT PARTICIPATION
AND
(4) NOTICE OF GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement. The purpose of this circular is to provide you with, among other things,

(i) further information on the proposed Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation;

(ii) a letter from the Independent Board Committee to the Independent Shareholders containing its recommendation in respect of the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation;

(iii) a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the terms of the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation, and to make recommendations (i) as to whether the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation are fair and reasonable; and (ii) as to voting of the resolution(s) to approve the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation at the GM; and

(iv) a notice of the GM.

THE SUBSCRIPTION

The Subscription Agreement

Date:

29 September 2017

Parties:

(1) the Company, as the issuer; and

(2) the Subscriber, as the subscriber.

As at the Latest Practicable Date, the Subscriber is owned by SHL and LHL (through LEL) as to 50.50% and 49.50%, respectively. SHL is controlled as to 87.14% by Mr. Yang. Both Mr. Yang and Mr. Wong are directors of, and hence parties acting in concert with, SHL. Mr. Yang will become the sole shareholder of the Trustee which in turn controls THC. Immediately before or upon Completion, the Subscriber will allot and issue new shares to each of SHL, LHL (through LEL) and THC, which will hold a 18.95%, 32.00% and 49.05% shareholding interest in the Subscriber, respectively. As the Subscriber constitutes an "associate" (as defined under the Listing Rules) of LHL (which is a controlling shareholder of the Company) and Mr. Yang (who is the Chairman, the Chief Executive Officer and an executive Director of the Company), the Subscriber is a connected person of the Company under the Listing Rules. As such, the Subscription constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Number of Subscription Shares

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, the Subscription Shares comprising 906,136,890 Shares, which represent:

(i) approximately 8.16% of the total number of Shares in issue of the Company as at the Latest Practicable Date; and

(ii) approximately 7.54% of the total number of Shares in issue of the Company as enlarged by the Share Subscription (assuming that there will not be any other changes in the total number of Shares in issue of the Company between the Latest Practicable Date and the Completion Date).

Share Subscription Price

The Share Subscription Price of HK$4.31 per Subscription Share represents:

(i) a discount of approximately 3.58% over the closing price of HK$4.47 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a discount of approximately 1.82% over the average closing price of approximately HK$4.39 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Latest Practicable Date;

(iii) a discount of approximately 0.92% over the average closing price of approximately HK$4.35 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Latest Practicable Date;

(iv) a premium of approximately 0.23% over the closing price of HK$4.30 per Share as quoted on the Stock Exchange on 28 September 2017, being the last business day immediately preceding the date of the Announcement;

(v) the closing price of HK$4.31 per Share as quoted on the Stock Exchange on the Last Trading Day;

(vi) a premium of approximately 1.17% over the average closing price of HK$4.26 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;

(vii) a premium of approximately 2.13% over the average closing price of approximately HK$4.22 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and

(viii) a premium of approximately 90.71% over the audited consolidated net asset value of the Group attributable to the equity holders of approximately US$0.29 per Share as at 31 March 2017 (equivalent to approximately HK$2.26) (based on the audited consolidated net asset value of the Group attributable to equity holders as at 31 March 2017, the number of issued Shares as at 31 March 2017 and the US$ to HK$ exchange rate of US$0.1281 to HK$1, being the exchange rate published by Bloomberg as at the Latest Practicable Date).

The Share Subscription Price was agreed after arm's length negotiations between the Company and the Subscriber with reference to recent market price of the Shares at the time when the Subscription Agreement was entered into.

Bonus Warrants Issuance

Pursuant to the Subscription Agreement, the Company has also conditionally agreed to issue, and the Subscriber shall be entitled to, the Bonus Warrants. An aggregate of 90,613,689 units of Bonus Warrants will be issued by the Company to the Subscriber. The exercise in full of the subscription rights attaching to the Bonus Warrants will result in the issue of 90,613,689 Shares which represent (i) approximately 0.75% of the total number of Shares in issue of the Company as enlarged by the Share Subscription and (ii) approximately 0.75% of the total number of Shares in issue of the Company as enlarged by the Share Subscription and the full exercise of the Bonus Warrants (assuming there will be no other changes in the total number of Shares in issue of the Company).

Exercise Price of the Bonus Warrants

The initial exercise price for the Bonus Warrants shall be HK$5.17, which is equal to approximately 1.2 times of the Share Subscription Price and is subject to adjustment upon occurrence of any Adjustment Events.

The initial exercise price of the Bonus Warrants of HK$5.17 represents:

(i) a premium of approximately 15.66% over the closing price of HK$4.47 per Share as quoted on the Stock Exchange on the Latest Practicable Date;

(ii) a premium of approximately 17.77% over the average closing price of approximately HK$4.39 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Latest Practicable Date;

(iii) a premium of approximately 18.85% over the average closing price of approximately HK$4.35 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Latest Practicable Date;

(iv) a premium of approximately 20.23% over the closing price of HK$4.30 per Share as quoted on the Stock Exchange on 28 September 2017, being the last business day immediately preceding the date of the Announcement;

(v) a premium of approximately 19.95% over the closing price of HK$4.31 per Share as quoted on the Stock Exchange on the Last Trading Day;

(vi) a premium of approximately 21.36% over the average closing price of approximately HK$4.26 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;

(vii) a premium of approximately 22.51% over the average closing price of approximately HK$4.22 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day; and

(viii) a premium of approximately 128.76% over the audited consolidated net asset value of the Group attributable to the equity holders of approximately US$0.29 per Share as at 31 March 2017 (equivalent to approximately HK$2.26) (based on the audited consolidated net asset value of the Group attributable to equity holders as at 31 March 2017, the number of issued Shares as at 31 March 2017 and the US$ to HK$ exchange rate of US$0.1281 to HK$1, being the exchange rate published by Bloomberg as at the Latest Practicable Date).

The initial exercise price of the Bonus Warrants was agreed after arm's length negotiations between the Company and the Subscriber with reference to the Share Subscription Price and other comparable transactions in the market.

Exercise period of the Bonus Warrants

3 years from the date of the issuance of the Bonus Warrants.

Form of the Bonus Warrants

The Bonus Warrants will be issued in registered form.

Transferability

The Bonus Warrants are not transferrable except by operation of laws.

Conditions of the Subscription

The Share Subscription and the Bonus Warrants Issuance are conditional upon the following being fulfilled:

(a) the passing at the GM of the resolutions to approve the Subscription, the Specific Mandate and the Whitewash Waiver by the Independent Shareholders by way of poll in accordance with the articles of association of the Company, the Listing Rules and the Takeovers Code;

(b) the listing committee of the Stock Exchange granting the listing of, and permission to deal in, the Subscription Shares and the Warrant Shares and such approval and granting of permission not having been withdrawn or revoked;

(c) the Executive granting the Whitewash Waiver and the satisfaction of all conditions (if any) attached to the Whitewash Waiver granted;

(d) (i) the receipt of an opinion from the Independent Financial Adviser to the Independent Board Committee confirming that the Relevant Management Participation is fair and reasonable; (ii) the passing of an ordinary resolution by the Independent Shareholders by way of poll at the GM to approve the Relevant Management Participation which constitutes a special deal under Note 3 to Rule 25 of the Takeovers Code; and (iii) the Executive's consent to the Relevant Management Participation having been obtained; and

(e) the Facility Agreement (Subscriber) shall remain valid and enforceable in accordance with its terms, save and except due to the fault of the Subscriber.

Neither the Company nor the Subscriber may waive any of the conditions above. An opinion from the Independent Financial Adviser to the Independent Board Committee confirming that the Relevant Management Participation is fair and reasonable has been received by the Independent Board Committee. Save for the above, as at the Latest Practicable Date, none of the above conditions has been fulfilled.

In the event any of the above conditions has not been fulfilled on or before the Long Stop Date, the Subscription Agreement shall lapse automatically.

Rights and ranking of the Subscription Shares and the Warrant Shares

The Subscription Shares and the Warrant Shares, when issued and fully paid, will rank equally in all respects among themselves and with all other Shares in issue as at the respective dates of allotment and issue of the Subscription Shares and the Warrant Shares, including the right to receive all future dividends and distributions which may be declared, made or paid by the Company with a record date falling on or after the respective dates of allotment and issue of the Subscription Shares and the Warrant Shares (as the case may be).

Rights of Warrantholder on Liquidation

(a) if the Company is wound up for the purpose of reconstruction or amalgamation pursuant to a scheme of arrangement to which the Warrantholders, or some person designated by them for such purpose, by special resolution of the Warrantholders, shall be a party or in conjunction with which a proposal is made to the Warrantholders and is approved by special resolution of the Warrantholders, the terms of such scheme of arrangement or (as the case may be) proposal shall be binding on all the Warrantholders; and

(b) in any other case, every Warrantholders shall be entitled by irrevocable surrender of his warrant certificate(s) to the Company with the subscription form(s) duly completed, together with payment of the relevant exercise moneys or the relative portion thereof, to elect to be treated as if he had immediately prior to the commencement of such winding-up exercised such of the subscription rights represented by his Bonus Warrant(s) as are specified in the subscription form(s) submitted by him and had on such date been the holder of the Shares to which he would have become entitled pursuant to such exercise and the Company and the liquidator of the Company shall give effect to such election accordingly.

If the Company is wound up, all subscription rights which have not been exercised at the commencement of the winding up shall lapse and each warrant certificate will cease to be valid for any purpose.

Mandate to issue the Subscription Shares, the Bonus Warrants and the Warrant Shares

The Subscription Shares, the Bonus Warrants and the Warrant Shares (in the event that the Bonus Warrants are exercised) will be issued pursuant to the Specific Mandate to be sought at the GM.

Application for listing

An application will be made by the Company to the listing committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares and the Warrant Shares. The Bonus Warrants will not be listed on the Stock Exchange.

Completion of the Subscription

Pursuant to the Subscription Agreement, completion of the Subscription shall take place on the Completion Date.

The Subscription Agreement can be terminated by mutual agreement by the parties to the agreement.

As the Subscription is subject to the fulfillment of certain conditions and may or may not proceed, Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and are recommended to consult their stockbroker, bank manager, solicitor or other professional adviser if they are in any doubt about their position or as to actions they should take.

INTENDED USE OF PROCEEDS

The gross and net aggregate proceeds after deducting all relevant costs and expenses of the Share Subscription is approximately HK$3,905,450,000 and HK$3,876,159,125, respectively, representing a net price of approximately HK$4.28 per Subscription Share.

The Company intends to apply the net proceeds to be raised from the Share Subscription for funding of future acquisition opportunities and general working capital purpose.

The aggregate proceeds from the exercise of the Bonus Warrants in full are estimated to be approximately HK$468,472,722. The Company intends to apply such proceeds, upon exercise of the Bonus Warrants, for general working capital purpose.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

Save as disclosed below, the Company has not undertaken any equity fund raising exercise in the 12-month period immediately preceding the Latest Practicable Date:

Date	Event	Approximate net proceeds	Intended use of net proceeds as stated in the announcement	Actual use of Proceeds
6 April 2017	(1) The issuance of US$150,000,000 5.375% perpetual securities in the form of cumulative preferred shares by Lenovo Perpetual Securities Limited, a company incorporated in the Cayman Islands with limited liability and a direct wholly-owned subsidiary of the Company; (2) the performance guarantee provided by the Company; and (3) the issuance of US$150,000,000 5.375% intra-group subordinated capital notes by the Company to Lenovo Perpetual Securities Limited	US$149 million	Repayment of some or all of the amounts outstanding under the promissory note issued to Google Inc. in relation to the Company's acquisition of Motorola Mobility Holdings LLC, and for the Company's working capital and general corporate purposes	Utilized as intended

Date	Event	Approximate net proceeds	Intended use of net proceeds as stated in the announcement	Actual use of Proceeds
16 March 2017	(1) The issuance of US$850,000,000 5.375% perpetual securities in the form of cumulative preferred shares by Lenovo Perpetual Securities Limited, a company incorporated in the Cayman Islands with limited liability and a direct wholly-owned subsidiary of the Company; (2) the performance guarantee provided by the Company; and (3) the issuance of US$850,000,000 5.375% intra-group subordinated capital notes by the Company to Lenovo Perpetual Securities Limited	US$842 million	Repayment of some or all of the amounts outstanding under the promissory note issued to Google Inc. in relation to the Company's acquisition of Motorola Mobility Holdings LLC, and for the Company's working capital and general corporate purposes	Utilized as intended

EFFECT ON SHAREHOLDING STRUCTURE OF THE COMPANY

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the Completion (assuming the Bonus Warrants are not exercised); (iii) immediately after Completion and exercise of the Bonus Warrants in full; (iv) immediately after the Completion and exercise of all outstanding RSUs and SARs held by Mr. Yang, Mr. Wong, Mr. Liu Chuanzhi, Mr. Zhao John Huan and Mr. Zhu Linan (assuming the Bonus Warrants are not exercised); and (v) immediately after Completion and exercise of all outstanding RSUs and SARs held by Mr. Yang, Mr. Wong, Mr. Liu Chuanzhi, Mr. Zhao John Huan and Mr. Zhu Linan and exercise of the Bonus Warrants in full, in each case assuming that (A) none of the members of the Subscriber Concert Group or Management Participants (together with their respective investment holding vehicles, if any) disposes of any Shares before Completion; and (B) there will not be any other changes to the total number of Shares in issue and shareholding structure of the Company from the Latest Practicable Date, are and will be as follows:

	As at the Latest Practicable Date[1]		**Immediately after Completion (assuming the Bonus Warrants are not exercised)**[1]		**Immediately after Completion and exercise of the Bonus Warrants in full**[1]		**Immediately after Completion and exercise of all outstanding RSUs and SARs held by Mr. Yang, Mr. Wong, Mr. Liu Chuanzhi, Mr. Zhao John Huan and Mr. Zhu Linan (assuming the Bonus Warrants are not exercised)**[2]		**Immediately after Completion, and exercise of all outstanding RSUs and SARs held by Mr. Yang, Mr. Wong, Mr. Liu Chuanzhi, Mr. Zhao John Huan and Mr. Zhu Linan and exercise of the Bonus Warrants in full**[2]	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*
Subscriber	–	–	906,136,890	7.54%	996,750,579	8.23%	906,136,890	7.54%	996,750,579	8.23%
LHL	2,867,636,724	25.81%	2,867,636,724	23.87%	2,867,636,724	23.69%	2,867,636,724	23.87%	2,867,636,724	23.69%
RLL	388,819,317	3.50%	388,819,317	3.24%	388,819,317	3.21%	388,819,317	3.24%	388,819,317	3.21%
LEL	240,100,000	2.16%	240,100,000	2.00%	240,100,000	1.98%	240,100,000	2.00%	240,100,000	1.98%
SHL	622,804,000	5.61%	622,804,000	5.18%	622,804,000	5.14%	622,804,000	5.18%	622,804,000	5.14%
Mr. Yang	77,906,291	0.70%	77,906,291	0.65%	77,906,291	0.64%	329,887,479	2.75%	329,887,479	2.73%
Mr. Wong	24,693,684	0.22%	24,693,684	0.21%	24,693,684	0.20%	80,036,604	0.67%	80,036,604	0.66%
Mr. Zhu Linan	2,886,713	0.026%	2,886,713	0.024%	2,886,713	0.024%	5,767,442	0.048%	5,767,442	0.048%
Mr. Zhao John Huan	442,148	0.004%	442,148	0.004%	442,148	0.004%	3,731,029	0.031%	3,731,029	0.031%
Mr. Liu Chuanzhi (including his spouse)	2,087,984	0.019%	2,087,984	0.017%	2,087,984	0.017%	4,184,960	0.035%	4,184,960	0.035%
Sub-total of the Subscriber Concert Group	4,227,376,861	38.05%	5,133,513,751	42.73%	5,224,127,440	43.16%	5,449,104,445	45.35%	5,539,718,134	45.76%

	As at the Latest Practicable Date[1]		Immediately after Completion (assuming the Bonus Warrants are not exercised)[1]		Immediately after Completion and exercise of the Bonus Warrants in full[1]		Immediately after Completion and exercise of all outstanding RSUs and SARs held by Mr. Yang, Mr. Wong, Mr. Liu Chuanzhi, Mr. Zhao John Huan and Mr. Zhu Linan (assuming the Bonus Warrants are not exercised)[2]		Immediately after Completion, and exercise of all outstanding RSUs and SARs held by Mr. Yang, Mr. Wong, Mr. Liu Chuanzhi, Mr. Zhao John Huan and Mr. Zhu Linan and exercise of the Bonus Warrants in full[2]	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*
Ms. Ma Xuezheng	13,182,996	0.119%	13,182,996	0.110%	13,182,996	0.109%	13,182,996	0.110%	13,182,996	0.109%
Mr. William O. Grabe	3,082,592	0.028%	3,082,592	0.026%	3,082,592	0.025%	3,082,592	0.026%	3,082,592	0.025%
Dr. Tian Suning	956,223	0.009%	956,223	0.008%	956,223	0.008%	956,223	0.008%	956,223	0.008%
Mr. Nicholas C. Allen	827,021	0.007%	827,021	0.007%	827,021	0.007%	827,021	0.007%	827,021	0.007%
Mr. Nobuyuki Idei	469,179	0.004%	469,179	0.004%	469,179	0.004%	469,179	0.004%	469,179	0.004%
Mr. William Tudor Brown	365,223	0.003%	365,223	0.003%	365,223	0.003%	365,223	0.003%	365,223	0.003%
Mr. Yang Chih-Yuan Jerry	254,494	0.002%	254,494	0.002%	254,494	0.002%	254,494	0.002%	254,494	0.002%
Mr. Gordon Robert Halyburton Orr	87,426	0.001%	87,426	0.001%	87,426	0.001%	87,426	0.001%	87,426	0.001%
Sub-total of the Directors (other than Mr. Yang, Mr. Zhu Linan and Mr. Zhao John Huan)	19,225,154	0.17%	19,225,154	0.16%	19,225,154	0.17%	19,225,154	0.16%	19,225,154	0.16%
Management Participants (other than Mr. Wong)	66,906,274	0.60%	66,906,274	0.56%	66,906,274	0.55%	66,906,274	0.56%	66,906,274	0.55%
Other Shareholders	6,795,146,435	61.17%	6,795,146,435	56.56%	6,795,146,435	56.13%	6,479,555,741	53.93%	6,479,555,741	53.53%
Total	**11,108,654,724**	**100%**	**12,014,791,614**	**100%**	**12,105,405,303**	**100%**	**12,014,791,614**	**100%**	**12,105,405,303**	**100%**

Notes:

1. Without taking into account of any RSUs and/or SARs held by Mr. Yang, Mr. Wong, Mr. Liu Chuanzhi, Mr. Zhao John Huan and Mr. Zhu Linan as of the Latest Practicable Date.

2. Assuming that the Shares to be delivered to Mr. Yang, Mr. Wong, Mr. Liu Chuanzhi, Mr. Zhao John Huan and Mr. Zhu Linan upon vesting of the RSUs and exercise of the SARs will be sourced through market purchases of the then existing Shares of the Company.

Based on the above, the Company will maintain the minimum public float of the Shares as required under the Listing Rules immediately upon completion of the Share Subscription.

INFORMATION OF THE PARTIES TO THE SUBSCRIPTION AGREEMENT

The Group

The Company is a company incorporated in Hong Kong with limited liability and its Shares have been listed on the Stock Exchange since 1994. The Group is principally engaged in the sales and manufacture of personal computers, tablets, smartphones, servers and related information technology products and the provision of advanced information services across the world.

The Subscriber

The Subscriber is a company incorporated in the Cayman Islands and is principally engaged in investment holding.

As at the Latest Practicable Date, the Subscriber is owned by SHL and LHL (through LEL) as to 50.50% and 49.50%, respectively. Immediately before or upon Completion, the Subscriber will allot and issue new shares to each of SHL, LHL (through LEL) and THC, which will hold a 18.95%, 32.00% and 49.05% shareholding interest in the Subscriber respectively.

The Trust and THC

The Trust is an employee benefit trust to be established for the purpose of providing a platform for the senior management of the Group to participate in the Subscription.

The Trust will hold its assets through THC, which is a trust holding company incorporated in the Cayman Islands. The sole shareholder of THC is the Trustee and the sole director of THC is Mr. Wong. The Trustee, which is the corporate trustee of the Trust, will be wholly-owned by Mr. Yang. Mr. Wong is the sole director of the Trustee.

The Trust Beneficiaries

The initial beneficiaries of the Trust will be the 35 Management Participants, comprising (a) Mr. Gianfranco Lanci, Mr. Aymar de Lencquesaing, Mr. Kirk Skaugen and Mr. Liu Jun (each being an Executive Vice President of the Group); (b) Mr. Wong; and (c) 30 other senior management members of the Group.

The Trustee may admit new beneficiaries to the Trust, and any such new beneficiary is to participate in the Trust by cash contribution to the Trust based on his pro-rata share of the then net asset value of the Trust by reference to the then fair market value of the assets (including the Subscription Shares) held by the Trust from time to time.

Any beneficiary shall be entitled to exit the Trust by written notice to the Trustee.

Trust Assets

The Trust assets will comprise of (a) shares in the Subscriber, which will hold Subscription Shares; (b) cash contribution from the Management Participants as beneficiaries of the Trust for participating in the Subscription; and (c) any distribution (cash or in-kind) made by the Subscriber.

Proposed Terms of the Trust

The beneficiaries of the Trust will enjoy the economic benefits from the Trust assets but will not have any rights or powers (a) to influence or interfere with the management of THC, the Subscriber or the Shares held by the Subscriber; or (b) to direct the exercise of the voting rights attached to the shares in the Subscriber or to the Shares held by the Subscriber.

Any exiting beneficiary shall be entitled to a distribution from the Trustee of his share of the Trust assets by reference to his initial contribution to the Trust bear to the total contribution received by the Trust from all beneficiaries (the "**Pro-rata Portion**"), LESS the Pro-rata Portion of any outstanding liabilities attached or attributable to the Trust assets. Upon death or cessation to be an employee of the Group, of a beneficiary, he or his successor or executors may also request for a distribution of such beneficiary's entitlement of the Trust assets in accordance with the terms of the Trust.

The Trust shall be permitted to dispose of its indirect shareholding in the Subscription Shares held in trust at the direction of the relevant beneficiaries.

REASONS FOR AND BENEFITS OF THE SUBSCRIPTION

The Company's present and future businesses need to be supported with a strong capital base. The proceeds from the Share Subscription will strengthen the Company's capital base, improve its balance sheet position to enable it to undertake a larger volume of business, with a view to enhancing, expanding and establishing its leading positions in the industries in which it operates. In view of the Group's financing needs, the Board has considered and discussed with its financial advisers regarding fund raising methods available to the Group before concluding that the Subscription is more favourable to the Company. Among the possible fund raising alternatives to the Share Subscription available to the Company, the Board considers that (a) debt financing, bank borrowings and issuance of bonds would increase the finance cost of the Group and more professional fees would be expected to be incurred; and (b) pre-emptive issue of equity securities such as rights issues and open offers are generally priced at a discount to the market price of the Shares and would require higher professional fees (in particular, underwriting commissions) and take longer to complete due to more complex deal structure and documentation. In addition, the Share Subscription involves the Management Participation which serves as a measure to retain the Management Participants within the Group so that they are further financially involved in the Company with aligned interest to continue to contribute to the development of the Group.

Furthermore, the Bonus Warrants, if exercised by the Subscriber, would raise further funds for the Company to improve its financial position. The exercise price of the Bonus Warrants represents approximately 19.95% over the closing price of HK$4.31 per Share as quoted on the Stock Exchange on the Last Trading Day. Such exercise price of the Bonus Warrants would also further incentivize Mr. Yang and the other relevant senior management of the Company (including the Management Participants) to align their interests with the growth of the Company.

By virtue of the interests of the Subscriber Concert Group in the Subscription, Mr. Zhu Linan (who is a director of LHL, RLL and the Subscriber), Mr. Zhao John Huan (who is also a director of LHL) and Mr. Yang (who controls SHL and is a director of SHL and the Subscriber and will become the sole shareholder of the Trustee), have abstained from voting on (and have not been counted in the quorum for) the relevant Board resolutions for approving the Subscription Agreement and the transactions contemplated thereunder. Save for Mr. Yang, Mr. Zhu Linan and Mr. Zhao John Huan, none of the Directors is regarded as having a material interest in, and therefore none of them is required to abstain from voting on, the relevant Board resolutions for approving the Subscription Agreement and the transactions contemplated thereunder.

The Directors (after taking into account the views of the Independent Board Committee whose opinion is set out in the letter from the Independent Board Committee as set out on pages 27 to 28 of this circular) consider (i) the terms of the Subscription Agreement to be normal commercial terms and the Subscription and the transactions contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (ii) the Subscription is an appropriate means of fund raising for the Company amongst the other financing alternatives.

LISTING RULES IMPLICATION

As at the Latest Practicable Date, the Subscriber is owned by SHL and LHL (through LEL) as to 50.50% and 49.50%, respectively. SHL is controlled as to 87.14% by Mr. Yang. Both Mr. Yang and Mr. Wong are directors of, and hence parties acting in concert with, SHL. Mr. Yang will become the sole shareholder of the Trustee which in turn controls THC. Immediately before or upon Completion, the Subscriber will allot and issue new shares to each of SHL, LHL (through LEL) and THC, which will hold 18.95%, 32.00% and 49.05% of the shareholding interest in the Subscriber, respectively. As the Subscriber constitutes an "associate" (as defined under the Listing Rules) of LHL (which is a controlling shareholder of the Company) and Mr. Yang (who is the Chairman, the Chief Executive Officer and an executive Director of the Company), the Subscriber is a connected person of the Company under the Listing Rules. As such, the Subscription constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

TAKEOVERS CODE IMPLICATIONS AND WHITEWASH WAIVER

The Whitewash Waiver

Immediately before or upon Completion, SHL, LHL (through LEL) and THC will hold a 18.95%, 32.00% and 49.05% shareholding interests in the Subscriber, respectively.

As of the Latest Practicable Date, (a) LHL, directly and indirectly, holds a 31.47% shareholding interest in the Company and is its single largest Shareholder; (b) Mr. Yang, directly and indirectly through SHL, controls a 6.31% shareholding interest in the Company; and (c) Mr. Wong controls a 0.22% shareholding interest in the Company. As disclosed in the section headed "*Financial Information – Consolidation of entities in which we hold less than 50% voting rights*" on page 354 of the prospectus of LHL dated 16 June 2015 in relation to its listing on the Main Board of the Stock Exchange, LHL "obtained an "acting in concert" undertaking from another shareholder" (being Mr. Yang in respect of his direct and/or indirect shareholding interests in the Company) and considers that it has de facto control over the Company. In light of the above undertaking, LHL, RLL, LEL, Mr. Yang and SHL are regarded as "parties acting in concert" for the purpose of the Takeovers Code.

Given that (i) Mr. Wong is a director of SHL and the sole director of each of THC and the Trustee; (ii) Mr. Yang will be the sole shareholder of the Trustee; (iii) each of SHL, LEL and THC is an associated company (as defined under the Takeovers Code) of the Subscriber, (iv) Mr. Zhu Linan is a director of LHL, RLL and the Subscriber; (v) Mr. Liu Chuanzhi is a director of LHL and RLL; and (vi) Mr. Zhao John Huan is a director of LHL, therefore, LHL, RLL, LEL, Mr. Yang, SHL, Mr. Wong, the Trustee, THC, the Subscriber, Mr. Zhu Linan, Mr. Zhao John Huan and Mr. Liu Chuanzhi are regarded as "parties acting in concert" for the purpose of the Takeovers Code.

The Subscriber Concert Group's aggregate shareholding interests in the Company will be increased from 4,227,376,861 Shares, representing approximately 38.05% of the total issued shares of the Company as at the Latest Practicable Date to 5,224,127,440 Shares, representing approximately 43.16% of the total issued shares of the Company as enlarged by the Share Subscription and the issuance of the Warrant Shares upon Completion and the exercise in full of the Bonus Warrants. On this basis, unless the Whitewash Waiver is obtained, the Subscriber Concert Group will be required to make a mandatory general offer to all the Shareholders for all equity share capital of the Company, other than those already owned or agreed to be acquired by the Subscriber Concert Group, pursuant to Rule 26 of the Takeovers Code.

LHL, Mr. Yang, Mr. Wong, SHL, the Trustee and the Subscriber has applied for a waiver from the obligation to make a mandatory general offer pursuant to Note 1 of Dispensations from Rule 26 of the Takeovers Code. The Executive, subject to, among other things, the approval of the Independent Shareholders by way of poll at the GM, is mindful to grant the Whitewash Waiver. The Subscriber Concert Group, the Management Participant Shareholders (together with their respective investment holding vehicles, if any) and those who are involved in or interested in the Subscription and/or the Whitewash Waiver will abstain from voting in respect of the resolution(s) to approve the Subscription, the Specific Mandate and the Whitewash Waiver at the GM. If the Whitewash Waiver is not approved by the Independent Shareholders, the Subscription will not proceed.

It is the intention of the Subscriber Concert Group to continue the existing business of the Group and the employment of the employees of the Group. The Subscriber Concert Group has no intention to redeploy the fixed assets of the Group or to introduce major changes to the business of the Group.

As at the Latest Practicable Date, the Company does not believe that the Subscription Agreement and any transactions contemplated thereunder and associated therewith give rise to any concerns in relation to compliance with other applicable rules or regulations (including the Listing Rules). The Company notes that the Executive may not grant the Whitewash Waiver if the Subscription Agreement and any transactions contemplated thereunder and associated therewith do not comply with other applicable rules and regulations.

The Special Deal

All the Management Participants (including Mr. Wong) will contribute their respective share of the Share Subscription Price in respect of their interest as beneficiaries in the effective pro-rata share of the Subscription Shares by cash contribution to the Trust. The Management Participation serves as a measure to retain the Management Participants within the Group so that they are further financially involved in the Company with aligned interest to continue to contribute to the development of the Group.

The Management Participation comprises the participation of the Management Participant Shareholders in the Subscription through THC and their interests in the Trust as beneficiaries. The Management Participant Shareholders are also direct and/or indirect holders of the Shares, holding in aggregate 91,599,958 Shares, representing 0.82% of the total Shares in issue as of the Latest Practicable Date. The Management Participant Shareholders comprise (a) Mr. Gianfranco Lanci, Mr. Aymar de Lencquesaing and Mr. Liu Jun (each being an Executive Vice President of the Group); (b) Mr. Wong; and (c) 23 other senior management members of the Group.

As the Relevant Management Participation arrangement, which will enable the Management Participant Shareholders to indirectly acquire an interest in the Subscription Shares (together with the associated Bonus Warrants) of the Company through THC and their interests in the Trust as beneficiaries, are not extended to all Shareholders, the Relevant Management Participation constitutes a special deal and requires the consent of the Executive under Note 3 to Rule 25 of the Takeovers Code. The Subscriber Concert Group has made an application for consent from the Executive in relation to the Relevant Management Participation conditional on the Independent Financial Adviser confirming that the Relevant Management Participation is fair and reasonable, and the passing of an ordinary resolution by the Independent Shareholders by way of poll at the GM to approve the Relevant Management Participation. The Subscriber Concert Group and the Management Participant Shareholders and those who are involved or interested in the Relevant Management Participation will abstain from voting in respect of the resolutions to approve the Relevant Management Participation at the GM. The terms for the subscription of new shares of the Subscriber by LHL, SHL and THC are the same and no financial assistance is provided to the Trust and/or its beneficiaries by Mr. Yang or LHL. Hence, no favourable terms are offered to the Management Participant Shareholders by the Subscriber, LHL and Mr. Yang under the Relevant Management Participation arrangement.

Given the structure and terms of the Trust as set out in the section headed "Information of the Parties to the Subscription Agreement – The Subscriber – The Trust and THC" above, save for Mr. Wong, none of the Management Participant is acting in concert (as defined under the Takeovers Code) with each other or with any member of the Subscriber Concert Group.

GENERAL

Independent Board Committee

Pursuant to the Listing Rules and Rule 2.8 of the Takeovers Code, the Independent Board Committee comprising of all the independent non-executive Directors who have no direct or indirect interest in the Whitewash Waiver and/or the Relevant Management Participation has been formed to advise the Independent Shareholders on the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation.

As (i) Mr. Zhu Linan, a non-executive Director of the Company, is also a director of LHL, RLL and the Subscriber; and (ii) Mr. Zhao John Huan, a non-executive Director of the Company, is also a director of LHL, both Mr. Zhu Linan and Mr. Zhao John Huan are considered to have interests in the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation and hence do not form part of the Independent Board Committee for the purpose of Rule 2.8 of the Takeovers Code.

Independent Financial Adviser

Anglo Chinese Corporate Finance, Limited has been appointed, with the approval of the Independent Board Committee, as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation, and to make recommendations (i) as to whether the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation are fair and reasonable; and (ii) as to voting of the resolution(s) to approve the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation at the GM.

The full text of the letter from the Independent Financial Adviser is set out on pages 29 to 48 of this circular.

GM AND PROXY ARRANGEMENT

The notice of the GM is set out on pages GM-1 to GM-3 of this circular.

Pursuant to the Listing Rules, any vote of shareholders at a general meeting must be taken by poll. An announcement on the poll vote results will be published by the Company after the GM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

The voting in respect of the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation at the GM will be conducted by way of a poll. The Subscriber Concert Group, the Management Participant Shareholders (together with their respective investment holding vehicles, if any) and those who are involved in or interested in the Subscription, the Specific Mandate, the Whitewash Waiver and/or the Relevant Management Participation will be required to abstain from voting in respect of the resolutions to approve the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation at the GM. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, after having made reasonable enquiries, no other Shareholder will be required to abstain from voting at the GM in respect of the resolutions to approve, among other things, the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation.

A form of proxy for use at the GM is enclosed with this circular and such form of proxy is also published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.lenovo.com/hk/publication). To be valid, a proxy form together with the power of attorney or other authority, if any under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at (form or document sent by any electronic means will not be accepted) at the Company's share registrar, Tricor Abacus Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the GM or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending and voting at the GM if you so wish.

Please refer to the website of the Company (www.lenovo.com/hk/publication) for, among other things, published announcements, circulars, financial reports, press releases, information on corporate governance and other information of the Company.

RECOMMENDATION

The Board (including members of the Independent Board Committee after considering the advice of the Independent Financial Adviser) considers that the terms of the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation are fair and reasonable, on normal commercial terms and in the interests of the Company and the Shareholders as a whole and, accordingly, recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the GM. You are advised to read the letter from the Independent Board Committee and the letter from the Independent Financial Advisers mentioned above before deciding how to vote on the resolutions to be proposed at the GM.

ADDITIONAL GENERAL INFORMATION

Your attention is drawn to (i) this letter from the Board; (ii) the letter from the Independent Board Committee set out on pages 27 to 28 of this circular which contains the recommendations of the Independent Board Committee to the Independent Shareholders regarding the proposed resolutions to approve, among other things, the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation; and (iii) the letter from the Independent Financial Adviser set out on pages 29 to 48 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders in respect of the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation.

Your attention is also drawn to the additional information set out in the appendices to this circular.

Completion of the Subscription is subject to the fulfillment of certain conditions. Accordingly, the Subscription may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares, and are recommended to consult their stockbroker, bank manager, solicitor or other professional adviser if they are in any doubt about their position or as to actions they should take.

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

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

16 October 2017

To the Independent Shareholders

Dear Sir or Madam,

(1) CONNECTED TRANSACTION AND PROPOSED SHARE AND BONUS WARRANTS ISSUANCE UNDER SPECIFIC MANDATE
(2) APPLICATION FOR WHITEWASH WAIVER
(3) SPECIAL DEAL RELATING TO RELEVANT MANAGEMENT PARTICIPATION
AND
(4) NOTICE OF GENERAL MEETING

We refer to the circular of the Company dated 16 October 2017 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, terms used herein have the same meanings as defined in the Circular.

We have been appointed by the Board as the Independent Board Committee to advise the Independent Shareholders as to whether the terms of the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation are fair and reasonable as far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole, and to recommend whether or not the Independent Shareholders should vote for the resolutions to be proposed at the GM to approve the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation. The appointment of Anglo Chinese Corporate Finance, Limited as the Independent Financial Adviser to advise you and us in this regard has been approved by us. Details of its advice, together with the principal factors and reasons it has taken into consideration in arriving at such advice, are set out on pages 29 to 48 of the Circular.

Your attention is also drawn to the "Letter from the Board" in the Circular and other information set out in the appendices thereto.

Having considered the terms of the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation and taking into account the independent advice from Anglo Chinese Corporate Finance, Limited, in particular the principal factors, reasons and recommendation as set out in its letter, we are of the opinion that the terms of the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation are fair and reasonable and in the interests of the Company and the Independent Shareholders. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the GM to approve the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation.

Yours faithfully,
For and on behalf of the
Independent Board Committee

Dr. Tian Suning
Independent Non-executive Director

Mr. Nicholas C. Allen
Independent Non-executive Director

Mr. Nobuyuki Idei
Independent Non-executive Director

Mr. William O. Grabe
Independent Non-executive Director

Mr. William Tudor Brown
Independent Non-executive Director

Ms. Ma Xuezheng
Independent Non-executive Director

Mr. Yang Chih-Yuan Jerry
Independent Non-executive Director

Mr. Gordon Robert Halyburton Orr
Independent Non-executive Director

The following is the text of the letter of advice from Anglo Chinese Corporate Finance, Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this document.

ANGLO CHINESE
CORPORATE FINANCE, LIMITED
www.anglochinesegroup.com
40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong

16 October, 2017

To the Independent Board Committee and
the Independent Shareholders

Dear Sirs,

(1) CONNECTED TRANSACTION AND PROPOSED SHARE AND BONUS WARRANTS ISSUANCE UNDER SPECIFIC MANDATE
(2) APPLICATION FOR WHITEWASH WAIVER
AND
(3) SPECIAL DEAL RELATING TO RELEVANT MANAGEMENT PARTICIPATION

INTRODUCTION

We refer to our appointment by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation, details of which are set out in the "Letter from the Board" contained in this circular dated 16 October, 2017 issued by the Company to, among others, the Independent Shareholders, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in this circular unless the context requires otherwise.

On 29 September 2017 after trading hours, the Company and the Subscriber entered into the Subscription Agreement, pursuant to which the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, the Subscription Shares comprising 906,136,890 Shares at the Share Subscription Price of HK$4.31 per Subscription Share.

The Subscription Shares represent (i) approximately 8.16% of the total number of Shares in issue of the Company as at the date of this announcement; and (ii) approximately 7.54% of the total number of Shares in issue of the Company as enlarged by the Share Subscription (assuming that there will not be any other changes in the total number of Shares in issue of the Company between the date of this announcement and the Completion Date).

Pursuant to the Subscription Agreement, the Company has also conditionally agreed to issue, and the Subscriber shall be entitled to, the Bonus Warrants. Upon Completion, an aggregate of 90,613,689 units of Bonus Warrants will be issued by the Company to the Subscriber. The exercise in full of the subscription rights attaching to the Bonus Warrants will result in the issue of 90,613,689 Shares which represent (i) approximately 0.75% of the total number of Shares in issue of the Company as enlarged by the Share Subscription and (ii) approximately 0.75% of the total number of Shares in issue of the Company as enlarged by the Share Subscription and the full exercise of the Bonus Warrants (assuming there will be no other changes in the total number of Shares in issue of the Company). The initial exercise price for the Bonus Warrants is HK$5.17, which is equal to approximately 1.2 times of the Share Subscription Price. The Subscription is subject to conditions set out in the Letter from the Board.

As at the Latest Practicable Date, the Subscriber is owned by LHL (through LEL) and SHL as to 49.50% and 50.50%, respectively. SHL is controlled as to 87.14% by Mr. Yang. Both Mr. Yang and Mr. Wong are directors of, and hence parties acting in concert with, SHL. Mr. Yang is the sole shareholder of the Trustee which in turn controls THC. Immediately before or upon Completion, the Subscriber will allot and issue new shares to each of SHL, LHL (through LEL) and THC, which will hold a 18.95%, 32.00% and 49.05%, respectively, shareholding interest in the Subscriber. As the Subscriber constitutes an "associate" (as defined under the Listing Rules) of LHL (which is a controlling shareholder (as defined under the Listing Rules) of the Company) and Mr. Yang (who is the Chairman, the Chief Executive Officer and an executive Director of the Company), the Subscriber is a connected person of the Company under the Listing Rules. As such, the Subscription constitutes a connected transaction of the Company and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As disclosed in the letter from the Board, the Subscriber, LHL, RLL, LEL, Mr. Yang, SHL, Mr. Wong, the Trustee, THC, Mr. Liu Chuanzhi, Mr. Zhu Linan, Mr. Zhao John Huan and the Subscriber are regarded as "parties acting in concert" for the purpose of the Takeovers Code. The Subscriber Concert Group's aggregate shareholding interests in the Company will be increased from 4,227,376,861 Shares, representing approximately 38.05% of the total issued shares of the Company as at the date of this announcement to 5,224,127,440 Shares, representing approximately 43.16% of the total issued shares of the Company as enlarged by the Share Subscription and the issuance of the Warrant Shares upon Completion and the exercise in full of the Bonus Warrants. On this basis, unless the Whitewash Waiver is obtained, the Subscriber Concert Group will be required to make a mandatory general offer to all the Shareholders for all equity share capital of the Company, other than those already owned or agreed to be acquired by the Subscriber Concert Group, pursuant to Rule 26 of the Takeovers Code.

LHL, Mr. Yang, Mr. Wong, SHL, the Trustee and the Subscriber have applied for a waiver from the obligation to make a mandatory general offer pursuant to Note 1 of Dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, the approval of the Independent Shareholders by way of poll at the GM. The Subscriber Concert Group, the Management Participant Shareholders (together with their respective investment holding vehicles, if any) and those who are involved in or interested in the Subscription and/or the Whitewash Waiver will abstain from voting in respect of the resolution(s) to approve the Subscription, the Specific Mandate and the Whitewash Waiver at the GM. If the Whitewash Waiver is not granted by the Executive, or if granted, is not approved by the Independent Shareholders, the Subscription will not proceed.

As the Relevant Management Participation arrangement, which will enable the Management Participant Shareholders to indirectly acquire an interest in the Subscription Shares (together with the associated Bonus Warrants) through THC and their interest in the Trust as beneficiaries, are not extended to all Shareholders, the Relevant Management Participation constitutes a special deal and requires the consent of the Executive under Note 3 to Rule 25 of the Takeovers Code.

An application has been made by the Subscriber Concert Group for consent from the Executive in relation to the Relevant Management Participation conditional on our confirmation to the Independent Board Committee that the Relevant Management Participation is fair and reasonable, and the passing of an ordinary resolution by the Independent Shareholders by way of poll at the GM to approve the Relevant Management Participation.

The Independent Board Committee, comprising all the independent non-executive Directors who have no direct or indirect interest in the Whitewash Waiver and/or the Relevant Management Participation, has been formed to advise the Independent Shareholders as to whether the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation is fair and reasonable and in the interests of the Company and Independent Shareholders as a whole, and to make recommendation to the Independent Shareholders as to their voting of the resolution(s) to approve the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation at the GM. As (i) Mr. Zhu Linan, a non-executive Director of the Company, is also a director of LHL and the Subscriber; and (ii) Mr. Zhao John Huan, a non-executive Director of the Company, is also a director of LHL, both Mr. Zhu Linan and Mr. Zhao John Huan are considered to have interests in the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation and hence do not form part of the Independent Board Committee for the purpose of Rule 2.8 of the Takeovers Code. Pursuant to Rule 2.1 of the Code, the Independent Board Committee has approved the appointment of Anglo Chinese Corporate Finance, Limited as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Company. We have also assumed that the information and representations contained or referred to in this circular were true and accurate at the time they were made and continued to be so at the Latest Practicable Date. We have reviewed the published information on the Company and the trading performance of the Shares on the Stock Exchange. We have sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed by them. We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in this circular and to provide a reasonable basis for our opinion and advice. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company. We have not, however, conducted an independent investigation into the business and affairs of the Group or the Subscriber Concert Group or the associates of either of them, nor have we carried out any independent verification of the information supplied.

Apart from normal professional fees for our services to the Company in connection with this appointment, no arrangement exists whereby we will receive any benefits from the Group or any of its associates.

PRINCIPAL FACTORS AND CONSIDERATIONS

The following are the principal factors which we have taken into account in assessing the fairness and reasonableness of the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation and in giving our advice to the Independent Board Committee and the Independent Shareholders.

Background information of the Group

The Group is principally engaged in the sales and manufacture of personal computers, tablets, smartphones, servers and related information technology products and the provision of advanced information services across the world.

As stated in the FY2017/18 first quarterly results announcement (the "First Quarter Results") of the Group, the Group continued its focus on striking a balance between growth and profitability in its PC and smart device business while executing its transformation strategy in its Mobile and Data Center businesses.

Set out below is a summary of the Group's operating results and financial position extracted from the Company's annual report for the year ended 31 March 2017 and the First Quarter Results of the Group.

	Three months ended 30 June 2017 (unaudited)	**Year ended 31 March 2017 (audited)**	**Year ended 31 March 2016 (audited)**
	US$'000	*US$'000*	*US$'000*
Revenue	10,012,214	43,034,731	44,912,097
Profit/(Loss) before interest and tax	2,782	721,554	(40,100)
Finance cost	72,044	231,627	236,751
Profit/(Loss) before tax	(69,262)	489,927	(276,851)
Profit/(Loss) for the year/period	(53,865)	530,441	(144,575)
Interest coverage ratio *(Note 1)*	0.04	3.12	NA

	As at 30 June 2017 (unaudited)	**As at 31 March 2017 (audited)**	**As at 31 March 2016 (audited)**
	US$'000	*US$'000*	*US$'000*
Non-current assets	12,477,541	12,317,587	11,966,613
Current assets			
– Cash and cash equivalents	1,387,470	2,754,599	1,926,880
– Trade receivables	4,496,852	4,468,392	4,403,507
– Notes receivables	46,517	68,333	130,718
– Other current assets	8,218,433	7,577,063	6,505,671
sub-total:	14,149,272	14,868,387	12,966,776
Current liabilities			
– Trade payables	6,209,107	5,649,925	4,266,687
– Notes payables	791,181	835,613	234,661
– Other payables and accruals	9,071,699	10,004,614	8,305,844
– Borrowings	264,262	70,003	745,815
– Other current liabilities	1,716,251	1,773,691	2,207,253
sub-total:	18,052,500	18,333,846	15,760,260

	As at 30 June 2017 (unaudited) *US$'000*	As at 31 March 2017 (audited) *US$'000*	As at 31 March 2016 (audited) *US$'000*
Non-current liabilities			
– Borrowings	2,579,152	2,966,692	2,505,112
– Other non-current liabilities	1,817,070	1,790,214	3,641,768
sub-total:	4,396,222	4,756,906	6,146,880
Net current liabilities	3,903,228	3,465,459	2,793,484
Net assets	4,178,091	4,095,222	3,026,249
Current ratio *(Note 2)*	0.78	0.81	0.82
Gearing ratio *(Note 3)*	0.68	0.74	1.07

Notes:

1 Interest coverage ratio is calculated by dividing profit before interest and tax by finance cost

2 Current ratio is calculated by dividing the total current assets by total current liabilities

3 Gearing ratio is calculated by dividing total borrowing by net assets

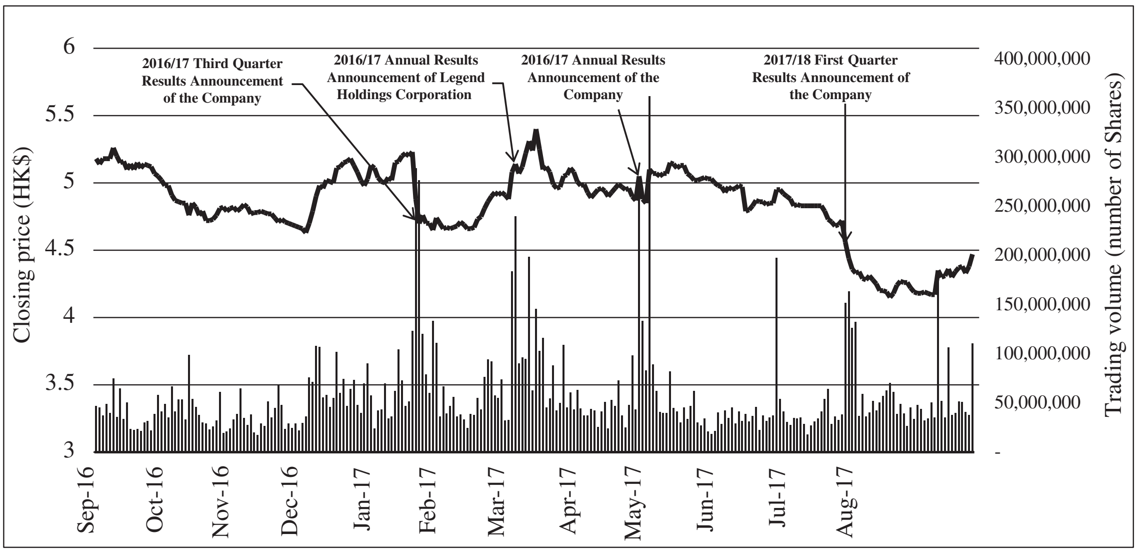
As at 30 June 2017 and 31 March 2017, the Group was in net current liability positions despite a slight improvement as reflected by a slight decreasing trend in the Group's current and gearing ratio. The high net current liability of the Group was partially contributed by (i) a high trade payable, which is in excess of the trade receivable in the same period; and (ii) high amounts of other payables and accruals, majority of which are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors. Such high current liability of the Group has resulted in a current ratio of less than one for the Group as at 30 June 2017 and 31 March 2017, also puts into question the Group's ability to pay off its current liabilities with its current assets and to maintain a sustainable and healthy working capital cycle in the future. That said, it should be recognised that the Group normally operates with a net current liability position due to in part to the relatively longer credit terms provided by its subcontractors and suppliers compared to the credit terms it offers to its customers. The net current liability position of the Group as at 30 June 2017 is at its highest level since 31 March 2016, thus the proceeds from the Subscription will help to bring the level back towards the historical levels of the Group.

The level of borrowing of the Group, representing mainly interest-bearing notes that are to be due in May 2019 to March 2022, stood high as at 30 June 2017 and 31 March 2017 and gave rise to a gearing ratio of 0.68 and 0.74, which indicated the negative impact of finance cost on the Group's future earnings. The interest coverage ratio of 0.04 and 3.12 for the three months ended 30 June 2017 and the year ended 31 March 2017 also supported the negative impact of the finance cost of the Group on its earnings. Thus, the proceeds from the Subscription will help provide the Company with funding for future acquisition opportunities while also strengthening its equity capital base.

Review of historical closing prices and trading volumes of the Shares

Historical closing prices of the Shares

We have reviewed the historical closing prices of the Shares as quoted on the Stock Exchange during the period from 29 September 2016 up to and including the Latest Practicable Date to assess the fairness and reasonableness of the Share Subscription Price and the Exercise Price (the "**Review Period**").



During the Review Period, the lowest and highest closing price of the Shares as quoted on the Stock Exchange was HK$4.15 and HK$5.40, respectively, with an average of approximately HK$4.84. We also note that since late July 2017, closing prices of the Shares showed a declining trend, from $4.95 on 24 July 2017 to HK$4.15 on 7 September 2017, during which time the Company published the First Quarter Results in August 2017.

Trading volume of the Shares

Tabulated below are the average daily trading volume of the Shares in each of the month during the Review Period and the respective percentages of the Shares' average trading volume as compared to the total number of issued Shares of the Company as at the date of the Subscription Agreement:

	Average daily trading volume	% of the average volume to total number of issued Shares as at the date of the Announcement	% of the average volume to total number of issued Shares held by the public as at the date of the Announcement *(Note)*
2016			
October	38,436,525	0.35%	0.56%
November	41,024,925	0.37%	0.60%
December	34,798,513	0.31%	0.51%
2017			
January	64,237,093	0.58%	0.94%
February	90,671,150	0.82%	1.32%
March	66,817,636	0.60%	0.97%
April	78,476,974	0.71%	1.14%
May	76,894,767	0.69%	1.12%
June	40,944,182	0.37%	0.60%
July	42,762,367	0.38%	0.62%
August	56,262,431	0.51%	0.82%
September	50,747,129	0.46%	0.74%
October (up to the Latest Practicable Date)	58,066,011	0.52%	0.84%

Note: Based on 6,864,140,693 Shares in issue held by the public, which includes the 66,906,274 Shares held by the Management Participants (other than Mr. Wong).

The average daily trading volume of the Shares during the Review Period ranged from 38,436,525 to 90,671,150 Shares, representing 0.35% to 0.82% of the total number of issued Shares as at the Latest Practicable Date. Although the percentage of the public float traded is relatively low, the volume of the Shares and turnover value is substantial given that the market capitalisation of the Company is over HK$48 billion as at the Latest Practicable Date.

Principal terms of the Subscription Agreement

Date: 29 September 2017

Parties: the Company, as the issuer; and

the Subscriber, as the subscriber.

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and the Subscriber has conditionally agreed to subscribe for, 906,136,890 Shares at the Share Subscription Price of HK$4.31 per Subscription Share, with bonus issue of Bonus Warrants to subscribe for 90,613,689 Shares at an initial exercise price of HK$5.17 per Warrant Share (the "**Exercise Price**").

The 906,136,890 Subscription Shares represent approximately 8.16% of the total number of Shares in issue of the Company as at the Latest Practicable Date and approximately 7.54% of the total number of Shares in issue of the Company as enlarged by the Share Subscription upon Completion (assuming that there will not be any other changes in the total number of Shares in issue of the Company between the Latest Practicable Date and the Completion Date).

Assuming the exercise in full of the subscription rights attaching to the Bonus Warrants, a total of 90,613,689 Warrant Shares will be issued representing approximately 0.75% of the total number of Shares in issue of the Company as at the Latest Practicable Date and approximately 0.75% of the total number of Shares in issue of the Company as enlarged by the Share Subscription and the full exercise of the Bonus Warrants (assuming that there will not be any other changes in the total number of Shares in issue of the Company).

Share Subscription Price and the Exercise Price

The Share Subscription Price of HK$4.31 per Subscription Share represents:

(i) the closing price of HK$4.31 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 1.17% over the average closing price of approximately HK$4.26 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;

(iii) a premium of approximately 2.13% over the average closing price of approximately HK$4.22 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;

(iv) a premium of approximately 1.17% over the average closing price of approximately HK$4.26 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day; and

(v) a discount of approximately 3.58% to the closing price of HK$4.47 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

As stated in the Letter from the Board, we note that the Share Subscription Price was agreed after arm's length negotiations between the Company and the Subscriber with reference to the then recent market price of the Shares. The section below will review the historical price movement of the Shares in more depth.

The Exercise Price of HK$5.17 per Warrant Share represents:

(i) a premium of approximately 19.95% over the closing price of HK$4.31 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a premium of approximately 21.36% over the average closing price of approximately HK$4.26 per Share as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day;

(iii) a premium of approximately 22.51% over the average closing price of approximately HK$4.22 per Share as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day;

(iv) a premium of approximately 21.36% over the average closing price of approximately HK$4.26 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including the Last Trading Day; and

(v) a premium of approximately 15.66% over the closing price of HK$4.47 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

In respect of the Bonus Warrants, we note that (i) their exercise period is set to be 3 years from the date of the Bonus Warrants Issuance; (ii) they will be issued in registered form; (iii) they will not be transferrable except by operation of laws; and (iv) the Warrant Shares, when issued and fully paid, will rank equally in all respects among themselves and with all other Shares in issue.

Reasons and benefits of the Subscription

As stated in the Letter from the Board, the Board considers that the Company's present and future businesses need to be supported with a strong capital base. The proceeds from the Share Subscription will strengthen the Company's capital base, improve its balance sheet position to enable it to undertake a larger volume of business, with a view to enhancing, expanding and establishing its leading positions in the industries in which it operates. In view of the Group's financing needs, the Board has considered and discussed with financial institutions regarding fund raising methods available to the Group. Among the possible fund raising alternatives to the Share Subscription available to the Company, the Board considers that (a) debt financing, bank borrowings and issuance of bonds would increase the finance cost of the Group and more professional fees would be expected to be incurred; and (b) more time and costs will be involved for pre-emptive issue of equity securities. In addition, the Share Subscription involves the Management Participation which serves as a measure to retain the Management Participants within the Group so that they are further financially involved in the Company with aligned interest to continue to contribute to the development of the Group.

We are of the view that the Subscription, with the Share Subscription Price and the initial exercise price for Bonus Warrants being at par and approximately 20% premium over the closing price of the Share on the Last Trading Day, respectively, can demonstrate the long term commitment and support of the Subscriber, being its controlling Shareholder and Management Participants, to the Company for its long term development and growth.

Financing alternatives of the Group

Based on our discussion with the Company, other than the Subscription, the Board has also considered the feasibilities of various fund raising methods such as (i) debt financing; (ii) placement of new Shares to independent investors; and (iii) other form of equity financing with the following reasons.

(i) Debt financing

Debt financing methods had been contemplated by the Company in view of various factors including (a) bank and/or other borrowings could be designated and tailored to match the Company's needs in terms of timeline and size of fund, while (b) issue of bonds would not result in any dilution effect to the shareholding structure of the Company. However, increased borrowings and bond issuance would result in significant interest expenses and adversely affect the profit and the gearing ratio of the Group. As such, debt financing proposals may not be favourable and suitable for the Company based on its current financial position.

According to the First Quarter Results, 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. If the Group borrows HK$3,905.4 million, the amount of gross proceeds expected from the Share Subscription, an estimated additional interest expense of approximately HK$151.3 million (calculated based on annual interest rate of 3.875%) may be incurred annually which would have adverse impact to the profitability of the Company.

(ii) Placement of new Shares to independent investors

Given the thin trading volume of the Shares during the Review Period as discussed above under "Trading volume of the Shares" above, the Directors consider that it is difficult for the placing agent to seek independent third parties to subscribe new shares without a large discount as compared with the Subscriber.

(iii) Other forms of equity financing

The Directors are of the view that both open offer and rights issue would allow the Shareholders to participate in the subscription on new Shares to be issued by the Company and maintain their respective pro-rata shareholdings in the Company. However, the Directors considered that the relatively small size of the fund raising exercise doesn't warrant an open offer or a rights issue, which may incur additional time and cost. In addition, the Directors considered it is difficult to find an underwriter who is willing to underwrite any untaken Shares of the Shareholder without a large discount as compared with the Subscriber.

In addition to the above, the Subscription will provide more certainty to the Company to raise the required fund. Further capital may be raised upon the exercise of subscription rights attaching to the Bonus Warrants during the exercise period. Taking into account the above, we concur with the Directors' view that equity financing by way of the Subscription is comparatively a more appropriate and viable means of raising additional capital.

Comparable Transactions

Comparison with other share subscription exercises

As part of our analysis, we have also identified fund raising exercises during the Review Period regarding subscription of new shares under specific mandate by connected persons (such as substantial and controlling shareholders) to raise equity capital. Fund raising activities which formed part of the structure of the acquisition were not included as pricing of new shares in such cases would be distorted by the consideration price of the acquisition. To the best of our knowledge and as far as we are aware of, there are 21 transactions which we considered exhaustive and have met the above-stated criteria (the "**Reference Share Subscriptions**").

Set out below are the list of Reference Share Subscriptions:

Date of announcement	Stock code	Company name	Premium/(discount) of the subscription price to the closing price of the shares on the last trading day before the relevant announcement or the date of the corresponding agreement	Premium/(discount) of the subscription price to the closing price of the shares for the last five consecutive trading days up to and including last trading day before the relevant announcement or corresponding agreement	Premium/(discount) of the subscription price of shares over/(to) latest reported NAV per share as at the date of announcement
20-Sep-17	1033	Sinopec Oilfield Service Corporation	-3.60%	0.60%	158.27%
12-Sep-17	732	Truly International Holdings Limited	-12.90%	-13.50%	-19.20%
12-Sep-17	6899	Ourgame International Holdings Limited	-3.65%	-0.43%	4.06%
01-Sep-17	1559	Kwan On Holdings Limited	-4.40%	-3.70%	842.03%
30-Aug-17	1908	C&D International Investment Group Limited	-13.10%	-11.88%	3.96%

Date of announcement	Stock code	Company name	Premium/(discount) of the subscription price to the closing price of the shares on the last trading day before the relevant announcement or the date of the corresponding agreement	Premium/(discount) of the subscription price to the closing price of the shares for the last five consecutive trading days up to and including last trading day before the relevant announcement or corresponding agreement	Premium/(discount) of the subscription price of shares over/(to) latest reported NAV per share as at the date of announcement
22-Aug-17	762	China Unicom (Hong Kong) Limited	7.12%	11.45%	24.91%
17-Aug-17	3639	Yida China Holdings Limited	1.77%	1.77%	-50.87%
25-Jul-17	1803	Beijing Sports and Entertainment Industry Group Limited	-21.00%	-20.33%	586.50%
26-Jun-17	1055	China Southern Airlines Company Limited	-7.52%	-2.94%	-4.30%
05-Jun-17	2012	Sunshine Oilsands Ltd	-16.43%	-18.75%	-66.62%
17-May-17	605	China Financial Services Holdings Limited	-6.85%	-6.85%	-16.36%
15-May-17	1543	Guangdong Join-Share Financing Guarantee Investment Co., Ltd	0.00%	-2.74%	-24.39%
02-May-17	6818	China Everbright Bank Company Limited	48.01%	46.38%	-15.33%
07-Apr-17	555	REXLot Holdings Limited	15.52%	14.73%	-75.62%
24-Jan-17	2366	SMI Culture & Travel Group Holdings Limited	-12.50%	-13.15%	6.87%

Date of announcement	Stock code	Company name	Premium/(discount) of the subscription price to the closing price of the shares on the last trading day before the relevant announcement or the date of the corresponding agreement	Premium/(discount) of the subscription price to the closing price of the shares for the last five consecutive trading days up to and including last trading day before the relevant announcement or corresponding agreement	Premium/(discount) of the subscription price of shares over/(to) latest reported NAV per share as at the date of announcement
20-Jan-17	8228	National Arts Entertainment and Culture Group Limited	0.90%	0.00%	-1.76%
13-Jan-17	1486	C Cheng Holdings Limited	-37.62%	-37.62%	105.73%
04-Jan-17	8132	China Oil Gangran Energy Group Holdings Limited	-12.17%	-9.01%	184.91%
21-Dec-16	800	A8 New Media Group Limited	-12.77%	-13.14%	-39.90%
16-Nov-16	2014	Ozner Water International Holding Limited	2.40%	7.55%	40.16%
11-Nov-16	629	Yue Da Mining Holdings Limited	31.03%	35.23%	-12.04%
		Average	-2.75%	-1.73%	77.67%
		Median	-4.40%	-2.94%	-1.76%
		Max	48.01%	46.38%	842.03%
		Min	-37.62%	-37.62%	-75.62%
	992	**The Company**	0.00%	1.17%	47.10% *(Note)*

Note: The latest reported NAV per share of the Company is calculated based the unaudited consolidated net asset value of the Company as at 30 June 2017 as extracted from the First Quarter Results.

As shown in the above table, the subscription price of the Reference Share Subscriptions had a median discount of 4.40%, 2.94% and 1.76% to the closing price of shares on the last trading day, average closing price of shares for the last five trading days and latest reported NAV per share, respectively. The Share Subscription Price of HK$4.31, which demonstrated par, premium of 1.17% and premium of 47.10% over the closing price of Shares on the Last Trading Day, average closing price of Shares for the last five trading days and the latest reported net asset value per Share, respectively, lies above and is more favourable than the market median.

Comparison with other warrant subscription exercises

We have identified exercises regarding placing/subscription of warrants under specific mandate during the Review Period. We did not restrict our selection criteria to subscription of warrants by a connected person as that would generate a very limited result and render our analysis futile. To the best of our knowledge and as far as we are aware of, there are seven transactions which we consider exhaustive and have met the above-stated criteria (the "**Reference Warrants Issuance**").

Set out below are the list of Reference Warrants Issuance:

Date of announcement	Stock code	Company name	Term (Year)	Premium/(discount) of the exercise price of warrant over/(to) closing price of shares on the last trading day prior to announcement	Premium/(discount) of the exercise price of warrant over/(to) average closing price of shares for the last five trading days prior to announcement	Premium/(discount) of the exercise price of warrant over/(to) latest reported NAV per share as at the date of the announcement
15-Sep-17	872	TUS International Limited	2 years	16.44%	16.44%	50.89%
18-Jul-17	690	Uni-Bio Science Group Limited	3 years	25.03%	34.49%	137.42%
02-Jun-17	1733	E-Commodities Holdings Limited	5 years	10.00%	11.49%	83.51%
16-May-17	8351	Larry Jewelry International Company Limited	1 year	3.45%	9.01%	-14.14%
07-May-17	442	KTL International Holdings Group Limited	2 years	29.87%	31.09%	237.68%

Date of announcement	Stock code	Company name	Term (Year)	Premium/(discount) of the exercise price of warrant over/(to) closing price of shares on the last trading day prior to announcement	Premium/(discount) of the exercise price of warrant over/(to) average closing price of shares for the last five trading days prior to announcement	Premium/(discount) of the exercise price of warrant over/(to) latest reported NAV per share as at the date of the announcement
07-Mar-17	91	International Standard Resources Holdings Limited	1 year	0.00%	1.31%	-71.77%
13-Dec-16	211	Styland Holdings Limited	1 year	-49.75%	-50.98%	-15.79%
			Average	5.01%	7.55%	58.26%
			Median	10.00%	11.49%	50.89%
			Max	29.87%	34.49%	237.68%
			Min	-49.75%	-50.98%	-71.77%
	992	**The Company**	3 years	19.95%	21.36%	76.45% *(Note)*

Note: The latest reported NAV per share of the Company is calculated based the unaudited consolidated net asset value of the Company as at 30 June 2017 as extracted from the First Quarter Results.

As shown in the above table, the exercise price of the Reference Warrants Issuance exhibited a median of 10.00%, 11.49% and 50.89% over the closing price of shares on the last trading day, average closing price of shares for the last five trading days and the latest reported NAV per share. The exercise price of the Bonus Warrants of HK$5.17, which demonstrated a premium of 19.95%, 21.36% and 76.45% over the closing price of Shares on the Last Trading Day, average closing price of Shares for the last five trading days and the latest reported net asset value per Share, lies above and is more favourable than the market average.

Overall

Given the above list of comparables produced a wide range of premium/discount, medians were referenced instead of average to provide a more meaningful analysis to avoid effects of the outliers which may skew the averages.

For the selection of the comparable transactions, we have screened out those transactions whose reasons for the fund raising exercises were for the acquisition of a specific target company. However, it should be noted that the companies underlying to the comparable transactions selected for our comparable analysis above may differ still from the Company in terms of market capitalisation, operation scale and business nature. That said, in our view, these comparables are relevant to our analysis in assessing the fairness and reasonableness of the

Subscription Price and the exercise price of the Bonus Warrant as the commercial aspects of similar general fund raising exercises are in line regardless of factors such as market capitalisation, operation scale and business nature.

Financial effects of the Subscription

Cash flow

As stated above under "Background information of the Group" above, the Group had cash and cash equivalents of approximately US$1,387 million as at 30 June 2017. Upon Completion, the liquidity and cash position of the Group will be improved as a result of the net proceeds of approximately HK$3,876 million raised from the Subscription. Although the subscription rights attached to the Bonus Warrants do not generate any immediate proceeds to the Company and there would be no certainty whether the Bonus Warrants will be exercised in full nor the amount of additional proceeds that will generated by the Company from it, the exercise of the Bonus Warrants, if materialises, will also have a positive effect on the working capital position of the Group. Accordingly, the cash position, net current assets and current ratio of the Company are expected to be improved upon Completion.

Earnings

Save for the expenses relating to the Subscription, the Completion will not have any immediate material impact to the earnings of the Company.

Net assets value

Based on the First Quarter Results, the unaudited consolidated net asset value of the Company was approximately US$4,178 million as at 30 June 2017. The net asset value of the Group would increase by the net proceeds from the Subscription of approximately HK$3,876 million (equivalent to approximately US$497 million). Assuming that the Bonus Warrants are fully exercised, the Subscription would further increase the net asset value of the Group by approximately HK$468 million (equivalent to approximately US$60 million).

As at the Latest Practicable Date, the number of Shares in issue was 11,108,654,724 Shares. The unaudited net asset value per Share based on the net asset value of the Group as at 30 June 2017 was approximately HK$2.93 per Share (equivalent to approximately US$0.38 per Share). Assuming no other changes to the issued share capital of the Company and Group's net asset value as at 30 June 2017 other than the Subscription, upon completion, the number of Shares in issue will be increased to 12,014,791,614 Share and the net asset value will be increased by net the proceeds of Subscription to approximately HK$36,465 million (equivalent to approximately US$4,675 million), representing a net asset value per Share of approximately HK$3.04 per Share (equivalent to approximately US$0.39 per Share). Assuming that the Bonus Warrants are fully exercised, the number of Shares in issue will be increased to 12,105,405,303 Share and the Subscription would further increase the net asset value of the Group to approximately HK$36,934 million (equivalent to approximately US$4,735 million), representing a net asset value per Share of approximately HK$3.05 per Share (equivalent to approximately US$0.39 per Share). As such, the Subscription will therefore have an overall positive impact on the net asset value of the Group.

Overall

Based on the above financial effects of the Subscription (including the issue of Bonus Warrants), we are of the view that the Subscription will have an overall positive effect on the financial position of the Group and consider that the Subscription is in the interests of the Company and the Shareholders as a whole. It should be noted that the aforementioned analyses are based on the published and available information, for illustrative purpose only and does not purport to represent how the financial position of the Group will be upon completion of the Subscription.

Effects on the shareholding structure of the Company

We note that the shareholding interest of the Independent Shareholders will be diluted from approximately 61.17% to approximately 56.56% as a result of the issue of the Subscription Shares immediately after Completion. The shareholding interest of the Independent Shareholders will be further diluted to approximately 56.13% as a result of the exercise of the Bonus Warrants in full.

As discussed in the paragraph headed "Background information of the Group" above, the Group was in net current liability position of approximately US$3,903 million as at 30 June 2017 and approximately HK$3,465 million as at 31 March 2017. The issue of Subscription Shares to raise funds is considered to be in the interest of the Shareholders as a whole, as the Company is free from the interest burden and other additional costs discussed above. In light of the financial position of the Group and the fact that the issue of the Subscription Shares and Bonus Warrants Shares, if any, would not result in additional gearing or finance costs to the Group which may otherwise be incurred if the Group were to adopt other alternatives, we concur with the Directors' view that the Subscription is in the interest of the Company and the Shareholders as a whole, and consider that the dilution to Independent Shareholders is justifiable.

Relevant Management Participation arrangement

As the Relevant Management Participation arrangement, which will enable the Management Participant Shareholders to indirectly acquire an interest in the Subscription Shares (together with the associated Bonus Warrants) of the Company through THC and their interest in the Trust as beneficiaries, are not extended to all Shareholders, the Relevant Management Participation constitutes a special deal and requires the consent of the Executive under Note 3 to Rule 25 of the Takeovers Code.

As stated in the letter from the Board, the initial beneficiaries of the Trust will comprise the Management Participants, who will initially each contribute certain funds to the Trust in accordance with their respective beneficial interests in the Trust. The funds to be contributed by each of the Management Participants to the Trust will be determined based on the Share Subscription Price and their respective pro-rata interests in the Subscription Shares to be subscribed by the Subscriber (on a see-through basis).

In order to ascertain our understanding of the Relevant Management Participation arrangement for the purpose of satisfying the requirements set out under Rule 25 of the Takeovers Code, we have discussed with the Directors and obtained that confirmation from the Company that i) the terms for the subscription of new shares of the Subscriber by LHL, SHL and THC are the same; and ii) no financial assistance is provided to the Trust and/or its beneficiaries by Mr. Yang or LHL. Hence, no favourable terms are offered to the Management Participants by the Subscriber, LHL and Mr. Yang under the Relevant Management Participation arrangement, which is not offered to the Independent Shareholders.

As stated above under "Reasons and benefits of the Subscription above", the Share Subscription involves the Management Participation which serves as a measure to retain the Management Participants within the Group so that they are further financially involved in the Company with aligned interest to continue to contribute to the development of the Group.

In addition, the Subscription is conditional on the approval of the Relevant Management Participation arrangement. Hence, if the Relevant Management Participation arrangement is not approved, the Subscription will not proceed.

Based on the above, we concur with the Directors that the Relevant Management Participation arrangement is fair and reasonable.

Whitewash waiver

The Subscriber Concert Group's aggregate shareholding interests in the Company will be increased from 4,227,376,861 Shares, representing approximately 38.05% of the total issued shares of the Company as at the date of this announcement to 5,224,127,440 Shares, representing approximately 43.16% of the total issued shares of the Company as enlarged by the Share Subscription and the issuance of the Warrant Shares upon Completion and the exercise in full of the Bonus Warrants. On this basis, unless the Whitewash Waiver is obtained, the Subscriber Concert Group will be required to make a mandatory general offer to all the Shareholders for all equity share capital of the Company, other than those already owned or agreed to be acquired by the Subscriber Concert Group, pursuant to Rule 26 of the Takeovers Code. LHL, Mr. Yang, Mr. Wong, SHL, the Trustee and the Subscriber have applied for a waiver from the obligation to make a mandatory general offer pursuant to Note 1 on Dispensations from Rule 26 of the Takeovers Code. If the Whitewash Waiver is not granted by the Executive, or if granted, is not approved by the Independent Shareholders, the Subscription will not proceed.

Considering that Subscription, with the Share Subscription Price and the initial exercise price for Bonus Warrants being at par and 20% premium over the closing price of the Share on the Last Trading Day, respectively, the Share Subscription Price would not represent an attractive disposal price for Independent Shareholders which they could not receive in the open market. In other words, were a mandatory offer obligation is made by the Subscriber Concert Group made at the Share Subscription Price, the offer price would not be considered attractive to the Independent Shareholders based on the current market price. Any Shareholders who wishes to dispose of their interests in the Share could do so in the market. Despite the low percentage of trading in the public float, the liquidity and turnover value of the Shares traded is substantial enough for Shareholders who may wish to dispose a substantial amount of Shares in the open market. Similarly, the subscription rights under the Bonus Warrants would not be expected to be exercised until the initial exercise price were at market price or below. The Subscriber Concert Group includes the Company's controlling shareholder, LHL, hence no change of control will occur as a result of the Subscription. In addition, Subscriber Concert Group's aggregate shareholding interests in the Company will not exceed 50% upon Completion, implying that Subscriber Concert Group will still be subject to obligations under Rule 26 of the Code to make a general offer if the Subscriber Concert Group may want to further increase their shareholding interests in the Company in the future.

The Subscription will not only further align LHL's interests with the Company, but also align and incentivise the senior management of the Group (including Mr. Yang, Mr. Wong and the Management Participant Shareholders) though their interests in the Subscriber. The Subscription Agreement is conditional on the Whitewash Waiver, among other things, hence the Whitewash waiver must be approved for the Subscription to proceed.

OPINION AND RECOMMENDATION

Given the above, we consider the terms of the Subscription are on normal commercial terms and in the ordinary course of the business of the Company and the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to approve the the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation.

Yours faithfully,
for and on behalf of
Anglo Chinese Corporate Finance, Limited
Stuart Wong
Director

Mr. Stuart Wong is a licensed person registered with the SFC and as a responsible officer of Anglo Chinese Corporate Finance, Limited, to carry out Type 6 (advising on corporate finance) regulated activities under the SFO. He has 16 years of experience in corporate finance.

1. FINANCIAL SUMMARY OF THE GROUP

The following is a summary of the audited financial information of the Group for each of the three years ended 31 March 2017, 31 March 2016 and 31 March 2015, as extracted from the published consolidated financial statements of the Company as set forth in the annual reports of the Company for the years ended 31 March 2017, 31 March 2016 and 31 March 2015, respectively.

	(Audited) Year ended March 31,		
	2017	**2016**	**2015**
	(in US$ thousands, except per share amounts)		
Revenue	43,034,731	44,912,097	46,295,593
Cost of sales	(36,929,215)	(38,288,160)	(39,613,780)
Gross profit	6,105,516	6,623,937	6,681,813
Other income – net	10,891	2,185	1,490
Selling and distribution expenses	(2,680,631)	(2,372,833)	(2,302,182)
Administrative expenses	(1,851,990)	(2,108,747)	(1,883,114)
Research and development expenses	(1,361,691)	(1,491,370)	(1,220,919)
Other operating income/(expenses) – net	450,253	(714,993)	(168,574)
Operating profit/(loss)	672,348	(61,821)	1,108,514
Finance income	27,795	32,816	30,902
Finance costs	(231,627)	(236,751)	(185,504)
Share of profits/(losses) of associates and joint ventures	21,411	(11,095)	17,055
Profit/(loss) before taxation	489,927	(276,851)	970,967
Taxation	40,514	132,276	(134,364)
Profit/(loss) for the year	530,441	(144,575)	836,603
Profit/(loss) attributable to			
Equity holders of the Company	535,084	(128,146)	828,715
Perpetual securities holders	1,872	–	–
Other non-controlling interests	(6,515)	(16,429)	7,888
Earnings/(loss) per share attributable to equity holders of the Company			
Basic	US4.86 cents	US(1.16) cents	US7.77 cents
Diluted	US4.86 cents	US(1.16) cents	US7.69 cents
Dividends	378,375	379,316	379,646

The auditor of the Company did not issue any qualified opinion on the audited consolidated financial statements of the Group for each of the three years ended 31 March 2017, 31 March 2016 and 31 March 2015. There are no exceptional items because of size, nature or incidence that are required to be disclosed in the consolidated financial statements of the Group for each of the three years ended 31 March 2017, 31 March 2016 and 31 March 2015.

2. LATEST PUBLISHED FINANCIAL INFORMATION

The followings are the consolidated financial information of the Group derived from the audited consolidated financial statements of the Group for the year ended 31 March 2017 as extracted from the annual report of the Company for the year ended 31 March 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
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

	Note	2017 US$'000	2016 US$'000
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

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

	Attributable to equity holders of the Company											
	Share capital *US$'000*	**Investment revaluation reserve** *US$'000*	**Employee share trusts** *US$'000*	**Share-based compensation reserve** *US$'000*	**Hedging reserve** *US$'000*	**Exchange reserve** *US$'000*	**Other reserve** *US$'000*	**Retained earnings** *US$'000*	**Perpetual securities** *US$'000*	**Other non-controlling interests** *US$'000*	**Put option written on non-controlling interest** *US$'000*	**Total** *US$'000*
At April 1, 2016	2,689,882	962	(52,897)	13,161	(88,328)	(1,141,195)	83,363	1,495,252	–	238,949	(212,900)	3,026,249
Profit/(loss) for the year	–	–	–	–	–	–	–	535,084	1,872	(6,515)	–	530,441
Other comprehensive (loss)/income	–	(3,927)	–	–	83,000	(85,423)	–	42,390	–	–	–	36,040
Total comprehensive (loss)/ income for the year	–	(3,927)	–	–	83,000	(85,423)	–	577,474	1,872	(6,515)	–	566,481
Transfer to statutory reserve	–	–	–	–	–	–	2,214	(2,214)	–	–	–	–
Vesting of shares under long-term incentive program	–	–	60,711	(72,368)	–	–	–	–	–	–	–	(11,657)
Share-based compensation	–	–	–	182,700	–	–	–	–	–	–	–	182,700
Contribution to employee share trusts	–	–	(119,042)	–	–	–	–	–	–	–	–	(119,042)
Change in ownership interest in a subsidiary	–	–	–	–	–	–	(22,826)	–	–	2,387	–	(20,439)
Issue of perpetual securities *(Note 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.

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.

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.

(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.

(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.

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.

(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.

(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.

(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.

(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.

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.

(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.

(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.

(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.

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.

(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.

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.

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.

(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.

	2017			2016		
	United States dollar	**Renminbi**	**Euro**	**United States dollar**	**Renminbi**	**Euro**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'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

(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).

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	**Over 3 months to 1 year**	**Over 1 to 3 years**	**Over 3 to 5 years**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*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)

(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.

(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	**2016**
	US$ million	*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

(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.

The following table presents the assets and liabilities that are measured at fair value at March 31, 2017 and 2016.

	2017				2016			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'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

	2017				2016			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
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

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	**2016**
	US$'000	*US$'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	**2016**
	US$'000	*US$'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.

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.

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.

(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.

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

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

(b) Segment assets for reportable segments

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

(c) Segment liabilities for reportable segments

	2017	2016
	US$'000	*US$'000*
China	4,884,148	4,332,504
AP	1,631,624	1,924,875
EMEA	1,569,619	1,762,689
AG	3,375,555	3,559,616
Segment liabilities for reportable segments	11,460,946	11,579,684
Unallocated:		
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	2016
	US$'000	*US$'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.

(e) Other segment information

	Depreciation and amortization		Finance income		Finance costs		Additions to non-current assets *(Note)*	
	2017	2016	2017	2016	2017	2016	2017	2016
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'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	2016
	US$'000	*US$'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

7 OPERATING PROFIT/(LOSS)

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

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

(b) Finance costs

	2017 *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)

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.

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	2017			2016		
	Before tax	**Tax charge**	**After tax**	**Before tax**	**Tax credit**	**After tax**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'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	**2016**
	US$'000	*US$'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**	**Salaries**	**Discretionary bonuses** *(note i)*	**Long-term incentive awards** *(note ii)*	**Retirement payments and employer's contribution to pension schemes**	**Housing allowance**	**Other benefits-in-kind**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'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

	2016							
Name of Director	Fees	Salaries	Discretionary bonuses *(note i)*	Long-term incentive awards *(note ii)*	Retirement payments and employer's contribution to pension schemes	Housing allowance	Other benefits-in-kind	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'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.

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	**2016**
	US$'000	*US$'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
	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	Leasehold improvements	Plant and machinery	Furniture and fixtures	Office equipment	Motor vehicles	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*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	2016
	US$'000	*US$'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	2016	2017	2016	2017	2016	2017	2016
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'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

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	**AP**	**EMEA**	**AG**	**Total**
	US$ million	*US$ million*	*US$ million*	*US$ million*	*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	**AP**	**EMEA**	**AG**	**Total**
	US$ million	*US$ million*	*US$ million*	*US$ million*	*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.

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	**2016**
	US$'000	*US$'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.

The following sets out the aggregate amount of the Group's share of associates and joint ventures:

	2017	**2016**
	US$'000	*US$'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	**Assets at fair value through profit and loss**	**Derivatives used for hedging**	**Available-for-sale financial assets**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*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

	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortized cost	Total
	US$'000	*US$'000*	*US$'000*	*US$'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	2016
	US$'000	*US$'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

(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.

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	**2016**
	US$'000	*US$'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

(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	**Undistributed earnings**	**Property valuation**	**Accelerated tax depreciation**	**Others**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'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	**2016**
	US$'000	*US$'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

Movements in the provision for impairment of trade receivables are as follows:

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

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

(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	2016
	US$'000	*US$'000*
Accruals	2,066,687	2,048,551
Allowance for billing adjustments *(i)*	1,611,495	1,904,076
Deferred considerations *(ii), (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.

(b) The components of provisions of the Group are as follows:

	Warranty	Environmental restoration	Restructuring	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Year ended March 31, 2016				
At the beginning of the year	1,559,795	16,475	–	1,576,270
Exchange adjustment	(19,051)	382	1,501	(17,168)
Provisions made	945,709	9,104	342,103	1,296,916
Amounts utilized	(1,164,186)	(8,477)	(220,501)	(1,393,164)
Unused amounts reversed	–	(8,667)	–	(8,667)
	1,322,267	8,817	123,103	1,454,187
Long-term portion classified as non-current liabilities	(290,857)	(6,073)	–	(296,930)
At the end of the year	1,031,410	2,744	123,103	1,157,257
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	2016
	US$'000	*US$'000*
Current liabilities		
Short-term loans *(i)*	70,003	745,815
Non-current liabilities		
Term loan *(ii)*	397,687	396,365
Notes *(iii)*	2,569,005	2,108,747
	2,966,692	2,505,112
	3,036,695	3,250,927

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

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

Total bank facilities of the Group are as follows:

	Total facilities		**Utilized amounts**	
	2017	**2016**	**2017**	**2016**
	US$'000	*US$'000*	*US$'000*	*US$'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	**2016**
	US$'000	*US$'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

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.

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	**2016**
	US$'000	*US$'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

(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	Share-based compensation reserve	Exchange reserve	Other reserve	Retained earnings	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'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

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

36 RETIREMENT BENEFIT OBLIGATIONS

	2017	2016
	US$'000	*US$'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.

(a) Pension benefits

The amounts recognized in the consolidated balance sheet are determined as follows:

	2017	**2016**
	US$'000	*US$'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%

	Impact on defined benefit obligation		
2016	**Change in assumption**	**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	**2016**
	US$'000	*US$'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

(c) Additional information on post-employment benefits (pension and medical)

Plan assets of the Group comprise:

	2017			2016		
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'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.

Expected maturity analysis of undiscounted pension and post-employments medical benefits:

At March 31, 2017	Less than a year	Between 1 – 2 years	Between 2 – 5 years	Over 5 years	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*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	2016	2017	2016
	US$'000	*US$'000*	*US$'000*	*US$'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.

Reconciliation of movements in present value of defined benefit obligations of the Group:

	Pension		Medical	
	2017	2016	2017	2016
	US$'000	*US$'000*	*US$'000*	*US$'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	2016	2015	2014	2013
	US$'000	*US$'000*	*US$'000*	*US$'000*	*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

The amounts recognized in the consolidated income statement are as follows:

	Pension		Medical	
	2017	2016	2017	2016
	US$'000	*US$'000*	*US$'000*	*US$'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	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

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2017	2016	Principal activities
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
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

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2017	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
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

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2017	2016	Principal activities
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
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

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2017	2016	Principal activities
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
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

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2017	2016	Principal activities
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
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.

3. INDEBTEDNESS

As at the close of business on 31 August 2017, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group's borrowings amounted to approximately US$4,030 million, which comprise short term loans of US$1,434 million and long term notes of US$2,596 million.

Save as disclosed above and apart from normal payables in the ordinary course of business, at the close of business on 31 August 2017, the Group did not have any debt securities authorised or created but unissued, issued and outstanding or agreed to be issued, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors confirm that there were no material changes in terms of indebtedness and contingent liabilities of the Group since 31 August 2017 and up to the Latest Practicable Date.

4. MATERIAL CHANGES

The Directors confirm that there has been no material change in the financial or trading position or outlook of the Group since 31 March 2017, being the date to which the latest published audited consolidated financial statements of the Group were made up, up to and including the Latest Practicable Date.

5. FIRST QUARTER RESULTS ANNOUNCEMENT

Reference is made to the First Quarter Results Announcement (the full text of which is set out in Appendix II of this circular) in which the Board announced the unaudited condensed consolidated interim financial information of the Group for the three months ended 30 June 2017 (the "**Financial Information**") together with comparative figures for the corresponding period of last year. Pursuant to Rule 10 of the Takeovers Code, the Financial Information constitutes a profit forecast and must be reported on by the Company's financial adviser and its auditors or accountants. The Financial Information has been reported on by PricewaterhouseCoopers, the auditors of the Company, and Anglo Chinese Corporate Finance, Limited, the Independent Financial Adviser. PricewaterhouseCoopers has conducted its work in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and has reported that, so far as the accounting policies and calculations are concerned, the Financial Information has been properly compiled on a basis consistent, in all material respects, with the accounting policies adopted by the Group, as set out in the audited annual consolidated financial statements of the Group for the year ended 31 March 2017 and the new/revised accounting standards introduced that are effective for the accounting period beginning 1 April 2017, where applicable. Anglo Chinese Corporate Finance, Limited is satisfied that the Financial Information has been made by the Board with due care and consideration. Your attention is drawn to the reports issued by PricewaterhouseCoopers and Anglo Chinese Corporate Finance, Limited on the Financial Information in the First Quarter Results Announcement set out in Appendix III to this circular respectively.

Lenovo

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 992)

FY2017/18 FIRST QUARTER RESULTS ANNOUNCEMENT

QUARTERLY RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") announces the unaudited results of the Company and its subsidiaries (the "Group") for the three months ended June 30, 2017 together with comparative figures for the corresponding period of last year, as follows:

FINANCIAL HIGHLIGHTS

- Group revenue of US$10B, remains flat YTY, up 1% YTY excluding currency impact
- Group loss before taxation of US$69M and Group loss attributable to equity holders of the Company of US$72M
- Maintained PC industry-leading profitability; mobile and data center businesses showed operational improvements indicating transformation is on track
- Despite challenging market conditions, Lenovo now has sharper customer focus, stronger organization and more compelling products to execute its 3-wave strategy in driving long-term growth

	3 months ended June 30, 2017 (unaudited) *US$'million*	3 months ended June 30, 2016 (unaudited) *US$'million*	Year-on-year change
Revenue	10,012	10,056	0%
Gross profit	1,365	1,534	(11)%
Gross profit margin	13.6%	15.3%	(1.7)pts
Operating expenses	(1,371)	(1,289)	6%
Operating (loss)/profit	(6)	245	N/A
Other non-operating expenses – net	(63)	(39)	60%
(Loss)/profit before taxation	(69)	206	N/A
(Loss)/profit for the period	(54)	168	N/A
(Loss)/profit attributable to equity holders of the Company	(72)	173	N/A
(Loss)/earnings per share attributable to equity holders of the Company			
Basic	US (0.66) cents	US 1.57 cents	N/A
Diluted	US (0.66) cents	US 1.56 cents	N/A

BUSINESS REVIEW AND OUTLOOK

Business Review

During the three months ended June 30, 2017, the Group continued its focus on striking a balance between growth and profitability in its PC and smart device business while executing its transformation strategy in its Mobile and Data Center businesses. The challenges arising from the combination of key component cost increases and supply constraints continued to impact the Group's performance in the quarter under review. Despite the challenging market conditions, Lenovo remained a leading player in the PC plus Tablet market for the quarter under review and continued to focus on protecting profit. The Group's Mobile business achieved another quarter of revenue growth driven by the continued strong growth in Latin America and Western Europe, while China continued to refine its strategy. For the Data Center business, the Group's transformation work under its new business leader started to show positive momentum, especially in mature markets, while it continued to transition its business model to balance between growth and profitability. The Group also continued to build its capabilities in "Device + Cloud" and "Infrastructure + Cloud". At the Lenovo Tech World event in Shanghai on July 20, 2017, the Group showcased several concept smart devices and artificial intelligence solutions to demonstrate such capabilities. Moreover, the Group's Capital and Incubator Group continued to actively invest in AI, internet of things, big data, and VR/AR (virtual reality/augmented reality) to support its Device + Cloud strategy, in which these added capabilities will both develop new businesses and strengthen existing ones.

For the three months ended June 30, 2017, the Group's consolidated revenue was almost flat year-on-year with 0.4 percent decline year-on-year, or an increase of 0.8 percent excluding currency impact, to US$10,012 million. Revenue of the Group's PC and Smart Device business was US$7,005 million, representing a year-on-year increase of 0.2 percent. Revenue of the Mobile business increased 2 percent year-on-year to US$1,746 million. Revenue of the Data Center business decreased 11 percent year-on-year to US$971 million. Meanwhile, revenue of other goods and services was US$290 million.

For the fiscal quarter ended June 30, 2017, the Group's gross profit was US$1,365 million, a decrease of 11 percent year-on-year, while gross margin decreased by 1.7 percentage point year-on-year to 13.6 percent, impacted largely by component cost increase arising from supply constraints across various products. Operating expenses were up by 6 percent year-on-year to US$1,371 million, and the expense-to-revenue ratio was 13.7 percent, against 12.8 percent for the same period last year. The increase in expenses and expense-to-revenue ratio was mainly attributable to the disposal gain on non-core property recorded in the same period of the previous year that resulted in lower expenses. The Group recorded a profit before taxation before the non-cash M&A related accounting charges of US$5 million against US$152 million pre-tax profit that excluded the non-cash M&A related accounting charges and property disposal gain recorded in the same period previous year. The Group's loss attributable to equity holders was US$72 million against US$173 million of profit recorded in the same period previous year.

Performance of Product Business Groups

During the fiscal quarter ended June 30, 2017, Lenovo continued to balance between growth and profitability in its PC and smart device business, while transforming its Mobile and Data Center businesses to develop a solid foundation for long-term sustainable growth.

PC and Smart Device Business Group (PCSD)

During the quarter under review, despite challenges in the slower PC market growth, currency volatility, supply constraints and key components cost increases, the Group remained a leading player in the PC plus Tablet market in the quarter under review as it executed its strategy to capture market consolidation opportunities, and focused innovation for fast-growing product segments. The Group recorded another strong double-digit growth in the gaming segment in the quarter.

For the fiscal quarter ended June 30, 2017, the Group continued to strike a balance between growth and profitability in the fiscal quarter. As such, the PCSD revenue growth exceeded the shipment growth in the quarter under review on better average selling price driven by innovative products and better product mix. The Group's global PC unit shipments decreased 6 percent year-on-year to 12.4 million, against a market decline of 3 percent. Lenovo's market share dropped 0.6 percentage point year-on-year to 20.4 percent for the quarter according to industry estimates.

The Group's PC plus Tablet shipments reached 14.5 million for the fiscal quarter, representing a drop of 7 percent year-on-year against a market decline of 3 percent. Despite that, the Group remained a leading player in the combined PC plus Tablet market.

For the fiscal quarter ended June 30, 2017, revenue of the Group's PCSD business was US$7,005 million, representing approximately 70 percent of the Group's total revenue, and largely flat year-on-year. The business group recorded a pre-tax profit of US$291 million, down 21 percent year-on-year. Pre-tax profit margin was 4.2 percent, down 1.1 percentage point year-on-year, mainly due to impact from component shortages and cost hike.

Mobile Business Group (MBG)

The Group's mobile business in the fiscal quarter under review started showing signs of strengthening, leading to a strong performance in ROW (rest of the world/outside China) markets, while China continued to refine its strategy.

The Group continued to have an extensive global operation and recorded strong shipments growth in Latin America and Western Europe of 56 percent and 137 percent year-on-year, respectively, during the quarter under review. As a result, the Group's worldwide smartphone shipments for the quarter grew for the second consecutive quarter by 1 percent year-on-year against a flattish market and its worldwide smartphone market share was 3.2 percent for the fiscal quarter. The Group's innovative, differentiated premium products like Moto Z, Moto Mods, and the fifth 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 continues to refine strategy to build a solid foundation for future growth.

Mobile business revenue was US$1,746 million, representing approximately 17 percent of the Group's total revenue, increased 2 percent year-on-year for the fiscal quarter ended June 30, 2017. The Group has launched new mainstream Moto models, as well as the next generation premium model Moto Z towards the end of the quarter under review. Therefore, the average selling price in the quarter remained largely flat year-on-year.

Owing to the above-mentioned new product launches, the Group saw an increase in branding and marketing expenses, while increased key component costs continued to exert pressure operationally. Despite that, China's operation was more stabilized and ROW saw a better product mix, leading the business group to record an improved operational pre-tax profit margin by 2.2 percentage point year-on-year. Operational loss before taxation for the period under review was US$129 million if excluding non-cash M&A related accounting charges.

Data Center Business Group (DCG)

The Group continued to execute its transformation plan during the quarter with investments in building direct sales capability, strengthening the channel and product solution capabilities to drive future sustainable profitable growth. However, the competitive industry landscape and increased component costs continued to pressure the Group performance in the quarter under review. The new business leader has been on board since last November and is leading the transformation. As a result of these efforts, the Group started to show positive momentum in its operations in ROW with revenue growing year-on-year for the first time in North America and Western Europe since the acquisition of System X.

In the High Performance Computing (HPC) business, the Group was ranked number 2 on the HPC Top 500 List, and number 1 in China. Lenovo was named the fastest growing HPC provider in the world by IDC. The Group in the quarter launched the largest product portfolio in history under two brands: ThinkSystem and ThinkAgile. At the same time, the Group continued to leverage strategic partnerships in bringing next-generation IT solutions to customers. The Group attained 43 world record benchmarks on its new ThinkSystems, the most in the industry compared to competitors. The Group also maintained its worldwide number one ranking in x86 server reliability and customer satisfaction according to the latest industry surveys. The Group continued to transition business model to strike a balance between growth and profitability.

For the fiscal quarter ended June 30, 2017, revenue of the data center business was US$971 million, representing approximately 10 percent of the Group's total revenue, a decrease of 11 percent year-on-year as it was still undergoing its business transformation. As such, the Group's data center business recorded an operational loss before taxation of US$114 million, if excluding the non-cash M&A related accounting charges during the quarter.

Lenovo Capital and Incubator Group (LCIG) and Others

The Group's Capital and Incubator Group began at the start of the previous fiscal year with a mission to invest and build the Group's capability in AI (artificial intelligence), internet of things, Big Data and VR/AR (virtual reality/augmented reality) across various sectors such as manufacturing, healthcare and smart car. The Group also made progress in expanding its ecosystem with Lenovo ID users reaching 225 million cumulative users as of the fiscal quarter end under review.

During the quarter under review, the Group closed several investment deals to ramp up the above-mentioned capabilities, and continued to gain traction as a big data solution provider winning orders from key customers, as well as an Internet of Things connectivity solution provider winning new partners and customers.

Revenue from the LCIG, and other products such as consumer electronic businesses from previous acquisitions was US$290 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 quarter under review.

China

China accounted for 25 percent of the Group's total revenue. The China PC market in the quarter saw a double-digit decline year-on-year. To mitigate the overall market weakness along with component cost hike, the Group focused on improving product mix and ASP performance. As such, the Group's revenue performance was better than its shipment performance in the quarter. The Group's China PC market share dropped 2.2 percentage points year-on-year to 35.6 percent in the quarter, but remained the strong number one in the market. The profitability of China PC operations was negatively impacted by mostly the component cost increase.

Competition in the China smartphone market remained very keen amidst the Group's transition process, so the Group continued to record a decline in both revenue and shipments while focusing on refining its strategy.

In data center business, the Group continued to transition its business model to strike a balance between growth and profitability, while continuing to invest in direct sales capabilities and strengthening the channel and product solution capabilities. Hence the performance during the quarter under review was impacted by its business model transition, along with the impact from increased component costs.

The PC weakness in China, the on-going transformation in the data center business and the impact of key component cost increases resulted in the year-on-year decline of its profit before taxation. The pre-tax profit was US$83 million and pre-tax profit margin was 3.3 percent, declining 1.5 percentage points year-on-year.

Americas (AG)

Americas accounted for 32 percent of the Group's total revenue. The Group sought a balance between growth and profitability, and delivered solid PC revenue growth in AG during the quarter under review, despite its PC unit shipments declining by 5 percent year-on-year. As such, its PC market share decreased by 0.5 percentage points year-on-year to 13.9 percent for the fiscal quarter under review, according to industry estimate. However within AG, the Group continued to see strength in Latin American with PC market share gain of 0.3 percentage point year-on-year.

The Group's Moto brand smartphones continued to show strong growth in Latin America and enjoyed premium brand image during the quarter 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 differentiated premium category. As a result, the Group's smartphone shipment grew 46 percent year-on-year, gained 1.9 percentage points in market share. The Group invested in marketing and promotion for new product launches that came at the end of the quarter, which impacted the profitability in the quarter under review.

The Group's data center business started to show positive momentum with revenue growing year-on-year first time since acquisition of System X in the quarter under review, indicating the transformation efforts are beginning to come to fruition. The Group continued to invest in enhancing its sales capabilities, strengthening the channel and product solution capabilities.

The Group recorded a profit before taxation of US$41 million in the region and its pre-tax profit margin was 1.3 percent, remained largely flat compared to the same quarter a year ago.

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 slower growth, resulting in the PC market in the emerging part of the region to decline 2 percent year-on-year in shipments, according to industry estimates. Despite the overall market weakness, the Group gained 0.8 percentage points of market share in PCs in the Asia Pacific region during the quarter under review. The Group maintained its number two position in the PC market with market share of 16.4 percent in the quarter.

The Group's smartphone business in the region faced fierce competition during the quarter, however the Moto brand continued to show strong momentum with strong activation rates from new products launched in the quarter. The Group continued to invest in channel expansion during the quarter.

The Group continued to transform its data center business in the quarter under review with investments in enhancing capabilities in sales, channel, and product solutions.

Loss before taxation was US$42 million and pre-tax profit margin was negative 2.6 percent, against a positive 1.0 percent in the same quarter previous year, mainly due to the transition in its smartphone and data center businesses.

Europe-Middle East-Africa (EMEA)

EMEA accounted for 27 percent of the Group's total revenue. During the quarter under review, the Group saw its PC business in EMEA gaining back momentum with margin expansion owing to solid performance in Western Europe. Its PC unit shipments grew 5 percent year-on-year, against a market decline of 1 percent year-on-year; market share reached 20.6 percent, an increase of 1.1 percentage point year-on-year.

The Group's smartphone business continued to successfully break through in the Western Europe market during the quarter under review. Its smartphone shipments grew 137 percent year-on-year in Western Europe, gaining 1.5 percentage points in market share during the quarter. However, shipments for the entire EMEA region were down 6 percent year-on-year largely due to its strategy to balance growth and profitability in the emerging part of the region.

The Group's data center business started to show positive momentum with revenue growing year-on-year first time since acquisition of System X in the quarter under review, indicating the transformation efforts are beginning to come to fruition. The Group continued to invest in enhancing its sales capabilities, strengthening the channel and product solution capabilities.

The Group incurred US$41 million loss before taxation in EMEA during the quarter under review, leading to a pre-tax profit margin of negative 1.5 percent, largely flat year-on-year, as it continued to transform its smartphone and data enter businesses.

Outlook

Looking forward, the supply constraint 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.

In the PCSD business, the Group will continue to strike a balance between growth and profitability in its core PC business. Lenovo will leverage the industry consolidation opportunities, and drive growth in fast-growing segments such as detachables, gaming PCs, millennial PCs, and workstations. The commercial segment is expected to continue to outperform the consumer segment as corporate accounts adopt Windows 10. The Group's iconic commercial brand ThinkPad celebrated its 25 years anniversary with 125 million units shipped since its launch, demonstrative of the Group's innovation capability. In addition, investing into the future is crucial for the Group to sustain profitable growth, as such Lenovo has been investing to build capabilities in Device + Cloud.

In the Mobile business, the Group will continue to build and expand the Moto brand across more regions. Lenovo will leverage the "Different is Better" slogan to highlight the different value proposition that Moto Z and Moto Mods bring to the market. In mature markets, the Group will continue to expand in the carrier channel with the Moto brand to drive profitable growth. In emerging markets including China, the Group will balance between growth and profitability; continue to leverage the premium brand image in Latin America and refine its business model in key markets in Asia Pacific. The Group will continue to invest marketing dollars on several new product launches worldwide in the summer this year, which is expected to drive growth for the Group.

In the Data Center business, the Group has been executing its transformation strategy since last November, and as a result the business started to see positive momentum, particularly in North America and Western Europe. The Group now has a clear strategic path to transform its business. At the Lenovo Transform event in New York City on June 20, 2017, the Group launched two brands "ThinkSystem" and "ThinkAgile" with comprehensive product portfolios that resonated with the customers' demand for simplicity and flexibility. Shortly after Intel Purley's launch, the Group showed its fast time-to-market as it has already begun volume shipping its next generation Intel Xeon products and installed the largest supercomputer in the world on this new Intel platform at Barcelona Supercomputer Center. The Group will continue to invest to enhance its sales capabilities, strengthen channel management, and transition its business model to balance between growth and profitability. The organization change to make end-to-end accountability and focus on new business segments will help to drive targeted profitable growth in the future.

At the Lenovo Tech World event in Shanghai on July 20, 2017, the Group demonstrated our vision for AI with concept products to make life 'smarter'. The Group is committed to invest in AI, IoT, Big Data and VR/AR with US$1.2 billion investment over next four years. With that, the Group wants to build capabilities in "Device + cloud" and "Infrastructure + cloud" in order to capture the growth in the Personalized Computing era.

Market conditions remain challenging in the short term, notably the component supply shortage and cost hike are expected to continue pressuring business operations. However, the Group now has a stronger organization with sharper customer focus and more compelling product portfolio across all our businesses. Coupled with strong execution, the Group remains confident it can build leading positions in every business the Group enters and drive profitable growth that, in turn, creates better value for shareholders.

FINANCIAL REVIEW

Results for the three months ended June 30, 2017

	3 months ended June 30, 2017 (unaudited) *US$'million*	**3 months ended June 30, 2016 (unaudited)** *US$'million*	**Year-on-year change**
Revenue	10,012	10,056	0%
Gross profit	1,365	1,534	(11)%
Gross profit margin	13.6%	15.3%	(1.7)pts
Operating expenses	(1,371)	(1,289)	6%
Operating (loss)/profit	(6)	245	N/A
Other non-operating expenses – net	(63)	(39)	60%
(Loss)/profit before taxation	(69)	206	N/A
(Loss)/profit for the period	(54)	168	N/A
(Loss)/profit attributable to equity holders of the Company	(72)	173	N/A
(Loss)/earnings per share attributable to equity holders of the Company			
Basic	US (0.66) cents	US 1.57 cents	N/A
Diluted	US (0.66) cents	US 1.56 cents	N/A

For the three months ended June 30, 2017, the Group achieved total sales of approximately US$10,012 million. Loss attributable to equity holders for the period was approximately US$72 million, as compared with profit attributable to equity holders of US$173 million reported in the corresponding period of last year. Gross profit margin for the period was 1.7 percentage points down from 15.3 percent reported in the corresponding period of last year. Basic loss per share and diluted loss per share were US0.66 cents, as compared with basic earnings per share and diluted earnings per share of US1.57 cents and US1.56 cents respectively reported in the corresponding period of last year.

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

	3 months ended June 30, 2017	**3 months ended June 30, 2016**
	US$'000	*US$'000*
China	2,515,217	2,854,788
AP	1,572,992	1,679,890
EMEA	2,702,610	2,466,575
AG	3,221,395	3,054,833
	10,012,214	10,056,086

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

Operating expenses analyzed by function for the three months ended June 30, 2017 and 2016 are as follows:

	3 months ended June 30, 2017	**3 months ended June 30, 2016**
	US$'000	*US$'000*
Selling and distribution expenses	(665,027)	(589,021)
Administrative expenses	(460,528)	(458,591)
Research and development expenses	(291,565)	(355,743)
Other operating income – net	46,395	113,973
	(1,370,725)	(1,289,382)

Operating expenses for the period increased by 6 percent as compared with the corresponding period of last year. This is mainly attributable to the gain on monetizing certain non-core assets of US$129 million in the corresponding period of last year, and the increase in advertising and promotional expenses in current period. The Group recorded a net exchange gain of US$3 million (2016/17: loss of US$23 million) for the period. Key expenses by nature comprise:

	3 months ended June 30, 2017 *US$'000*	**3 months ended June 30, 2016** *US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	(38,222)	(39,980)
Amortization of intangible assets	(104,009)	(112,087)
Employee benefit costs, including	(758,521)	(744,358)
– *long-term incentive awards*	(47,241)	(33,070)
Rental expenses under operating leases	(34,612)	(26,416)
Net foreign exchange gain/(loss)	2,993	(22,822)
Advertising and promotional expenses	(212,893)	(182,180)
(Loss)/gain on disposal of property, plant and equipment and prepaid lease payments	(4,088)	131,712
Others	(221,373)	(293,251)
	(1,370,725)	(1,289,382)

Other non-operating expenses (net) for the three months ended June 30, 2017 and 2016 comprise:

	3 months ended June 30, 2017 *US$'000*	**3 months ended June 30, 2016** *US$'000*
Finance income	9,188	6,140
Finance costs	(72,044)	(55,477)
Share of (losses)/profits of associates and joint ventures	(293)	9,837
	(63,149)	(39,500)

Finance income mainly represents interest on bank deposits.

Finance costs for the period increased by 30 percent as compared with the corresponding period of last year. This is mainly attributable to the interest expense of US$5 million in relation to the 5-Year US$500 million notes, issued in March 2017, bearing annual interest at 3.875%, and the increase in factoring costs of US$11 million.

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

Capital Expenditure

The Group incurred capital expenditure of US$168 million (2016/17: US$114 million) during the period ended June 30, 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 June 30, 2017, total assets of the Group amounted to US$26,627 million (March 31, 2017: US$27,186 million), which were financed by equity attributable to owners of the Company of US$3,131 million (March 31, 2017: US$3,223 million), perpetual securities of US$1,006 million (March 31, 2017: US$844 million) and other non-controlling interests (net of put option written on non-controlling interest) of US$41 million (March 31, 2017: US$28 million), and total liabilities of US$22,449 million (March 31, 2017: US$23,091 million). At June 30, 2017, the current ratio of the Group was 0.78 (March 31, 2017: 0.81).

The Group had a solid financial position. At June 30, 2017, bank deposits, cash and cash equivalents totaled US$1,541 million (March 31, 2017: US$2,951 million), of which 22.8 (March 31, 2017: 45.1) percent was denominated in US dollar, 33.9 (March 31, 2017: 29.0) percent in Renminbi, 12.4 (March 31, 2017: 6.6) percent in Euro, 5.1 (March 31, 2017: 5.2) percent in Japanese Yen, and 25.8 (March 31, 2017: 14.1) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At June 30, 2017, 99.6 (March 31, 2017: 78.5) percent of cash are bank deposits, and 0.4 (March 31, 2017: 21.5) 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 revolving loan facility and US$400 million as term loan facility, on December 18, 2013. As at June 30, 2017, the revolving loan facility was not utilized (March 31, 2017: not utilized) and the term loan facility was prepaid (March 31, 2017: US$400 million).

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 utilized to the extent of US$200 million as at June 30, 2017 (March 31, 2017: not utilized).

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

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

The Group has also arranged other short-term credit facilities. At June 30, 2017, the Group's other total available credit facilities amounted to US$10,565 million (March 31, 2017: US$10,710 million), of which US$1,638 million (March 31, 2017: US$1,584 million) was in trade lines, US$393 million (March 31, 2017: US$293 million) in short-term and revolving money market facilities and US$8,534 million (March 31, 2017: US$8,833 million) in forward foreign exchange contracts. At June 30, 2017, the amounts drawn down were US$1,082 million (March 31, 2017: US$1,086 million) in trade lines, US$8,257 million (March 31, 2017: US$8,216 million) being used for the forward foreign exchange contracts, and US$270 million (March 31, 2017: US$70 million) in short-term bank loans.

At June 30, 2017, the Group did not have any term bank loan (March 31, 2017: US$398 million), and the Group's outstanding borrowings represented by short-term bank loans of US$264 million (March 31, 2017: US$70 million) and notes of US$2,579 million (March 31, 2017: US$2,569 million). When compared with total equity of US$4,178 million (March 31, 2017: US$4,095 million), the Group's gearing ratio was 0.68 (March 31, 2017: 0.74). The net debt position of the Group at June 30, 2017 is US$1,302 million (March 31, 2017: US$86 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 June 30, 2017, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$8,257 million (March 31, 2017: US$8,216 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

Contingent Liabilities

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

FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT

	Note	3 months ended June 30, 2017 (unaudited) US$'000	3 months ended June 30, 2016 (unaudited) US$'000
Revenue	2	10,012,214	10,056,086
Cost of sales		(8,647,602)	(8,521,603)
Gross profit		1,364,612	1,534,483
Selling and distribution expenses		(665,027)	(589,021)
Administrative expenses		(460,528)	(458,591)
Research and development expenses		(291,565)	(355,743)
Other operating income – net		46,395	113,973
Operating (loss)/profit	3	(6,113)	245,101
Finance income	4(a)	9,188	6,140
Finance costs	4(b)	(72,044)	(55,477)
Share of (losses)/profits of associates and joint ventures		(293)	9,837
(Loss)/profit before taxation		(69,262)	205,601
Taxation	5	15,397	(37,966)
(Loss)/profit for the period		(53,865)	167,635
(Loss)/profit attributable to:			
Equity holders of the Company		(72,290)	172,947
Perpetual securities holders		13,247	–
Other non-controlling interests		5,178	(5,312)
		(53,865)	167,635
(Loss)/earnings per share attributable to equity holders of the Company			
Basic	6(a)	US (0.66) cents	US 1.57 cents
Diluted	6(b)	US (0.66) cents	US 1.56 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	3 months ended June 30, 2017 (unaudited) *US$'000*	3 months ended June 30, 2016 (unaudited) *US$'000*
(Loss)/profit for the period	(53,865)	167,635
Other comprehensive (loss)/income:		
Items that have been reclassified or may be subsequently reclassified to profit or loss		
Fair value change on available-for-sale financial assets, net of taxes	(188)	(2,166)
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes		
– Fair value (loss)/gain, net of taxes	(97,720)	6,012
– Reclassified to consolidated income statement	47,968	68,453
Currency translation differences	19,774	53,038
Other comprehensive (loss)/income for the period	(30,166)	125,337
Total comprehensive (loss)/income for the period	(84,031)	292,972
Total comprehensive (loss)/income attributable to:		
Equity holders of the Company	(102,456)	298,284
Perpetual securities holders	13,247	–
Other non-controlling interests	5,178	(5,312)
	(84,031)	292,972

CONSOLIDATED BALANCE SHEET

	Note	June 30, 2017 (unaudited) US$'000	March 31, 2017 (audited) US$'000
Non-current assets			
Property, plant and equipment		1,273,414	1,236,250
Prepaid lease payments		487,479	473,090
Construction-in-progress		442,668	413,160
Intangible assets		8,317,198	8,349,145
Interests in associates and joint ventures		25,903	32,567
Deferred income tax assets		1,527,370	1,435,256
Available-for-sale financial assets		278,770	255,898
Other non-current assets		124,739	122,221
		12,477,541	12,317,587
Current assets			
Inventories		3,177,532	2,794,035
Trade receivables	7(a)	4,496,852	4,468,392
Notes receivable		46,517	68,333
Derivative financial assets		51,971	53,808
Deposits, prepayments and other receivables	8	4,639,071	4,333,351
Income tax recoverable		196,243	199,149
Bank deposits		153,616	196,720
Cash and cash equivalents		1,387,470	2,754,599
		14,149,272	14,868,387
		26,626,813	27,185,974
Share capital	12	2,689,882	2,689,882
Reserves		441,153	533,719
Equity attributable to owners of the Company		3,131,035	3,223,601
Perpetual securities		1,006,549	843,677
Other non-controlling interests		253,407	240,844
Put option written on non-controlling interest	9(a)(iii)	(212,900)	(212,900)
Total equity		4,178,091	4,095,222

	Note	June 30, 2017 (unaudited) US$'000	March 31, 2017 (audited) US$'000
Non-current liabilities			
Borrowings	11	2,579,152	2,966,692
Warranty provision	9(b)	268,757	280,421
Deferred revenue		570,808	537,428
Retirement benefit obligations		385,831	370,207
Deferred income tax liabilities		227,093	221,601
Other non-current liabilities	10	364,581	380,557
		4,396,222	4,756,906
Current liabilities			
Trade payables	7(b)	6,209,107	5,649,925
Notes payable		791,181	835,613
Derivative financial liabilities		118,738	67,285
Other payables and accruals	9(a)	9,071,699	10,004,614
Provisions	9(b)	825,939	873,405
Deferred revenue		591,711	586,536
Income tax payable		179,863	246,465
Borrowings	11	264,262	70,003
		18,052,500	18,333,846
Total liabilities		22,448,722	23,090,752
Total equity and liabilities		26,626,813	27,185,974

CONSOLIDATED CASH FLOW STATEMENT

	Note	3 months ended June 30, 2017 (unaudited) *US$'000*	3 months ended June 30, 2016 (unaudited) *US$'000*
Cash flows from operating activities			
Net cash (used in)/generated from operations	*14*	(396,458)	178,219
Interest paid		(46,579)	(69,690)
Tax paid		(134,313)	(100,486)
Net cash (used in)/generated from operating activities		(577,350)	8,043
Cash flows from investing activities			
Purchase of property, plant and equipment		(68,375)	(34,627)
Purchase of prepaid lease payments		(10,908)	(171)
Sale of property, plant and equipment and prepaid lease payments		196	160,728
Net proceeds from disposal of a joint venture		78,991	–
Payment for construction-in-progress		(56,731)	(48,307)
Payment for intangible assets		(32,304)	(31,282)
Purchase of available-for-sale financial assets		(20,768)	(13,387)
Repayment of deferred consideration		(686,301)	–
Decrease/(increase) in bank deposits		43,104	(5,108)
Interest received		9,188	6,140
Net cash (used in)/generated from investing activities		(743,908)	33,986
Cash flows from financing activities			
Contribution to employee share trusts		(19,117)	(36,673)
Issue of perpetual securities		149,625	–
Capital contribution from other non-controlling interests		7,385	–
Proceeds from borrowings		1,247,499	400,901
Repayments of borrowings		(1,451,903)	(404,877)
Net cash used in financing activities		(66,511)	(40,649)
(Decrease)/increase in cash and cash equivalents		(1,387,769)	1,380
Effect of foreign exchange rate changes		20,640	(22,069)
Cash and cash equivalents at the beginning of the period		2,754,599	1,926,880
Cash and cash equivalents at the end of the period		1,387,470	1,906,191

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											
	Share capital (unaudited) *US$'000*	Investment revaluation reserve (unaudited) *US$'000*	Employee share trusts (unaudited) *US$'000*	Share-based compensation reserve (unaudited) *US$'000*	Hedging reserve (unaudited) *US$'000*	Exchange reserve (unaudited) *US$'000*	Other reserve (unaudited) *US$'000*	Retained earnings (unaudited) *US$'000*	Perpetual securities (unaudited) *US$'000*	Other non-controlling interests (unaudited) *US$'000*	Put option written on non-controlling interest (unaudited) *US$'000*	Total (unaudited) *US$'000*
At April 1, 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
(Loss)/profit for the period	–	–	–	–	–	–	–	(72,290)	13,247	5,178	–	(53,865)
Other comprehensive (loss)/income	–	(188)	–	–	(49,752)	19,774	–	–	–	–	–	(30,166)
Total comprehensive (loss)/income for the period	–	(188)	–	–	(49,752)	19,774	–	(72,290)	13,247	5,178	–	(84,031)
Vesting of shares under long-term incentive program	–	–	58,353	(76,661)	–	–	–	–	–	–	–	(18,308)
Share-based compensation	–	–	–	47,315	–	–	–	–	–	–	–	47,315
Contribution to employee share trusts	–	–	(19,117)	–	–	–	–	–	–	–	–	(19,117)
Issue of perpetual securities *(Note 13)*	–	–	–	–	–	–	–	–	149,625	–	–	149,625
Capital contribution from other non-controlling interests	–	–	–	–	–	–	–	–	–	7,385	–	7,385
At June 30, 2017	2,689,882	(3,153)	(71,992)	94,147	(55,080)	(1,206,844)	62,751	1,621,324	1,006,549	253,407	(212,900)	4,178,091
At April 1, 2016	2,689,882	962	(52,897)	13,161	(88,328)	(1,141,195)	83,363	1,495,252	–	238,949	(212,900)	3,026,249
Profit/(loss) for the period	–	–	–	–	–	–	–	172,947	–	(5,312)	–	167,635
Other comprehensive (loss)/income	–	(2,166)	–	–	74,465	53,038	–	–	–	–	–	125,337
Total comprehensive (loss)/income for the period	–	(2,166)	–	–	74,465	53,038	–	172,947	–	(5,312)	–	292,972
Vesting of shares under long-term incentive program	–	–	41,998	(48,137)	–	–	–	–	–	–	–	(6,139)
Share-based compensation	–	–	–	34,724	–	–	–	–	–	–	–	34,724
Contribution to employee share trusts	–	–	(36,673)	–	–	–	–	–	–	–	–	(36,673)
At June 30, 2016	2,689,882	(1,204)	(47,572)	(252)	(13,863)	(1,088,157)	83,363	1,668,199	–	233,637	(212,900)	3,311,133

NOTES

1 GENERAL INFORMATION AND BASIS OF PREPARATION

The financial information relating to the year ended March 31, 2017 that is included in the FY2017/18 first quarter results announcement as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company will deliver the financial statements for the year ended March 31, 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

Basis of preparation

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

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

The Group has adopted the following new amendments to existing standards that are mandatory for the year ending March 31, 2018 which the Group considers is appropriate and relevant to its operations:

– Amendments to HKAS 7, Disclosure initiatives

– Amendments to HKAS 12, Recognition of deferred tax assets for unrealized losses

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

The following new standards and amendments to existing standards, which are considered appropriate and relevant to the Group's operations, have been issued but are not effective for the year ending March 31, 2018 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
HK (IFRIC) – Int 22, Foreign currency transactions and advance consideration	January 1, 2018
HK (IFRIC) – Int 23, Uncertainty over income tax treatments	January 1, 2019
Amendments to HKFRS 2, Share-based payment	January 1, 2018
Amendments to HKFRS 10 and HKAS 28, Consolidated financial statements and investments in associates	Date to be determined

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

HKFRS 9, Financial instruments

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

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

HKFRS 15, Revenue from contracts with customers

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

HKFRS 16, Leases

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

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

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

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

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

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

	3 months ended June 30, 2017		3 months ended June 30, 2016	
	Revenue from external customers	**Adjusted pre-tax income/(loss)**	**Revenue from external customers**	**Adjusted pre-tax income/(loss)**
	US$'000	*US$'000*	*US$'000*	*US$'000*
China	2,515,217	83,407	2,854,788	137,861
AP	1,572,992	(41,563)	1,679,890	16,532
EMEA	2,702,610	(40,624)	2,466,575	(49,366)
AG	3,221,395	41,051	3,054,833	38,190
Segment total	10,012,214	42,271	10,056,086	143,217
Unallocated:				
Headquarters and corporate expenses		(52,776)		(35,702)
Finance income		4,322		5,345
Finance costs		(58,698)		(48,808)
Share of (losses)/profits of associates and joint ventures		(293)		9,837
(Loss)/gain on disposal of property, plant and equipment and prepaid lease payments		(4,088)		131,712
Consolidated (loss)/profit before taxation		(69,262)		205,601

(b) Segment assets for reportable segments

	June 30, 2017	**March 31, 2017**
	US$'000	*US$'000*
China	7,910,031	7,754,296
AP	3,437,090	3,497,366
EMEA	3,223,647	3,282,761
AG	6,583,982	6,633,117
Segment assets for reportable segments	21,154,750	21,167,540
Unallocated:		
Deferred income tax assets	1,527,370	1,435,256
Derivative financial assets	51,971	53,808
Available-for-sale financial assets	278,770	255,898
Interests in associates and joint ventures	25,903	32,567
Unallocated bank deposits and cash and cash equivalents	258,960	1,075,639
Unallocated inventories	894,488	823,619
Unallocated deposits, prepayments and other receivables	1,919,922	1,829,387
Income tax recoverable	196,243	199,149
Other unallocated assets	318,436	313,111
Total assets per consolidated balance sheet	26,626,813	27,185,974

(c) Segment liabilities for reportable segments

	June 30, 2017 *US$'000*	March 31, 2017 *US$'000*
China	5,081,867	4,884,148
AP	1,595,262	1,631,624
EMEA	1,555,997	1,569,619
AG	3,451,300	3,375,555
Segment liabilities for reportable segments	11,684,426	11,460,946
Unallocated:		
Income tax payable	179,863	246,465
Deferred income tax liabilities	227,093	221,601
Derivative financial liabilities	118,738	67,285
Unallocated borrowings	2,772,914	2,966,692
Unallocated trade and notes payables	4,379,250	4,249,522
Unallocated other payables and accruals	2,962,200	3,570,065
Unallocated provisions	66,627	237,907
Unallocated other non-current liabilities	25,070	25,070
Other unallocated liabilities	32,541	45,199
Total liabilities per consolidated balance sheet	22,448,722	23,090,752

(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:

	3 months ended June 30, 2017 *US$'000*	3 months ended June 30, 2016 *US$'000*
PC and Smart Device Business Group ("PCSD")	7,005,376	6,991,583
Mobile Business Group ("MBG")	1,746,384	1,705,821
Data Center Group ("DCG")	970,635	1,086,531
Others	289,819	272,151
	10,012,214	10,056,086

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

(e) Other segment information

	China		AP		EMEA		AG		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
For the three months ended June 30										
Depreciation and amortization	34,520	65,115	33,529	30,188	39,013	44,242	67,802	53,460	174,864	193,005
Finance income	112	37	476	339	34	67	4,244	352	4,866	795
Finance costs	1,135	432	3,331	1,843	3,532	1,303	5,348	3,091	13,346	6,669
Additions to non-current assets *(Note)*	64,647	28,180	7,957	2,609	4,932	4,245	17,886	14,747	95,422	49,781

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

(f) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$6,153 million (March 31, 2017: US$6,122 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At June 30, 2017

	China	**AP**	**EMEA**	**AG**	**Total**
	US$ million	*US$ million*	*US$ million*	*US$ million*	*US$ million*
Goodwill					
– PCSD	1,045	552	225	333	2,155
– MBG	–	322	371	949	1,642
– DCG	475	160	91	361	1,087
Trademarks and trade names					
– PCSD	210	60	105	64	439
– MBG	–	90	104	266	460
– DCG	162	54	31	123	370

At March 31, 2017

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

The directors are of the view that there was no indication of impairment of goodwill and trademarks and trade names as at June 30, 2017 (March 31, 2017: Nil).

3 OPERATING (LOSS)/PROFIT

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

	3 months ended June 30, 2016	**3 months ended June 30, 2017**
	US$'000	*US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	62,383	69,361
Amortization of intangible assets	112,481	123,644
Employee benefit costs, including	856,346	849,764
– long-term incentive awards	47,241	33,070
Rental expenses under operating leases	38,602	30,551
Loss/(gain) on disposal of property, plant and equipment and prepaid lease payments	4,088	(131,712)

4 FINANCE INCOME AND COSTS

(a) Finance income

	3 months ended June 30, 2016 *US$'000*	3 months ended June 30, 2017 *US$'000*
Interest on bank deposits	7,955	5,312
Interest on money market funds	1,233	828
	9,188	6,140

(b) Finance costs

	3 months ended June 30, 2016 *US$'000*	3 months ended June 30, 2017 *US$'000*
Interest on bank loans and overdrafts	9,945	10,271
Interest on notes	30,821	25,752
Interest on promissory note	11,589	9,965
Factoring costs	18,101	7,072
Commitment fee	321	24
Interest on contingent/deferred considerations and put option liability	554	1,771
Others	713	622
	72,044	55,477

5 TAXATION

The amount of taxation in the consolidated income statement represents:

	3 months ended June 30, 2016 *US$'000*	3 months ended June 30, 2017 *US$'000*
Current tax		
Hong Kong profits tax	7,110	1,666
Taxation outside Hong Kong	64,960	89,379
Deferred tax	(87,467)	(53,079)
	(15,397)	37,966

Hong Kong profits tax has been provided for at the rate of 16.5% (2016/17: 16.5%) on the estimated assessable profit for the period. Taxation outside Hong Kong represents income and irrecoverable withholding taxes of subsidiaries operating in the Chinese Mainland and overseas, calculated at rates applicable in the respective jurisdictions.

6 (LOSS)/EARNINGS PER SHARE

(a) Basic

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

	3 months ended June 30, 2016	3 months ended June 30, 2017
Weighted average number of ordinary shares in issue	11,108,654,724	11,108,654,724
Adjustment for shares held by employee share trusts	(157,451,340)	(58,062,423)
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share	10,951,203,384	11,050,592,301
	US$'000	*US$'000*
(Loss)/profit attributable to equity holders of the Company	(72,290)	172,947

(b) Diluted

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares, namely long-term incentive awards. They were anti-dilutive for the three months ended June 30, 2017 and dilutive for the three months ended June 30, 2016.

	3 months ended June 30, 2016	3 months ended June 30, 2017
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share	10,951,203,384	11,050,592,301
Adjustment for long-term incentive awards	–	13,003,485
Weighted average number of ordinary shares in issue for calculation of diluted (loss)/earnings per share	10,951,203,384	11,063,595,786
	US$'000	*US$'000*
(Loss)/profit attributable to equity holders of the Company used to determine diluted (loss)/earnings per share	(72,290)	172,947

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

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

7 AGEING ANALYSIS

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

	June 30, 2017	**March 31, 2017**
	US$'000	*US$'000*
0 – 30 days	2,963,149	2,923,083
31 – 60 days	861,791	985,251
61 – 90 days	325,995	283,050
Over 90 days	463,229	381,387
	4,614,164	4,572,771
Less: provision for impairment	(117,312)	(104,379)
Trade receivables – net	4,496,852	4,468,392

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

	June 30, 2017	**March 31, 2017**
	US$'000	*US$'000*
0 – 30 days	3,721,313	3,497,382
31 – 60 days	1,307,139	1,098,575
61 – 90 days	972,744	846,804
Over 90 days	207,911	207,164
	6,209,107	5,649,925

8 DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

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

	June 30, 2017	**March 31, 2017**
	US$'000	*US$'000*
Deposits	18,571	19,018
Other receivables	3,336,104	3,326,928
Prepayments	1,284,396	987,405
	4,639,071	4,333,351

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

9 PROVISIONS, OTHER PAYABLES AND ACCRUALS

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

	June 30, 2017	**March 31, 2017**
	US$'000	*US$'000*
Accruals	1,931,054	2,066,687
Allowance for billing adjustments *(i)*	1,493,196	1,611,495
Deferred consideration *(ii)*	–	686,301
Written put option liability *(iii)*	224,257	223,703
Other payables *(iv)*	5,423,192	5,416,428
	9,071,699	10,004,614

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 Google Inc. deferred consideration. Accordingly, current and non-current liabilities in respect of the present value of deferred consideration has been recognized. Deferred consideration is subsequently measured at amortized cost. The remaining deferred consideration to Google Inc. has been settled during the period.

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

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

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

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

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

(b) The components of provisions are as follows:

	Warranty	Environmental restoration	Restructuring	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Year ended March 31, 2017				
At the beginning of the year	1,322,267	8,817	123,103	1,454,187
Exchange adjustment	(16,316)	308	154	(15,854)
Provisions made	736,693	9,442	150,470	896,605
Amounts utilized	(980,738)	(10,177)	(184,075)	(1,174,990)
	1,061,906	8,390	89,652	1,159,948
Long-term portion classified as non-current liabilities	(280,421)	(6,122)	–	(286,543)
At the end of the year	781,485	2,268	89,652	873,405
Period ended June 30, 2017				
At the beginning of the period	1,061,906	8,390	89,652	1,159,948
Exchange adjustment	(623)	128	1,102	607
Provisions made	195,378	1,998	–	197,376
Amounts utilized	(222,670)	(1,501)	(32,517)	(256,688)
	1,033,991	9,015	58,237	1,101,243
Long-term portion classified as non-current liabilities	(268,757)	(6,547)	–	(275,304)
At the end of the period	765,234	2,468	58,237	825,939

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.

10 OTHER NON-CURRENT LIABILITIES

Details of other non-current liabilities are as follows:

	June 30, 2017 *US$'000*	**March 31, 2017** *US$'000*
Deferred consideration *(a)*	25,072	25,072
Environmental restoration *(Note 9(b))*	6,547	6,122
Government incentives and grants received in advance *(b)*	79,461	95,774
Deferred rent liabilities	101,557	102,756
Others	151,944	150,833
	364,581	380,557

(a) Pursuant to the completion of business combination, the Group is required to pay in cash to NEC Corporation deferred consideration. Accordingly, current and non-current liabilities in respect of the present value of deferred consideration has been recognized. Deferred consideration is subsequently measured at amortized cost.

As at June 30, 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.

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

11 BORROWINGS

	June 30, 2017 *US$'000*	**March 31, 2017** *US$'000*
Current liabilities		
Short-term loans *(i)*	264,262	70,003
Non-current liabilities		
Term loan *(ii)*	–	397,687
Notes *(iii)*	2,579,152	2,569,005
	2,579,152	2,966,692
	2,843,414	3,036,695

(i) The majority of the short-term bank loans are denominated in United States dollar. As at June 30, 2017, the Group has total revolving and short-term loan facilities of US$1,493 million (March 31, 2017: US$1,393 million) which has been utilized to the extent of US$270 million (March 31, 2017: US$70 million).

(ii) As at March 31, 2017, term loan comprised a US$1,200 million 5-year loan facility (comprising US$800 million short term) entered into in December 2013. The term loan was prepaid as at June 30, 2017 (March 31, 2017: US$400 million).

(iii)

Issue date	Principal amount	Term	Interest rate per annum	Due date	June 30, 2017	March 31, 2017
					US$'000	*US$'000*
May 8, 2014	US$1.5 billion	5 years	4.7%	May 2019	1,495,646	1,495,081
June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	587,495	578,103
March 16, 2017	US$500 million	5 years	3.875%	March 2022	496,011	495,821
					2,579,152	2,569,005

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at June 30, 2017 and March 31, 2017 are as follows:

	June 30, 2017	March 31, 2017
	US$'000	*US$'000*
Within 1 year	264,262	70,003
Over 1 to 3 years	2,083,141	1,892,768
Over 3 to 5 years	496,011	1,073,924
	2,843,414	3,036,695

12 SHARE CAPITAL

	June 30, 2017		March 31, 2017	
	Number of Shares	*US$'000*	*Number of shares*	*US$'000*
Issued and fully paid:				
Voting ordinary shares:				
At the beginning and end of the period/year	11,108,654,724	2,689,882	11,108,654,724	2,689,882

13 PERPETUAL SECURITIES

In March 2017, 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.

In April 2017, the Group issued an additional US$150 million perpetual securities under the same terms, which are fungible with and form a single series with the aforementioned US$850 million perpetual securities.

14 RECONCILIATION OF (LOSS)/PROFIT BEFORE TAXATION TO NET CASH (USED IN)/ GENERATED FROM OPERATIONS

	3 months ended June 30, 2017 *US$'000*	3 months ended June 30, 2016 *US$'000*
(Loss)/profit before taxation	(69,262)	205,601
Share of losses/(profits) of associates and joint ventures	293	(9,837)
Finance income	(9,188)	(6,140)
Finance costs	72,044	55,477
Depreciation of property, plant and equipment and amortization of prepaid lease payments	62,383	69,361
Amortization of intangible assets	112,481	123,644
Share-based compensation	47,241	33,070
Impairment of property, plant and equipment	4,608	–
Loss/(gain) on disposal of property, plant and equipment and prepaid lease payments	4,088	(131,712)
Loss on disposal of intangible assets	–	217
Fair value change on financial instruments	3,538	(16,682)
(Increase)/decrease in inventories	(383,497)	59,845
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	(385,317)	(301,816)
Increase in trade payables, notes payable, provisions, other payables and accruals	214,049	57,827
Effect of foreign exchange rate changes	(69,919)	39,364
Net cash (used in)/generated from operations	(396,458)	178,219

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

During the three months ended June 30, 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 17,405,210 shares from the market for award to employees upon vesting. Details of these program and plan are set out in the 2016/17 annual report of the Company.

REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the unaudited financial results of the Group for the three months ended June 30, 2017. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

None of the directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not during the three months ended June 30, 2017, in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with the exception that the roles of the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "CEO") have not been segregated as required by code provision A.2.1 of the CG Code.

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

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

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

August 17, 2017

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

1. REPORT FROM PRICEWATERHOUSECOOPERS

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

pwc 羅兵咸永道

INDEPENDENT AUDITOR'S ASSURANCE REPORT ON THE ACCOUNTING POLICIES AND CALCULATIONS OF THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF LENOVO GROUP LIMITED

We have completed our assurance engagement to report on the principal accounting policies adopted and the calculations used in the preparation of the unaudited condensed consolidated interim financial information of Lenovo Group Limited (the "Company") and its subsidiaries (together the "Group") for the three months ended June 30, 2017 (the "Unaudited Condensed Consolidated Interim Financial Information") as set out in Appendix II of the Company's circular dated October 16, 2017 (the "Circular"). The Unaudited Condensed Consolidated Interim Financial Information is included in the Circular in connection with the proposed share and bonus warrants issuance by the Company. We understand it is required to be reported on under Rule 10 of the Code on Takeovers and Mergers.

Directors' Responsibilities

The directors of the Company are solely responsible for preparing the Unaudited Condensed Consolidated Interim Financial Information on a basis consistent with the accounting policies adopted by the Group, as set out in the audited annual consolidated financial statements of the Group for the year ended March 31, 2017 and the new/revised accounting standards introduced that are effective for the accounting period beginning April 1, 2017, where applicable. This responsibility includes designing, implementing and maintaining internal controls relevant to the selection and application of appropriate accounting policies and the accurate calculations in the preparation of the Unaudited Condensed Consolidated Interim Financial Information that is free from material misstatement.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Our firm applies Hong Kong Standard on Quality Control 1 issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's Responsibilities

It is our responsibility to report, as required by Rule 10 of the Code on Takeovers and Mergers, on whether, so far as the accounting policies and calculations are concerned, the Unaudited Condensed Consolidated Interim Financial Information has been properly compiled on a basis consistent, in all material respects, with the accounting policies adopted by the Group, as set out in the audited annual consolidated financial statements of the Group for the year ended March 31, 2017 and the new/revised accounting standards introduced that are effective for the accounting period beginning April 1, 2017, where applicable, based on our reasonable assurance engagement, and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our work in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" ("HKSAE 3000 (Revised)") issued by the HKICPA.

Our work consisted primarily of procedures such as a) obtaining an understanding of the principal accounting policies adopted in the preparation of the Unaudited Condensed Consolidated Interim Financial Information through inquires primarily of persons responsible for financial and accounting matters, b) obtaining an understanding of the internal controls relevant to the selection and application of appropriate accounting policies and the accurate calculations in the preparation of the Unaudited Condensed Consolidated Interim Financial Information, c) comparing the principal accounting policies as set out in the Unaudited Condensed Consolidated Interim Financial Information with those set out in the audited annual consolidated financial statements of the Group for the year ended March 31, 2017 and the new/revised accounting standards introduced that are effective for the accounting period beginning April 1, 2017, where applicable, d) checking solely the arithmetical calculations relating to the financial numbers presented in the Unaudited Condensed Consolidated Interim Financial Information, and such other procedures that we considered necessary in the circumstances in accordance with HKSAE 3000 (Revised). Our work would not enable us to, and we do not, provide any assurance on the design or operational effectiveness of internal control relating to preparation of the Unaudited Condensed Consolidated Interim Financial Information.

Our assurance engagement does not constitute an audit or review conducted in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA. Accordingly, we do not express an audit or review opinion on the Unaudited Condensed Consolidated Interim Financial Information.

Opinion

In our opinion, based on the foregoing, so far as the accounting policies and calculations are concerned, the Unaudited Condensed Consolidated Interim Financial Information has been properly compiled on a basis consistent, in all material respects, with the accounting policies adopted by the Group, as set out in the audited annual consolidated financial statements of the Group for the year ended March 31, 2017 and the new/revised accounting standards introduced that are effective for the accounting period beginning April 1, 2017, where applicable.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, October 16, 2017

2. REPORT FROM ANGLO CHINESE CORPORATE FINANCE, LIMITED

The following is the full text of the report prepared for the purpose of incorporation in this circular, received from Anglo Chinese Corporate Finance, Limited, the Independent Financial Adviser.

The Board of Directors
Lenovo Group Limited
23/F., Lincoln House, Taikoo Place,
979 King's Road,
Quarry Bay,
Hong Kong

16 October 2017

We refer to the unaudited condensed consolidated interim financial information of Lenovo Group Limited (the "Company", and together with its subsidiaries, the "Group") for the three months ended 30 June 2017 (the "Unaudited Condensed Consolidated Interim Financial Information"), as set out in Appendix II in Company's circular dated 16 October 2017 (the "Circular").

We understand that the Unaudited Condensed Consolidated Interim Financial Information, for which the directors of the Company are solely responsible, has been prepared by them based on the unaudited management accounts of the Group for the three months ended 30 June 2017. The forecast has been prepared on a basis consistent in all material respects with the accounting policies adopted by the Group set out in Note 2 "Significant Accounting Policies" of the "Notes to the Financial Statements" of the Company's 2016/17 annual report.

We have discussed with you the basis and assumptions made by the Directors as set out in Appendix II in the Circular. We have also considered the letter dated 16 October 2017 addressed to you from PricewaterhouseCoopers regarding the accounting policies and calculations upon which the Unaudited Condensed Consolidated Interim Financial Information has been based.

On the basis of the information comprising the Unaudited Condensed Consolidated Interim Financial Information and on the basis and assumptions of the accounting policies and calculations adopted by you and reviewed by PricewaterhouseCoopers, we are of the opinion that the Unaudited Condensed Consolidated Interim Financial Information, for which the Directors are solely responsible, have been made with due care and consideration.

Yours faithfully,
For and on behalf of
Anglo Chinese Corporate Finance, Limited
Stuart Wong
Director

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Group, the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation.

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

All the Directors jointly and severally accept full responsibility for the accuracy of the information (other than information relating to the Subscriber Concert Group) contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular (other than opinions expressed by the Subscriber Concert Group) have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

The information in relation to the Subscriber Concert Group contained in this circular has been supplied by the directors of the Subscriber. The directors of the Subscriber (comprising Mr. Yang, Mr. Wong, Mr. Zhu Linan and Mr. Ning Min) jointly and severally accept full responsibility for the accuracy of the information relating to the Subscriber Concert Group contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions (other than those expressed by the Directors) expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statements in this circular misleading.

2. MARKET PRICE

The table below sets out the closing prices of the Shares quoted on the Stock Exchange on (i) the last Business Day on which trading took place in each of the calendar months during the Relevant Period; (ii) the last Business Day immediately preceding the date of the Announcement; and (iii) the Latest Practicable Date.

Date	**Closing price per Share** *(HK$)*
31 March 2017	5.12
28 April 2017	4.98
31 May 2017	5.10
30 June 2017	4.93
31 July 2017	4.84
31 August 2017	4.28
28 September 2017 (the last Business Day immediately preceding the date of the Announcement)	4.30
13 October 2017 (the Latest Practicable Date)	4.47

The lowest and highest closing market prices of the Shares recorded on the Stock Exchange during the Relevant Period were HK$4.15 per Share on 7 September 2017 and HK$5.40 per Share on 7 April 2017, respectively.

3. SHARE CAPITAL AND SHARE OPTIONS

(i) Share capital

As at the Latest Practicable Date, the authorised share capital and the issued share capital of the Company were as follows:

a. the Company does not have an authorised share capital;

b. the Company has 11,108,654,724 Shares in issue;

c. the Company had not issued any new Shares since 31 March 2017, being the date to which the latest audited financial statements of the Company were made up, up to the Latest Practicable Date; and

d. all of the issued Shares rank *pari passu* in all respects as regards rights to capital, dividends and voting.

(ii) Share options

As at the Latest Practicable Date, other than the outstanding 1,215,400,103 SARs and 502,573,926 RSUs, the Company has no outstanding convertible securities, options, warrants or derivatives in issue which are convertible or exchangeable into Shares.

4. DISCLOSURE OF INTERESTS

(i) Directors' and chief executive's interest

As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules (the "**Model Code**"), to be notified to the Company and the Stock Exchange, or which were required pursuant to the Takeovers Code to be disclosed in this circular, were as follows:

a. 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** *(Note 1)*	**Personal interests**	**Family interests**	**Corporate/ Trust interests**	**Aggregate long position**	**Approximate percentage of interests** *(Note 2)*
Mr. Yang Yuanqing	Ordinary Shares	77,906,291	–	1,528,940,890 (*Note 3*)	1,606,847,181 (*Note 4*)	
	Share awards	251,981,188	–	–	251,981,188	
					1,858,828,369	16.73%
Mr. Zhu Linan	Ordinary Shares	2,886,713	–	–	2,886,713 (*Note 5*)	
	Share awards	2,880,729	–	–	2,880,729	
					5,767,442	0.05%
Mr. Zhao John Huan	Ordinary Shares	442,148	–	–	442,148 (*Note 6*)	
	Share awards	3,288,881	–	–	3,288,881	
					3,731,029	0.03%
Dr. Tian Suning	Ordinary Shares	956,223	–	–	956,223 (*Note 7*)	
	Share awards	3,507,968	–	–	3,507,968	
					4,464,191	0.04%

Name of Director	Interests in Shares/ underlying Shares *(Note 1)*	Capacity and number of Shares/underlying Shares held: Personal interests	Family interests	Corporate/ Trust interests	Aggregate long position	Approximate percentage of interests *(Note 2)*
Mr. Nicholas C. Allen	Ordinary Shares	827,021	–	–	827,021 *(Note 8)*	
	Share awards	3,507,969	–	–	3,507,969	
					4,334,990	0.04%
Mr. Nobuyuki Idei	Ordinary Shares	469,179	–	–	469,179 *(Note 9)*	
	Share awards	3,329,054	–	–	3,329,054	
					3,798,233	0.03%
Mr. William O. Grabe	Ordinary Shares	2,338,311	–	744,281	3,082,592 *(Note 10)*	
	Share awards	3,507,969	–	–	3,507,969	
					6,590,561	0.06%
Mr. William Tudor Brown	Ordinary Shares	365,223	–	–	365,223 *(Note 11)*	
	Share awards	2,964,129	–	–	2,964,129	
					3,329,352	0.03%
Ms. Ma Xuezheng	Ordinary Shares	10,942,996	–	2,240,000	13,182,996 *(Note 12)*	
	Share awards	3,201,195	–	–	3,201,195	
					16,384,191	0.15%
Mr. Yang Chih-Yuan Jerry	Ordinary Shares	254,494	–	–	254,494 *(Note 13)*	
	Share awards	2,767,494	–	–	2,767,494	
					3,021,988	0.03%
Mr. Gordon Robert Halyburton Orr	Ordinary Shares	87,426	–	–	87,426 *(Note 14)*	
	Share awards	2,075,461	–	–	2,075,461	
					2,162,887	0.02%

b. 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 15)*
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 16*)
	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 16*)
	北京聯想雲科技有限公司	Long position	Personal interests held as beneficial owner	registered capital of RMB3,200,000	5.33% (*Note 16*)

Notes:

1. Share awards represent underlying shares convertible into ordinary Shares.

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 as recorded in the register maintained under section 352 of the SFO.

3. The Shares are held by SHL in which Mr. Yang holds more than one-third of the voting power at its general meetings. Therefore, Mr. Yang is taken to have an interest in 1,528,940,890 Shares under the SFO and such interest is also reported under the below section headed “Substantial Shareholders’ Interests”.

4. An aggregate of 1,220,505 and 1,332,397 units of RSUs held by Mr. Yang were automatically converted into the equivalent number of Shares of the Company on 1 June 2017 and 3 June 2017 respectively.

5. An aggregate of 34,499, 22,503 and 48,029 units of RSUs held by Mr. Zhu Linan were automatically converted into the equivalent number of Shares of the Company on 14 August 2017, 15 August 2017 and 19 August 2017 respectively.

6. An aggregate of 34,499, 22,503 and 48,029 units of RSUs held by Mr. Zhao John Huan were automatically converted into the equivalent number of Shares of the Company on 14 August 2017, 15 August 2017 and 19 August 2017 respectively.

7. An aggregate of 34,499, 22,503 and 48,029 units of RSUs held by Dr. Tian Suning were automatically converted into the equivalent number of Shares of the Company on 14 August 2017, 15 August 2017 and 19 August 2017 respectively.

8. Mr. Nicholas C. Allen exercised 237,001 units of the SARs on 13 July 2017 at an effective price of HK$4.59, giving rise to a conversion into 13,855 Shares. An aggregate of 34,499, 22,503 and 48,029 units of RSUs held by Mr. Nicholas C. Allen were automatically converted into the equivalent number of Shares of the Company on 14 August 2017, 15 August 2017 and 19 August 2017 respectively. On 21 August 2017, Mr. Nicholas C. Allen acquired 30,830 Shares at the expense of the 2016/2017 annual dividend eligible to the vested RSUs of the relevant director under the annual grant of the Company's long-term incentive program and the share interests accumulated thereto.

9. An aggregate of 34,499, 22,503 and 48,029 units of RSUs held by Mr. Nobuyuki Idei were automatically converted into the equivalent number of Shares of the Company on 14 August 2017, 15 August 2017 and 19 August 2017 respectively. On 21 August 2017, Mr. Nobuyuki Idei acquired 1 Share at the expense of the 2016/2017 annual dividend eligible to the vested RSUs of the relevant director under the annual grant of the Company's long-term incentive program and the share interests accumulated thereto.

10. Mr. William O. Grabe exercised 237,001 units of the SARs on 14 June 2017 at an effective price of HK$4.59, giving rise to a conversion into 23,909 Shares. An aggregate of 34,499, 22,503 and 48,029 units of RSUs held by Mr. William O. Grabe were automatically converted into the equivalent number of Shares of the Company on 14 August 2017, 15 August 2017 and 19 August 2017 respectively. On 21 August 2017, Mr. William O. Grabe acquired 72,923 Shares at the expense of the 2016/2017 annual dividend eligible to the vested RSUs of the relevant director under the annual grant of the Company's long-term incentive program and the share interests accumulated thereto.

11. An aggregate of 34,499, 22,503 and 48,029 units of RSUs held by Mr. William Tudor Brown were automatically converted into the equivalent number of Shares of the Company on 14 August 2017, 15 August 2017 and 19 August 2017 respectively. On 21 August 2017, Mr. William Tudor Brown acquired 9,151 Shares at the expense of the 2016/2017 annual dividend eligible to the vested RSUs of the relevant director under the annual grant of the Company's long-term incentive program and the share interests accumulated thereto.

12. An aggregate of 34,499, 22,503 and 48,029 units of RSUs held by Ms. Ma Xuezheng were automatically converted into the equivalent number of Shares of the Company on 14 August 2017, 15 August 2017 and 19 August 2017 respectively.

13. An aggregate of 34,498, 15,190 and 48,029 units of RSUs held by Mr. Yang Chih-Yuan Jerry were automatically converted into the equivalent number of Shares of the Company on 14 August 2017, 15 August 2017 and 19 August 2017 respectively. On 21 August 2017, Mr. Yang Chih-Yuan Jerry acquired 6,826 Shares at the expense of the 2016/2017 annual dividend eligible to the vested RSUs of the relevant director under the annual grant of the Company's long-term incentive program and the share interests accumulated thereto.

14. An aggregate of 48,029 and 19,139 units of RSUs held by Mr. Gordon Robert Halyburton Orr were automatically converted into the equivalent number of Shares of the Company on 19 August 2017 and 18 September 2017. On 21 August 2017, Mr. Gordon Robert Halyburton Orr acquired 882 Shares at the expense of the 2016/2017 annual dividend eligible to the vested RSUs of the relevant director under the annual grant of the Company's long-term incentive program and the share interests accumulated thereto.

15. The approximate percentage of interests is based on the shares comprising the interests held as a percentage of the total number of shares in issue of the same associated corporation of the same class as recorded in the register maintained under section 352 of the SFO.

16. Mr. Yang holds the interests of RMB2,400,000 (being 3%), RMB1,097,144 (being 6%) and RMB3,200,000 (being 5.33%) in the registered capital in 北京聯想智慧醫療信息技術有限公司, 國民認證科技(北京)有限公司 and 北京聯想雲科技有限公司 respectively.

As at the Latest Practicable Date, save as disclosed above, none of the Directors nor chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director or chief executive of the Company was taken or deemed to have under such provisions of the SFO); (ii) pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein; (iii) pursuant to the Model Code, to be notified to the Company and the Stock Exchange; or (iv) to be disclosed in this circular pursuant to the requirements of the Takeovers Code.

Mr. Yang is a director of SHL and the Subscriber. Mr. Zhu Linan is a director of LHL, RLL and the Subscriber. Mr. Zhao John Huan is a director of LHL. Save for the above and the interest of Directors and chief executive disclosed in this section, none of the Directors or the proposed Directors is a director or employee of the companies which have an interest in the Shares and underlying Shares of the Company as disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(ii) Directors' service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with the Company or any of its subsidiaries or associated companies:

a. which (including both continuous and fixed term contracts) have been entered into or amended within six months before the Last Trading Day;

b. which are continuous contracts with a notice period of 12 months or more;

c. which are fixed term contracts with more than 12 months to run irrespective of the notice period; or

d. which are not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

(iii) Interests in the Group's assets, contract or arrangement significant to the Group

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 March 2017, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries.

As at the Latest Practicable Date and save as disclosed in this circular, none of the Directors was materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this circular and which is significant in relation to the business of the Group.

(iv) Directors' interests in competing businesses

Each of the Directors has confirmed that he/she and his/her associates do not have any interests in a business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

5. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, the following persons and entities, other than a Director or chief executive of the Company, had an interest or short position in the Shares and underlying Shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

		Capacity and number of Shares/underlying Shares held						
Name	Long position/ Short position/ Lending pool	Beneficial owner	Corporate interests	Investment manager	Trustee (other than a bare trustee)	Custodian corporation/ approved lending agent	Aggregate long and short positions *(Note 1)*	Approximate percentage of interests *(Note 2)*
LHL	Long position	2,867,636,724	1,535,056,207 *(Notes 3 & 6)*	–	–	–	4,402,692,931	39.63%
RLL	Long position	388,819,317	1,146,236,890 *(Notes 4 & 6)*	–	–	–	1,535,056,207	13.81%
LEL	Long position	240,100,000	906,136,890 *(Notes 5 & 6)*	–	–	–	1,146,236,890	10.31%
SHL	Long position	622,804,000	906,136,890 *(Notes 5 & 6)*	–	–	–	1,528,940,890 *(Note 7)*	13.76%
Subscriber	Long position	906,136,890	–	–	–	–	906,136,890	8.16%
BlackRock, Inc.	Long position	–	592,770,902	–	–	–	592,770,902	5.34%
	Short position	–	8,860,000	–	–	–	8,860,000	0.08%
JPMorgan Chase & Co.	Long position	259,044,014	–	163,452,106	7,660	166,274,426	588,778,206	5.30%
	Short position	107,500,927	–	–	–	–	107,500,927	0.96%
	Lending pool	–	–	–	–	166,274,426	166,274,426	1.49%

Notes:

1. The interests or short position includes underlying Shares as follows:–

	Long position				Short position			
Name of shareholders	Physically settled listed equity derivatives	Cash settled listed equity derivatives	Physically settled unlisted equity derivatives	Cash settled unlisted equity derivatives	Physically settled listed equity derivatives	Cash settled listed equity derivatives	Physically settled unlisted equity derivatives	Cash settled unlisted equity derivatives
BlackRock, Inc.	–	–	–	4,884,000	–	–	–	7,092,000
JPMorgan Chase & Co.	15,050,268	–	26,383,466	1,291,012	6,062,208	55,521,200	40,703,032	4,448,487

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 as recorded in the register maintained under section 336 of the SFO.

3. Out of 1,535,056,207 Shares, 388,819,317 Shares are directly held by RLL, a direct wholly-owned subsidiary of LHL, 240,100,000 Shares are indirectly held by RLL through its wholly-owned subsidiary, LEL, and 906,136,890 Shares are indirectly held by LEL through the Subscriber.

4. Out of 1,146,236,890 Shares, 240,100,000 Shares are directly held by LEL and 906,136,890 Shares are indirectly held through the Subscriber.

5. These Shares are indirectly held through the Subscriber.

6. The interests represents 906,136,890 Shares issuable to the Subscriber under the Subscription Agreement and as disclosed in the Announcement.

7. Mr. Yang holds more than one-third of the voting power at general meetings of SHL. Accordingly, Mr. Yang is deemed to have interests in those 1,528,940,890 Shares held by SHL under the SFO. This interest is also included as corporate interests of Mr. Yang in the above section headed "4. DISCLOSURE OF INTERESTS – (i) Directors' and chief executive's interest" in this Appendix.

Save as disclosed above, as at the Latest Practicable Date, no person or entity other than a Director or chief executive of the Company had an interest or a short position in the Shares and underlying Shares in the Company (i) as recorded in the register required to be kept under section 336 of the SFO; or (ii) required to be disclosed in this circular pursuant to the Takeovers Code.

6. ADDITIONAL DISCLOSURE OF INTEREST AND DEALINGS IN SECURITIES

As at the Latest Practicable Date:

(i) the term loan facilities to finance the Subscription under each of the Facility Agreement (Subscriber) and the Facility Agreement (SHL) shall be secured by equitable mortgages and charges over all of the Shares owned by the Subscriber after the Completion from time to time in accordance with the terms of each of the Facility Agreement (Subscriber) and Facility Agreement (SHL), and certain Shares owned by SHL and Mr. Yang (the "**Loan Security**"). Morgan Stanley Bank N.A. (which is presumed to be acting in concert with the Subscriber by reason of being the lender under the Facility Agreement (Subscriber) in accordance with Class 9 of the definition of "acting in concert" in the Takeovers Code) and Credit Suisse AG Hong Kong Branch (being the lender under the Facility Agreement (SHL) and an authorized institution within the meaning of the Banking Ordinance (Cap. 155) were not interested in any securities of the Company. Save for such arrangement, there was no other agreement, arrangement or understanding to transfer, charge or pledge the Subscription Shares or the Warrant Shares that may be issued and allotted to the Subscriber under the Subscription Agreement or as a result of any obligation under the Subscription Agreement;

(ii) there was no benefit to be given to any Directors as compensation for loss of office in any member of the Group or otherwise in connection with the Subscription and/or the Whitewash Waiver;

(iii) there was no agreement, arrangement or understanding (including compensation arrangement) (i) between the Subscriber Concert Group and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Subscription and/or the Whitewash Waiver; and (ii) between any Directors and any other persons which is conditional on or dependent upon the outcome of the Subscription and/or the Whitewash Waiver or otherwise connected with the Subscription and/or the Whitewash Waiver;

(iv) save for the Subscription Agreement, the Facility Agreement (Subscriber) and the Facility Agreement (SHL), there was no material contract entered into by the Subscriber Concert Group in which any Director has a material personal interest;

(v) save for Mr. Liu Chuanzhi (being a director of LHL) who (a) owned 1,397,984 Shares and 2,096,976 RSUs; (b) was deemed to own 690,000 Shares held by his spouse through a controlled corporation and save as disclosed in the paragraph headed "Effect on Shareholding Structure of the Company" in the section headed "Letter from the Board" of this circular and paragraph headed "4. Disclosure of Interest" of this appendix, none of the directors of any member of the Subscriber Concert Group held, owned, controlled or had directions over any Shares, convertible securities, warrants, options or derivatives of the Company; save for (a) an aggregate of 2,279,041 and 236,882 units of RSUs held by Mr. Wong which were automatically converted into the equivalent number of Shares on 1 June 2017 and 5 June 2017, respectively, (b) details disclosed in the paragraph headed "4. Disclosure of Interest" of this appendix, and (c) the Loan Security, none of the directors of any member of the Subscriber Concert Group dealt for value in any such securities of the Company during the Relevant Period;

(vi) save for (a) an aggregate of 2,279,041 and 236,882 units of RSUs held by Mr. Wong which were automatically converted into the equivalent number of Shares in the Company on 1 June 2017 and 5 June 2017, respectively, (b) the paragraph headed "4. Disclosure of Interests" of this appendix and in the paragraph headed "Effect on Shareholding Structure of the Company" in the section headed "Letter from the Board" of this circular, and (c) the Loan Security, none of the members of the Subscriber Concert Group held, owned, controlled or had directions over any other Shares, convertible securities, warrants, options or derivatives of the Company and the Subscriber Concert Group did not deal for value in any such securities of the Company during the Relevant Period;

(vii) no person had irrevocably committed themselves to vote for or against the resolutions to be proposed at the GM to approve the Subscription, the Specific Mandate, the Whitewash Waiver and/or the Relevant Management Participation;

(viii) the Subscriber Concert Group did not have any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any other persons;

(ix) the Subscriber Concert Group had not borrowed or lent any Shares, convertible securities, warrants, options or derivatives in the Company or similar rights which are convertible or exchangeable into the Shares;

(x) Mr. Yang controlled 87.14% shareholding interest in SHL, which further controlled 50.50% shareholding interest in the Subscriber. Mr. Zhu Linan was interested 48,000,000 shares in LHL. Save for the above, neither the Company nor the Directors held, controlled or had any direction over any shares, options, warrants, derivatives or convertible securities in respect of the securities in any member of the Subscriber Concert Group and neither had the Company nor the Directors dealt for value in any such securities of any member of the Subscriber Concert Group during the Relevant Period;

(xi) save as disclosed in the paragraph headed "Disclosure of Interests – Directors' and Chief Executive's Interest" in this appendix, none of the Directors was interested in any securities, shares, convertible securities, warrants, options or derivatives of the Company or similar rights which are convertible or exchangeable into any shares of the Company, nor any Directors dealt for value in any such securities of the Company during the Relevant Period;

(xii) the Company operates a long term incentive program and an employee share purchase plan, which are managed by certain trustees. The relevant trustees of the long term incentive program, namely HSBC Institutional Trust Services (Asia) Limited and First Tennessee Bank NA, held 79,473,563 Shares and 13,271,202 Shares, representing approximately 0.72% and 0.12% of the Company's total issued Shares, respectively. The trustee of the employee share purchase plan, namely Computershare Hong Kong Trustees Limited, held 4,352,417 Shares in the Company, representing approximately 0.04% of the Company's total issued Shares. Save as disclosed above, none of the subsidiaries of the Company, nor any pension funds of the Company and/or its subsidiaries, nor any fund managed on a discretionary basis by any fund manager connected with the Company, nor any adviser of the Company as specified in class (2) of the definition of associate in the Takeovers Code, owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company or had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company;

(xiii) no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate in the Takeovers Code;

(xiv) each of Dr. Tian Suning, Mr. Nicholas C. Allen, Mr. Nobuyuki Idei, Mr. William O. Grabe, Mr. William Tudor Brown, Ms. Ma Xuezheng, Mr. Yang Chih-Yuan Jerry and Mr. Gordon Robert Halyburton Orr intended to vote for the resolutions in relation to the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation at the GM in respect of his/her own beneficial shareholdings. Mr. Yang, Mr. Zhu Linan and Mr. Zhao John Huan shall abstain from voting on the ordinary resolutions approving the Subscription, the Specific Mandate, the Whitewash Waiver and the Relevant Management Participation at the GM;

(xv) neither the Company nor any Directors had borrowed or lent any Shares, convertible securities, warrants, options or derivatives in the Company or similar rights which are convertible or exchangeable into Shares; and

(xvi) other than those set out in the paragraph headed "Conditions of the Subscription" in the section headed "Letter from the Board" in this circular, there is no agreement or arrangement to which any of the Subscriber Concert Party is a party which relates to circumstances in which it/he may or may not invoke or seek to invoke a pre-condition or a condition to the Subscription and/or the Whitewash Waiver.

7. LITIGATION

So far as the Company is aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to pending or threatened by or against any member of the Group.

8. EXPERTS' QUALIFICATIONS AND CONSENTS

Set out below are the qualifications of the experts who have given opinions or advices contained in this circular:

Name	Qualifications
Anglo Chinese Corporate Finance, Limited	Licensed corporation permitted to carry out Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
PricewaterhouseCoopers	Certified public accountants

As at the Latest Practicable Date, each of the experts listed in the table above has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of the experts listed in the table above did not have any direct or indirect interest in any assets which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 March 2017, the date to which the latest audited financial statements of the Group was made up; and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

9. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following are the material contracts entered into after the date two years before the Last Trading Day and up to the Latest Practicable Date, not being a contract entered into in the ordinary course of business carried on or intended to be carried on by the Company or any of its subsidiaries:

(i) the Subscription Agreement;

(ii) the subscription agreement dated 30 March 2017 between the Company, Lenovo Perpetual Securities Limited, Australia and New Zealand Banking Group Limited, Barclays Bank plc, Bank of Communications Co., Ltd. Hong Kong Branch, BNP Paribas, China Construction Bank (Asia) Corporation Limited, Crédit Agricole Corporate and Investment Bank, Citigroup Global Markets Limited, DBS Bank Ltd., Morgan Stanley & Co. International plc, Merrill Lynch International, Mizuho Securities Asia Limited, MUFG Securities EMEA plc, Société Générale and Standard Chartered Bank, in relation to, amongst others, the issuance by Lenovo Perpetual Securities Limited of the US$150,000,000 5.375% perpetual securities in the form of cumulative preferred shares to be consolidated and form a single series with the US$850,000,000 5.375% perpetual securities issued on 16 March 2017;

(iii) the subscription agreement dated 30 March 2017 between the Company and Lenovo Perpetual Securities Limited in relation to amongst others, the issuance of the US$150,000,000 intra-group notes by the Company to Lenovo Perpetual Securities Limited to be consolidated and form a single series with the US$850,000,000 intra-group notes issued on 16 March 2017;

(iv) the subscription agreement dated 9 March 2017 between (i) the Company, (ii) Citigroup Global Markets Limited, Australia and New Zealand Banking Group Limited, Bank of Communications Co., Ltd. Hong Kong Branch, BNP Paribas, China Construction Bank (Asia) Corporation Limited and DBS Bank Ltd. (the "**Joint Global Coordinators**"); and (iii) Barclays Bank plc, Crédit Agricole Corporate and Investment Bank, Morgan Stanley & Co. International plc, Merrill Lynch International, Mizuho Securities Asia Limited, MUFG Securities EMEA plc, Société Générale and Standard Chartered Bank (together with the Joint Global Coordinators, the "**Joint Lead Managers**"), in connection with, amongst other things, the issuance of the US$500,000,000 3.875% Notes due 2022 by the Company to the Joint Lead Managers under the Medium Term Note Programme established by the Company;

(v) the subscription agreement dated 9 March 2017 entered into among the Company, Lenovo Perpetual Securities Limited, Australia and New Zealand Banking Group Limited, Barclays Bank plc, Bank of Communications Co., Ltd. Hong Kong Branch, BNP Paribas, China Construction Bank (Asia) Corporation Limited, Crédit Agricole Corporate and Investment Bank, Citigroup Global Markets Limited, DBS Bank Ltd., Merrill Lynch International, Mizuho Securities Asia Limited, Morgan Stanley & Co. International plc, MUFG Securities EMEA plc, Société Générale and Standard Chartered Bank in relation to, amongst others, the issuance of the US$850,000,000 5.375% perpetual securities in the form of cumulative preferred shares by Lenovo Perpetual Securities Limited;

(vi) the subscription agreement dated 15 March 2017 entered into between the Company and Lenovo Perpetual Securities Limited in relation to, amongst others, the issuance of the US$850,000,000 non-transferable intra-group subordinated capital notes to be issued by the Company and subscribed by Lenovo Perpetual Securities Limited;

(vii) the equity transfer agreement dated 1 March 2017 entered into between Lenovo (Beijing) Limited, a wholly-owned subsidiary of the Group, and Beijing Sunac Raycom Real Estate Company Limited, in relation to, amongst others, the disposal of 49% equity interest in Chengdu Lian Chuang Rong Jin Investment Limited (which is principally engaged in property development) for a consideration of approximately RMB1,617 million; and

(viii) the equity transfer agreement dated 30 September 2016 entered into between, amongst others, Lenovo (Beijing) Limited, a wholly-owned subsidiary of the Company, and Beijing Haidian State-owned Assets Operation & Management Center, in relation to the sale and purchase of the entire equity interests of Lianchuang Ruiye (Beijing) Asset Management Company Limited (the principal asset of which is the Beijing Lenovo Research Tower, a commercial building located at Beijing, PRC) for an aggregate consideration of RMB1,780 million.

10. MISCELLANEOUS

As at the Latest Practicable Date:

(i) The Independent Financial Advisor is Anglo Chinese Corporate Finance, Limited and its registered office is situated at 40th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong.

(ii) The principal members of the Subscriber Concert Group are the Subscriber, LHL, RLL, LEL, Mr. Yang, Mr. Wong, SHL, THC, the Trustee, Mr. Liu Chuanzhi, Mr. Zhu Linan and Mr. Zhao John Huan.

(iii) The registered office of the Subscriber is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The directors of the Subscriber are Mr. Yang, Mr. Wong, Mr. Zhu Linan and Mr. Ning Min.

(iv) The registered office of LHL is at Room 1701, 17/F, Block 1, Court No. 2, Ke Xue Yuan Nanlu, Haidian District, Beijing, PRC. The directors of LHL are Mr. Liu Chuanzhi, Mr. Zhu Linan, Mr. Zhao John Huan, Mr. Wu Lebin, Mr. Wang Jin, Mr. Lu Zhiqiang, Mr. Ma Weihua, Mr. Zhang Xuebing and Ms. Hao Quan.

(v) The registered office of RLL is at 27/F, One Exchange Square, Central, Hong Kong. The directors of RLL are Mr. Liu Chuanzhi, Mr. Zhu Linan, Mr. Ning Min and Ms. Chau Wang.

(vi) The registered office of LEL is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The sole director of LEL is Mr. Ning Min.

(vii) The address of Mr. Yang is at 23rd Floor, Lincoln House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

(viii) The address of Mr. Wong is at 23rd Floor, Lincoln House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

(ix) The registered office of SHL is at Vistra Corporate Services Centre, Wickhams Cay II, Road Town, Tortola, VG1110, British Virgin Islands. The directors of SHL are Mr. Yang, Mr. Wong and Ms. Wang Xiaoyan.

(x) The registered office of THC is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The sole director of THC is Mr. Wong.

(xi) The registered office of the Trustee is at Kingston Chambers, PO Box 173, Road Town, Tortola, British Virgin Islands. The sole director of the Trustee is Mr. Wong.

(xii) The address of Mr. Liu Chuanzhi is Room 1701, 17/F, Block 1, Court No. 2, Ke Xue Yuan Nanlu, Haidian District, Beijing, PRC.

(xiii) The address of Mr. Zhu Linan is Room 1701, 17/F, Block 1, Court No. 2, Ke Xue Yuan Nanlu, Haidian District, Beijing, PRC.

(xiv) The address of Mr. Zhao John Huan is Room 1701, 17/F, Block 1, Court No. 2, Ke Xue Yuan Nanlu, Haidian District, Beijing, PRC.

(xv) The company secretary of the Company is Mr. Mok Chung Fu, Eric.

(xvi) The registered office of the Company is 23rd Floor, Lincoln House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

(xvii) The share registrar of the Company is Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(xviii) The financial advisers to the Company are Morgan Stanley Asia Limited and Credit Suisse (Hong Kong) Limited, whose correspondence addresses are Level 46, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong and L88, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, respectively.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Cleary Gottlieb Steen & Hamilton (Hong Kong) at 37th Floor, Hysan Place, 500 Hennessy Road, Causeway Bay, Hong Kong during normal business hours (from 9:00 am to 5:00 pm), and on the websites of the Company (www.lenovo.com/hk/publication) and the Securities and Futures Commission (www.sfc.hk) from the date of this circular up to and including the date of the GM:

(i) the articles of association of the Company;

(ii) the memorandum and articles of association of the Subscriber;

(iii) the annual reports of the Company for each of the year ended 31 March 2017, 31 March 2016 and 31 March 2015;

(iv) the letter from the Board, the text of which is set out on pages 8 to 26 of this circular;

(v) the letter from the Independent Board Committee, the text of which is set out on pages 27 to 28 of this circular;

(vi) the letter from the Independent Financial Adviser, the text of which is set out on pages 29 to 48 of this circular;

(vii) the written consents referred to in the paragraph headed "8. EXPERTS' QUALIFICATIONS AND CONSENTS" in this appendix;

(viii) the material contracts referred to in the paragraph headed "9. MATERIAL CONTRACTS" in this appendix; and

(ix) the reports issued by PricewaterhouseCoopers and Anglo Chinese Corporate Finance, Limited on the First Quarter Results Announcement set out in Appendix III to this circular.

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 992)

NOTICE OF GENERAL MEETING

NOTICE IS HEREBY GIVEN that a general meeting (the "**GM**") of Lenovo Group Limited (the "**Company**", together with its subsidiaries, the "**Group**") will be held at Marina Room, The Excelsior Hong Kong, 281 Gloucester Road, Causeway Bay, Hong Kong on Friday, 3 November 2017 at 9:00 a.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolutions as ordinary resolutions:

"**THAT**:

(1) the subscription agreement (the "**Subscription Agreement**") dated 29 September 2017 entered into between the Company as issuer and Union Star Limited as subscriber (the "**Subscriber**") (a copy of which has been produced to this meeting marked "A" and signed by the chairman of this meeting for identification purpose) in relation to the subscription (the "**Subscription**") by the Subscriber of 906,136,890 new ordinary shares (the "**Subscription Shares**") of the Company at the subscription price of HK$4.31 per Subscription Share and the entitlement of the Subscriber to 90,613,689 units of bonus warrants (the "**Bonus Warrants**") to be issued by the Company to the Subscriber to subscribe for 90,613,689 ordinary shares of the Company (the "**Warrant Shares**"), and the transactions contemplated thereby be and are hereby approved, confirmed and ratified;

(2) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "**Listing Committee**") granting the listing of, and permission to deal in, the Subscription Shares and the Warrant Shares, the directors of the Company (the "**Directors**") be and are hereby granted with the specific mandate for the allotment and issue of the Subscription Shares and the Warrant Shares (upon exercise of the Bonus Warrants), credited as fully paid, and the issuance of the Bonus Warrants in accordance with the terms and conditions of the Subscription Agreement;

(3) subject to the Executive (as defined in the circular of the Company dated 16 October 2017 (the "**Circular**")) granting the waiver pursuant to Note 1 on dispensations from Rule 26 of the Code on Takeovers and Mergers (the "**Takeovers Code**") waiving any obligation on the part of the Subscriber Concert Group (as defined in the Circular) to make a general offer under the Takeovers Code for all the equity share capital of the Company not already owned, controlled or agreed to be acquired by the Subscriber Concert Group which may otherwise arise as a result of the allotment and

issuance of the Subscription Shares and the Warrant Shares pursuant to the Subscription and upon exercise of the Bonus Warrants in full (the "**Whitewash Waiver**") and satisfaction of any conditions attached thereto, the Whitewash Waiver be and is hereby approved and any one or more Directors be and is/are hereby authorised to do all things and acts and sign all documents which they consider desirable or expedient to implement and/or give full effect to any matters relating to or in connection with the Whitewash Waiver;

(4) the Relevant Management Participation (as defined in the Circular), which constitutes a special deal under Note 3 to Rule 25 of the Takeovers Code, be and is hereby approved; and

(5) any one Director or any two Directors (if affixation of the common seal is necessary) or any delegate(s) authorised by such Director(s) be and is/are hereby authorised to sign and/or execute all such other documents, instruments or agreements and to do or take all such actions or things as such Director(s) consider(s) necessary or desirable to implement and/or give effect to the terms of:

(a) the Subscription, the Subscription Agreement and all other transactions contemplated thereunder, and the closing and implementation thereof;

(b) securing the fulfilment of the conditions precedent of completion of the Subscription; and

(c) the approval of any amendments or variations to the Subscription Agreement or the granting of waivers of any matters contemplated thereby that are, in the Director's opinion, not fundamental to the transactions contemplated thereby and are in the best interests of the Company, including without limitation the signing (under the common seal of the Company where required or expedient) of any supplemental or ancillary agreements and instruments and the giving of any undertakings and confirmations for any such purposes."

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

Hong Kong, 16 October 2017

Notes:

1. A shareholder entitled to attend and vote at the GM is entitled to appoint more than one proxy to represent respectively the number of shares held by such member, to attend, speak and vote instead of him/her. A proxy need not be a shareholder of the Company.

2. Where there are joint holders of any share, any one of such persons may vote at the GM, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the GM personally or by proxy, that one of the said persons whose name stands first in the register of members of the Company shall alone be entitled to vote in respect of it.

3. To be valid, a proxy form together with the power of attorney or other authority, if any under which it is signed, or a notarially certified copy of such power of attorney or authority, must be deposited at (form or document sent by any electronic means will not be accepted) the Company's share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding GM or any adjourned meeting thereof. In calculating the aforesaid 48 hours period, no account will be taken of any part of a day that is public holiday. Delivery of the form of proxy shall not preclude a shareholder of the Company from attending and voting in person at the GM and in such event, the instrument appointing of proxy shall be deemed to be revoked.

4. In order to establish the identity of the Company's shareholders who are entitled to attend and vote at the GM to be held on Friday, 3 November 2017, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Tuesday, 31 October 2017.

5. Pursuant to the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow resolutions which relates purely to a procedural or administrative matter to be voted on by show of hands. The chairman of the GM will therefore put each of the resolutions to be proposed at the meeting to be voted by way of poll pursuant to the Company's articles of association.

6. If typhoon signal no. 8 or above remains hoisted or a black rainstorm warning signal is in force at 9:00 a.m. on the date of the GM, the meeting will be postponed or adjourned. Shareholders are requested to visit the Company's website (www.lenovo.com/hk/publication) and Hong Kong Exchanges and Clearing Limited's website (www.hkex.com.hk) for details of alternative meeting arrangements.

7. The GM will be held as scheduled when an amber or a red rainstorm warning signal is in force. Shareholders should make their own decision as to whether they would attend the meeting under the bad weather conditions bearing in mind their own situation and if they should choose to do so, they are advised to exercise care and caution.

8. Shareholders who have any queries concerning the alternative meeting arrangements, please call the Customer Service Hotline of Tricor Abacus Limited at telephone number 2980 1333 from 9:00 a.m. to 5:00 p.m., Monday to Friday (excluding public holidays).

9. The Chinese translation of this notice is for reference only, and in case of any inconsistency, the English version shall prevail.