



DIFFERENT
FOR THE
SAKE OF
BEING
BETTER

The top of the page features a geometric design with a pink area on the left and a teal area on the right, separated by a diagonal line.

ABOUT LENOVO

Lenovo (HKSE: 992) (ADR: LNVGY) is a US\$45 billion global Fortune 500 company and a leader in providing innovative consumer, commercial, and enterprise technology. Our portfolio of high-quality, secure products and services covers PCs (including the legendary Think and multimode YOGA brands), workstations, servers, storage, smart TVs and a family of mobile products like smartphones (including Motorola), tablets and apps. Join us on LinkedIn, follow us on Facebook or Twitter (@Lenovo) or visit us at www.lenovo.com.



DIFFERENT FOR THE SAKE OF BEING BETTER

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



ThinkPad X1 Tablet

FINANCIAL HIGHLIGHTS

For the year ended March 31	2016 US\$ million	2015 US\$ million	Year-on-year Change
Group Results			
Revenue	44,912	46,296	-3%
Gross profit	6,624	6,682	-1%
Gross profit margin (%)	14.8	14.4	0.4 pts
Operating expenses	(6,686)	(5,574)	20%
Expense-to-revenue ratio (%)	14.9	12.0	2.9 pts
EBITDA ¹	838	1,715	-51%
Pre-tax (loss)/income	(277)	971	N/A
Pre-tax (loss)/income margin (%)	(0.6)	2.1	N/A
(Loss)/profit attributable to equity holders of the Company	(128)	829	N/A
EPS – basic (US cents)	(1.16)	7.77	N/A
EPS – diluted (US cents)	(1.16)	7.69	N/A
Interim dividend per share (HK cents)	6.0	6.0	Nil
Final dividend per share (HK cents) ²	20.5	20.5	Nil
Total dividend per share (HK cents)	26.5	26.5	Nil
Cash and Working Capital			
Bank deposits and cash and cash equivalents	2,079	3,026	-31%
Total borrowings	(3,251)	(3,054)	6%
Net debt	(1,172)	(28)	4,085%
Cash conversion cycle (days)	1	(2)	N/A

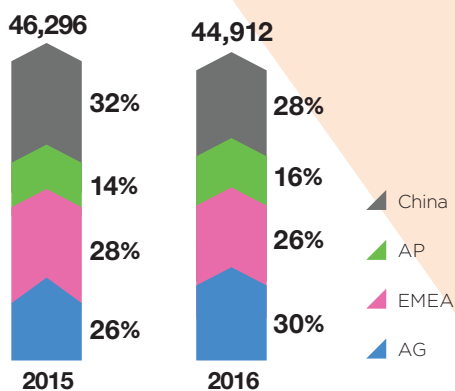
Notes:

¹ Excluding "other income - net".

² Subject to shareholders' approval at the forthcoming annual general meeting.

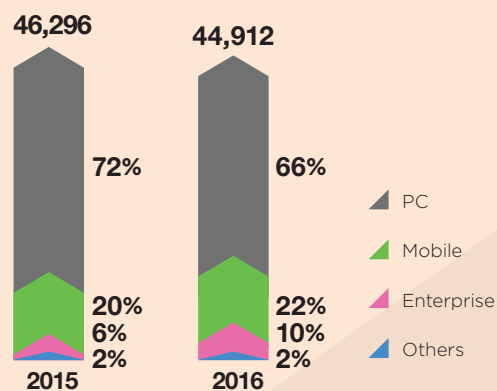
Revenue Analysis by Geography

for the year ended March 31 (US\$ million)



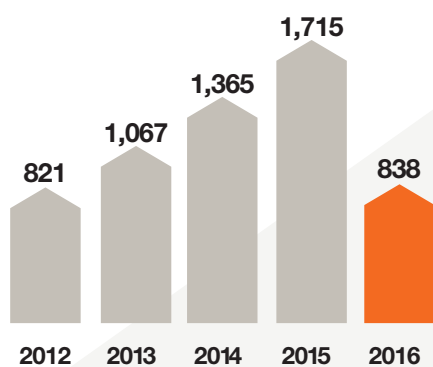
Revenue Analysis by Business Group

for the year ended March 31 (US\$ million)



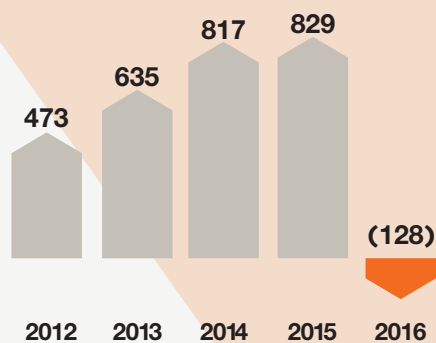
EBITDA¹

for the year ended March 31 (US\$ million)



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

for the year ended March 31 (US\$ million)



Note:

¹ Excluding "other income - net".



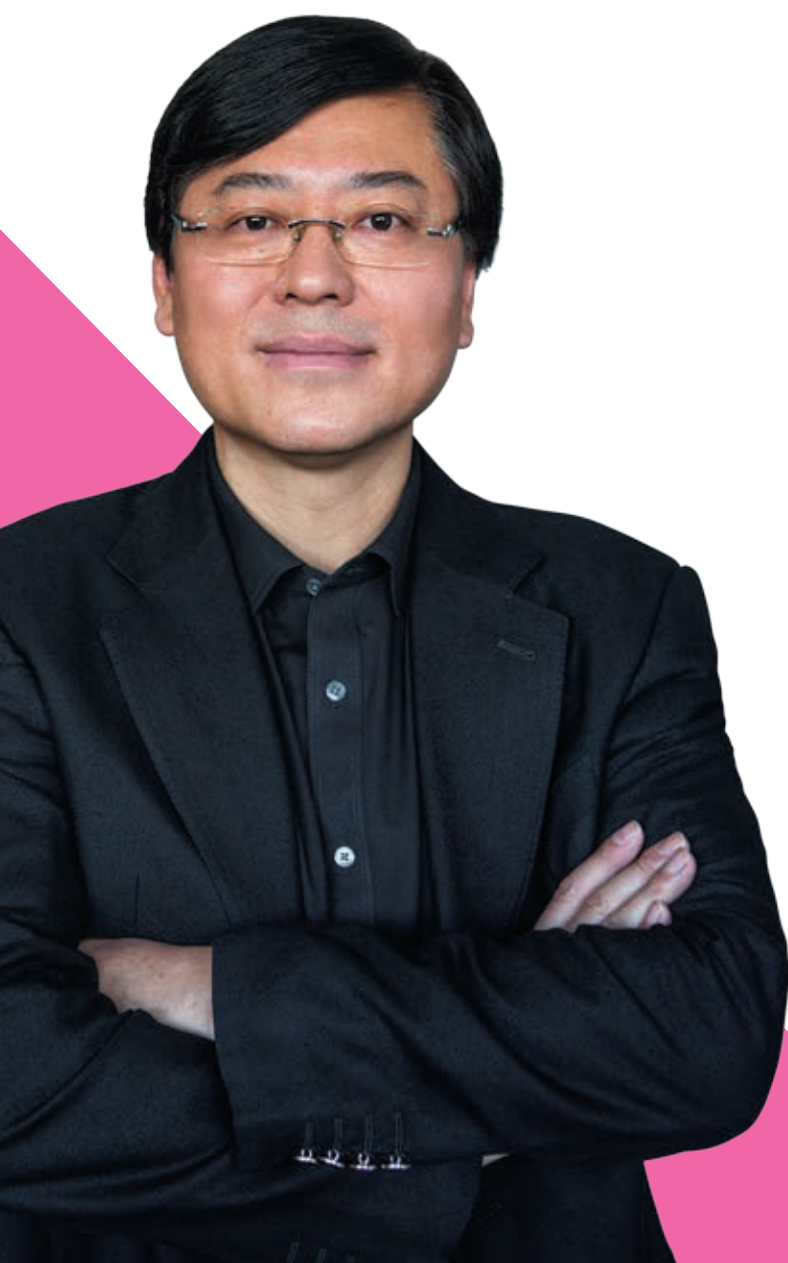
YOGA 900s

WE TAKE
THE NORM....
& TWIST IT



CHAIRMAN AND CEO STATEMENT

I AM CONFIDENT THAT THESE ORGANIZATIONAL CHANGES AND OUR MULTI-BUSINESS OPERATING SYSTEM WILL STRENGTHEN OUR ABILITY TO BOTH DRIVE SHORT-TERM PERFORMANCE AND ACHIEVE LONG-TERM GROWTH.



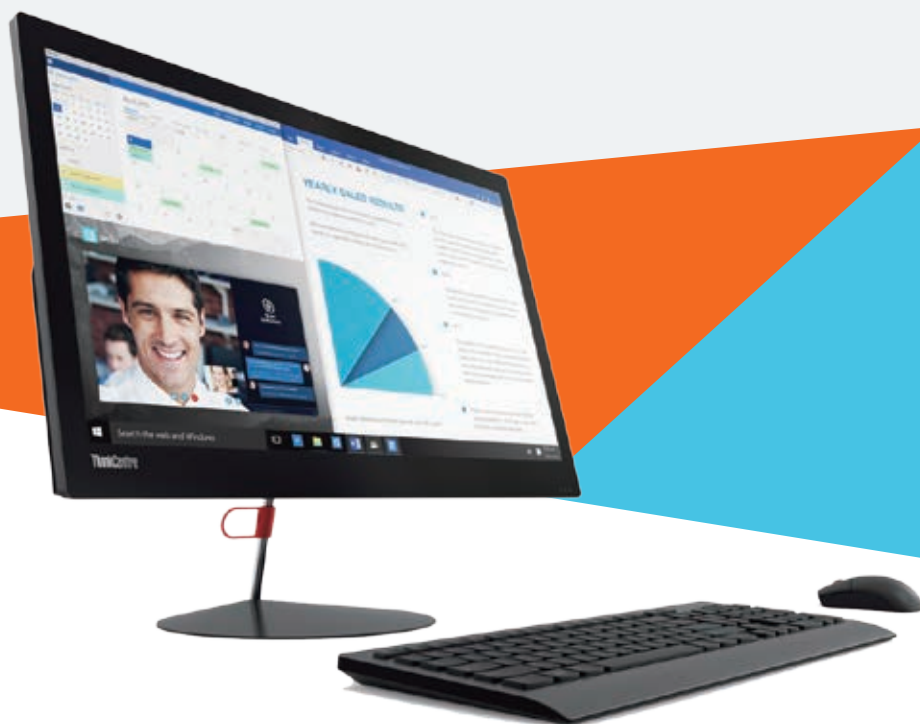
During the past year, Lenovo steadily grew our core PC business while integrating two major acquisitions - Motorola Mobility and System X - to build our future growth engines. And while we achieved some solid successes, we also recognize that 2015/16 saw significant macroeconomic challenges for everyone in the personal technology industry, including Lenovo.

Externally, the environment was tough. We faced a challenging global economy, particularly the significant currency volatility in key emerging markets. We also saw further decline in the PC and tablet markets, and slower growth in the smartphone market. Though the global economy is beyond our control, Lenovo has never been a company that depended on luck to succeed. Rather, we always strive for the highest possible excellence in what we can control. While we had many bright spots in our performance in a difficult year, we also have taken a careful look at ourselves to determine what structural and systemic changes are needed to improve. I am confident that the decisive actions we have taken have Lenovo well positioned to accelerate growth in the year ahead.

ACHIEVEMENTS IN 2015/16

Our achievements in the last year include:

- Third straight year as global PC leader: We achieved a record market share of 21% as we continued to win and deliver strong profitability in our core PC business.
- Record market share in our tablet business: We sold almost 11 million units and outgrew the market for the year, strengthening our #3 position in the world.



ThinkCentre X1

- Strengthening Enterprise business: Our Enterprise business group improved revenue and profitability for the fiscal year. Overall revenue grew 73% year-to-year, and we are now well positioned to grow even faster with our newly named Data Center Group.
- Smartphone business now truly global: Our smartphone business continued to grow in key emerging markets, particularly in India, Indonesia, Russia and across the Middle East. From a financial perspective, we also broke even in the third quarter, meeting our commitment to do so within 4-6 quarters of completing the acquisition of Motorola.
- Record performance by Ecosystem and Cloud Services Group: Our customer base surged, with Monthly Average Users tripling to more than 200 million, and revenue reached a record of more than \$200 million.
- Innovation continued to be a critical advantage, delivering the great products across all our businesses. We hosted our first Tech World show in Beijing, attracting worldwide attention for our breakthrough products. In addition, Lenovo won 66 awards at the Consumer Electronics Show, the world's largest and most prestigious technology event, and 23 awards at the 2016 Mobile World Congress, the top mobile technology show.
- We continued to strengthen our brand recognition, with Interbrand naming Lenovo one of the world's Top 100 brands.

These are all important achievements, but our overall results were not as strong as we wanted. The difficult market conditions impacted our financial performance. In addition, we faced internal challenges as acquisitions in our Mobile and Data Center groups did not perform as well as expected. Both are now fully aligned within Lenovo and we took the important steps necessary to build each into future growth engines.

DECISIVE ACTIONS TO DRIVE GROWTH

We took decisive actions to meet the market and industry challenges, conducting the largest restructuring in Lenovo's history. This was a difficult decision, however the strong profitability we reported in the second half of this fiscal year demonstrated how these actions made us significantly more competitive. The more than \$1.3 billion in annualized savings will make us even more competitive in the years ahead.

CHAIRMAN AND CEO STATEMENT



ideapad Y900

More importantly, we have aligned our organizational structure to further strengthen our execution and drive even better results from each of our growth pillars. Our new structure addresses these groups as a portfolio of businesses consisting of:

- **PC and Smart Device Business Group:** Consisting of our core PC business as well as tablets, detachables, gaming and other smart devices.
 - **Data Center Group:** By reorganizing and renaming this group, we will now be able to be faster, more nimble and more disruptive, particularly by leveraging relationships with an array of key partners.
 - **Mobile Business Group:** Focusing on smartphones, this business has two sub-groups. One focuses on China, where we are rebuilding our business to win in the world's largest market. The other focuses on continuing our strong growth in emerging markets and breaking through in mature markets.
- **Lenovo Capital and Incubator Group (LCIG):** As part of our innovation focus, this group will drive innovation through investment in startups and exploring new technologies.

To maximize performance, we will manage different types of businesses differently based on the varying stages of maturity as well as synergy with our core business. Based on these criteria, each business will have the appropriate set of performance metrics, priorities, management processes, ownership structure and incentives. While our strategic focus remains consistent, this management system adds an important extra dimension and better positions us to respond to the changing market environment and opportunities as well as for future profit growth. For example:

- Our PC business will be managed to maximize profitability and will always be a core business.
- Strategic expansion businesses like our Mobile and Data Center groups will be managed to drive both profitability and growth. And where we can see shareholder benefit to different organizational and ownership structures, we will be free to explore those with some flexibility.
- Finally, exploratory businesses – like start-ups we fund through LCIG – will be managed to maximize valuation and return on investment, and may include a portfolio of companies where Lenovo is not the sole or majority owner, but has an influence over strategy and execution and receives value for shareholders.

I am confident that these organizational changes and our multi-business operating system will strengthen our ability to both drive short-term performance and achieve long-term growth. And even as we make these changes, I also remain fully confident that our core competitiveness and long-term success are still based on the same formula for success that has fueled our growth from a \$16 billion company in 2008 to a nearly \$50 billion company today: a clear strategy, innovative products, operational excellence, and a diverse global team.

OUR VISION FOR THE FUTURE

Over the past two years Lenovo has been transforming, adding major acquisitions in mobile and infrastructure to expand far beyond our core PC business. These additions are now the building blocks for our future, because our vision is very clear: We want to make life better and work more efficient by delivering smart end-user devices, powerful infrastructure, all with connected services and apps, and the best user experience.

In the past, we definitely have been a device company. Building PCs and smartphones has been our core business. And many customer scenarios are addressed simply by having a great device. This will always be our core and we will always protect this device-first business.

But now, as the age of the “Internet of Things” expands, everything around us can have computing, storage and networking modules built inside. This will make devices more manageable and controllable. In this environment, Lenovo will become a more customer centric company and find specific scenarios we can address.

While new ideas for devices will emerge, the device itself will no longer be enough. Customers will need a device that is seamlessly connected to the cloud in order to deliver the right solution or experience – at home, at work or on the go.

Delivering on this promise – innovative devices + cloud connectivity – is where Lenovo will attack and grow. This is where we have proven capabilities, core competencies and competitive advantages. We have a unique advantage in combining our traditional strengths in end-user devices with our new capabilities in cloud and infrastructure to meet customer needs with a balanced “Device + Cloud” model. This is where Lenovo will attack and grow.

Devices will become entry points for amazing new content, services and solutions because they will have robust, seamless connectivity.

In the year ahead, we will continue to outperform the market in PCs while maintaining strong margins, return our Mobile business to worldwide growth while improving profitability, and drive strong top-line growth in our Data Center business.

Still, we will continue to face challenging conditions in all of these industries. But challenging times do not mean there are no growth opportunities. In fact, we have faced challenges before and always come out a stronger company.

Now, we have taken the bold action needed to help Lenovo achieve the levels of performance we expect of ourselves. We will be a different kind of company, and those differences will make us better. Our three growth engines – PCs, Data Center and Mobile – are well positioned to seize the tremendous opportunity in front of us.

I am confident in our strategy and in our team, and that Lenovo will be stronger than ever in the years ahead.

Thank you.



Yang Yuanqing
Chairman and Chief Executive Officer



Moto 360 Sport

LENOVO MANAGEMENT TEAM



YANG YUANQING

Chairman and Chief Executive Officer



GIANFRANCO LANCI

Corporate President and
Chief Operating Officer



QIAO JIAN

Senior Vice President,
Human Resources



**AYMAR DE
LENCQUESAING**

Senior Vice President
Co-President of the Mobile
Business Group and Chairman &
President of Motorola



CHEN XUDONG

Senior Vice President,
Co-President of the Mobile
Business Group



HE ZHIQIANG

Senior Vice President
President of Lenovo Capital &
Incubator Group,
acting Chief Technology Officer



GERRY P. SMITH

Executive Vice President and
President of the Data Center
Group



WONG WAI MING

Executive Vice President and
Chief Financial Officer

INSPIRATION CAN COME FROM ANYTHING & ANYONE



ThinkPad X1 Carbon



BUSINESS REVIEW


During the fiscal year ended March 31, 2016, Lenovo continued to drive its core PC business while integrating two major acquisitions – Motorola Mobility and System X – to build future growth engines. The macro-economy and global markets remained challenging, the Group took prompt decisive actions to accelerate the transformation across the company, Progress of these actions has been on track as planned and started showing results in the second half of the fiscal year with more efficient cost structure, amidst market challenges.

During the fiscal year ended March 31, 2016, Lenovo continued to drive its core PC business while integrating two major acquisitions – Motorola Mobility and System X – to build future growth engines. The macro-economy and global markets remained challenging during the period under review, with currency fluctuations in emerging markets being especially challenging. These factors affected overall demand, especially consumer, which led to a continued decline in the PC and tablet markets and slower growth of the worldwide smartphone market.

In view of the fast changing market environment and competition, the Group took prompt decisive actions to accelerate the transformation across the company by executing a series of business realignment and restructuring actions in the fiscal quarter two. The execution of this plan enables the Group to focus resources, sharpen its business model and efficiently capitalize on the most attractive market opportunities in mobile, PC and enterprise. Progress of these actions has been on track as planned and started showing results in the second half of the fiscal year with more efficient cost structure, amidst market challenges.

For the fiscal year ended March 31, 2016, the Group revenue decreased by 3 percent year-on-year to US\$44,912 million, due to currency fluctuation and the slower PC demand, while the Group was building up the quality of its smartphone business. Excluding currency impacts, the revenue would have increased 3 percent year-on-year. Revenue of the PC Group was US\$29,646 million, representing a year-on-year decline of 11 percent. Revenue of the Mobile business increased 7 percent year-on-year to US\$9,779 million, and revenue of Enterprise business increased 73 percent year-on-year to US\$4,553 million. The Group completed the acquisitions of System X and Motorola Mobility on October 1 and October 30, 2014 respectively in last fiscal year. Meanwhile, revenue of other goods and services was US\$934 million.

The Group's gross profit for the fiscal year ended March 31, 2016 was US\$6,624 million, a decrease of 1 percent year-on-year largely due to the revenue decline, while gross margin increased 0.4 percentage point year-on-year to 14.8 percent. Operating expenses increased by 20 percent year-on-year to US\$6,686 million, and the expenses-to-revenue ratio was 14.9 percent. The increase was mainly due to restructuring costs and one-time charges recorded in this fiscal quarter two, and the non-cash M&A accounting charges totaling US\$330 million booked in the fiscal year which included intangible asset amortization of two acquired businesses, namely Motorola Mobility and System X, and imputed interest expense of the



Yoga Tab 3 Pro

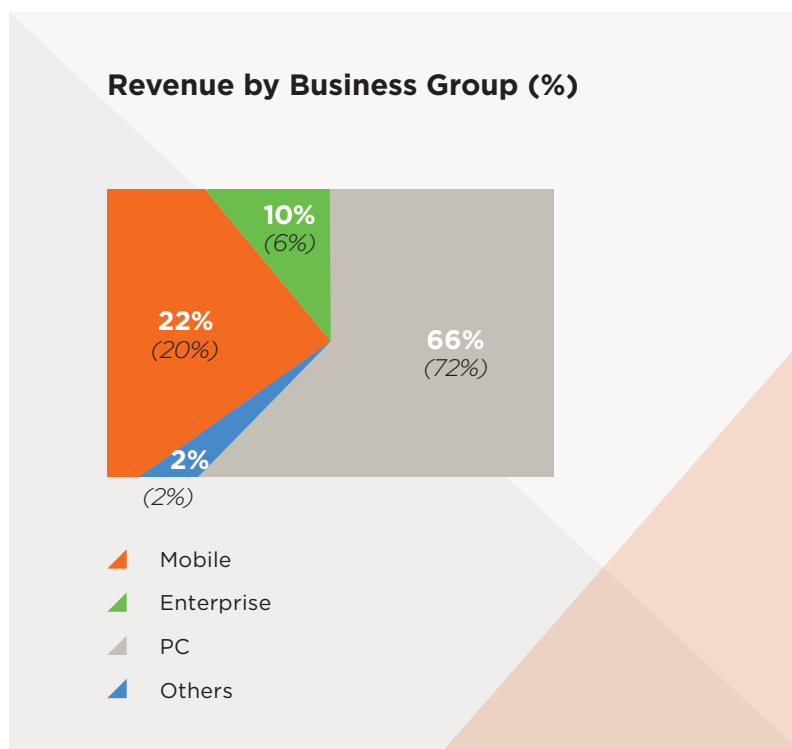
three-year promissory note issued as part of the transaction to acquire Motorola Mobility. Excluding the restructuring costs and one time charges totaling US\$923 million and non-cash M&A accounting charges, the Group's run rate profit before taxation was US\$976 million, against US\$1,139 million of previous fiscal year. This decline was mainly due to slower PC demand and product transition of the Group's smartphone business. The decisive actions the Group took in fiscal quarter two to realign the business has started to show benefits in the second half of the fiscal year, and the Group's cost structure in the second half was enhanced with profitability improved. Including the restructuring costs, one time charges and non-cash M&A accounting charges, the Group reported a loss before taxation of US\$277 million, versus profit before taxation of US\$971 million in last fiscal year. The Group's net loss was US\$128 million, versus net income of US\$829 million of last fiscal year.

Amid the softer-than-expected markets and product transition the Group that has been undergoing for its smartphone product portfolio, the Group's revenue in the fiscal quarter four recorded a decline of 19 percent year-on-year. Nevertheless, the Group realized the restructuring savings as planned, and the more efficient cost structure helped improve its profit and margin. For the fiscal quarter four ended March 31, 2016, the Group's profit before taxation increased by 86 percent to US\$193 million. Excluding the non-cash M&A accounting charges of US\$77 million, the profit before taxation was US\$270 million, increased by 37 percent year-on-year. The Group's net income also increased by 80 percent to US\$180 million.

MANAGEMENT'S DISCUSSION & ANALYSIS

PERFORMANCE OF PRODUCTS BUSINESS GROUPS

During the fiscal year ended March 31, 2016, Lenovo continued to build a more balanced product portfolio to drive growth.



PC Business Group (PCG)

During the fiscal year under review, the global PC industry continued to decline due to macro-economic issues and currency fluctuations. Despite the market challenges, the Group continued to outperform the PC market by leveraging market consolidation and through solid execution of its strategy. This led to further solidifying its number one position. For the fiscal year ended March 31, 2016, the Group's global PC unit shipments declined 6 percent year-on-year to 56.0 million, against market decline of 12 percent. Lenovo's market share continued to increase, and its worldwide PC market share reached another record-high level of 21.0 percent for the fiscal year, an increase of 1.3 percentage points year-on-year, according to the industry estimates. In the fiscal quarter four, despite that the traditional PC market remained soft and recorded a 12.5 percent year-on-year decline impacted by the macro economy, the Group maintained its solid PC performance, and continued to achieve premium growth of 3.7 percentage-points to the market and grew its share, leveraging the market consolidation trend. In the faster growing expanded PC market, including PC, slate tablet and detachable, Lenovo continued to enhance its market position and it tied with number one in the fiscal quarter four, increasing its market share by 0.6 percentage point to 14.4 percent.

The Group's commercial PC unit shipments decreased 2 percent year-on-year, compared to the 8 percent year-on-year decline by the market for the fiscal year. Lenovo's market share in the worldwide commercial PC market increased by 1.4 percentage-points year-on-year to a record-high of 22.4 percent. The Group's consumer PC unit shipments decreased by 11 percent year-on-year, against the market decline of 16 percent year-on-year and its market share reached a record-high of 19.5 percent, increasing 1.1 percentage points year-on-year, according to industry estimates.

For the fiscal year ended March 31, 2016, revenue of the Group's PC business was US\$29,646 million, representing approximately 66 percent of the Group's total revenue, and a year-on-year decline of 11 percent, mainly due to currency fluctuations and slower PC market demand. Excluding currency impacts, the revenue decrease would be 6 percent year-on-year. The PC business recorded a pre-tax income of US\$1,491 million, against US\$1,772 million last fiscal year, and the business group maintained its pretax margin solidly at 5.0 percent despite market challenges.

Mobile Business Group (MBG)

During the fiscal year under review, in view of the softer demand and keen market competition, the Group has accelerated its actions to build up the quality of its mobile business. As part of the business realignment plan taken in the fiscal quarter two, the Group has further aligned the key elements of Motorola Mobility with Lenovo to leverage the complementary strengths, streamline the product portfolio, improve efficiency and enhance the cost structure. The Group also focused on clearing the smartphone inventory in the market to drive healthier channel inventory position to build a more solid foundation to drive future growth.

Despite the much softer smartphone market towards the end of the fiscal year under review, the Group's refined strategy to focus on markets outside of China is paying off. In the five geographies where the Group is operating, it recorded strong market positions in three of them – EMEA, AP and LA, driven by the solid momentum in the faster growing emerging markets. Its smartphone shipments showed strong momentum in EMEA, growing 83 percent year-on-year. It also demonstrated sizeable growth in AP, growing 96 percent year-on-year, and established a stronghold in LA with double-digit market share of 11.1 percent and shipments growing 46 percent year-on-year. And thus the Group's smartphone shipments in markets outside of China grew 63 percent year-on-year to 51 million.

Nevertheless, the Group has been under business transition in China and North America, which resulted in a decline in these two regions for the Group in fiscal quarter four and the fiscal year under review. In China, the Group has been undergoing continuous business transformation as planned, through actions in driving product transition and branding, and shifting focus to open market and higher main stream price band products, while its North America business experienced a slower-than-expected product transition that it missed a key window of opportunity during the fiscal quarter four in North America which affected the performance.

The Group's worldwide smartphone shipments declined 13 percent year-on-year to 66 million due to declines in China and North America. Lenovo's market share in the worldwide smartphone market decreased by 1.1 percentage points year-on-year to 4.6 percent. For the fiscal year ended March 31, 2016, the total revenue from Mobile business increased 7 percent year-on-year to US\$9,779 million, representing approximately 22 percent of the Group's total revenue. For the fiscal year under review, the Group's mobile business recorded an operational loss before taxation of US\$469 million and a negative 4.8 percent pre-tax margin, if excluding the non-cash M&A related accounting charges.

Enterprise Business Group (EBG)

During the fiscal year, Lenovo continued to integrate the acquisition of System X. The Group enhanced its number one position in China and expanded its presence in hyperscale segment by winning several key accounts during the fiscal year. The Group has also established partnerships with leading tech companies, including Nutanix, Juniper, Redhat and SAP, to attack the fastest growing enterprise segments of converged, hyperconverged, cloud and hyperscale.

MANAGEMENT'S DISCUSSION & ANALYSIS

For the fiscal year ended March 31, 2016, revenue of the Enterprise business was US\$4,553 million, an increase of 73 percent year-on-year, representing approximately 10 percent of the Group's total revenue. Its China business remained strong and revenue was up 76 percent year-on-year driven by the hyperscale success. The enterprise business recorded operational profit before the non-cash M&A related accounting charges of US\$53 million with margin of 1.2 percent, against loss of US\$29 million and negative 1.1 percent margin in last fiscal year. The Group achieved operational profitability with margin improvement for the sixth consecutive quarter since the acquisition closed.

Nevertheless, integration of System X business is taking longer than expected due to slower market growth affected by the macro economy. While the Group has had solid results in China and Emerging Markets, it is building confidence and driving better results in the U.S. and Western Europe. There were also some wins of the Group in the pipeline that were not yet reflected in the fiscal quarter four but will benefit revenue growth in future quarters. And these resulted in a slower than expected revenue growth for the Group in the fiscal quarter four.

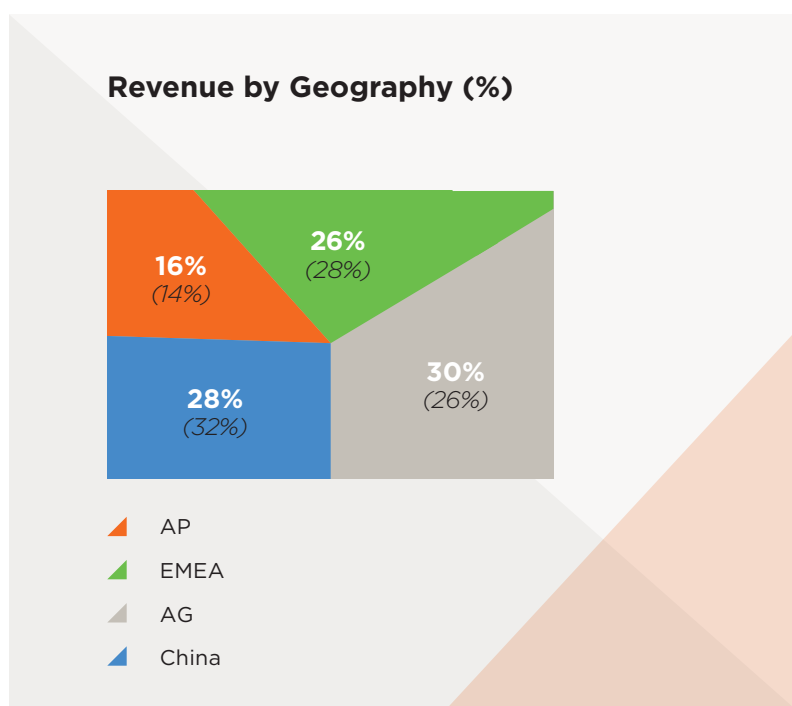
Ecosystem and Cloud Services Business Group (ECS) and Others

The Group continued to build a solid foundation for its ecosystem business during the period under review, with an objective to create a better user experience for Lenovo's product users. The ECS team continued to demonstrate strong achievements during the fiscal year and its monthly active user base number exceeded 200 million.

Revenue from ECS and other products such as consumer electronic businesses from previous acquisitions was US\$934 million, representing approximately 2 percent of the Group's total revenue.

PERFORMANCE OF GEOGRAPHIES

During the fiscal year ended March 31, 2016, Lenovo continued to establish a more balanced portfolio across all geographies to drive growth. Performance for each geography includes a combination of the PC, enterprise and mobility businesses. The profitability figures of geographies disclosed in the following paragraphs have excluded the impact of non-cash M&A related accounting charges for the period under review.



China

China accounted for 28 percent of the Group's total revenue. The Group maintained its strong number one position in China PC market with record market share of 36.5 percent for the fiscal year, according to industry estimates, and continued to protect its profitability by leveraging its leadership position despite the market challenges.

The competition in China smartphone market remained very keen while demand turned softer due to the economy. The Group has taken actions to strengthen its open channel partnership and brand strategy and to shift its product portfolio towards higher average selling price in order to turnaround its China business over time.

During the fiscal year under review, the Group's enterprise business continued to grow rapidly with strong revenue performance driven by sales to the hyperscale customers. Its revenue grew strongly by 76 percent year-on-year, and remained the strong number one with a 22.7 percent unit market share, continued to grow faster than the market.

Profit before taxation was US\$563 million and pre-tax margin was 4.6 percent, a decline of 0.8 percentage points year-on-year due to the smartphone business transformation.

Americas (AG)

Americas accounted for 30 percent of the Group's total revenue. The Group's PC unit shipments in AG increased by 6 percent year-on-year, outperforming the market by a 16-point premium. The Group's AG market share increased by 2.0 percentage points from a year ago to a record 13.7 percent, according to preliminary industry estimates. The solid performance was driven by the strong growth of its PC unit shipments in the U.S., which grew by 19 percent year-on-year against a market decline of 4 percent. This brought its U.S. market share to 13.2 percent for the fiscal year, up 2.5 percentage points year-on-year.

The Group continued to pave the foundation for its smartphone business in the fiscal year to drive future growth. However, it experienced a slower-than-expected product transition that it missed a key window of opportunity during the fiscal quarter four in North America which affected the performance in the quarter. For enterprise business, the Group was still building the confidence and driving better results in U.S.

The Group recorded a loss before taxation of US\$121 million in the region, versus a profit before taxation of US\$8 million recorded last year, and its pre-tax margin was negative 0.9 percent. The decline in profitability was largely due to the inclusion of full-year Motorola Mobility business and efforts to strengthen the quality of our smartphone business in the region.

Asia Pacific (AP)

Asia Pacific accounted for 16 percent of the Group's total revenue. The Group's PC shipments grew at a 10-point premium to the market during the fiscal year and it became number one in AP with market share increased by 1.7 percentage points year-on-year, to a record 17.5 percent for the fiscal year, according to preliminary industry estimates.

The Group also achieved strong shipment growth in smartphones during the fiscal year, growing 96 percent year-on-year for the fiscal year, with particularly strong momentum in ASEAN countries and in India. The Group continued to leverage its channel expertise and ecosystem to accelerate its Enterprise business in AP.

Profit before taxation was US\$89 million and pre-tax margin was 1.2 percent, versus 4.6 percent last year, mainly due to the inclusion of full-year Motorola Mobility business, contraction in Japan PC market and impact from currency fluctuation.

MANAGEMENT'S DISCUSSION & ANALYSIS

Europe-Middle East-Africa (EMEA)

EMEA accounted for 26 percent of the Group's total revenue. Lenovo's PC unit shipments in EMEA declined by 17 percent year-on-year, against a market decline of 20 percent year-on-year, impacted by macro-economic issues and currency fluctuations which resulted in a much softer PC market in EMEA. The Group's market share increased by 0.6 percentage points year-on-year to a record 20.0 percent in EMEA, according to preliminary industry estimates.

The Group continued to expand its smartphone business in EMEA and achieved strong growth of 83 percent during the fiscal year under review, with particularly strong performance in Eastern Europe and MEA. The Group continued its efforts to enhance its competitiveness and further stabilize its enterprise business performance during the quarter under review.

Profit before taxation in EMEA was US\$126 million during the fiscal year under review against US\$411 million last year, with pre-tax margin declining by 2.1 percentage points year-on-year to 1.1 percent, affected by the decline in PC shipments due to the slow market and the impact of currency fluctuations.

BUSINESS REALIGNMENT PLAN UPDATE

The Group announced a plan to execute a series of business realignment actions in fiscal quarter two to enable the Group to focus resources, sharpen its business model and efficiently capitalize on the most attractive market opportunities in mobile, PC and enterprise. Executions of these actions by the Group have been on track and as a result a total savings of approximately US\$690 million were realized by the Group in second half of the fiscal year. The Group is on track to deliver its year run rate savings of US\$1.35 billion.

MATERIAL RISKS OF THE GROUP

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

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

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

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

Risk Description	Key Risk Mitigations
<p>Business Risk</p> <p>The Group operates in a highly competitive industry which faces rapid changes in market trends, consumer preferences and constantly evolving technological advances in hardware performance, software features and functionality. It faces aggressive product and price competition from competitors.</p> <p>It faces risks associated with implementing its strategic initiatives as the scale and breadth of its business models and operations expand and evolve.</p> <p>Failure to respond effectively to changes in market trends or consumer preferences at competitive prices against the backdrop of global slowdown in the traditional PC market could harm its competitive position.</p>	<p>Continual reviews of competition and market trends.</p> <p>Maintain a competitive position through commitments to innovate and build a broad product portfolio and grow brand name to differentiate the Group and gain market recognition.</p> <p>Execution of clear strategy to protect and drive profitability in the core PC business, while diversifying by attacking in the faster growing Mobile and Enterprise businesses.</p>
<p>The Group operates globally and as such its results could be impacted by global and regional changes in macro-economic and socio-political conditions and regulatory environments.</p> <p>Adverse economic conditions may result in postponements or decreased spending amid concern over weak economic conditions. In addition, they may contribute to potential supply chain volatility, causing potential product shortages or delays and insolvency of key suppliers.</p> <p>Ongoing unstable political conditions and changes in regulatory or legal regulations in one or several countries may increase the cost of operations and expose the Group to potential liability.</p>	<p>The Group has diversified its geographic sources of revenue and profit to reduce its dependency on any single country or region.</p>

MANAGEMENT'S DISCUSSION & ANALYSIS

Risk Description	Key Risk Mitigations
Cyber Attack and Security Risk	
<p>The Group could be impacted negatively if it sustains cyber-attacks and other data security breaches that disrupt its operations or damage its reputation.</p> <p>It manages and stores various proprietary information and sensitive or confidential data relating to its operations. In addition, its cloud computing business routinely processes, stores and transmits large amounts of data for its customers, including sensitive and personally identifiable information. It may be subject to attack from hackers and other malicious software programs that attempt to penetrate its networks and exploit any security vulnerability in its system and products.</p> <p>Sophisticated hardware and operating system software and applications that it produces or procures from third parties may contain “bugs” that could unexpectedly interfere with the operation of the system or may present unidentified security risk.</p> <p>Breaches of its security measures and misappropriation of proprietary information, sensitive or confidential data about the Group and its customers could lead the Group to loss of reputation, disruption in business operations, exposure to potential litigation and liability and result in a loss of revenue and increased cost.</p> <p>It is subject to law and regulation in countries where it operates relating to the collection, use, and security of customer, consumer and employee data. Its need to conduct normal business activities and to collect, use and retain personal data pursuant to these activities, subjects the Group to legal and regulatory standards, including those that require the Group to notify individuals or regulators of a data security breach.</p>	<p>The Group will continue to:</p> <ul style="list-style-type: none">a) Enhance IT security and security information awareness.b) Comply with mandatory privacy and security standards and protocols imposed by law, regulation, industry standards, or contractual obligations.

Risk Description	Key Risk Mitigations
Financial Risk	
<p>As the Group operates globally, significant or prolonged economic instability or financial market deterioration may materially and adversely impact the Group's financial condition.</p> <p>The Group is exposed to a variety of financial risks, such as foreign currency risk, cash flow risk, credit risk and liquidity risks.</p>	<p>The Group Treasury department has put in place a financial risk management programme that focuses on the unpredictability of financial markets and seeks to minimize the potential adverse impact on the Group's financial performance.</p> <p>For more analysis, see "Notes To The Financial Statements" (pages 182 to 188)</p>
<p>Due to the international nature of its business and continuous changes in local and international tax rules and regulations, the application of such rules and regulations to its operations and transactions involves inherent uncertainty.</p>	<p>The Group Tax department carefully monitors developments in its business and in the global tax environment in order to make sure rules and regulations are applied appropriately and risks are mitigated where possible.</p>
Intellectual property risk (IP risk)	
<p>The Group could suffer if it does not develop and protect its own intellectual property or its suppliers are not able to develop or protect desirable technology or technology licenses.</p> <p>The risks include:</p> <ul style="list-style-type: none"> the legal costs of protecting and enforcing intellectual property rights; loss or diminished value of intellectual property as an asset, as a result of legal findings of unenforceability and challenges to title or ownership; the legal costs to defend against legal action alleging intellectual property infringement and any potential resulting settlement or damages; design-around costs and negative impact to customer relationships. 	<p>Take full advantage of legal protections by registering trademarks and applying for patents.</p> <p>For licensed IP, take appropriate steps to assure its continued validity.</p> <p>Risk transfer to suppliers by contract terms to minimize risk and obtain indemnification from suppliers.</p> <p>Monitor, develop and execute litigation settlement strategy.</p> <p>Use patent portfolio if appropriate to decrease potential damages.</p>

MANAGEMENT'S DISCUSSION & ANALYSIS

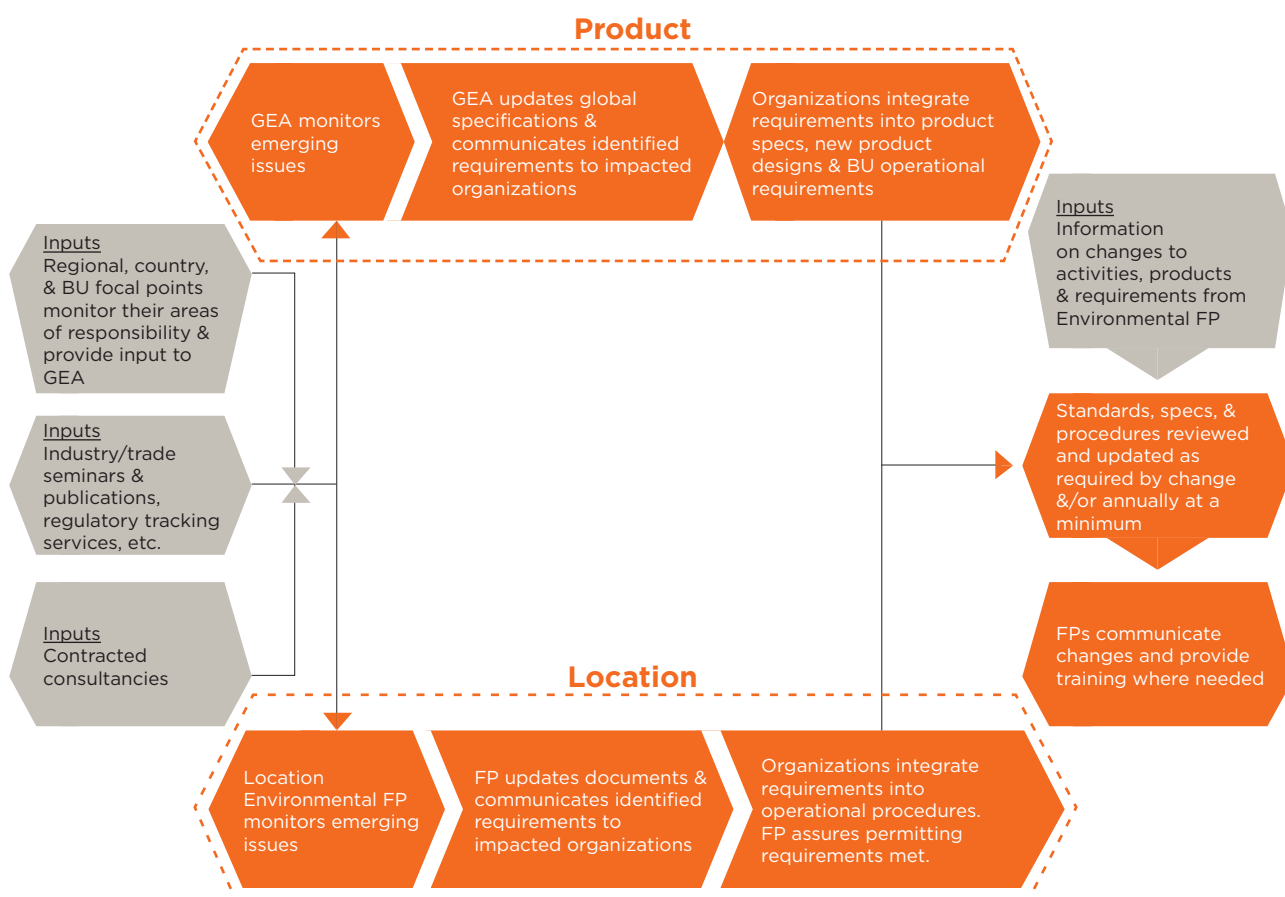
Risk Description	Key Risk Mitigations
<p>Supply Risk</p> <p>The Group's supply chain operations could be disrupted by:</p> <ul style="list-style-type: none">• Catastrophic events• Unfavorable changes in business, political or economic factors. <p>The occurrence of any of the above in its own or its suppliers' manufacturing activities and logistic hubs could result in significant losses and harm its revenue, profitability and adversely affect its competitive position, and require substantial expenditures and recovery time in order to fully resume operations.</p>	<p>Utilise cost and operational analysis to understand potential impacts. Ensure broad sourcing to minimize impact of regional catastrophes and ensure adaptation plans in place.</p> <p>Adequate insurance coverage as last line of defence.</p>
<p>Human Capital Risk</p> <p>The Group faces intense competition for skilled and experienced workers due to fast-changing market dynamics. For ongoing success, the Group must continue to attract, retain and motivate key talent across the enterprise, and ensure smooth transitions throughout ongoing business transformation.</p>	<p>Focus human capital initiatives and strategic workforce planning in the areas of talent acquisition, development, rewards, and retention.</p> <p>Drive continuous improvements in competitive reward, benefit and compensation strategies.</p> <p>Further invest in employee and leadership development programs to build employee engagement, accelerate the internal movement of top talent, and ensure strength of the leadership pipeline.</p>

ENVIRONMENT

Lenovo's Environmental Affairs Policy applies to all of its operations and provides the foundation upon which Lenovo's Environmental Management System (EMS) operates. The EMS establishes the framework for Lenovo to ensure regulatory compliance, efficient resource use, and environmental performance improvements. Lenovo's EMS is ISO 14001 certified and covers the Group's global development and manufacturing operations for Lenovo computer products and devices.

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

Process for Establishing, Monitoring & Maintaining Compliance



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

Environmental and sustainability risks are included in Lenovo's official risk management process. The risk management evaluation template includes environmental risk categories such as environmental incidents, catastrophic weather conditions, and supply chain disruptions, among others. Annually, each business unit is required to identify risks, assess their impacts on Lenovo's strategy execution and develop risk mitigation plans.

MANAGEMENT'S DISCUSSION & ANALYSIS

In addition, as part of Lenovo's ISO 14001 EMS and its Sustainability Materiality Assessment, at least annually the Group evaluates Lenovo's significant, or material, environmental aspects. Once the significant aspects are identified, objectives and targets for each are set. Lenovo's FY2016/17 significant aspects and objectives are provided in the table below.

Significant Aspect, Compliance Obligation, Environmental Risks, or Opportunity	FY 2016/17 Objectives
Packaging	Minimize packaging material consumption while driving the use of environmentally sustainable materials
Product end of life management	Ensure customer access to convenient, reliable and compliant product take back programs.
Product energy consumption	Drive reduction in product energy use. Quantify and reduce lifecycle CO2e emissions associated with the use of Lenovo products.
Product materials	All products across all business units shall contain some Post Consumer Recycled Content (PCC). Sustain technological advances and maintain portfolio relative to low halogen products. Monitor and respond to market requirements in this area.
Site air emissions	Absolute reduction in CO2e emissions from Lenovo operations worldwide.
Site energy consumption	Maximize energy efficiency and minimize CO2e emissions associated with the development, manufacture and delivery of Lenovo products.
Supplier environmental performance	Monitor and drive good environmental management practices in the Lenovo Supply Chain. Minimize potential environmental impact of Lenovo's Category 1, 2 and 3 suppliers.
Transportation	Establish the foundation for driving future reductions in Lenovo international product transport carbon emissions.
Waste management	Minimize environmental impacts associated with solid waste generated from Lenovo operations and products.

Lenovo recognizes that high-quality, long-lasting products not only satisfy customers, but also offer environmental benefits by delaying the need for recycling or disposal. Lenovo's global Quality Management System, which has earned ISO 9001 certification, aims to achieve customer satisfaction and deliver safe and superior products, solutions, and services while meeting customer requirements.

Stakeholders

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

Key mechanisms for engaging with stakeholders include:

- Employee surveys such as the "Lenovo Listens" survey, commuting surveys, and others
- Customer surveys and direct customer interaction
- Supplier conferences and quarterly business reviews
- Ongoing interactions with local communities
- Responding to investor analyst and non-governmental organization (NGO) surveys

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

More information about Lenovo's sustainability programs can be found in the Corporate Social Responsibility Report on pages 117 to 136 of this Annual Report.

TALENT AND CULTURE

Accelerating the Transformation

2015/16 was a year of continued transformation as the IBM X86 and Motorola Mobile businesses were further integrated, creating the foundation for stronger competitive positions in the enterprise server and smart phone markets. Optimization of the PC business, combined with a clear focus on customer centric business models and processes change, drove further transformation across Lenovo's core businesses.

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

Entrepreneurship and customer centricity were key themes of leadership transformation initiatives in 2015/16. Top leaders from across the globe engaged in cross-team sessions at Leading@Lenovo and the Annual Global Leadership Team Meeting, focusing on "Break, Build, Start" actions to further accelerate integration and drive transformation in the areas of innovation and customer engagement.

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

Lenovo's long-standing traditions of Innovation, Teamwork Across Cultures, and Entrepreneurial Leadership are at the center of its talent and culture integration efforts. These pillars provide a clear guiding focus as its continue to create an even stronger, more vibrant platform for its future success.

MANAGEMENT'S DISCUSSION & ANALYSIS

Employee Performance and Compensation

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

"...No matter the stage of your business or distance from the core PC business, your measurement and incentives will make you real owners of the business." – Yuanqing Yang, Chairman and CEO

Talent Management and Succession Planning

Lenovo's annual Organizational and Human Resource Planning (OHRP) process is critical for ensuring that the right structure and talent is in place to deliver on the company's strategy now and in the future. The 2015/16 OHRP provided the opportunity to evaluate and make key decisions about structure, strategic roles, and individual talent at all levels, resulting in organizational changes to be implemented in 2016/17. Most notably, the business will be reorganized to reflect the distinct businesses of Personal Computer & Smart Devices; Android, Chrome & Tablet; Data Center; and Mobile. Additionally, the Lenovo Capital and Incubator Group was created to support exploratory business opportunities and joint ventures.

"...our strategy to attack Mobile and Data Center was driven by both the market opportunity and our own strengths. We want to strengthen our leading position in PCs, and become a global top 3 player in Mobile and Data Center & Cloud infrastructure. It is based on this goal that we reorganized for the new year... to turn "Device+Cloud" into reality." – Yuanqing Yang, Chairman and CEO

Finally, further development and increasing competition in smart phone markets led to refocusing of the Mobile Business Group by region.

"...[for Mobile] the rules of game are so different across different regions... So we split MBG into China and rest of world [ROW]... MBG ROW is ready for profitable growth, while China is at a critical point of rebuilding its competitiveness." – Yuanqing Yang, Chairman and CEO

Talent Acquisition

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

Training and Development

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

BRAND BUILDING



As Lenovo's business expanded in both size and scope, Lenovo recognized it needed to build a new relationship between its brand and its consumers. After careful study, Lenovo created a new brand identity including a new logo and a brand mantra: **Never Stand Still**.

Lenovo officially unveiled its new brand identity at the inaugural Lenovo Tech World in Beijing. In the year since then, Lenovo has rolled out its new brand's look and feel in everything from marketing to events to retail sites to offices and products. The centerpiece of that roll out was the new Lenovo logo featuring a more contemporary design housed in a shape using a wide range of colors, images and patterns. This flexibility gives the logo more energy and allows it to continuously adapt to the ever-changing world of digital and social media.

But its brand identity is much more than a new logo. It's about what makes Lenovo, Lenovo. And that starts with who the Group is for: those with a never stand still attitude. These are the people with a curiosity, restlessness and determination to make a difference and to make things better. At Lenovo, it takes that one step farther in that it makes things that are different for the sake of being better. From our iconic ThinkPad to the YOGA line of convertible devices and tablets with built-in projectors to Moto smartphones with shatterproof screens, its products always deliver the Wow! factor and make customers' lives better.

Lenovo's new brand has been noticed. By customers, consumers and partners. It's also been noticed by Interbrand, one of the world's top branding research firms, which included Lenovo in its influential list of the 100 Best Global Brands.

This is a great honor, but at Lenovo, the taste of success only makes it hungry for more. It will continue to build its brand in the year ahead, further extending not only the use of the brand identity, but a unified creative campaign that will create a closer connection between consumers and its brand. **We never stand still.**

MANAGEMENT'S DISCUSSION & ANALYSIS

FINANCIAL HIGHLIGHTS

RESULTS

For the year ended March 31	2016 US\$'000	2015 US\$'000
Revenue	44,912,097	46,295,593
Gross profit	6,623,937	6,681,813
Gross profit margin	14.8%	14.4%
Operating expenses	(6,685,758)	(5,573,299)
Operating (loss)/profit	(61,821)	1,108,514
Other non-operating expenses – net	(215,030)	(137,547)
(Loss)/profit before taxation	(276,851)	970,967
(Loss)/profit for the year	(144,575)	836,603
(Loss)/profit attributable to equity holders of the Company	(128,146)	828,715
(Loss)/earnings per share attributable to equity holders of the Company (US cents)		
– Basic	(1.16)	7.77
– Diluted	(1.16)	7.69
EBITDA*	837,692	1,714,829
EBITDA* before non-cash M&A-related accounting charges and restructuring and one-time charges	2,090,577	1,882,589
Profit before taxation before non-cash M&A-related accounting charges and restructuring and one-time charges	976,034	1,138,727
Net income before non-cash M&A-related accounting charges and restructuring and one-time charges	974,739	996,475
Dividend per ordinary share (HK cents)		
– Interim dividend	6.0	6.0
– Proposed final dividend	20.5	20.5

* Excluding "other income – net"

For the year ended March 31, 2016, the Group achieved total sales of approximately US\$44,912 million. Loss attributable to equity holders for the year was approximately US\$128 million, as compared with profit attributable to equity holders of US\$829 million reported last year. This is mainly attributable to the restructuring costs of US\$596 million; and one-time charges of US\$327 million comprising additional spending to clear smartphone inventories and inventories written off. Gross profit margin for the year was 0.4 points up from 14.4 percent reported last year. Basic loss per share and diluted loss per share were US1.16 cents, as compared with basic and diluted earnings per share of US7.77 cents and 7.69 cents reported last year.

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

For the year ended March 31	2016		2015	
	Revenue from external customers US\$'000	Adjusted pre-tax income/(loss) US\$'000	Revenue from external customers US\$'000	Adjusted pre-tax income US\$'000
China	12,358,639	563,245	14,700,270	794,795
AP	7,154,662	88,516	6,549,339	302,183
EMEA	11,794,698	125,710	12,803,357	410,858
AG	13,604,098	(120,748)	12,242,627	7,999
	44,912,097	656,723	46,295,593	1,515,835

Operating expenses analyzed by function for the year ended March 31, 2016 and 2015 are as follows:

For the year ended March 31	2016 US\$'000	2015 US\$'000
Other income – net	2,185	1,490
Selling and distribution expenses	(2,372,833)	(2,302,182)
Administrative expenses	(2,108,747)	(1,883,114)
Research and development expenses	(1,491,370)	(1,220,919)
Other operating expenses – net	(714,993)	(168,574)
	(6,685,758)	(5,573,299)

MANAGEMENT'S DISCUSSION & ANALYSIS

Operating expenses for the year increased by 20 percent as compared with last year. This is principally attributable to the operating expenses of US\$2,263 million recorded by System X and Motorola following the completion of the respective acquisitions on October 1 and October 30, 2014 (2015: US\$1,433 million); and the restructuring and one-time charges in driving greater efficiency across organizations, primarily associated with severance costs of US\$212 million, loss on impairment and disposal of assets of US\$310 million, provision for lease obligations of US\$62 million; and smartphone inventories write off of US\$173 million in relation to realignment of key elements under Mobile Business Group. Key expenses by nature comprise:

For the year ended March 31	2016 US\$'000	2015 US\$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	(166,116)	(127,516)
Amortization of intangible assets	(432,075)	(287,877)
Employee benefit costs, including	(3,302,749)	(2,997,614)
– long-term incentive awards	(161,097)	(99,062)
– severance and related costs	(212,475)	–
Rental expenses under operating leases	(80,527)	(88,774)
Net foreign exchange loss	(126,004)	(189,550)
Advertising and promotional expenses	(726,173)	(675,760)
Inventories write off	(173,424)	–
Loss on impairment and disposal of assets	(310,201)	–
Others	(1,368,489)	(1,206,208)
	(6,685,758)	(5,573,299)

Depreciation and amortization charges increased by US\$183 million which is attributable to the amounts brought in by System X and Motorola. Additional amortization of intangible assets in connection with the acquisition of System X and Motorola for the year totaled US\$266 million (2015: US\$127 million). The increase in employee benefit costs is in line with the increased average headcount during the year as a result of the two acquisitions, and severance and related costs incurred for restructuring actions during the year. A charge for one-time smartphone inventories write off of US\$173 million has been made by the Group during the year. The impact of currency fluctuations during the year presented a challenge, the Group recorded a net exchange loss of US\$126 million (2015: US\$190 million) for the year.

Other non-operating expenses (net) for the years ended March 31, 2016 and 2015 comprise:

For the year ended March 31	2016 US\$'000	2015 US\$'000
Finance income	32,816	30,902
Finance costs	(236,751)	(185,504)
Share of (losses)/profits of associates and joint ventures	(11,095)	17,055
	(215,030)	(137,547)

Finance income mainly represents interest on bank deposits.

Finance costs for the year increased by 28 percent as compared with last year. This is mainly attributable to interest expense of US\$27 million in relation to the 5-Year RMB4 billion notes, issued in June 2015, bearing annual interest at 4.95% due in June 2020, and US\$39 million notional interest expense (2015: US\$17 million) in relation to promissory note issued to Google Inc.

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

FINANCIAL POSITION

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

	2016 US\$'000	2015 US\$'000
Non-current assets		
Property, plant and equipment	1,391,494	1,443,313
Prepaid lease payments	337,929	225,111
Construction-in-progress	231,110	311,590
Intangible assets	8,661,087	9,225,743
Interests in associates and joint ventures	40,439	45,719
Deferred income tax assets	1,000,572	526,801
Available-for-sale financial assets	139,572	73,400
Other non-current assets	164,410	37,675
	11,966,613	11,889,352

Property, plant and equipment

Property, plant and equipment comprise mainly the Group's freehold land and buildings, leasehold improvements, plant and machinery and office equipment. Decrease of 4 percent is mainly attributable to current year depreciation and impairment of leasehold improvements arising from the group restructuring, and partly offset by the Group's further investments in office equipment and new headquarters in China.

Prepaid lease payments

Prepaid lease payments represent the land use rights in respect of the manufacturing sites and headquarters in China. Increase of 50 percent is mainly due to the land use rights acquired for the new headquarters in China.

Construction-in-progress

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

Intangible assets

Intangible assets comprise goodwill and other intangible assets including trademarks and trade names, customer relationships, patent and technology and internal use software. During the year, the Group has finalized the fair value assessments for the net assets acquired from the business combination activities in FY2014/15.

MANAGEMENT'S DISCUSSION & ANALYSIS

Interests in associates and joint ventures

Interests in associates and joint ventures are decreased by 12 percent mainly attributable to share of losses from principal business activities of respective associates and joint ventures, and partly offset by additional investments.

Deferred income tax assets

Deferred income tax assets amounted to US\$1,001 million as at March 31, 2016, representing an increase of 90 percent over last year. It is mainly attributable to tax losses and temporary differences in relation to provisions and accruals arising from restructuring activities carried out during the year.

Available-for-sale financial assets

Available-for-sale financial assets are increased by 90 percent mainly attributable to additional investments during the year.

Other non-current assets

Other non-current assets amounted to US\$164 million as at March 31, 2016, representing an increase of 336 percent over last year, which is mainly attributable to the increase of indirect tax recoverable.

	2016 US\$'000	2015 US\$'000
Current assets		
Inventories	2,637,317	2,954,425
Trade receivables	4,403,507	5,217,740
Notes receivable	130,718	334,738
Derivative financial assets	27,021	184,534
Deposits, prepayments and other receivables	3,548,760	3,652,502
Income tax recoverable	140,237	136,857
Bank deposits	152,336	171,139
Cash and cash equivalents	1,926,880	2,855,223
	12,966,776	15,507,158

Inventories

Inventories of the Group are decreased by 11 percent mainly attributable to the Group's effort in working capital management and one-time write off of smartphone inventories in relation to realignment of key elements under Mobile Business Group.

Trade receivables and Notes receivable

Trade receivables and notes receivable decreased in line with business activities during the fourth quarter of current year.

Derivative financial assets/liabilities

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

Deposits, prepayments and other receivables

Majority of other receivables of the Group are amounts due from subcontractors for part components sold in the ordinary course of business. Decrease is in line with the decrease in activities during the fourth quarter of current year.

	2016 US\$'000	2015 US\$'000
Non-current liabilities		
Borrowings	2,505,112	1,885,848
Warranty provision	290,857	338,700
Deferred revenue	532,780	550,205
Retirement benefit obligations	442,874	410,118
Deferred income tax liabilities	222,679	249,823
Other non-current liabilities	2,152,578	2,407,303
	6,146,880	5,841,997

Borrowings

Borrowings (classified as non-current) increased by US\$619 million is mainly due to the issuance of 5-Year RMB4 billion notes bearing annual interest at 4.95% due in June 2020. The proceeds would be used for general corporate purposes including working capital.

Warranty provision

The Group records warranty liabilities at the time of sale for the estimated costs that will be incurred under its basic limited warranty. The specific warranty terms and conditions vary depending upon the product and the country in which it was sold, but generally includes technical support, repair parts and labor associated with warranty repair and service actions. The period ranges from one to three years. The aggregate current and non-current amount of warranty provision decreased by 15 percent is mainly contributed by the Group's continuous cost enhancement on warranty repair and service actions. The Group reevaluates its estimates on a quarterly basis to assess the adequacy of its recorded warranty liabilities and adjusts the amounts as necessary.

Retirement benefit obligations

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

Deferred income tax liabilities

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

MANAGEMENT'S DISCUSSION & ANALYSIS

Other non-current liabilities

Other non-current liabilities mainly comprise the deferred consideration to Google Inc. in respect of the business combination activities, written put option liability in connection with a joint venture and government incentives and grants received in advance. The decrease of 11 percent over last year is mainly due to the classification of all contingent consideration into current liabilities based on its maturity term.

	2016 US\$'000	2015 US\$'000
Current liabilities		
Trade payables	4,266,687	4,664,065
Notes payable	234,661	171,049
Derivative financial liabilities	150,864	80,897
Other payables and accruals	8,305,844	9,278,052
Provisions	1,157,257	1,223,488
Deferred revenue	710,164	693,406
Income tax payable	188,968	169,161
Borrowings	745,815	1,168,274
	15,760,260	17,448,392

Trade payables and Notes payable

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

Other payables and accruals

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

Provisions

Provisions comprise warranty liabilities (due within one year), environmental restorations and restructuring provision. The decrease of 5 percent over last year is mainly due to the drop in warranty provision, partly offset by the restructuring provision amounted to US\$123 million as at March 31, 2016, which mainly comprises lease termination obligations and employee termination payments, arising from a series of restructuring activities to reduce costs and enhance operational efficiency.

Borrowings

Borrowings (classified as current) amounted to US\$746 million as at March 31, 2016, representing a decrease of 36 percent, which is mainly attributable to the net repayment of revolving loans and short term loans during the year.

CAPITAL EXPENDITURE

The Group incurred capital expenditure of US\$935 million (2015: US\$972 million) during the year ended March 31, 2016, mainly for the acquisition of property, plant and equipment, prepaid lease payments, additions in construction-in-progress and intangible assets.

LIQUIDITY AND FINANCIAL RESOURCES

At March 31, 2016, total assets of the Group amounted to US\$24,933 million (2015: US\$27,397 million), which were financed by equity attributable to owners of the Company of US\$3,000 million (2015: US\$4,084 million), non-controlling interests (net of put option written on non-controlling interest) of US\$26 million (2015: US\$23 million), and total liabilities of US\$21,907 million (2015: US\$23,290 million). At March 31, 2016, the current ratio of the Group was 0.82 (2015: 0.89).

The Group had a solid financial position. At March 31, 2016, bank deposits, cash and cash equivalents totaled US\$2,079 million (2015: US\$3,026 million), of which 41.7 (2015: 53.2) percent was denominated in US dollar, 29.5 (2015: 35.6) percent in Renminbi, 5.3 (2015: 2.8) percent in Euro, 7.7 (2015: 0.7) percent in Japanese Yen, and 15.8 (2015: 7.7) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At March 31, 2016, 92.6 (2015: 75.4) percent of cash are bank deposits, and 7.4 (2015: 24.6) 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 revolving loan facility agreement with syndicated banks for US\$500 million on February 2, 2011. The loan borrowed under this facility was fully repaid on September 29, 2015 and the facility was cancelled with effect from October 9, 2015.

The Group entered into another 5-Year loan facility agreement with syndicated banks for US\$1,200 million, comprising US\$800 million as short term, on December 18, 2013. As at March 31, 2016, the facility was utilized to the extent of US\$800 million (2015: US\$1,100 million), comprising US\$400 million (2015: US\$700 million) short-term.

In addition, on May 26, 2015, the Group entered into a 5-Year loan facility agreement with a bank for US\$300 million. The facility was fully utilized as at March 31, 2016.

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

MANAGEMENT'S DISCUSSION & ANALYSIS

The Group has also arranged other short-term credit facilities. At March 31, 2016, the Group's total available credit facilities amounted to US\$10,661 million (2015: US\$12,223 million), of which US\$1,277 million (2015: US\$1,353 million) was in trade lines, US\$366 million (2015: US\$339 million) in short-term and revolving money market facilities and US\$9,018 million (2015: US\$10,531 million) in forward foreign exchange contracts. At March 31, 2016, the amounts drawn down were US\$540 million (2015: US\$316 million) in trade lines, US\$6,872 million (2015: US\$9,822 million) being used for the forward foreign exchange contracts, and US\$46 million (2015: US\$177 million) in short-term bank loans.

At March 31, 2016, the Group's outstanding borrowings represented by the term bank loans of US\$396 million (2015: US\$395 million), short-term bank loans of US\$746 million (2015: US\$1,168 million) and long term notes of US\$2,109 million (2015: US\$1,491 million). When compared with total equity of US\$3,026 million (2015: US\$4,106 million), the Group's gearing ratio was 1.07 (2015: 0.74). The net debt position of the Group at March 31, 2016 is US\$1,172 million (2015: US\$28 million).

The Group is confident that all the facilities on hand can meet the funding requirements of the Group's operations and business development.

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At March 31, 2016, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US\$6,872 million (2015: US\$9,822 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

CONTINGENT LIABILITIES

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

HUMAN RESOURCES

At March 31, 2016, the Group had a headcount of more than 60,000 worldwide.

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

FUTURE PROSPECTS

These fundamental changes the Group has made will position the company as a faster and stronger global company. This in turn will drive sustainable growth in revenue and profit amidst strong competition and market changes. Lenovo will continue to invest in areas it believes are important to its future success. Lenovo remains fully committed to its protect and attack strategy, supported by its proven execution capabilities, to lead the Group on its ongoing journey towards building a respected global tech leadership position in every business the Group enters and to drive profitable growth that, in turn, creates better value for shareholders.

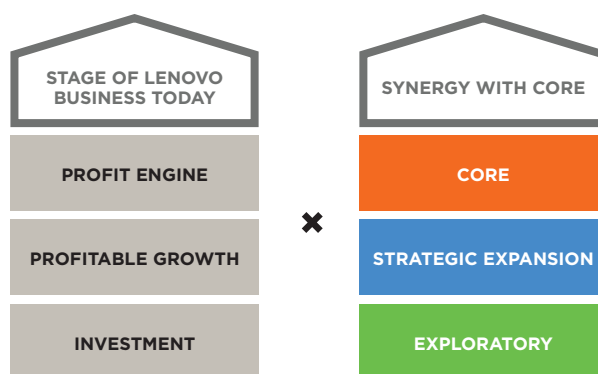
Looking forward, the markets where the Group is in will remain challenging in the short term. The Group is seeing the benefits of its strategic actions. The efficient organization structure, coupled with the competitive cost structure across all of its businesses, together with its solid execution, positions the Group well to drive its growth even in the current challenging market environment.

In order to drive stronger innovation, more customer-centric products and experiences and faster growth, the Group has aligned its organizational structure since the start of the new fiscal year.

- **PC and Smart Device Business Group:** Consisting of its core PC business as well as slate tablets, detachables, gaming and other smart devices.
- **Data Center Group:** By reorganizing and renaming this group, it will now be able to be faster, more nimble and more disruptive, particularly by leveraging relationships with an array of key partners.
- **Mobile Business Group:** Focusing on smartphones, this business has two sub-groups. One focuses on China, where it is rebuilding its business to win in the world's largest market. The other focuses on continuing its strong growth in emerging markets and breaking through in mature markets.
- **Lenovo Capital and Incubator Group (LCIG):** As part of its innovation focus, this group will drive innovation through investment in startups and exploring new technologies

MANAGEMENT'S DISCUSSION & ANALYSIS

At the meantime, to maximize performance, the Group will manage different types of businesses differently based on the varying stages of maturity as well as synergy with its core business. Each business will have the appropriate set of performance metrics, priorities, management processes, ownership structure and incentives. While the Group's strategic focus remains consistent, this management system adds an important extra dimension and better positions the Group to respond to the changing market environment and opportunities as well as for future profit growth. For example:



The PC business will be managed to maximize profitability and always be a core business. It is expected the PC market consolidation will continue and that the expanded PC market, including 2-in-1/detachable and convertibles will see potential growth as macro-economic and currency conditions continue to stabilize. The Group will continue to leverage the consolidation trend to gain more share and drive profitable growth. Even more, Lenovo will leverage its innovation leadership in the expanded PC market. The Group has a full portfolio of new, innovative products in the pipeline with two dedicated business units to address the fast growing 2-in-1/detachable and gaming markets. As a result, the Group remains confident it will continue to expand its leadership and deliver profitable growth in PC over time.

Strategic expansion businesses like its Mobile and Data Center groups will be managed to drive both profitability and growth.

For Mobile, the Group has solid products and technology foundation, and has built global markets and channel coverage, while in the future, the Group will thoroughly integrate the organizations, streamline product lines and strengthen product competitiveness. The business group now has two experienced leaders with dedicated focus in China and Rest of World markets, respectively, to help the Group deliver its strategy more effectively and address the unique characteristics of the two markets. In Rest of the World, while keeping the high growth in emerging markets, the Group will invest in brand building, channel broadening and expanding the market and improving margins with innovative products. In China, the Group will keep driving the strategic shift from carrier to the open market, and leverage ZUK Z2 model to rebuild the end-to-end competitiveness. The Group will continue to focus on the business transformation to drive innovative product design and higher average selling price across its product portfolio while also improving its earnings quality through more efficient cost structure.

For Data Center, Lenovo will attack top line growth across geographies, while focusing on operational health. The Group has been reorganized into a dedicated business unit to sharply focus on the market, and now has enhanced end-to-end capabilities and ownership for everything from innovation through operations and technical support. The partnerships with leading tech companies (Nutanix, Juniper, Redhat & SAP) has brought the Group to a stronger position to attack the fastest growing segments of converged/hyperconverged, cloud and hyperscale markets. The Group is expanding its solution portfolio, with its own innovation and integrating partner technologies, to compete in a larger percentage of the total market opportunity. At the meantime, the Group has actions in place to enhance the sales team to accelerate the business in North America, and will increase its investments in its China-specific portfolio built upon global tech platform to win in PRC.

As the exploratory businesses – like start-ups it funds through Lenovo Capital and Incubator Group – it will be managed to maximize valuation and return on investment, and may include a portfolio of companies where Lenovo is not the sole or majority owner, but has an influence over strategy and execution and receives value for shareholders. The Group is to invest in core-technology and Internet related areas, including cloud computing, big data, artificial intelligence, robotics and Internet services, enhance its Internet service and intelligence ecosystem.

The new organization structure and operating system will enable the Group to attack the opportunities in “Device + Cloud”. Lenovo used to be a device company, and then became a device primary, cloud secondary company. As the world is heading toward an age of “Internet of Things,” everything around people can have computing, storage and networking modules built inside. While protecting its “general purposed device” business, the Group will develop more specific-purposed devices, based on customers’ needs in different scenarios – at home, at work, or on the go.

Lenovo has a unique advantage in combining its traditional strengths in end-user devices with its new capabilities in cloud and infrastructure to meet customer needs with a balanced “Device + Cloud” model. This is where Lenovo will attack and grow.



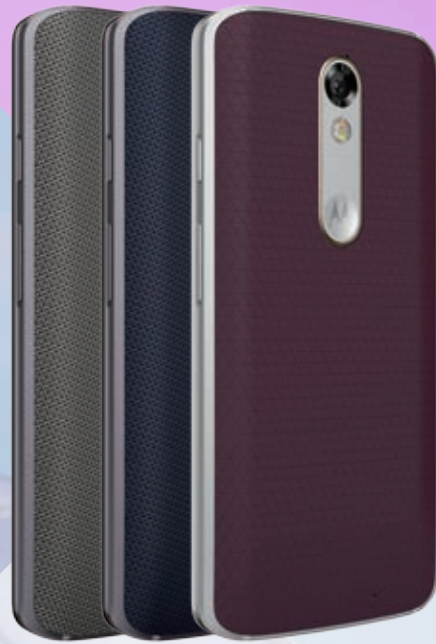
Lenovo will continue to leverage its innovation leadership to create new and exciting choices for its customers and drive new growth. The Group will host its second annual Lenovo Tech World conference in June this year. Tech World 2016 will host major product announcements, including the world’s first consumer Project Tango-enabled smartphone in partnership with Google, which brings augmented reality technology. Lenovo will also announce new mobile technology designed by Motorola and share the Group’s vision in emerging topics in innovation.

These fundamental changes the Group has made will position the company as a faster and stronger global company. This in turn will drive sustainable growth in revenue and profit amidst strong competition and market changes. In the year ahead, the Group will stay committed in driving the market outperformance in PCs while maintaining strong margins, improving quality of the Mobile business and driving its revenue growth, and driving strong top-line growth in the Data Center business.

The Group has started to monetize certain non-core assets. Coupled with an increasing focus on further improving the management of its working capital, these actions will continue to improve its finance situation.

Lenovo will continue to invest in areas it believes are important to its future success. Lenovo remains fully committed to its protect and attack strategy, supported by its proven execution capabilities, to lead the Group on its ongoing journey towards building a respected global tech leadership position in every business the Group enters and to drive profitable growth that, in turn, creates better value for shareholders.





Moto X Force

WE BREAK
CONVENTION
TO MAKE IT
SHATTERPROOF

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRINCIPLES AND STRUCTURE

LEADERSHIP

How the Board leads from the front

- ▲ Board Roles
- ▲ Board Composition
- ▲ Appointment and Election
- ▲ Directors' Securities Transactions
- ▲ Induction and Continuous Professional Development
- ▲ Remuneration of Directors and Senior Management
- ▲ Company Secretary

EFFECTIVENESS

How the Board Operates

- ▲ Board's Responsibilities and Delegation
- ▲ Board Process
- ▲ Board Activities
- ▲ Board Committees
- ▲ Board and Board Committees' Effectiveness Review

ACCOUNTABILITY AND AUDIT

How the Company fulfils its oversight responsibilities

- ▲ Financial Reporting
- ▲ Risk Management and Internal Control
- ▲ External Auditor

INVESTOR RELATIONS

How we maintains relations with our investors

- ▲ Communications with Investors
- ▲ Market Recognitions
- ▲ Index Recognition

SHAREHOLDERS

How we communicate with our shareholders and their rights

- ▲ Communication with Shareholders
- ▲ Shareholders' Rights
- ▲ Shareholding Structure

KEY SHAREHOLDERS INFORMATION

CORPORATE GOVERNANCE PRINCIPLES AND STRUCTURE

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

Throughout the year ended March 31, 2016, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the “**CG Code**”) set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong S.A.R. of China Limited (the “**Stock Exchange**”) (the “**Listing Rules**”), and where appropriate, met the recommended best practices in the CG Code, with the exception that the roles of the chairman of the Board (the “**Chairman**”) and the chief executive officer of the Company (the “**CEO**”) have not been segregated as required by code provision A.2.1 of the CG Code.

Since November 3, 2011, Mr. Yang Yuanqing (“**Mr. Yang**”) has been performing both the roles as the Chairman and the CEO. The Board has recently reviewed the organization human resources planning of the Company and is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Yang to continue to hold both the positions as it would help to maintain the continuity of the strategy execution and stability of the operations of the Company. The Board comprising a vast majority of independent non-executive directors meets regularly on a quarterly basis to review the operations of the Company led by Mr. Yang.

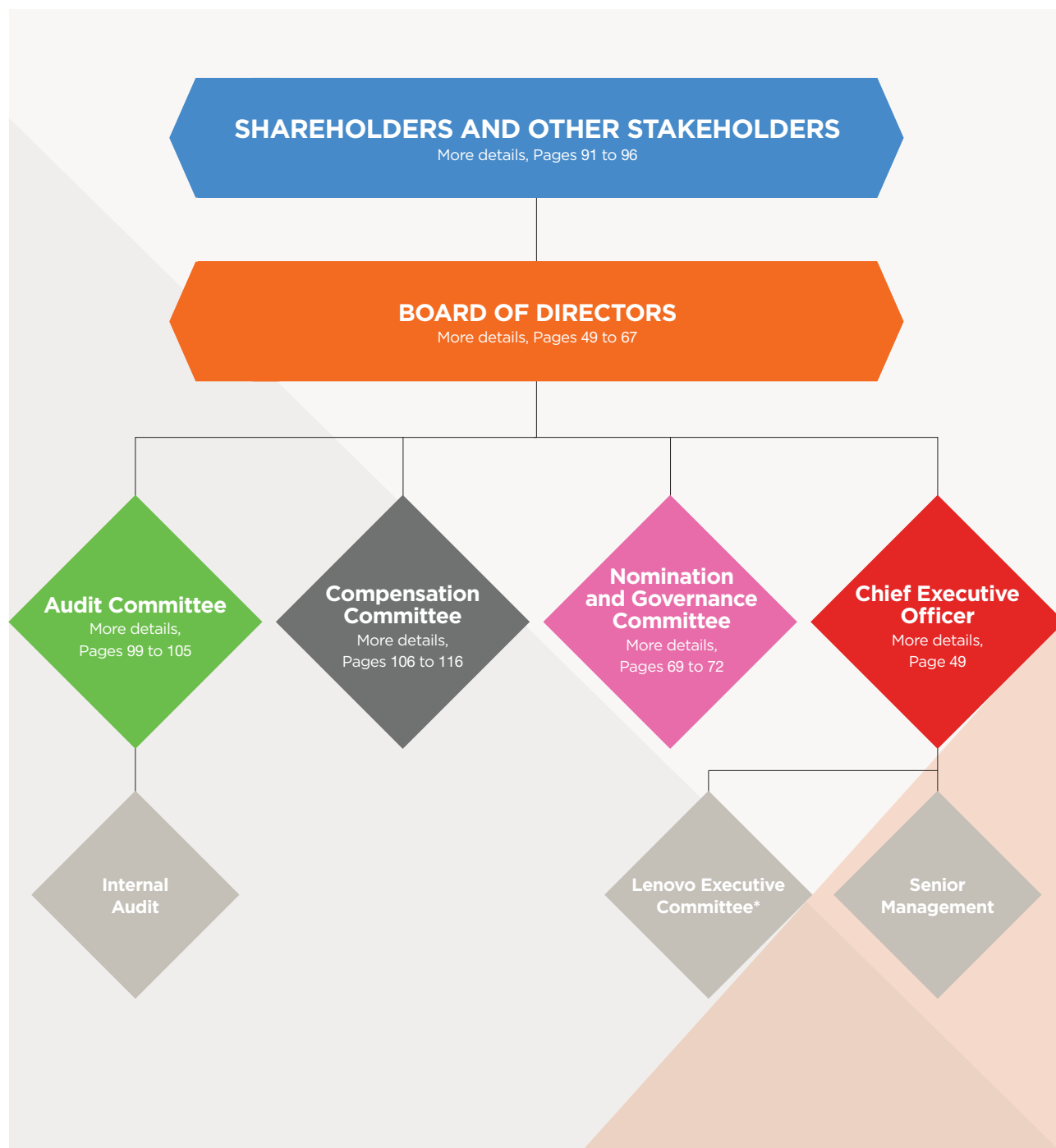
The Board also appointed Mr. William O. Grabe (“**Mr. Grabe**”) as the lead independent director (the “**Lead Independent Director**”) with broad authority and responsibility. Among other responsibilities, the Lead Independent Director will chair the Nomination and Governance Committee meeting and/or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

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

CORPORATE GOVERNANCE REPORT

The Company's corporate governance structure and overall approach to corporate governance have also been designed to support and work within our organizational structure and to meet the challenges of the future.

CORPORATE GOVERNANCE STRUCTURE



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

LEADERSHIP

Board Roles

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

CHAIRMAN

Mr. Yang Yuanqing

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

NON-EXECUTIVE DIRECTORS

Independent non-executive directors:

Dr. Tian Suning, Mr. Nicholas C. Allen, Mr. Nobuyuki Idei, Mr. William O. Grabe, Mr. William Tudor Brown, Ms. Ma Xuezheng and Mr. Yang Chih-Yuan Jerry

Non-executive directors:

Mr. Zhu Linan, Mr. Zhao John Huan and Mr. Gordon Robert Halyburton Orr

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



LEAD INDEPENDENT DIRECTOR

Mr. William O. Grabe

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

CHIEF EXECUTIVE OFFICER

Mr. Yang Yuanqing

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

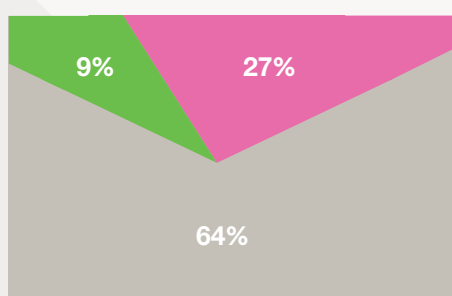
CORPORATE GOVERNANCE REPORT

Board Composition

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

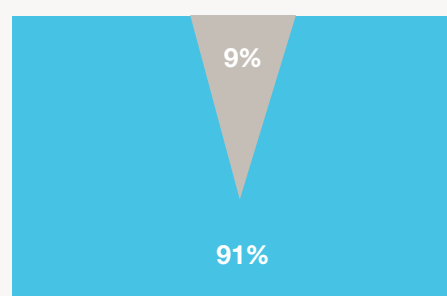
The Board diversity mix is shown below while the detailed biographies and a snapshot of the Board's experience are set out on pages 140 to 143 of this annual report.

DESIGNATION



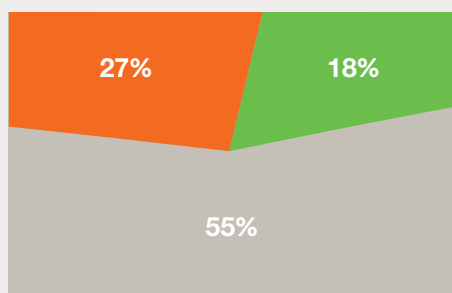
- Executive director
- Non-executive directors
- Independent non-executive directors

GENDER



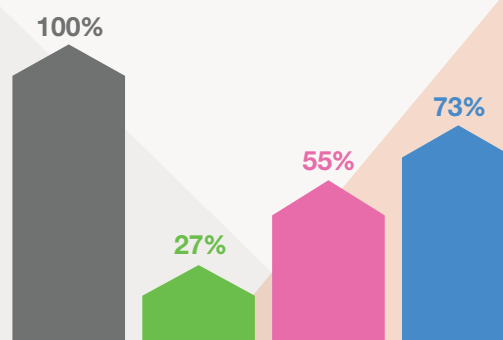
- Male
- Female

AGE GROUP



- 45-55
- 56-65
- over 65

AREAS OF EXPERIENCE



- Global operations
- Accounting/Internal controls
- Equity investment/Financial
- IT industry

Key Features of the Board Composition

Diversity

The Board adopted a Board diversity policy (the “**Board Diversity Policy**”) which relates to the selection of candidates for the Board. A summary of the Board Diversity Policy including the views and measurable objectives is set out on page 52 of this report.

Independence

The current composition of the Board exceeds the requirements under rule 3.10A of the Listing Rules, as more than half of its members are independent non-executive directors, thus exhibiting a strong independent element which enhances independent judgement.

Mr. Grabe, an independent non-executive director of the Company was appointed as Lead Independent Director for enhancing corporate governance of the Company. The roles and responsibilities of the Lead Independent Director are set out on page 49 of this report.

The Company has maintained on its website and Hong Kong S.A.R. of China Exchanges and Clearing Limited’s website (the “**HKEx’s website**”) an updated list of its directors identifying their roles and functions and whether they are independent non-executive directors.

Independent non-executive directors are also identified as such in all corporate communications that disclose the names of directors of the Company.

Professional qualification

Mr. Nicholas C. Allen, an independent non-executive director of the Company, has the appropriate professional qualifications, or accounting or related financial management expertise, as required under the Listing Rules.

Relationship among directors

Mr. Zhu Linan and Mr. Zhao John Huan, non-executive directors of the Company, also serve on the board of directors of Legend Holdings Corporation, which company held approximately 31.00% of the total number of shares in issue of the Company as of March 31, 2016 according to the interest as recorded in the register maintained under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong S.A.R. of China) (the “**SFO**”) The details are set out on page 96 of this report.

To the best knowledge of the Board members, there are no other relationship among the members of the Board as of the date of this annual report except for the relationships (including financial, business, family, and other material and relevant relationships) as mentioned in this report and in the biographies of directors set out on pages 140 to 143 of this annual report.

CORPORATE GOVERNANCE REPORT

Appointment and Election

Diversity

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

The Board believes that a key success factor of an effective Board is that it comprises a range and balance of skills, experience, knowledge and independence, with individuals that work as a team. The Board Diversity Policy which relates to the selection of candidates for the Board was adopted to ensure that diversity in its broadest sense continues to remain a feature of the Board. All Board appointments are made on merit, in the context of the skills and experience the Board as a whole requires being effective. The details of the appointment process can be found on page 53 of this report.

The Nomination and Governance Committee has been delegated with the responsibilities for the review of the Board Diversity Policy on an annually basis. During the fiscal year 2015/16, the Nomination and Governance Committee reviewed the below measurable objectives and the progress in achieving these objectives:

Measurable Objectives		Progress for Achieving Objectives
Objective 1	Consider candidates for appointment as independent non-executive directors from a wide pool of backgrounds, skills, experience and perspectives that would complement the existing Board	<ul style="list-style-type: none">• Appointment of Mr. Gordon Robert Halyburton Orr as non-executive director• In the ordinary course of the Board succession process
Objective 2	Report annually against the objectives and other initiatives taking place within the Company which promote diversity	<ul style="list-style-type: none">• The annual Board evaluation process includes an assessment of the Board's diversity helping to objectively consider the Board composition and effectiveness• FY2016/17 and ongoing
Objective 3	Report annually on the outcome of the composition and structure of the Board as well as any issues and challenges the Board is facing when considering the diverse make-up of the Company	<ul style="list-style-type: none">• Make use of the Board evaluation process as an important means of monitoring the progress• Remain committed to getting the right balance of the composition of the Board and works towards understanding and managing some of the challenges we face in the global information technology sector, particularly in internet, mobile, software and clouds areas• FY2016/17 and ongoing

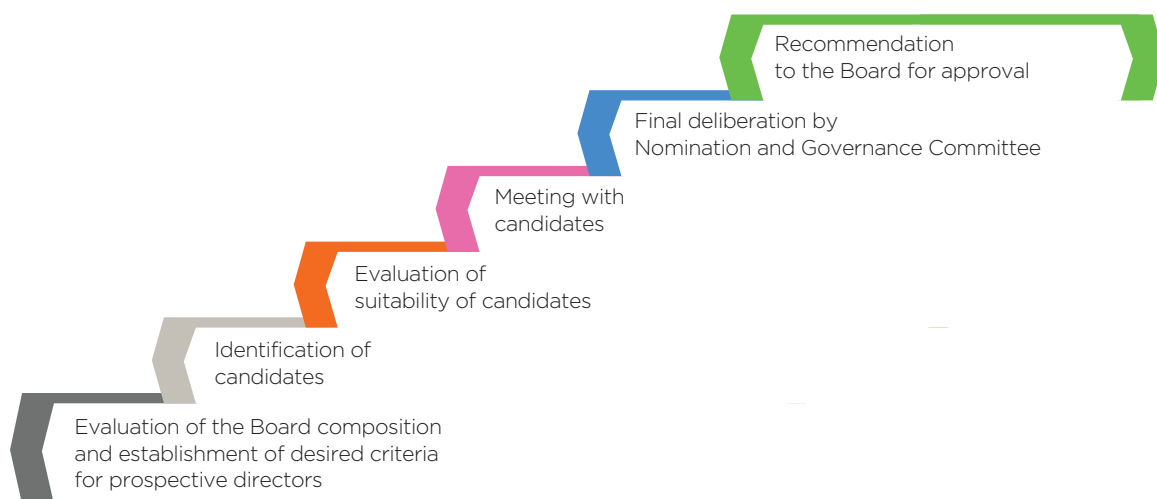
Appointment process

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

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

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

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



Following a formal, rigorous and transparent process implemented and led by the Nomination and Governance Committee, the Board appointed Mr. Gordon Robert Halyburton Orr ("**Mr. Gordon Orr**") as a non-executive director of the Company with effect from September 18, 2015 and Mr. Gordon Orr will be subject to election by shareholders at the forthcoming annual general meeting.

CORPORATE GOVERNANCE REPORT

Succession

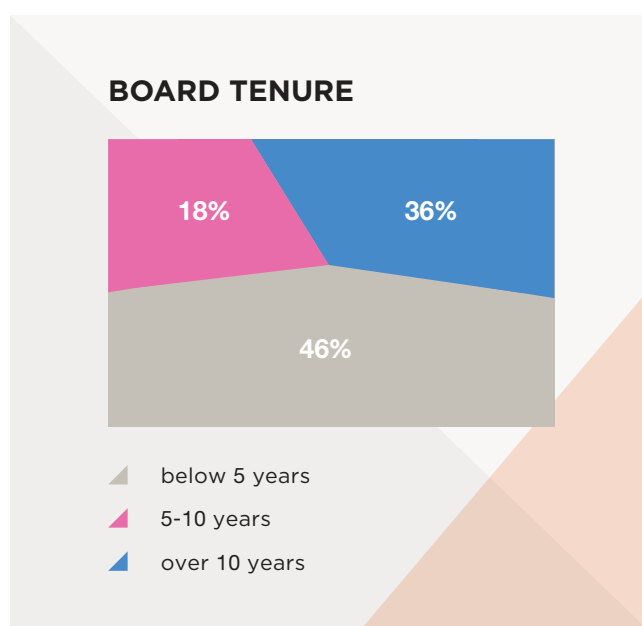
The Nomination and Governance Committee regularly reviews the structure, size and composition (including the skills, knowledge and experience) required of the Board and makes recommendations to the Board as appropriate. The Board has satisfied itself that the appropriate plan has in place for orderly succession to the Board as well as procedures to ensure an appropriate balance of skills on the Board and its committees. The Board and the Nomination and Governance Committee have regularly discussed and reviewed Board composition and succession planning during the year and this will continue in the fiscal year 2016/17.

Tenure

In accordance with the articles of association of the Company (the “**Articles of Association**”), all directors are subject to retirement by rotation. At each annual general meeting, one-third of the directors for the time being shall retire from office. The retiring directors shall be eligible for re-election. New appointments either to fill a casual vacancy or as an addition to the Board are subject to re-election by shareholders of the Company at the next following annual general meeting of the Company. The chart beside this paragraph shows the tenure of the Board members as of March 31, 2016.

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

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



Independence

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

Each of the independent non-executive directors has made a confirmation of independence pursuant to rule 3.13 of the Listing Rules. On May 25, 2016, the Nomination and Governance Committee conducted an annual review of the independence of all independent non-executive directors of the Company for the year ended March 31, 2016. Having taken into account the factors as set out in rule 3.13 of the Listing Rules in assessing the independence of independent non-executive directors, the Nomination and Governance Committee (with the relevant committee member abstaining from voting on the resolution concerning his own independence) concluded that all of the independent non-executive directors satisfied the criteria of independence as set out in the Listing Rules.

In addition, the Nomination and Governance Committee affirmed that all independent non-executive directors of the Company provided a strong independent element on the Board, were free from any business or other relationship which could materially interfere with the exercise of their judgement, and remained independent for the year ended March 31, 2016.

Under A.4.3 of the CG Code, any further appointment of an independent non-executive director, who has served the Board for more than nine years, shall be subject to a separate resolution to be approved by shareholders. The Company will set out in the document accompanying the notice of the forthcoming annual general meeting the reason why the Board considers the individual continues to be independent and the recommendation to shareholders to vote in favour of the re-election of the independent non-executive director.

Independence Assessment

Before and on appointment

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

Ongoing process

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

Annual assessment

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

CORPORATE GOVERNANCE REPORT

Conflicts of interest

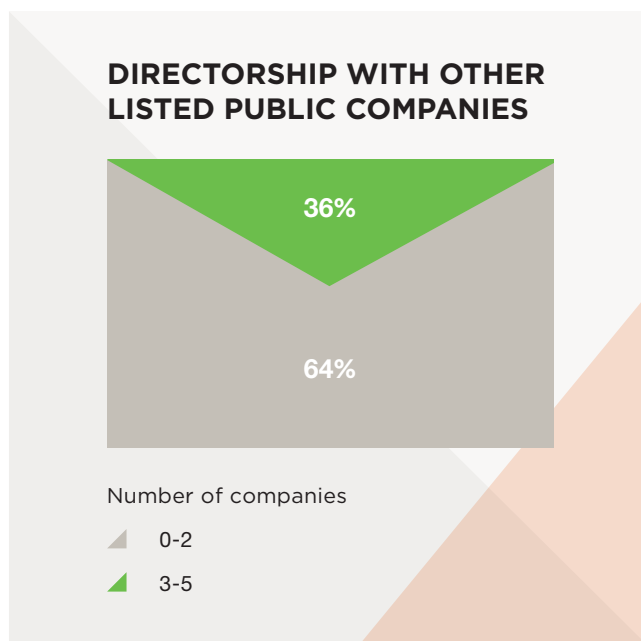
Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company. The Board has a set procedure and guidance to deal with the actual or potential conflicts of interest of directors as follows:

- The Board deals with each appointment on its individual merit and takes into consideration all the circumstances.
- Prior to taking additional responsibilities or external appointments, directors are obliged to ensure that they will be able to meet the time commitment expected of them in their role at the Company and do not have any potential conflicts that may arise when take up a position with another company.
- Decisions regarding transactions with directors and their related parties are always dealt with by other directors, such as matter regarding the remuneration of executive director is handled by the Compensation Committee.
- Under the Articles of Association, directors are also required to declare their direct or indirect interests, if any, in any proposal, transaction, arrangement or contract that is significant in relation to the Company's business and the director's interest or his/her associate's interest or the interest of the entity connected with the director is material.

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

Commitments

All directors are committed to devote sufficient time and attention to the affairs of the Company. Directors are given guidelines on their time commitments to the affairs of the Company and corresponding confirmations were received from the directors in their letters of appointment. Directors have also disclosed to the Company the number and nature of offices held in Hong Kong S.A.R. of China or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies or organisations. Directors are reminded to notify the Company in a timely manner and bi-annually confirm to the Company of any changes of such information. The chart beside shows the number of directorship of the directors with other listed public companies as at March 31, 2016.



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

Share ownership

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

Directors' Securities Transactions

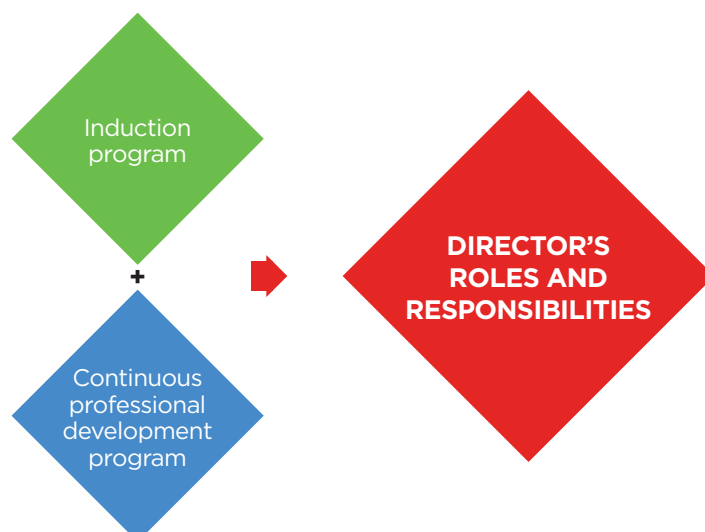
The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules from time to time and devised based on the principles of the Model Code a comprehensive and operative company policy to govern securities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

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

CORPORATE GOVERNANCE REPORT

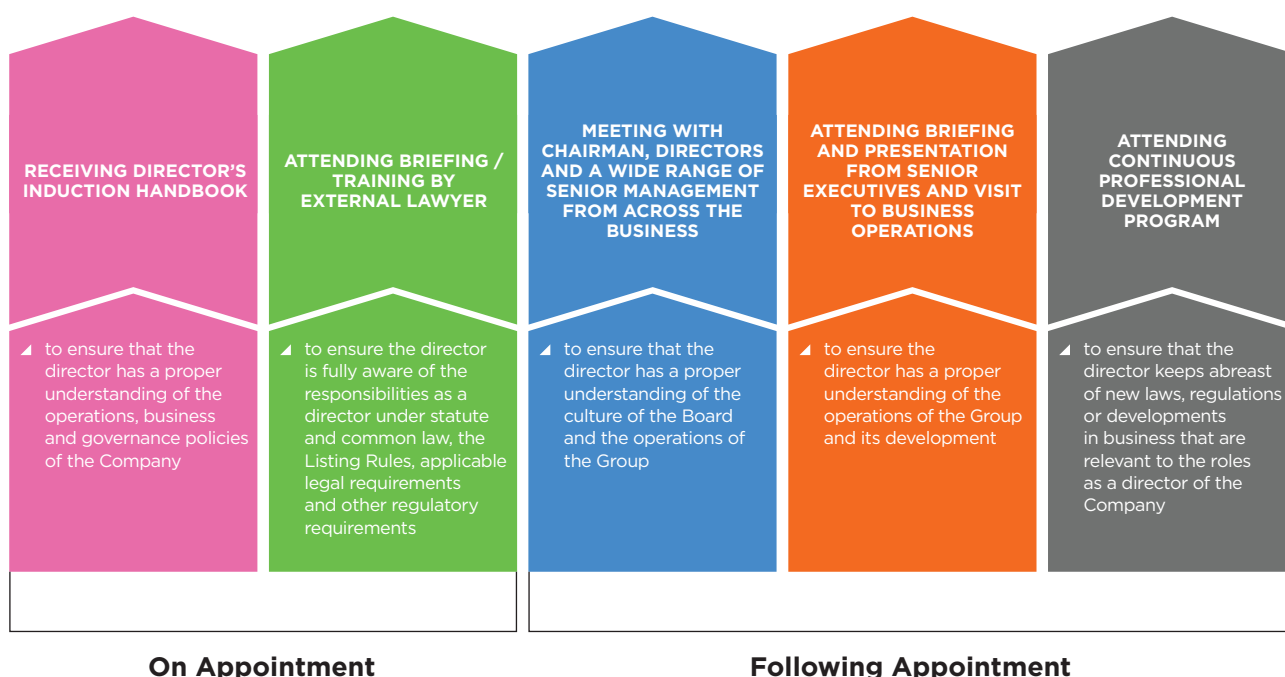
Induction and Continuous Professional Development

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



Induction program

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



During the year, Mr. Gordon Orr, who joined the Board in September 2015, received a comprehensive induction program covering: (i) a director's induction handbook; (ii) a briefing training by external lawyer; (iii) a visit to Lenovo Innovation Center in Beijing and (iv) meetings with senior management to enhance his understanding of the businesses and operations of the Group.

Continuous professional development program

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

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

Site Visit

The Board visited LSTC plant in Shenzhen and met with senior management of the Data Center Group. These arrangements provided the Board a better understanding of the latest technology and products developments of the Group and an insight into the business operations and the strategic direction of the Group.

During the visit, directors were provided with updates and presentations from local management and met with senior management there and observed the actual operation of the plant.

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



CORPORATE GOVERNANCE REPORT

Industry Congress

Lenovo operates in an industry which is rapidly changing in terms of market trends, consumer preferences and technologies. In order to keep directors updated with the latest technologies and products development in the industry, the Company has made arrangements for directors to attend Lenovo Tech World 2015, Fortune Global Forum, Consumer Electronics Show and Mobile World Congress in Beijing, San Francisco, Las Vegas and Barcelona respectively. During the visits, directors were given the best product reviews, product demos and displays that showcase the technologies of the Company and also those of other players in the market. These events provided excellent opportunities for directors not only to acquire the most advanced technological knowledge in the market, but also to meet with the senior management of the Company and other innovators, builders, technologists and customers there.



Experts Briefing and Seminar

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

The Company arranged experts briefing and seminar for directors on the topics of "Risk Management and Internal Control" and "Mobile Industry Update".



Regulatory Updates

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

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

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

CORPORATE GOVERNANCE REPORT

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

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

Name of directors	Type of training	Reading regulatory updates/ Company policies	Visiting the place of operations, Company's facilities and meeting with local management	Attending experts briefing/ seminar/ conference relevant to the Company's business or director's duties
Executive director				
Mr. Yang Yuanqing		√	√	√
Non-executive directors				
Mr. Zhu Linan		√	√	√
Mr. Zhao John Huan		√	√	√
Mr. Gordon Robert Halyburton Orr (<i>Note 1</i>)		√	√	√
Independent non-executive directors				
Mr. Ting Lee Sen (<i>Note 2</i>)		N/A	N/A	√
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		√	√	√

Notes:

(1) Mr. Gordon Orr was appointed as a non-executive director of the Company with effect from September 18, 2015.

(2) Mr. Ting Lee Sen retired as an independent non-executive director of the Company with effect from July 2, 2015.

Remuneration of Directors and Senior Management

A formal and transparent procedure for fixing the remuneration packages of directors and senior management is in place. Details of remuneration policies and other relevant information are set out in the Compensation Committee Report of this annual report on pages 106 to 116.

Company Secretary

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

EFFECTIVENESS

Board's Responsibilities and Delegation

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

The Company has a formal schedule of matters specifically reserved to the Board and those delegated to management. The management is responsible for the daily operations and administration function of the Group under the leadership of the CEO. The Board has given clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the Company or entering into any commitments on behalf of the Group. The types of decisions to be delegated by the Board to management include implementation of the strategy and direction determined by the Board, operation of the Group's businesses, preparation of financial statements and operating budgets, and compliance with applicable laws and regulations. These arrangements will be reviewed periodically to ensure that they remain appropriate to the Company's needs. A list of senior management and their biographies are set out on pages 143 to 144 of this annual report.

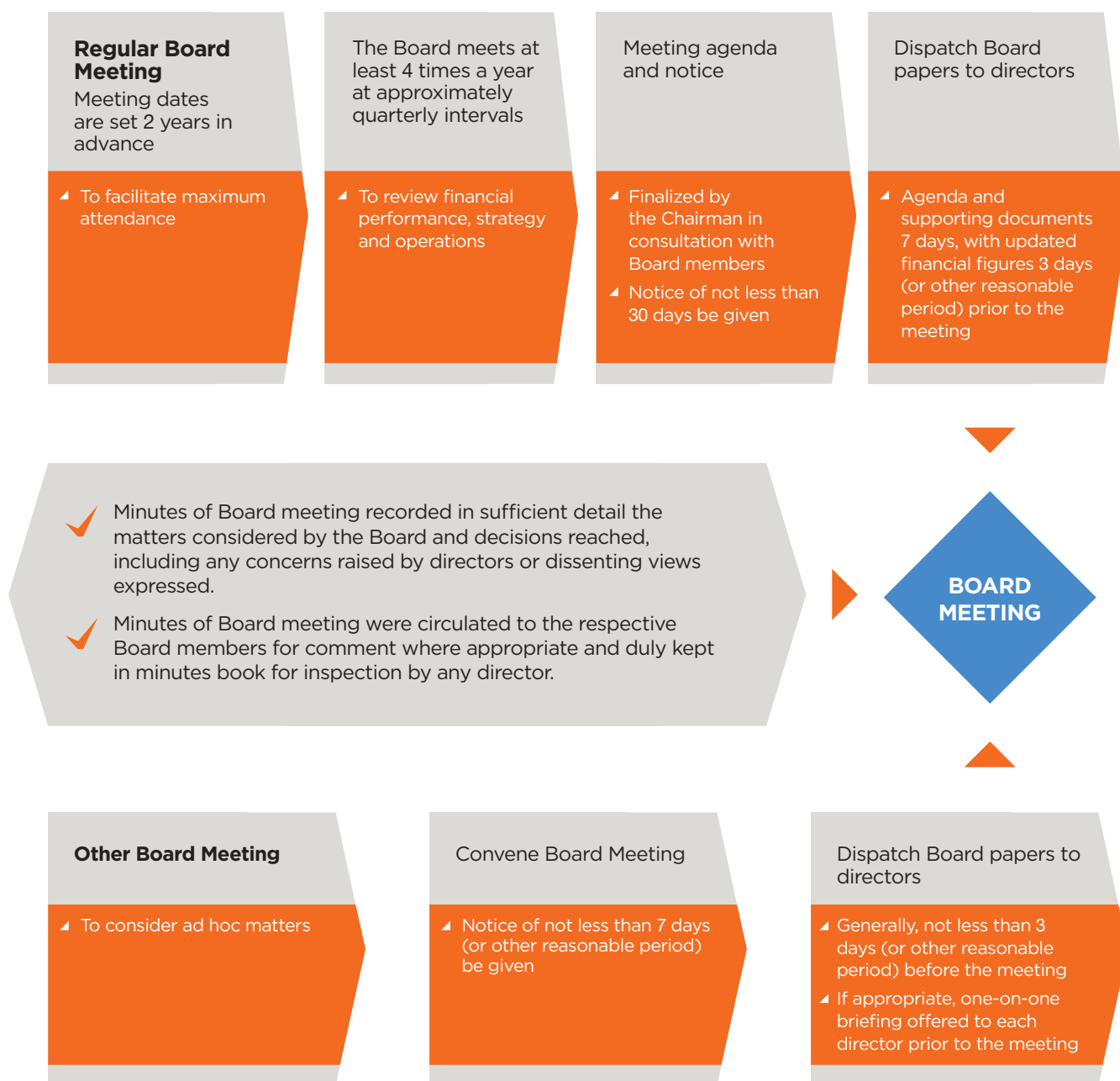
Key Matters Reserved to the Board

Group strategy and management	Financial
<ul style="list-style-type: none">• formulation of the Group's strategy and long term objectives• approval of changes to capital structure• approval of major capital and equity transactions• approval of major disposals and acquisitions	<ul style="list-style-type: none">• approval of the Group's financial statements and results announcements• recommendation on appointment or reappointment of external auditor• recommendation or declaration of dividend• monitoring the Group's businesses against plan and budget
Board membership and committees	Corporate governance
<ul style="list-style-type: none">• appointment to the Board• setting of terms of reference of Board committees	<ul style="list-style-type: none">• review the performance of the Board and its committees• approval of shareholder communication, circular and notices of meetings• review sustainability practices of the Group• review and approval of certain Group policies, for example, Board Diversity Policy, Continuous Disclosures Policy and Shareholders Communication Policy

CORPORATE GOVERNANCE REPORT

Board Process

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



Other Key Features of Board Process

Timely updates and discussion

The directors are supplied in a timely manner with all relevant documentation and financial information to assist them in the discharge of their duties. Monthly updates of the financial performance of the Company are furnished to the Board between regular Board Meetings.

In addition to standing agenda items, there may be discussions on “deep-dive” topics. During the year “deep-dive” presentations included the Group’s specific strategy and business in a specific market.

Senior management are invited to attend Board meetings, where appropriate, to report on matters relating to their areas of responsibility, and also to brief and present details to the directors on recommendations submitted for the Board’s consideration. Additional information or clarification may be required to be furnished, particularly with respect to complex and technical issues tabled to the Board.

The Company has established continuous disclosure policy (the “**Continuous Disclosure Policy**”) and its implementation guideline on monitoring, reporting and disseminating inside information. The critical concerns of the Group’s operations and developments are communicated and addressed to the Board in a timely manner.

Executive sessions

As a good corporate governance practices, separate executive sessions were arranged for (i) the Chairman to meet with non-executive directors in the absence of management and (ii) the Lead Independent Director to meet with other independent non-executive directors in the absence of executive director and management to discuss matters relating to any issue or other matters such persons would like to raise.

To enhance communication with and contribution from all the directors, the Chairman meets with each non-executive director on a one-on-one basis at least once a year.

Professional advices

All directors have direct access to the General Counsel and Company Secretary of the Company who are responsible for advising the Board on corporate governance and compliance issues.

Written procedures are in place for directors to seek, at the Company’s expense, independent professional advice in performing directors’ duties. No request was made by any director for such advice during the year.

Access to information

All directors were provided with a tablet and a notebook to gain access to meeting materials of the Board and Board committees meetings through an internal electronic platform.

Communication with senior management

To enhance the communication between directors and senior management and have an understanding of management planning, directors are invited to attend Lenovo’s GLT event and participate in small group discussions with relevant senior management.

Indemnification and insurance

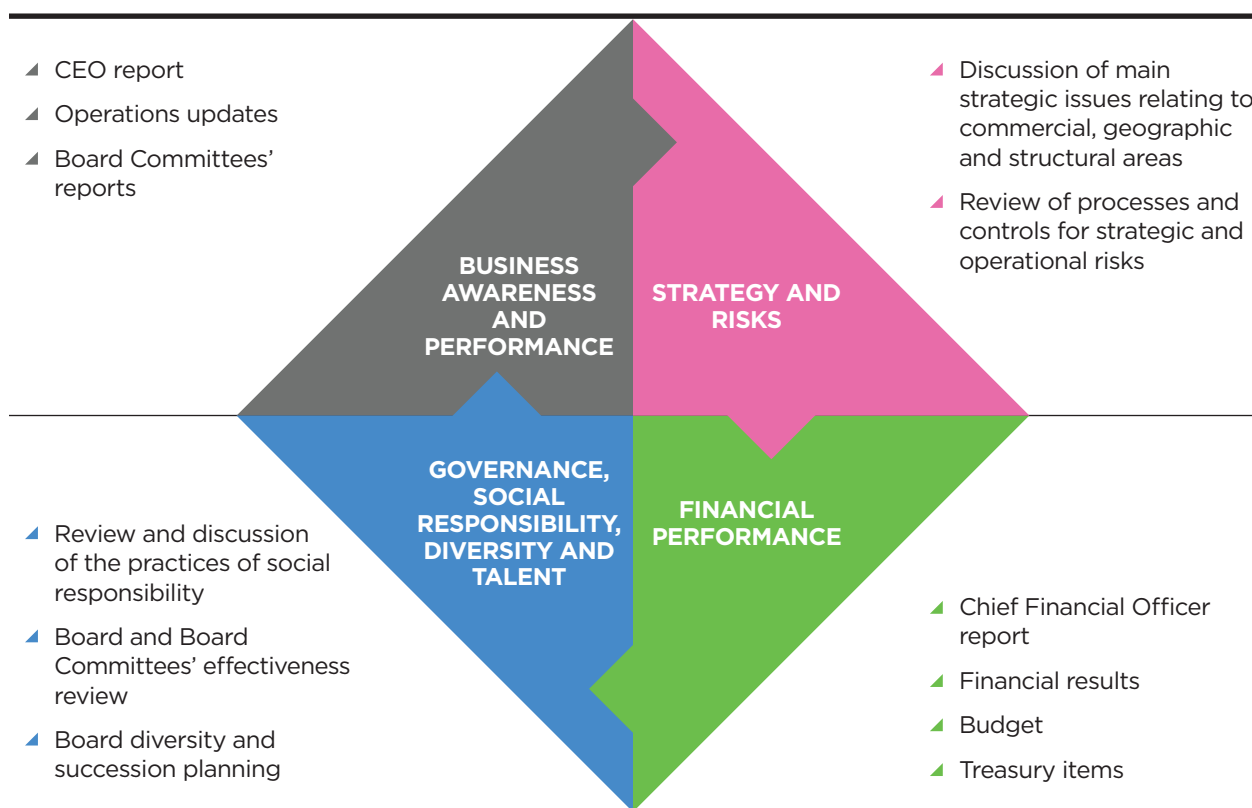
As permitted by the Articles of Association, a director or a former director of the Company may be indemnified out of the Company’s assets against any liability incurred by the director to a person other than the Company or an associated company of the Company that attaches to such director in his or her capacity as a director of the Company, to the extent permitted by law. Such permitted indemnity provision has been in force since the adoption of the new articles of association of the Company on July 2, 2014.

The Company has arranged appropriate insurance to cover the liabilities of the directors arising from corporate activities. The insurance coverage is reviewed on an annual basis.

CORPORATE GOVERNANCE REPORT

Board Activities

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

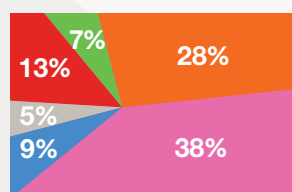


Time allocation

During the fiscal year 2015/16, a total of six Board meetings were held, of which four Board meetings were primarily to review quarterly business performance and strategy execution and the remaining two were for reviewing specific strategy in the geography, business or other relevant areas. Given the geographical spread of the Group's business, in addition to the meetings in Hong Kong S.A.R. of China, Beijing and United States, the Company also held meeting in Barcelona with a particular focus on reviewing the strategies and business of Mobile Business Group which also provided an opportunity for directors to attend Mobile World Congress. The below chart shows how the Board allocated its time during the year.

THE BOARD

Allocation of agenda time



	FY2015/16	FY2014/15
▲ Financial	7%	11%
▲ Operational developments	28%	15%
▲ Strategic matters	38%	37%
▲ Governance, sustainability and directors' training	9%	15%
▲ Board Committees' reports	5%	3%
▲ Other matters (including Ad hoc projects and treasury matters)	13%	19%

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

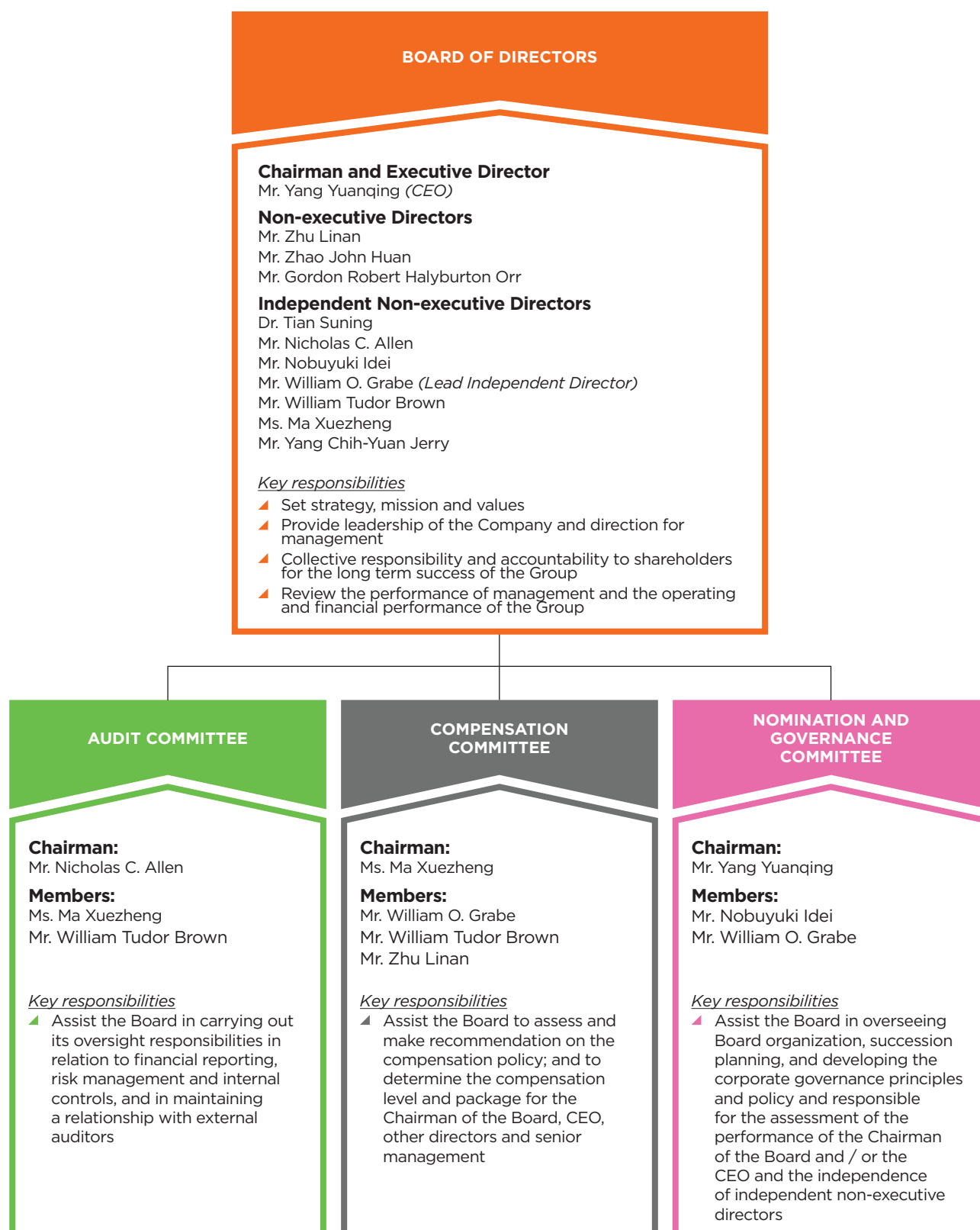
At each scheduled meeting the Board receives updates from the CEO and Chief Financial Officer on the financial and operational performance of the Group and any specific developments in their areas of the business for which they are directly responsible and of which the Board should be aware. Chairman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

- Amendments to the terms of reference of Audit Committee
- Appointment of Mr. Gordon Orr as a non-executive director
- Continuing connected transactions with Compal Electronics, Inc.
- Discussion on Board and Board committees' evaluation results

CORPORATE GOVERNANCE REPORT

Board Committees

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



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

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

Audit Committee

The Audit Committee is authorised by the Board to perform its duties within its terms of reference. Details of the Audit Committee, including its membership, responsibilities and main activities during the fiscal year 2015/16, are summarized in the Audit Committee Report as stated on pages 99 to 105 of this annual report.

Compensation Committee

The Compensation Committee is authorised by the Board to perform its duties within its terms of reference. Details of the Compensation Committee, including its membership, responsibilities and work done during the fiscal year 2015/16, are summarized in the Compensation Committee Report as stated on pages 106 to 116 of this annual report.

Nomination and Governance Committee

Membership

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

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

Chairman	Mr. Yang Yuanqing	Chairman, CEO and executive director
Member	Mr. Nobuyuki Idei	Independent non-executive director
Member	Mr. William O. Grabe	Independent non-executive director and Lead Independent Director

More information on the skills and experience of the members of the Committee may be found in the directors' biographies set out on pages 140 to 143 of this annual report.

CORPORATE GOVERNANCE REPORT

Responsibilities

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

- making recommendation to the Board on succession planning for directors and CEO;
- assessment of the performance of the Chairman and/or CEO and making proposals to the Compensation Committee;
- monitoring corporate governance issues and developments to ensure that the Company is in line with the international best practices;
- reviewing and determining the director induction and continuous professional development programs; and
- reviewing and monitoring the annual Board and Board committees' evaluation and the progress of the implementation actions.

Key Features

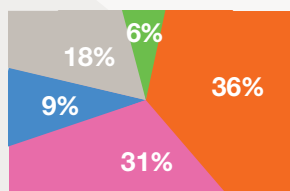
- The Committee's terms of reference which clearly deal with its membership, authority, duties and frequency of meetings are published on the Company's website and HKEx's website.
- The Committee is provided with sufficient resources to perform its duties.
- The Committee is authorised to obtain outside legal or other independent professional advice in performing its duties at the Company's expense. No request was made by any member for such advice during the year.
- General Counsel and Company Secretary are invited to attend the Committee meetings in order to provide insight and enhance the Committee's awareness of corporate governance issues and developments.
- The chairman of the Committee being also the Chairman and CEO, is required to excuse himself from the agenda items relating to succession planning of the Chairman and/or CEO and the assessment of performance of the Chairman and/or CEO.

Main Activities During FY2015/16

In the fiscal year ended March 31, 2016, the Committee held two meetings, with all members in attendance at each meeting. The attendance record of the Committee's members is set out on page 73 in this report and the chart below shows how the Committee allocated its time during the fiscal year 2015/16.

NOMINATION AND GOVERNANCE COMMITTEE

Allocation of agenda time



	FY2015/16	FY2014/15
Board and Board Committees' compositions	6%	6%
Assessment of the performance of the Chairman and CEO	36%	42%
Corporate Governance	31%	30%
Board and Board Committees' evaluation	9%	7%
Others	18%	15%

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

Board and Board committees' compositions

- Reviewed and recommended to the Board on the structure, size and composition of the Board including the diversity and balance of skill, knowledge and experience of the directors.
- Considered and recommended the appointment of Mr. Gordon Orr as a non-executive director.
- Reviewed and discussed the progress against Board diversity targets.

Assessment of the performance of the Chairman and CEO

- Assessed the performance of the Chairman and CEO for the fiscal year 2014/15 and making recommendation to the Compensation Committee.
- Reviewed the arrangement of same person acting as Chairman and CEO.

CORPORATE GOVERNANCE REPORT

Corporate Governance

- Reviewed corporate governance disclosures in 2014/15 annual report and 2015/16 interim report.
- Reviewed and assessed the independence of independent non-executive directors and affirmed the Committee's view over their independence.
- Reviewed and discussed the induction and continuous professional development programs for the directors of the Company.
- Reviewed the policies and practices on corporate governance, and the compliance with legal and regulatory requirements of the Group.

Board and Board Committees' evaluation

- Discussed and approved the proposed actions to be taken in response to the findings of 2014/15 Board and Board Committees' evaluation. The Committee also reviewed reports on the status of the action plan to monitor the progress being made.
 - Oversaw the process of the Board and Board Committees' evaluation for the fiscal year 2015/16.
-

Performance and Effectiveness

The Board undertook an annual review of its committees' performance and effectiveness. The review concluded that overall the Committee was effective in carrying out its duties. Details of the Board and Board Committees' review can be found under "Board and Board Committees' Effectiveness Review" as set out in this report on pages 74 to 76.

Board and Committees Meetings

During the year ended March 31, 2016, six Board meetings were held and the overall attendance rate of directors at Board and committees meetings was 100%.

The individual attendance records of each director at the meetings of the annual general meeting, Board, Audit Committee, Compensation Committee, and Nomination and Governance Committee during the year ended March 31, 2016 are set out below:

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

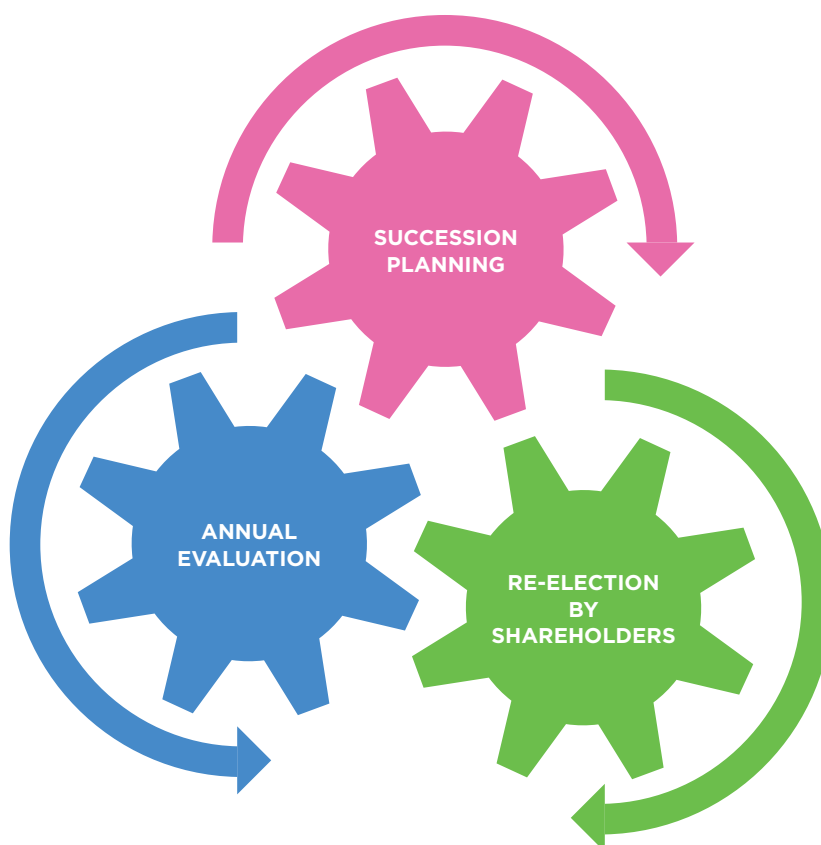
Notes:

- (1) The attendance figure represents actual attendance/the number of meetings a director is entitled to attend.
- (2) The Board held four regular meetings and two strategic meetings during the year.
- (3) The Company held the annual general meeting on July 2, 2015.
- (4) Representatives of the external auditor participated in every Audit Committee meeting and the annual general meeting held during the year.
- (5) Mr. Gordon Orr was appointed as a non-executive director of the Company with effect from September 18, 2015.
- (6) Mr. Ting Lee Sen retired as an independent non-executive director and ceased to be a member of Audit Committee and Compensation Committee of the Company with effect from July 2, 2015.
- (7) For corporate governance reasons, Mr. Yang Yuanqing was required to excuse himself from the agenda item relating to assessment of the performance of the Chairman and CEO of the Nomination and Governance Committee meeting to avoid conflict of interest.

CORPORATE GOVERNANCE REPORT

Board and Board Committees' Effectiveness Review

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



Succession Planning

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

Annual Evaluation

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

Mr. Grabe, the Lead Independent Director, is delegated with authority to take a key role in the Board evaluation process. Mr. Grabe, in consultation with the Chairman and supported by the General Counsel and the Company Secretary, compiled and circulated a comprehensive questionnaire for completion by all directors, the aim of which was to evaluate the performance and effectiveness of the Board and its Committees.

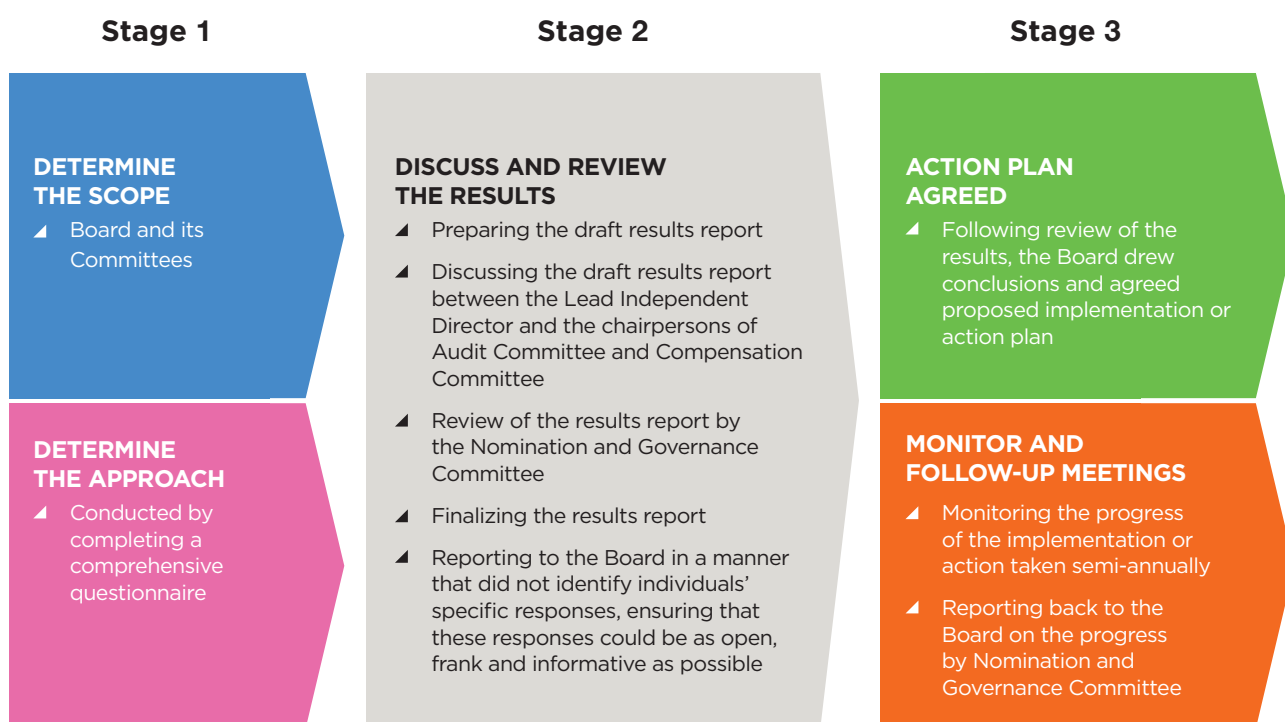
The questionnaire considered:

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

Following the completion of the questionnaire by each director, Mr. Grabe discussed the draft results report with the chairpersons of Audit Committee and Compensation Committee. The evaluation took place in December 2015.

Evaluation Process

The evaluation process involves the following three stages:



CORPORATE GOVERNANCE REPORT

Evaluation results

A consolidated report of the outputs from the evaluation was prepared by the Nomination and Governance Committee for review and consideration by the Board. The results of the evaluation were thoroughly discussed at a Board meeting.

Overall the review found that the Board and Board Committees continue to operate effectively. The Board also identified enhancement areas, which will be incorporated into the future Board program to ensure that the operation of the Board and Board Committees continue to improve. These areas will continuously be reviewed by the Board.

Board action plan for FY2016/17

As in previous year, the Board has identified the following themes and areas of focus:

- Board process – Time spent on routine would be further managed to enable strategic or business discussions to take priority, whilst ensuring the critical areas of oversight would be maintained.
- Succession planning – Continue to develop our succession planning, insights into high potential individuals.
- Communication with senior management – Continue to encourage greater interaction between Board members and senior management to benefit from their experience.

Re-election by Shareholders

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

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board acknowledges its responsibility for presenting a balanced, clear and comprehensive assessment of the Company's performance, position and prospects. The Board is also responsible for the preparation of financial statements for each financial year which gives a true and fair view of the state of affairs of the Group on going concern basis while the external auditor's responsibilities to shareholders are set out in the Independent Auditor's Report on page 158 of this annual report.

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

Annual Results FY2014/15

- Announced within 2 months
- Published the annual report within 14 days following the annual results announcement

Interim Results FY2015/16

- Announced within 1.5 months
- Published the interim report within 14 days following the interim results announcement

Quarterly Results FY2015/16 Q1 & Q3

- Announced within 45 days

Risk Management and Internal Control

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

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

CORPORATE GOVERNANCE REPORT

Board

- Has overall responsibility for the Lenovo's risk management and internal control system.
- Oversees the actions of management and monitors the overall effectiveness of the risk management system and internal audit function.
- Oversees and reviews processes and controls for strategic and operational risk and monitors the effectiveness of the established controls through the Audit Committee.

Audit Committee

- Supports the Board in monitoring the performance of the risk management system and key risks and internal control systems.
- Reviews the effectiveness of the Company's Internal Audit function.
- Reviews the reports submitted by external auditor, which summarized matters arising from their audit with management's responses and/or comments to the findings.
- Reviews risks raised during annual risk registration exercise, and other risks and concerns.
- Approves Company's risk tolerance.

Internal Audit

- Supports the Audit Committee in reviewing effectiveness of internal controls system.
- Capitalizes on the audit processes to independently assess the effectiveness of established system of controls.
- Independent investigations regarding certain allegations of fraud and violations of Lenovo's Code of Conduct (the "Code") and other company policies.

Senior Management

- Provide leadership and guidance for the balance of risk and return.
 - Designs, implements and reviews Lenovo's risk management framework.
 - Ensures that salient risks are highlighted to the Audit Committee, along with the status of actions taken to manage these risks.
-

Enterprise Risk Management (“ERM”)

- Responsible to design, implement, review and update Lenovo’s ERM framework.
- Coordinates the risk identification and assessment process, highlights identified risks to the Audit Committee, along with the status of actions taken to manage these risks.
- Risk projects.

Business Functions

- ERM Risk Champions are appointed in each functions where risk ownership is established.
 - Identify risk, assess and initiate control and mitigation measures in their areas of responsibility.
 - Establish group-wide policies and guidelines where appropriate.
 - Quarterly management disclosure and certification process trigger reporting of unusual items, occurring in of the ordinary course of our business, which raise significant financial or business risks.
-

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

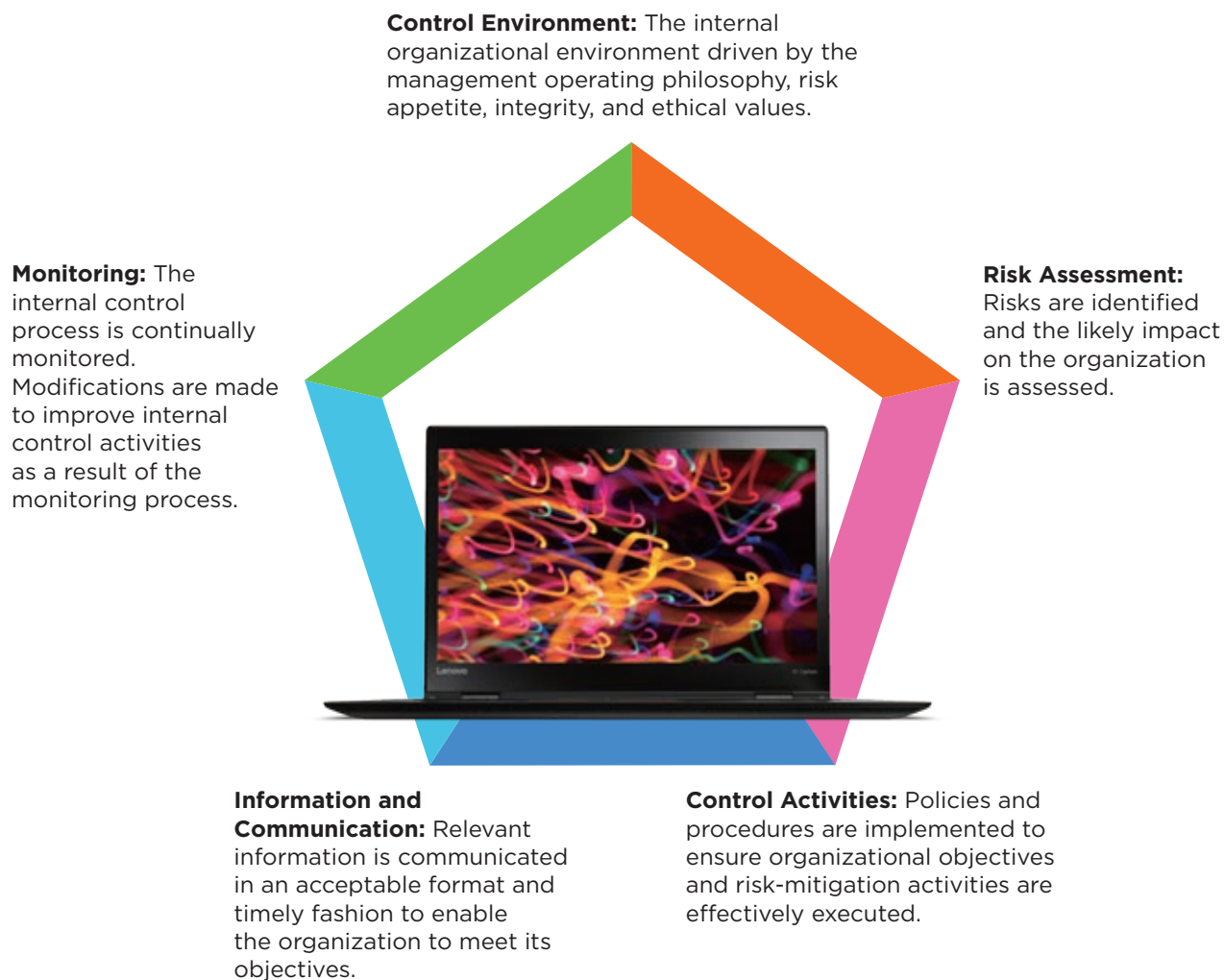
Internal Control

The Board acknowledges its responsibility to oversee the effectiveness of the Company’s internal control system. This is achieved through a defined management structure with specified limits of authority and defined control responsibility designed to:

- Achieve business objectives and safeguard assets against unauthorized use or disposition;
- Ensure maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication; and
- Ensure compliance with the relevant legislation and regulations.

CORPORATE GOVERNANCE REPORT

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



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

Management of internal controls

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

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

Along with establishing guidelines, principles and values, Lenovo recognizes that an environment where employees feel free to bring concerns to management is also required to make the Company's internal control system successful. Lenovo's corporate policy on reporting unlawful or inappropriate conduct makes it clear that all reports will be kept anonymous and confidential to the extent possible. Most importantly, if employees seek advice, raise a concern relating to a potential compliance issue, report suspected misconduct, or cooperate with an investigation, Lenovo will not tolerate any form of retaliation or harassment.

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

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

CORPORATE GOVERNANCE REPORT

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

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

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

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

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

Inside information

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

- (i) is aware of its obligations under the SFO and the Listing Rules and the overriding principle that inside information should be announced immediately if it is the subject to the requirements and the safe harbors as provided in SFO;
- (ii) conducts its affairs with close regard to the applicable laws and regulations prevailing in Hong Kong S.A.R. of China;
- (iii) has included in the Code a strict prohibition on the unauthorized use of non-public or inside information;
- (iv) has established a Continuous Disclosures Policy along with its guidance notes for monitoring, reporting and disseminating inside information to our shareholders, investors, analysts and media. These policies and guidance notes also identify who are the Company's authorized spokespersons and their responsibilities for communications with stakeholders; and
- (v) has communicated to all relevant staff regarding the implementation of the Continuous Disclosures Policy and the relevant trainings are also provided.

Control effectiveness

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

Enterprise Risk Management

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

- The ERM team, who is responsible to design, implement, review, and update Lenovo ERM framework.
- All Lenovo major functions, where risk ownership is established via the appointment of ERM Champions in each function.

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

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

External Auditor

Independence of external auditor

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

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

Remuneration of external auditor

The fees paid or payable to PwC for audit and non-audit services for the financial year ended March 31, 2016 and the comparative figures for the financial year ended March 31, 2015 are as follows:

Nature of services	2016 US\$mn	2015 US\$mn
Audit services	7.0	7.4
Non-audit services		
– Tax	2.0	0.8
– IT	1.3	0.3
– Advisory	0.8	0.4
– Other services	1.2	0.4
Total	12.3	9.3

CORPORATE GOVERNANCE REPORT

INVESTOR RELATIONS

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

Communications with Investors

During the fiscal year 2015/16, the Company's senior management team presented its annual and quarterly earnings results through webcast, conference calls, social media and face-to-face meetings to communicate with shareholders, investors and analysts. Through various investor relations activities such as analyst briefings, conference calls and global investor roadshows, the senior management team presented and communicated with investors and analysts on the Company's strategy and development.

Lenovo Tech World Event

On 28 May 2015, the Company hosted global equity analysts and investors to the Company's inaugural Lenovo Tech World event. It was the Company's first strategic global technology conference, where it outlined the trend of future technology, vision of future devices including smartphones, wearables and smart connected devices and demonstrated R&D concept projects

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



Plant visits

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



Lenovo's Brand Experience Center



Lenovo's Beijing Manufacturing Hub



Lenovo's Wuhan Manufacturing Hub

Social media engagement

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

Please follow Lenovo at:



CORPORATE GOVERNANCE REPORT

Investor Conferences

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

INVESTOR CONFERENCES ATTENDED FY2015/16

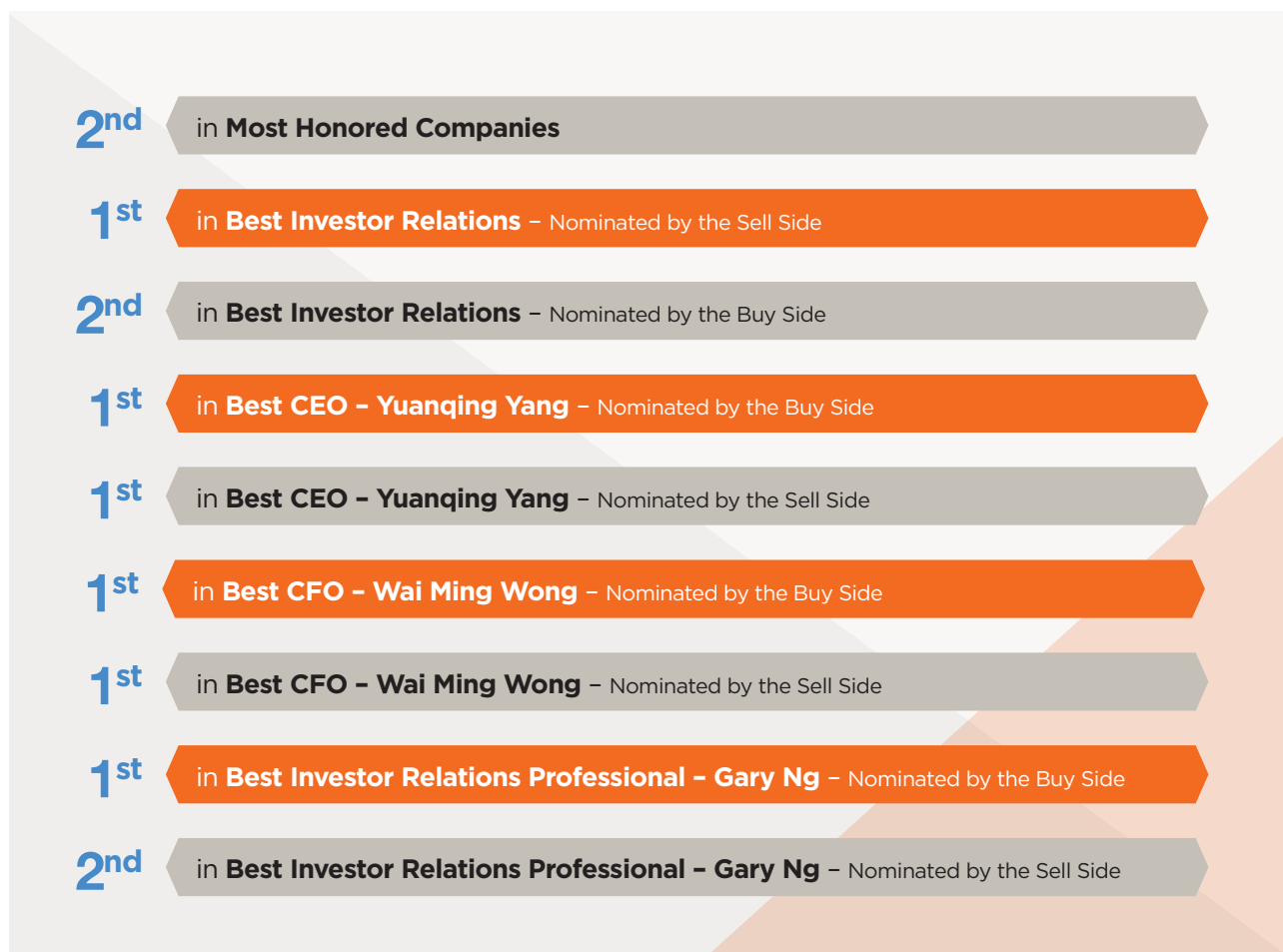
Date	Conference	Location
May 2015	Morgan Stanley Inaugural China Summit	Beijing
June 2015	JP Morgan 11th Annual Global China Summit	Beijing
June 2015	UBS Taiwan Conference 2015	Taipei
August 2015	Bank of America Merrill Lynch 13th Asia Tech Tour	Hong Kong S.A.R. of China
September 2015	Citi Global Tech Conference	New York
September 2015	Credit Suisse Asian Technology Conference	Taipei
September 2015	CLSA Investor's Forum 2015	Hong Kong S.A.R. of China
November 2015	J.P. Morgan Global TMT Conference	Hong Kong S.A.R. of China
November 2015	UBS Global Technology Conference	San Francisco
November 2015	Morgan Stanley Asia Pacific Summit	Singapore
December 2015	Barclays Asia TMT Conference	Hong Kong S.A.R. of China
December 2015	UBS Global Emerging Markets One-on-One Conference	New York
March 2016	Daiwa Investment Conference	Tokyo
March 2016	Bank of America Merrill Lynch "Taiwan, Technology & Beyond" Conference	Taipei

Market Recognitions

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

Lenovo topped the **Institutional Investor Magazine's ranking of 2015 All-Asia Executive Team**, by being awarded in all eight categories of the Technology/Hardware sector the company is eligible to, making Lenovo the prominent 2nd place on the Most Honored Companies of the poll.

LENOVO WAS AWARDED THE FOLLOWS BY INSTITUTIONAL INVESTOR MAGAZINE'S RANKING OF 2015 ALL-ASIA EXECUTIVE TEAM:



Besides, in the **IR Magazine Awards**, Lenovo was also listed as one of the **top 4 Best IR team by a mainland China company (non-SOE)** of 2015 IR Magazine's Greater China Awards. The Company was also honored as Best IR Company (Large Cap) and **Best IR by CFO (Large Cap)** by **HKIRA 1st Investor Relations Awards** organized by Hong Kong S.A.R. of China Investor Relations Association (HKIRA) in 2015.

Lenovo's fiscal year 2014/15 annual report which themed as "**Never Standing Still**" has also won a number of awards fully demonstrates our leading international best practices of our Annual Report is being highly recognized.

CORPORATE GOVERNANCE REPORT

The report has also won the **Bronze Award** of “Annual Reports – Print: Electronic Manufacturing” in **Galaxy Awards 2015**, and **Honors Winner** of “Citation for Design” in **HKMA Best Annual Reports Award 2015**.



Index Recognition

Lenovo is currently a constituent stock of the following indices:

Main Board of Hang Seng Index

MSCI China Free Index

MSCI Information Technology Index

Hang Seng Composite Index

Hang Seng Mainland Composite Index

Hang Seng Commerce & Industry Index

Hang Seng China-Affiliated Corporations Index

Hang Seng Corporate Sustainability Index

Global Compact 100

FTSE China 50 Index

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

SHAREHOLDERS

Communication with Shareholders

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

COMMUNICATION CHANNELS WITH SHAREHOLDERS AND OTHER STAKEHOLDERS

Teleconferences
and webcasts
for analysts and
media briefings

Publication of
financial reports,
announcements,
circulars and
press releases

Shareholders'
meetings

Investment
community
communications
such as
roadshow,
site visits and
annual analyst
roundtable

Company's
website

CORPORATE GOVERNANCE REPORT

Constructive use of the general meetings

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

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



2015 Annual General Meeting

The annual general meeting of the Company held on July 2, 2015 (the “**2015 Annual General Meeting**”) was attended by, among others, the CEO, Chief Financial Officer, chairpersons of the Audit Committee, Compensation Committee and Nomination and Governance Committee, the Lead Independent Director, and representatives of the external auditor PwC and other professional consultant to answer questions raised by shareholders at the meeting.



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

Matters Being Voted Upon	Percentage of Affirmative Votes
Received and considered the audited financial statements for the year ended March 31, 2015 together with the directors' report and independent auditor's report	99.99%
Declaration of a final dividend for the issued shares for the year ended March 31, 2015	99.99%
Re-election of retiring directors and authorization of the Board to fix directors' fees	96.01% to 99.95% with respect to each individual resolution
Resolved not to fill up the vacated office resulted from the retirement of Mr. Ting Lee Sen as director	99.75%
Re-appointment of PwC as auditor and authorization of the Board to fix auditor's remuneration	99.78%
Approval of granting the general mandate to the directors to allot, issue and deal with the additional Company's shares	68.80%
Approval of granting the general mandate to the directors to buy back the Company's shares	99.99%
Approval of authorisation to directors to extend the general mandate to issue new shares by adding the number of shares repurchased	68.72%

All of the resolutions proposed at the 2015 Annual General Meeting were decided by way of poll voting. Procedures for conducting the poll were explained by the Chairman at the commencement of this meeting. The poll was conducted by Tricor Abacus Limited, the Company's share registrar, as scrutineer and the details of poll voting results were posted on the Company's website (www.lenovo.com/hk/publication) and HKEx's website (www.hkex.com.hk) on July 2, 2015.

CORPORATE GOVERNANCE REPORT

2016 Annual General Meeting

All shareholders are encouraged to attend and participate in the Company's 2016 annual general meeting. Details of the proposed resolutions for the 2016 annual general meeting are set out in the circular which will be dispatched to the Company's shareholders with this annual report.

Shareholders' Rights

Procedures for convening a general meeting

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

Procedures for putting forward proposals at an annual general meeting

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

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

Constitutional documents

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

Shareholding Structure

Shareholding as recorded in the register of members of the Company as of March 31, 2016

According to the register of members of the Company as of March 31, 2016, there were 846 registered shareholders of whom 97.64% had their registered addresses in Hong Kong S.A.R. of China. However, the actual number of investors in the shares of the Company (the “Shares”) may be larger than that as a substantial portion of the Shares are held through nominees, custodian houses and HKSCC Nominees Limited.

(i) Details of registered shareholders by domicile as of March 31, 2016 are as follows:

Domicile	Number of shareholders	Percentage of shareholders	Number of shares held	Percentage of the total number of shares in issue
Canada	2	0.24%	50,000	0.00%
China	8	0.95%	1,134,000	0.01%
Germany	1	0.11%	30,196,957	0.27%
Hong Kong S.A.R. of China	826	97.64%	11,077,169,767	99.72%
Macau	2	0.24%	40,000	0.00%
Malaysia	2	0.24%	20,000	0.00%
Philippines	1	0.11%	2,000	0.00%
United Kingdom	3	0.36%	18,000	0.00%
United States of America	1	0.11%	24,000	0.00%
Total	846	100.00%	11,108,654,724	100.00%

(ii) Details of registered shareholders by size of shareholding as of March 31, 2016 are as follows:

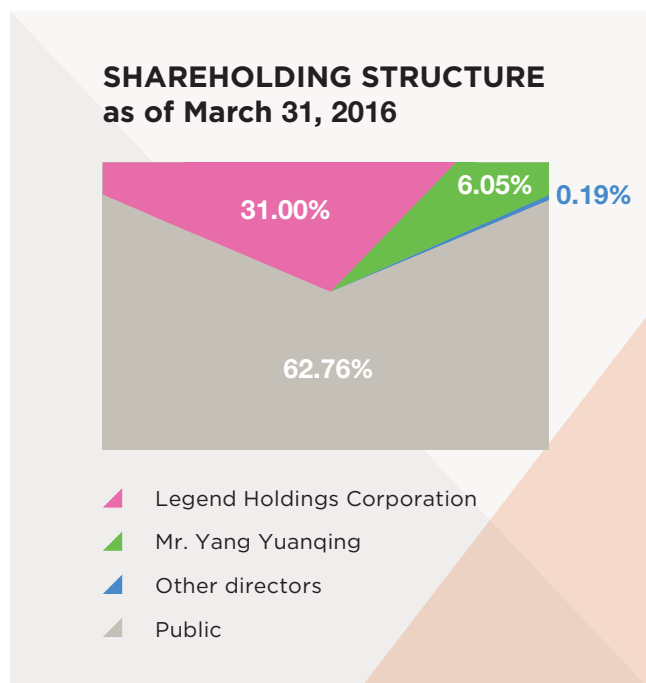
Size of shareholding	Number of shareholders	Percentage of shareholders	Number of shares held	Percentage of the total number of shares in issue
1-2,000	254	30.02%	357,692	0.00%
2,001-10,000	384	45.39%	2,636,000	0.02%
10,001-100,000	185	21.87%	5,855,585	0.05%
100,001-1,000,000	16	1.89%	5,092,000	0.05%
1,000,001 and above	7	0.83%	11,094,713,447	99.88%
Total	846	100.00%	11,108,654,724	100.00%

Remarks:

- (i) A board lot size comprises 2,000 Shares.
- (ii) According to the addresses registered/shown on the register of members of the Company.
- (iii) 70.90% of all the issued Shares were held through HKSCC Nominees Limited.

CORPORATE GOVERNANCE REPORT

Shareholding structure according to the interest disclosed under the Securities and Futures Ordinance as of March 31, 2016



Remarks:

- (i) The approximate percentage of shareholding is calculated based on the aggregate long positions held in the total number of shares in issue of the Company (other than the positions held in or pursuant to equity derivatives) by the relevant holder or group of holders as recorded in the registers maintained under the SFO.
- (ii) The approximate percentage of shareholding is calculated on the basis of 11,108,654,724 Shares of the Company in issue as of March 31, 2016.

KEY SHAREHOLDERS INFORMATION

Listing Information

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

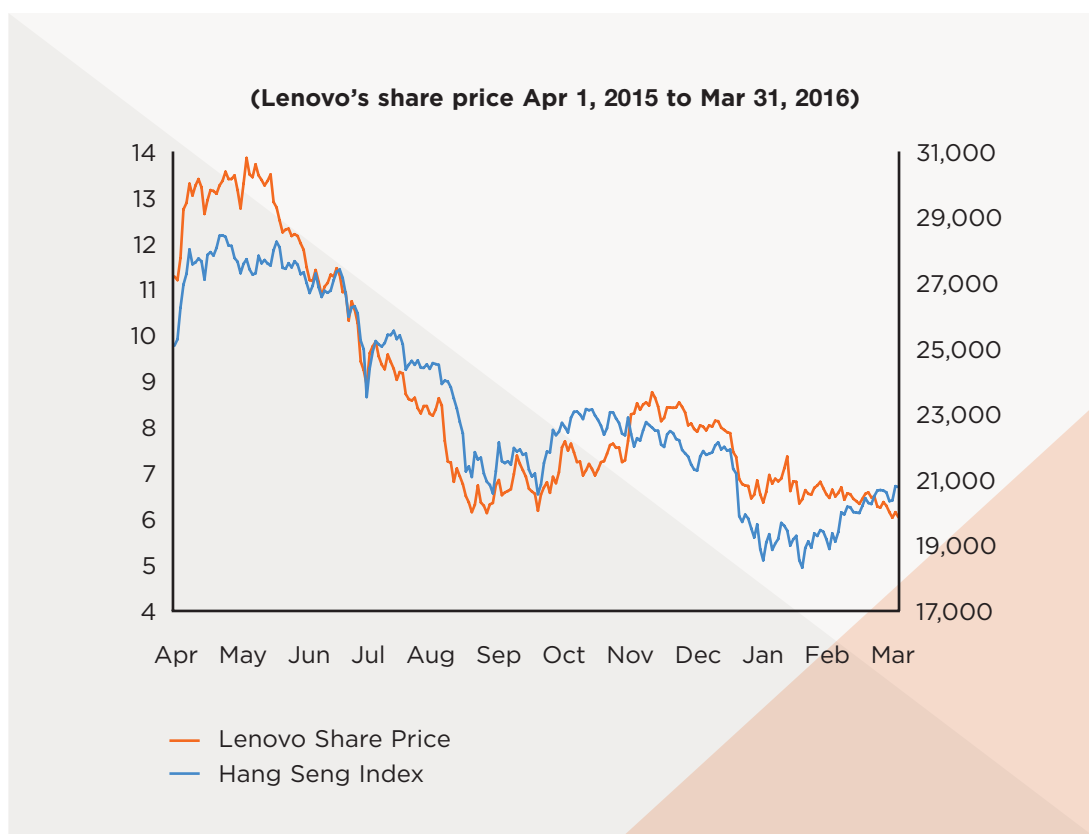
Market Capitalization and Public Float

As at March 31, 2016, the market capitalization of listed shares of the Company was approximately HK\$67.09 billion based on the total number of 11,108,654,724 issued Shares of the Company and the closing price of HK\$6.04 per share.

The daily average number of traded Shares was approximately 51.48 million Shares over an approximate free float of 6,972 million Shares in the fiscal year 2015/16. The highest closing price for the Share was HK\$13.86 per share on May 11, 2015 and the lowest was HK\$6.03 per share on March 29, 2016.

Ordinary Shares (as of 31 March 2016)

Listing	Hong Kong S.A.R. of China Stock Exchange
Stock code	992
Board lot size	2,000 Shares
Ordinary shares outstanding as of March 31, 2016	11,108,654,724 Shares
Free float	6,972 million Shares
Market capitalization as of March 31, 2016	HK\$67.09 billion (Approx. US\$8.6 billion)



CORPORATE GOVERNANCE REPORT

American Depositary Receipts Level I Program

Ordinary share to ADR	20:1
Stock code	LNVGY

Basic Earnings per Share

Basic earnings per share for the year ended March 31, 2016	(1.16) U.S. cents
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Dividend per Share

Dividend per ordinary share for the year ended March 31, 2016

- Interim	6.0 HK cent
- Final ¹	20.5 HK cents

Financial Calendar 2015/2016 (Hong Kong S.A.R. of China Time)

First Quarter Results Announcement	August 13, 2015
Interim Results Announcement	November 12, 2015
Third Quarter Results Announcement	February 3, 2016
Annual Results Announcement	May 26, 2016
Annual General Meeting	July 7, 2016

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

Note:

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

AUDIT COMMITTEE REPORT

THE AUDIT COMMITTEE

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

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

Chairman	Mr. Nicholas C. Allen	Independent non-executive director	
Member	Ms. Ma Xuezheng	Independent non-executive director	
Member	Mr. William Tudor Brown	Independent non-executive director	
Member	Mr. Ting Lee Sen	Independent non-executive director	(retired on July 2, 2015)

The chairman, Mr. Allen has appropriate professional qualifications being a fellow of the Institute of Chartered Accountants in England and Wales and a member of Hong Kong S.A.R. of China Institute of Certified Public Accountants, and experience in accounting or related financial management expertise as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong S.A.R. of China Limited (the “**Listing Rules**”). More information on the skills and experience of the members of Audit Committee may be found in the directors’ biographies set out on pages 140 to 143 of this annual report.

RESPONSIBILITIES

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



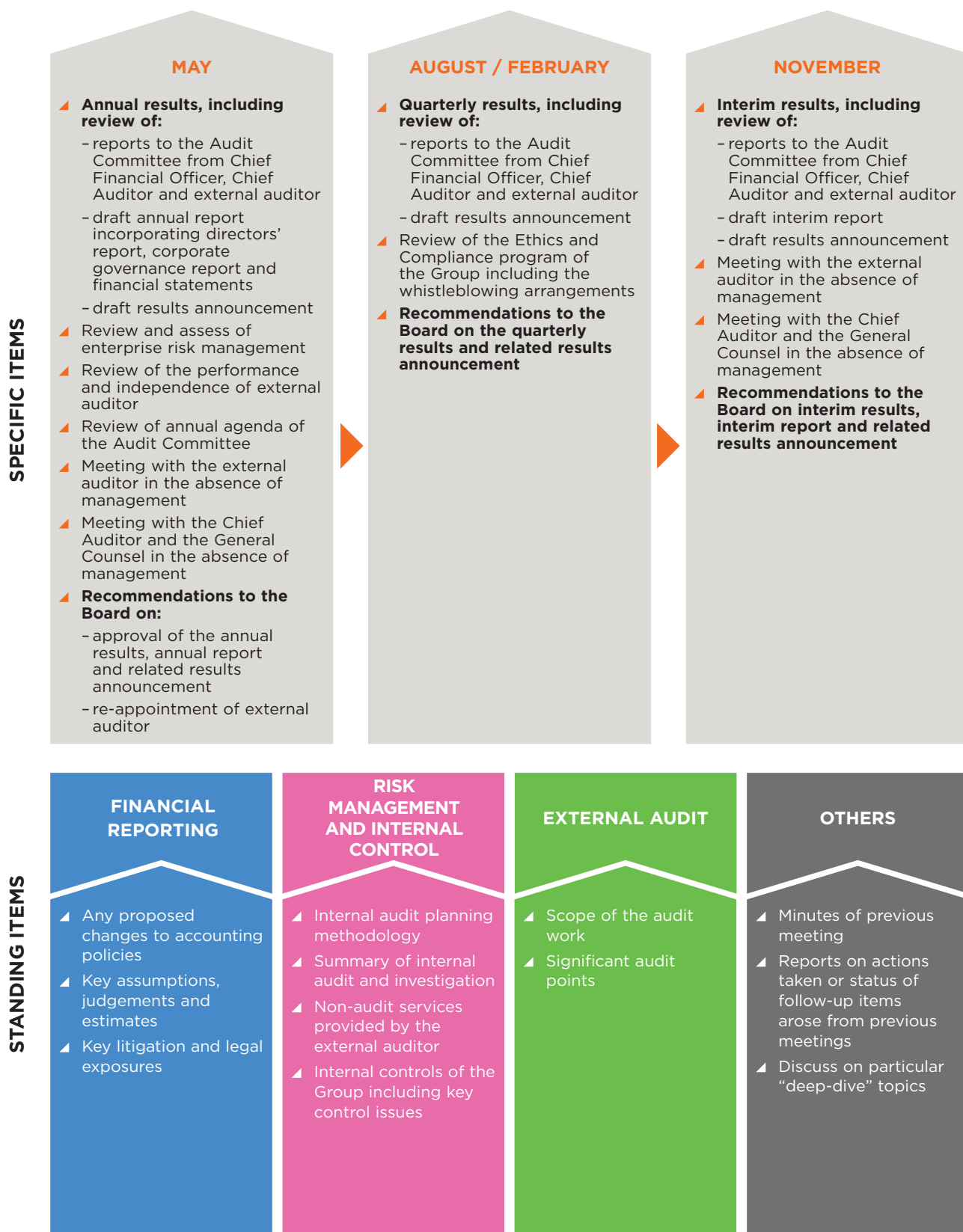
AUDIT COMMITTEE REPORT

Key Features

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

MAIN ACTIVITIES DURING FY2015/16

The work of the Audit Committee follows an agreed annual work plan and principally falls under three main areas: financial reporting; risk management and internal control; the oversight of external audit and the management of the Company's relationship with PwC. The timetable of the Audit Committee for the fiscal year 2015/16 is set out in the below diagram.

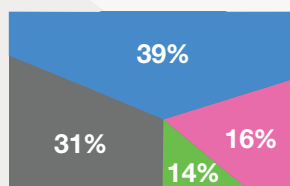


AUDIT COMMITTEE REPORT

In the fiscal year ended March 31, 2016, the Audit Committee held four meetings, with all members in attendance at each meeting. The attendance record of the Audit Committee's members is set out in the Corporate Governance Report on page 73 and the chart below shows how the Audit Committee allocated its time during the fiscal year 2015/16.

AUDIT COMMITTEE

Allocation of agenda time



	FY2015/16	FY2014/15
▲ Financial reporting	39%	44%
▲ Risk management and internal control	16%	17%
▲ External audit matters and engagement	14%	16%
▲ Others (including compliance, tax and treasury matters)	31%	23%

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

FINANCIAL REPORTING

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

- Reviewed and recommended to the Board for approval the audited financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended March 31, 2015 together with the related annual results announcement and the annual report incorporating the directors’ report and corporate governance report after discussion with the management and external auditor;
- Reviewed and recommended to the Board for approval the unaudited interim financial results of the Group for the six months ended September 30, 2015 together with the related interim results announcement and the interim report after discussion with the management and external auditor;
- Reviewed and recommended to the Board for approval the unaudited financial results of the Group for the three months ended June 30, 2015 and for the nine months ended December 31, 2015 together with its respective results announcements after discussion with the management and external auditor;
- Received reports from and met with external auditor and internal auditor to discuss the scope of their review and findings;
- Reviewed and discussed with management on significant judgements and key assumptions together with presentational and disclosure issues associated with accounting standards and interpretive guidance affecting the Group’s financial statements and financial results announcements; items reviewed and discussed included (a) the accounting treatment for business realignment plan; (b) the purchase price allocation following the acquisitions; (c) the accounting treatment on the Group’s goodwill and (d) the accounting provisions and treatments for variable interest entities, indirect tax receivables, inventories and employees benefits plans;

RISK MANAGEMENT AND INTERNAL CONTROL

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

- Discussed the yearly internal audit plan of the Group to ensure adequate scope, coverage over the activities of the Group and the resource requirements of internal audit to carry out its functions and also reviewed the results of the internal audit work quarterly;
- Reviewed the effectiveness of the internal control system (including the adequacy of resources, staff qualification and experience, training programmes and budget of the Group's internal audit, accounting and financial reporting function) operating in the Group and reviewed the corrective actions taken by the management;
- Reviewed the enterprise risk management of the Group including the risk management status, risk registration and the action plans for the fiscal year 2015/16; assessed the risk universe and the high risk items and reviewed the steps taken by management to control these risks;
- Reviewed the management letter point status and reviewed the actions/processes undertaken by the Group;

EXTERNAL AUDIT

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

- Reviewed and considered the external auditor's statutory audit scope and results for the fiscal year 2014/15, including their plan and the terms of engagement, and the letter of representation to be given by the Board in respect of the financial year ended March 31, 2015;
- Reviewed and considered the external auditor's audit plan and scope for the fiscal year 2015/16;
- Reviewed the results of the audit and the reports submitted by external auditor, which summarised matters arising from their audit on the Group during the year ended March 31, 2016, together with management's responses and/or comments to the findings;
- Assessed the external auditor's independence and objectivity including a review of the non-audit services provided by the external auditor;
- Evaluated the performance of PwC and recommended to the Board for approval of the re-appointment PwC as external auditor of the Group for the year ended March 31, 2016;

AUDIT COMMITTEE REPORT

OTHERS

During the fiscal year 2015/16, the Audit Committee also:

- Reviewed the worldwide accounting organization of the Group and the succession planning of the finance organization of the Group;
- Received and reviewed the reports from General Counsel regarding legal matters of the Group;
- Reviewed the Ethics and Compliance program including the whistleblowing procedure of the Group for employees to raise concerns about possible improprieties in financial reporting, internal controls or other matters, and the enhancements to this program;
- Reviewed and discussed the funding plan and funding for long-term incentive programme of the Group;
- Reviewed the tax update for the Group;
- Reviewed the continuing connected transactions with Compal Electronics, Inc.;
- Reviewed and approved the amendments to the terms of reference of the Audit Committee;
- Reviewed and approved the Audit Committee report for the fiscal year 2014/15;
- Reviewed and approved the annual agenda of the Audit Committee for the fiscal year 2015/16.

At the meeting held on May 25, 2016, the Audit Committee reviewed and recommended to the Board the approval of the audited financial statements of the Group for the year ended March 31, 2016 together with the related annual results announcement and this annual report incorporating the directors' report and corporate governance report.

REVIEW OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Group's internal control system covers every activity and transaction. Within this framework, management performs periodic enterprise wide risk assessments and continuously monitors and reports the progress of actions plans to address the key risks. Further information about the risk management and internal controls framework and control processes are set out in the Corporate Governance Report on pages 77 to 84.

Based on the information and confirmation received from management, external auditor and internal auditor, the Audit Committee concluded that for the year ended March 31, 2016, the Group's risk management and internal control systems were adequate and effective. The Audit Committee also confirmed that the Group had, in the fiscal year 2015/16, satisfactorily complied with the code provisions on risk management and internal controls as set forth in the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules.

RECOMMENDATION FOR RE-APPOINTMENT OF THE EXTERNAL AUDITOR

The Audit Committee recognizes the importance of maintaining the independence of the external auditor. Consistent with its terms of reference, the Audit Committee has evaluated PwC's qualifications, performance, and independence, including that of the lead audit partner. The Company has established a policy pursuant to which non-audit services, provided by the external auditor must be pre-approved by the Audit Committee. This policy is more fully described in the Corporate Governance Report on page 85. The Audit Committee has concluded that provision of the non-audit services described in that section was compatible with maintaining the independence of PwC. In addition, PwC has provided the Audit Committee an independence statement confirming that for the year ended March 31, 2016 and thereafter to the date of this annual report, they are independent of the Group in accordance with the independence requirements of the Hong Kong S.A.R. of China Institute of Certified Public Accountants.

Based on the review and discussions referred to above, the Audit Committee was satisfied with the external auditor's work, its independence and objectivity, and therefore recommended the re-appointment of PwC as the Group's external auditor for the financial year ending March 31, 2017 for shareholders' approval at the forthcoming annual general meeting to be held on July 7, 2016.

PERFORMANCE AND EFFECTIVENESS

The Board undertook an annual review of its committees' performance and effectiveness. The review concluded that overall the Audit Committee was effective in carrying out its duties. Details of the Board and Board committees' review can be found under "Board and Board Committees' Effectiveness Review" as set out in the Corporate Governance Report on pages 74 to 76.

PRIORITIES FOR FY2016/17

Looking ahead, the priorities of the Audit Committee for the fiscal year 2016/17 are:

- To stay focused on financial accounting and reporting, audit quality, risk management and internal controls.
- To remain vigilant on the impacts of the economic conditions on the Group.
- To focus on the integration of the Group's control processes into new acquisitions.

Members of the Audit Committee

Mr. Nicholas C. Allen (*Chairman*)

Ms. Ma Xuezheng

Mr. William Tudor Brown

COMPENSATION COMMITTEE REPORT

THE COMPENSATION COMMITTEE

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

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

Chairman	Ms. Ma Xuezheng	Independent Non-executive Director	
Member	Mr. William Tudor Brown	Independent Non-executive Director	
Member	Mr. William O. Grabe	Independent Non-executive Director and Lead Independent Director	
Member	Mr. Zhu Linan	Non-executive Director	
Member	Mr. Ting Lee Sen	Independent Non-executive Director	(retired on July 2, 2015)

More information on the skills and experience of the members of the Committee may be found in the directors’ biographies set out on pages 140 to 143 of this annual report.

RESPONSIBILITIES

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

Key Features

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

COMPENSATION COMMITTEE REPORT

SUMMARY OF WORK IN 2015/16

In the fiscal year ended March 31, 2016, the Committee held four meetings, with all members in attendance at each meeting. The attendance record of the Committee's members is set out in the Corporate Governance Report on page 73.

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

Review of Company and Market Information

- Reviewed the analysis and the recommendations of its independent consultant on the FY2015/16 Non-executive Directors' compensation package and submitted the same to the Board for approval;
- Reviewed the market data and relevant trends and challenges for the broader technology industry, in particular United States and China;
- Reviewed the market positioning for the compensation of CEO and senior management including pay levels and pay mix;
- Reviewed the updates on long-term incentives ("LTI") spend versus budget;
- Reviewed the holding power and share ownership positions of both executives and Non-executive Directors;
- Reviewed degree of alignment between CEO pay and performance;
- Analysed Lenovo performance versus peer companies on a range of relevant financial metrics;

Compensation Program

- Reviewed and approved the FY2014/15 bonus and FY2015/16 proposed target compensation for senior management;
- Reviewed and approved the FY2014/15 bonus and FY2015/16 compensation for Chairman and CEO;
- Reviewed the Non-executive Directors' compensation;
- Reviewed and approved the new executive LTI plan;
- Reviewed and approved the employee share purchase plan;
- Reviewed and approved the adoption of amended and restated share appreciation rights plan;
- Reviewed and approved the FY2016/17 LTI budget;

Others

- Reviewed the Compensation Committee Report for incorporating into the annual report for the fiscal year 2014/15; and
- Reviewed and approved the annual agenda of the Committee for the fiscal year 2015/16.

COMPENSATION POLICY

Overall Principles

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

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

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

Non-executive Directors

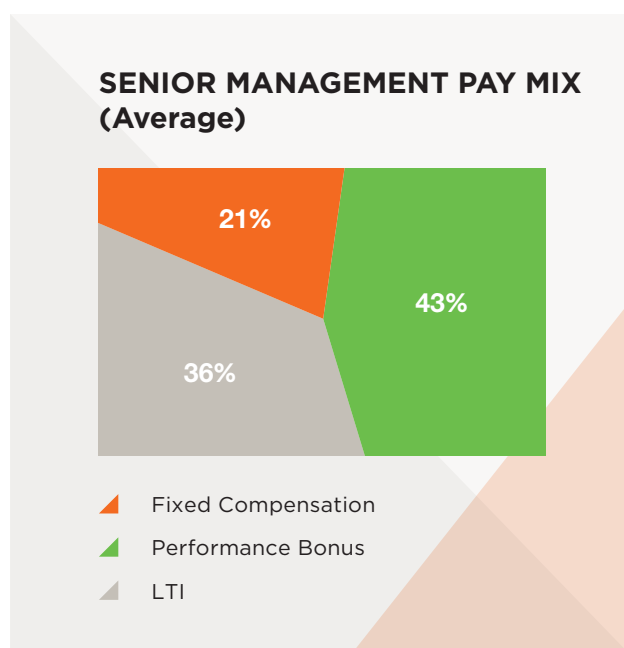
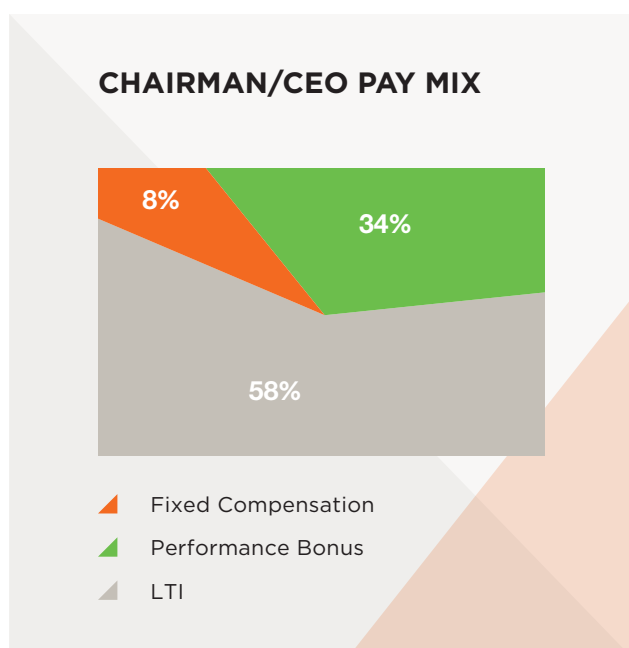
The Committee regularly reviews the compensation of Non-executive Directors to ensure its appropriateness considering the Non-executive Directors' time commitment, workload, job requirements and responsibilities versus Lenovo's peer companies and the broader market. Details of the current package and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

Chairman/CEO and Senior Management

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

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

The Chairman/CEO pay mix chart reflects FY2015/16 emoluments disclosed in note 11 to the financial statements. The senior management pay mix chart reflects average FY2015/16 emoluments including LTI that were awarded in June 2015.



COMPENSATION COMMITTEE REPORT

Fixed Compensation

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

Performance Bonus

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

Long-Term Incentive Program ("LTI Program")

The Company operates a LTI Program which was adopted by the Company in 2005 and amended in 2008 and 2016 respectively. The purpose of the LTI Program is to attract, retain, reward and motivate executive and Non-executive Directors, senior management and selected top-performing employees of the Company and its subsidiaries.

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

(i) Share Appreciation Rights ("SARs")

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

(ii) Restricted Share Units ("RSUs")

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

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

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

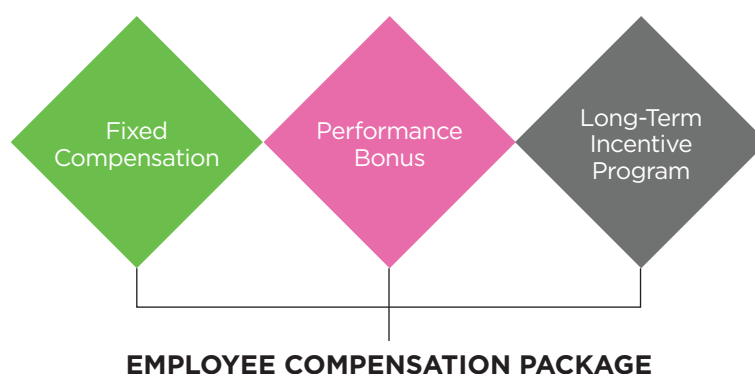
Retirement Benefits

The Company operates a number of retirement schemes for its employees, including executive directors and senior management. These schemes are reviewed regularly and are intended to deliver benefit levels that are consistent with local market practices. Details of the retirement schemes are set out in the directors' report on pages 148 to 150.

General Employees

As at March 31, 2016, the Group had a headcount of more than 60,000 worldwide.

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



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

REMUNERATION REVIEWS

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

Fiscal Year 2015-16 Non-executive Directors Review

In May 2015, the Committee engaged an independent international compensation consulting firm to conduct an analysis of the compensation package of the Non-executive Directors to ensure its appropriateness considering the Non-executive Directors' time commitment, workload, job requirements and responsibilities versus Lenovo's peer companies and the broader market. Overall, the cash retainer increased by 5.7% to US\$92,500, and annual LTI award remained constant at US\$200,000*. Final recommendations as subsequently approved by the Board (comprising executive director of the Company only) based on the delegation from shareholders of the Company are summarized in the table below:

Compensation Element	2015/16	2014/15
Cash Retainer	\$92,500 USD	\$87,500 USD
LTI Award	\$200,000 USD	\$200,000 USD
Total Remuneration	\$292,500 USD	\$287,500 USD

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

COMPENSATION COMMITTEE REPORT

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

Further details of the compensation of the Non-executive Directors are included in note 11 to the financial statements. SAR and RSU awards outstanding for Non-executive Directors as of March 31, 2016 under this scheme are presented in the “Long-Term Incentive Scheme” section of this report.

Fiscal Year 2015-16 Chairman/CEO and Senior Management Review

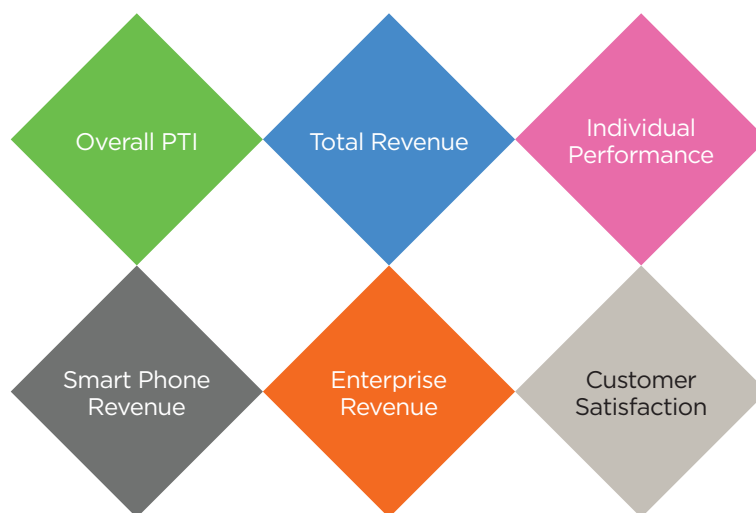
Fixed Compensation

As a part of its annual review process, the Committee had reviewed and approved base pay changes for the Chairman/CEO and senior management in May 2015, effective July 1, 2015.

To ensure the Chairman/CEO’s compensation package remains competitive with the market, base salary for the Chairman/CEO was increased by 5% to RMB8,808,815 (approximately US\$1,365,543) (Note: the translation of RMB into USD is based on the exchange rate of RMB1.00 to USD0.15502 as at March 31, 2016 and is for information purposes only) (actual pay delivered in local currency). Base salaries for senior management were increased by 0% to 20% to account for changes in role, scope, and market pay levels and in consideration of individual performance and contributions.

Performance Bonus

Chairman/CEO and senior management’s fiscal year 2015/16 performance bonus payouts were approved in the May 2016 Committee meeting. Final bonus payouts for Chairman/CEO and senior management were determined based on overall pre-tax income, total revenue, smart phone revenue, enterprise revenue, customer satisfaction as well as individual performance.



Approved performance bonus payments for the fiscal year 2015/16 will be delivered in June 2016.*

LTI Program

The most recent full cycle of LTI awards including both SARs and RSUs was made in June of 2015. Selected executives, including the Chairman/CEO and senior management also received performance-based RSU awards based on Lenovo’s pre-tax income during the most recent fiscal year. The next cycle of LTI awards including SARs and RSUs is expected to be in June 2016.*

* In the context of FY2015/16 performance, Mr. Yang Yuanqing decided not to accept any of the annual bonus offered to him, and will accept only SARs for his stock compensation in the coming fiscal year.

Remuneration of Senior Management

The remuneration of senior management fell within the following bands for the year ended March 31, 2016:

Remuneration bands	Number of senior management
US\$3,610,735 to US\$3,675,211	1
US\$3,739,689 to US\$3,804,166	1
US\$4,191,031 to US\$4,255,507	1
US\$6,770,127 to US\$6,834,603	2
US\$7,801,766 to US\$7,866,242	1
US\$16,119,350 to US\$16,183,826	1

Emoluments of Directors for FY2015/16 and Five Highest Paid Individuals

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

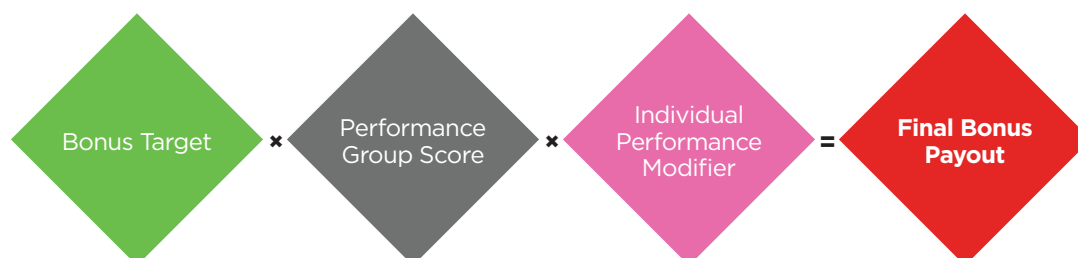
Fiscal Year 2015-16 Employees Review

Fixed Compensation

Each year management conducts a market review to ensure fixed compensation changes are aligned and competitive with market trends. The review incorporates input from several external survey providers and formal assessments of individual performance. Any approved market-based merit increases were effective from July 1, 2015.

Performance Bonus

Performance bonus for general employees is based on individual performance and performance of their respective business unit or "Performance Group". For fiscal year 2015/16, there were a total of approximately 37 different Performance Groups within the Company each with their unique performance metrics and targets. For the fiscal year 2015/16 performance bonus, mid-year progress payment was made in December 2015, and full payment based on annual business outcomes will be trued-up in June 2016 based on approved final bonus funding.



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

LTI Program

For fiscal year 2015/16, 18% of eligible employees (excluding executive directors) received an award under the LTI Program. These awards were granted in June of 2015.

COMPENSATION COMMITTEE REPORT

LONG-TERM INCENTIVE SCHEME

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

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

Name	Award type	Fiscal Year of Award	Effective price (HK\$)	Number of units							Total outstanding as at Mar 31, 2016	Vesting period (mm.dd.yyyy)
				As at April 1, 2015 (Unvested)	Awarded during the year	Vested during the year	Exercised during the year	Cancelled/ lapsed during the year (Note 2)	As at Mar 31, 2016 (unvested)			
Mr. Yang Yuanqing	SAR	09/10	5.23	-	-	-	-	-	-	6,596,156	02.08.2011 - 02.08.2014	
	SAR	10/11	4.92	-	-	-	-	-	-	11,030,219	02.21.2012 - 02.21.2015	
	SAR	11/12	6.80	2,783,088	-	2,783,088	-	-	-	11,132,358	02.13.2013 - 02.13.2016	
	SAR	12/13	8.22	7,029,787	-	3,514,893	-	-	3,514,894	14,059,573	02.04.2014 - 02.04.2017	
	SAR	13/14	9.815	14,520,062	-	3,630,017	-	-	10,890,045	14,520,062	06.03.2015 - 06.03.2018	
	SAR	15/16	12.29	-	12,703,664	-	-	-	12,703,664	12,703,664	06.01.2016 - 06.01.2019	
	RSU	11/12	6.80	1,669,853	-	1,669,853	-	-	-	-	02.13.2013 - 02.13.2016	
	RSU	12/13	8.22	2,849,913	-	1,424,957	-	-	1,424,956	1,424,956	02.04.2014 - 02.04.2017	
	RSU	12/13	7.82	2,144,219	-	1,072,110	-	-	1,072,109	1,072,109	06.03.2014 - 06.03.2016	
	RSU	13/14	9.815	5,329,589	-	1,332,397	-	-	3,997,192	3,997,192	06.03.2015 - 06.03.2018	
	RSU	13/14	9.815	1,423,663	-	1,423,663	-	-	-	-	06.03.2015	
	RSU	15/16	12.29	-	4,882,018	-	-	-	4,882,018	4,882,018	06.01.2016 - 06.01.2019	
RSU	15/16	12.29	-	1,131,814	-	-	-	1,131,814	1,131,814	06.01.2016		
Mr. Zhu Linan	SAR	12/13	6.36	91,438	-	91,438	-	-	-	91,438	07.03.2013 - 07.03.2015	
	SAR	13/14	7.88	242,723	-	121,361	-	-	121,362	242,723	08.16.2014 - 08.16.2016	
	SAR	14/15	11.48	275,884	-	91,961	-	-	183,923	275,884	08.15.2015 - 08.15.2017	
	SAR	14/15	7.49	-	403,970	-	-	-	403,970	403,970	08.14.2016 - 08.14.2018	
	RSU	12/13	6.36	36,577	-	36,577	-	-	-	-	07.03.2013 - 07.03.2015	
	RSU	13/14	7.88	65,601	-	32,800	-	-	32,801	32,801	08.16.2014 - 08.16.2016	
	RSU	14/15	11.48	67,509	-	22,503	-	-	45,006	45,006	08.15.2015 - 08.15.2017	
RSU	15/16	7.49	-	103,497	-	-	-	103,497	103,497	08.14.2016 - 08.14.2018		
Mr. Zhao John Huan	SAR	11/12	5.78	-	-	-	-	-	-	103,913	11.03.2012 - 11.03.2014	
	SAR	12/13	6.36	91,438	-	91,438	-	-	-	274,316	07.03.2013 - 07.03.2015	
	SAR	13/14	7.88	242,723	-	121,361	-	-	121,362	364,084	08.16.2014 - 08.16.2016	
	SAR	14/15	11.48	275,884	-	91,961	-	-	183,923	275,884	08.15.2015 - 08.15.2017	
	SAR	14/15	7.49	-	403,970	-	-	-	403,970	403,970	08.14.2016 - 08.14.2018	
	RSU	12/13	6.36	36,577	-	36,577	-	-	-	-	07.03.2013 - 07.03.2015	
	RSU	13/14	7.88	65,601	-	32,800	-	-	32,801	32,801	08.16.2014 - 08.16.2016	
	RSU	14/15	11.48	67,509	-	22,503	-	-	45,006	45,006	08.15.2015 - 08.15.2017	
RSU	15/16	7.49	-	103,497	-	-	-	103,497	103,497	08.14.2016 - 08.14.2018		
Dr. Tian Suning	SAR	09/10	3.88	-	-	-	-	-	-	263,796	08.07.2010 - 08.07.2012	
	SAR	09/10	4.47	-	-	-	-	-	-	38,163	11.30.2010 - 11.30.2012	
	SAR	10/11	4.59	-	-	-	-	-	-	237,001	08.20.2011 - 08.20.2013	
	SAR	11/12	4.56	-	-	-	-	-	-	323,000	08.19.2012 - 08.19.2014	
	SAR	12/13	6.36	91,438	-	91,438	-	-	-	274,316	07.03.2013 - 07.03.2015	
	SAR	13/14	7.88	242,723	-	121,361	-	-	121,362	364,084	08.16.2014 - 08.16.2016	
	SAR	14/15	11.48	275,884	-	91,961	-	-	183,923	275,884	08.15.2015 - 08.15.2017	
	SAR	14/15	7.49	-	403,970	-	-	-	403,970	403,970	08.14.2016 - 08.14.2018	
	RSU	12/13	6.36	36,577	-	36,577	-	-	-	-	07.03.2013 - 07.03.2015	
	RSU	13/14	7.88	65,601	-	32,800	-	-	32,801	32,801	08.16.2014 - 08.16.2016	
	RSU	14/15	11.48	67,509	-	22,503	-	-	45,006	45,006	08.15.2015 - 08.15.2017	
	RSU	15/16	7.49	-	103,497	-	-	-	103,497	103,497	08.14.2016 - 08.14.2018	
Mr. Nicholas C. Allen	SAR	09/10	4.47	-	-	-	-	-	-	107,343	11.30.2010 - 11.30.2012	
	SAR	10/11	4.59	-	-	-	-	-	-	237,001	08.20.2011 - 08.20.2013	
	SAR	11/12	4.56	-	-	-	-	-	-	323,000	08.19.2012 - 08.19.2014	
	SAR	12/13	6.36	91,438	-	91,438	-	-	-	274,316	07.03.2013 - 07.03.2015	
	SAR	13/14	7.88	242,723	-	121,361	-	-	121,362	364,084	08.16.2014 - 08.16.2016	
	SAR	14/15	11.48	275,884	-	91,961	-	-	183,923	275,884	08.15.2015 - 08.15.2017	
	SAR	14/15	7.49	-	403,970	-	-	-	403,970	403,970	08.14.2016 - 08.14.2018	
	RSU	12/13	6.36	36,577	-	36,577	-	-	-	-	07.03.2013 - 07.03.2015	
	RSU	13/14	7.88	65,601	-	32,800	-	-	32,801	32,801	08.16.2014 - 08.16.2016	
	RSU	14/15	11.48	67,509	-	22,503	-	-	45,006	45,006	08.15.2015 - 08.15.2017	
	RSU	15/16	7.49	-	103,497	-	-	-	103,497	103,497	08.14.2016 - 08.14.2018	

Name	Award type	Fiscal Year of Award	Effective price (HK\$)	Number of units							Vesting period (mm.dd.yyyy)
				As at April 1, 2015 (Unvested)	Awarded during the year	Vested during the year	Exercised during the year	Cancelled/lapsed during the year (Note 2)	As at Mar 31, 2016 (unvested)	Total outstanding as at Mar 31, 2016	
Mr. Nobuyuki Idei	SAR	11/12	5.23	-	-	-	-	-	-	144,085	09.28.2012 - 09.28.2014
	SAR	12/13	6.36	91,438	-	91,438	-	-	-	274,316	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	242,723	-	121,361	-	-	121,362	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	275,884	-	91,961	-	-	183,923	275,884	08.15.2015 - 08.15.2017
	SAR	14/15	7.49	-	403,970	-	-	-	403,970	403,970	08.14.2016 - 08.14.2018
	RSU	12/13	6.36	36,577	-	36,577	-	-	-	-	07.03.2013 - 07.03.2015
	RSU	13/14	7.88	65,601	-	32,800	-	-	32,801	32,801	08.16.2014 - 08.16.2016
	RSU	14/15	11.48	67,509	-	22,503	-	-	45,006	45,006	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	-	103,497	-	-	-	103,497	103,497	08.14.2016 - 08.14.2018
Mr. William O. Grabe	SAR	09/10	3.88	-	-	-	-	-	-	263,796	08.07.2010 - 08.07.2012
	SAR	09/10	4.47	-	-	-	-	-	-	38,163	11.30.2010 - 11.30.2012
	SAR	10/11	4.59	-	-	-	-	-	-	237,001	08.20.2011 - 08.20.2013
	SAR	11/12	4.56	-	-	-	-	-	-	323,000	08.19.2012 - 08.19.2014
	SAR	12/13	6.36	91,438	-	91,438	-	-	-	274,316	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	242,723	-	121,361	-	-	121,362	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	275,884	-	91,961	-	-	183,923	275,884	08.15.2015 - 08.15.2017
	SAR	14/15	7.49	-	403,970	-	-	-	403,970	403,970	08.14.2016 - 08.14.2018
	RSU	12/13	6.36	36,577	-	36,577	-	-	-	-	07.03.2013 - 07.03.2015
	RSU	13/14	7.88	65,601	-	32,800	-	-	32,801	32,801	08.16.2014 - 08.16.2016
	RSU	14/15	11.48	67,509	-	22,503	-	-	45,006	45,006	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	-	103,497	-	-	-	103,497	103,497	08.14.2016 - 08.14.2018
	RSU (Deferral)	14/15	12.98	-	18,290	18,290	-	-	-	-	Note 1
	RSU (Deferral)	15/16	10.65	-	23,201	23,201	-	-	-	-	Note 1
	RSU (Deferral)	15/16	6.53	-	37,840	37,840	-	-	-	-	Note 1
	RSU (Deferral)	15/16	6.83	-	37,127	37,127	-	-	-	-	Note 1
Mr. William Tudor Brown	SAR	12/13	8.07	17,826	-	17,826	-	-	-	53,476	01.31.2014 - 01.31.2016
	SAR	13/14	7.88	242,723	-	121,361	-	-	121,362	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	275,884	-	91,961	-	-	183,923	275,884	08.15.2015 - 08.15.2017
	SAR	14/15	7.49	-	403,970	-	-	-	403,970	403,970	08.14.2016 - 08.14.2018
	RSU	12/13	8.07	4,818	-	4,818	-	-	-	-	01.31.2014 - 01.31.2016
	RSU	13/14	7.88	65,601	-	32,800	-	-	32,801	32,801	08.16.2014 - 08.16.2016
	RSU	14/15	11.48	67,509	-	22,503	-	-	45,006	45,006	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	-	103,497	-	-	-	103,497	103,497	08.14.2016 - 08.14.2018
Ms. Ma Xuezheng	SAR	11/12	4.56	-	-	-	-	-	-	107,666	08.19.2012 - 08.19.2014
	SAR	12/13	6.36	91,438	-	91,438	-	-	-	182,877	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	242,723	-	121,361	-	-	121,362	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	275,884	-	91,961	-	-	183,923	275,884	08.15.2015 - 08.15.2017
	SAR	14/15	7.49	-	403,970	-	-	-	403,970	403,970	08.14.2016 - 08.14.2018
	RSU	12/13	6.36	36,577	-	36,577	-	-	-	-	07.03.2013 - 07.03.2015
	RSU	13/14	7.88	65,601	-	32,800	-	-	32,801	32,801	08.16.2014 - 08.16.2016
	RSU	14/15	11.48	67,509	-	22,503	-	-	45,006	45,006	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	-	103,497	-	-	-	103,497	103,497	08.14.2016 - 08.14.2018
Mr. Yang Chih-Yuan Jerry	SAR	12/13	8.63	8,198	-	8,198	-	-	-	24,593	02.20.2014 - 02.02.2016
	SAR	13/14	7.88	163,838	-	81,919	-	-	81,919	245,757	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	186,221	-	62,073	-	-	124,148	186,221	08.15.2015 - 08.15.2017
	SAR	14/15	11.07	-	37,202	12,400	-	-	24,802	37,202	11.16.2015 - 11.16.2017
	SAR	14/15	7.49	-	403,970	-	-	-	403,970	403,970	08.14.2016 - 08.14.2018
	RSU	12/13	8.63	2,216	-	2,216	-	-	-	-	02.20.2014 - 02.02.2016
	RSU	13/14	7.88	44,281	-	22,140	-	-	22,141	22,141	08.16.2014 - 08.16.2016
	RSU	14/15	11.48	45,568	-	15,189	-	-	30,379	30,379	08.15.2015 - 08.15.2017
	RSU	14/15	11.07	-	9,103	3,034	-	-	6,069	6,069	11.06.2015 - 11.06.2017
	RSU	15/16	7.49	-	103,497	-	-	-	103,497	103,497	08.14.2016 - 08.14.2018

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

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

COMPENSATION COMMITTEE REPORT

OTHER SHAREHOLDER ORIENTED FEATURES

Share Ownership Guidelines

Lenovo maintains share ownership guidelines for selected executives, including the Chairman/CEO and senior management. The guidelines help to align executives with shareholders and focus executives on the long-term performance of Lenovo by requiring certain levels of share ownership. The guidelines (expressed as a multiple of base salary) vary by role and level and are expected to be achieved within 5 years of becoming an eligible executive. If the guideline is not achieved, executives are required to retain a minimum portion of vested shares delivered through Lenovo's incentive plans until the guideline is met. The guideline is then expected to be maintained throughout the executive's remaining employment. As of fiscal year end, 86% of executives covered by the guidelines have achieved the targeted level of ownership, and with the upcoming annual LTI grant in June 2016, 100% of executives covered by the guidelines will achieve the targeted level of ownership. Additionally, the Non-executive Directors are subject to similar guidelines and are in full compliance.

Claw Back Policy

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

PERFORMANCE AND EFFECTIVENESS

The Board undertook an annual review of its committees' performance and effectiveness. The review concluded that overall the Committee was effective in carrying out its duties. Details of the Board and Board committees' review can be found under "Board and Board Committees' Effectiveness Review" as set out in the Corporate Governance Report on pages 74 to 76.

Members of the Compensation Committee

Ms. Ma Xuezheng (*Chairman*)

Mr. William Tudor Brown

Mr. William O. Grabe

Mr. Zhu Linan

CORPORATE SOCIAL RESPONSIBILITY REPORT

SUSTAINABILITY

Lenovo is committed to being a responsible corporate citizen that delivers a positive impact on people's lives, the communities in which it operates and its shared global environment.

It practices corporate citizenship in everything it does at Lenovo, from its commitment to the highest ethical standards and product quality and safety, to safe and healthy workplaces, concern for protecting the environment in all aspects of its business, as well as donating resources and supporting employee voluntary activities. It believes this approach differentiates Lenovo as it works to maintain leadership in the PC industry, while expanding its position in Enterprise and Mobile.

Sustainability and corporate social responsibility issues are addressed at the highest levels of its company. Sustainability-related risk is addressed proactively with other risks through its robust Enterprise Risk Management (ERM) framework. Lenovo's Board of Directors and management team apply the ERM framework in strategy setting and apply it across all major functions of the Company.

The Board of Directors receives an update on Lenovo's sustainability and corporate social responsibility risks annually, presented by the Chief Sustainability Executive. This update, which was presented at the Board's May 2015 meeting, included a review of key performance areas for the previous fiscal year and a request for ongoing support for specific sustainability initiatives, including renewables and philanthropic giving.

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

Lenovo's corporate governance framework includes a Corporate Sustainability Policy, signed and endorsed by Chairman and CEO Yuanqing Yang that outlines the social, environmental and economic principles that guide the company's operation. The policy is available at <http://www.lenovo.com/sustainability>.

Lenovo publicly validated its commitment to responsible corporate citizenship by becoming a signatory to the UN Global Compact in 2009, and has continued its membership in good standing. The UN Global Compact is a public-private strategic policy initiative for businesses committed to aligning operations and strategies with ten universally-accepted principles in the area of human rights, labor, environment and anticorruption. Lenovo fully embraces these ten principles.

It believes its sustainable and responsible business practices serve as a means to minimize risk, reduce costs, increase shareholder value and support its long-term prospects for profitability.

Lenovo's Key Sustainability Commitments Include:

◆	Ethics and Compliance
◆	Product Quality and Customer Safety
◆	Employee Health and Welfare
◆	Diversity
◆	The Environment
◆	Global Supply Chain
◆	Social Investments

CORPORATE SOCIAL RESPONSIBILITY REPORT

Key Recognitions from the Global Community:

2015 HANG SENG CORPORATE SUSTAINABILITY INDEX

▲ Lenovo was selected as a constituent stock of the 2015 Hang Seng Corporate Sustainability Index for the sixth year in a row, acknowledging Lenovo's ongoing commitment to sustainability.

CORPORATE KNIGHTS 2016 GLOBAL 100 MOST SUSTAINABLE CORPORATIONS IN THE WORLD (GLOBAL 100) INDEX

▲ Lenovo was selected for inclusion in the Corporate Knights 2016 Global 100 Most Sustainable Corporations in the World (Global 100) Index for the second consecutive year.

2015 CDP DISCLOSURE

▲ Lenovo achieved a 2015 CDP disclosure score of 100 (out of a possible 100) and a ranking of performance band B.

Lenovo's sustainability commitments and FY 2015/16 highlights are summarized below. More extensive information on sustainability can be found at <http://www.lenovo.com/csr> or in Lenovo's annual Sustainability Report which is available at <http://www.lenovo.com/sustainability>.

Ethics and Compliance

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

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

An integral part of its ethics and compliance program is Lenovo's Code of Conduct that applies to all employees worldwide. In FY 2015/16 Lenovo issued an updated version that reflects the consolidation of Lenovo's Code of Conduct with that of its recently acquired Motorola Mobility business unit.

The Code describes its commitment to conduct business with integrity and establishes clear expectations regarding compliance and holding employees accountable for their behavior. The Code is available in seven languages and is accessible on its website along with other corporate policies at <http://www.lenovo.com/CSRPolicies>. Each newly hired Lenovo employee receives training and information about its ethics and compliance program, and all employees are required to participate in subsequent mandatory training sessions held on a regular basis.

Employees are directed to report to their managers or other company resources, including Human Resources, the Ethics and Compliance Office, Internal Audit, Corporate Security, or the Legal Department, any information pertaining to:



Lenovo provides formal, confidential ways to report potential violations of law, company policy or the Code of Conduct, including the LenovoLine, a confidential reporting system available 24 hours-a-day, seven days-a-week. In locations where it is legal to do so, employees may anonymously report concerns about business practices. All reported concerns are addressed and tracked to resolution.

Lenovo has a clear non-retaliation policy against employees who:

- | | |
|---|--|
| ◆ | Make a report in good faith |
| ◆ | Provide information or assists in an investigation regarding such a report |
| ◆ | File, testify or participate in a legal or administrative proceeding related to such matters |

CORPORATE SOCIAL RESPONSIBILITY REPORT

Product Quality and Safety

Lenovo has a well-earned reputation for delivering superior quality and we are committed to ensuring that its products are safe to operate and make the best use of resources with the least possible environmental impact. This commitment necessitates a dedication to improving its performance in every phase of a product's lifecycle, from design, development, manufacturing, and transportation, to installation, use, service, and end-of-life.

Lenovo's Quality Policy forms the foundation of its Quality Management System. Lenovo's Quality Policy is available at <http://www.lenovo.com/quality>. Its dedication to ongoing improvement is supported by its global Quality Management System, which has earned ISO 9001 (International Organization for Standardization) certification. Lenovo's Quality Management System encourages continuous design improvements in Lenovo's current and future products, ensures that they meet applicable legal requirements and voluntary safety requirements to which it subscribes, and represent best practices in ergonomics wherever they are sold.

BUREAU VERITAS CERTIFICATION

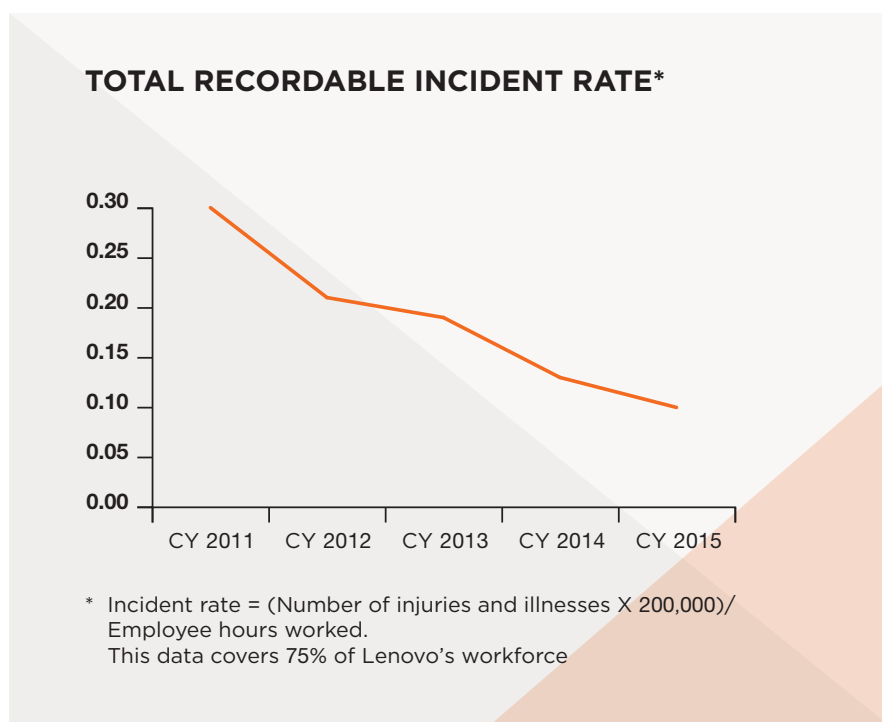


Employee Health and Welfare

Lenovo is committed to providing a safe and healthy working environment for all of its employees. Its Global Occupation Health and Safety organization has established world-class standards for employee workplace safety.

Each manager and employee shares responsibility for preventing work-related accidents, injuries and illnesses. Its approach to employee health and safety is embodied in its corporate policy statement, "Responsibility for Employee Health and Safety," accessible at: www.lenovo.com/CSRPolicies/. The policy defines its commitment to creating and maintaining a workplace that provides for the health and safety of all employees at every location in which it does business. It has committed to continuously improving its processes and controls as its company grows.

It believes that workplace injuries and illnesses are preventable. Lenovo's standardized occupational health and safety programs are designed to meet or exceed regulatory compliance. Its efforts have resulted in achieving a significant decline in the rate of global manufacturing incidents over the past several years that falls below the industry average. Also notable, there were no significant accidents involving property damage, fire or regulatory violation at any of its locations in the more than 60 countries in which it does business. It had zero employee or contractor fatalities in 2015.



All Lenovo global manufacturing locations are OHSAS 18001 certified by Bureau Veritas. It continues to pursue voluntary certification, including certifying its global supply chain to OHSAS 18001.

In addition, all its manufacturing locations go through a rigorous internal audit process to ensure a high level of regulatory and OHS compliance. All China manufacturing locations are certified to meet requirements of the national Work Safety Standardization law. Lastly, it continues to monitor the performance of its key worldwide contract manufacturing locations to ensure a high level of regulatory compliance and standard of care.

Lenovo receives a number of annual awards for environmental products and services. In particular, it is proud of the occupational health and safety performance recognition that it has received at local and national government levels.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Occupational Health and Safety Performance Recognition:

In May 2015, the Lenovo United States Fulfillment Center (USFC) in Whitsett, NC received its seventh consecutive “*Gold Award*.”

In June 2015, Lenovo Morrisville, NC headquarters received its tenth consecutive “*Gold Award*,” while Lenovo Enterprise Business Group in Morrisville collected its first “*Gold Award*” from the North Carolina Department of Labor for low incident rates reported in 2014.

In June 2015, Lenovo Beijing was recognized with the “*Safety Culture Demonstration Enterprise*” award by the local government.

In July 2015, Lenovo Shenzhen attained “*Work Safety Standardization*” certification by the local government.

In August 2015, Lenovo Itu, Brazil attained “*OHSAS 18001*” certification by Bureau Veritas.

Diversity

Lenovo views diversity as a key competitive advantage for the company and believes that leveraging its cultural, national and regional differences enables it to better understand its customers and address their needs. Its approach to diversity is expressed in its Commitment to Diversity and Nondiscrimination statement, which is accessible on its website at <http://www.lenovo.com/CSRPolicies>.

It passionately believes that by leveraging both the similarities and differences of its diverse workforce it is uniquely able to meet the needs of its global customers, attract, develop and retain top talent, and create a workplace where employees are inspired to achieve their greatest potential.



2016 International Women's Day event in Lenovo's office in Bratislava, Slovakia.

In 2010, Lenovo launched "The Lenovo Way" in recognition of the shared set of values and priorities that its company is built on. It is embodied in the statement: "We do what we say and we own what we do." It unites its diverse workforce by aligning around the same goals and strategy to keep us winning in the marketplace.

In the spirit of the Lenovo Way culture, it has implemented a number of successful programs and initiatives, such as its global Women in Lenovo Leadership (WILL) program, which focuses on establishing programs and initiatives to meet the development needs of women. Lenovo has also established a scholarship in honor of one of its first female senior vice presidents. This scholarship is given to a young woman entering a U.S. college or university and majoring in engineering or computer science studies. Globally, it offers a scholarship program for the children of Lenovo employees, thus investing in its workforce and the future.

Lenovo also sees mutual value in promoting diversity in its business relationships. To read more about its Supplier Diversity program, please see the Global Supply Chain section.

CORPORATE SOCIAL RESPONSIBILITY REPORT

The Environment

Lenovo is committed to accountability and leadership in environmental affairs and continues to build upon a history of environmental achievement. This commitment is documented in Lenovo's Environmental Affairs Policy which applies to all operations and forms the foundation of Lenovo's Environmental Management System (EMS). The Environmental Affairs Policy is available at <http://www.lenovo.com/environment>.

Environmental and sustainability risks are included in Lenovo's official risk management process described earlier. The risk management evaluation template includes environmental risk categories such as environmental incidents, catastrophic weather conditions, and supply chain disruptions, among others. Annually, each business unit is required to identify risks, assess their impacts on Lenovo's strategy execution and develop risk mitigation plans. In addition, as part of Lenovo's ISO 14001 EMS and its Sustainability Materiality Assessment, at least annually it evaluates Lenovo's significant, or material, environmental aspects.

Lenovo's EMS establishes the framework through which it manages all facets of environmental aspects and drive continuous improvement in its environmental performance. Lenovo's EMS is ISO 14001 certified and covers the company's global development and manufacturing operations for Lenovo computer products and devices. Lenovo's EMS assures that the environmental impacts of its products as well as its site operations worldwide are minimized as much as possible.

In FY 2015/16 it continued its drive to integrate and align into the Lenovo Global Environmental Management System the employees, business units and facilities joining Lenovo through recent acquisitions. Its focus remained on the key commitments of its Environmental Affairs Policy: working to ensure compliance, acting to prevent pollution and reduce its environmental impact, striving to develop products with industry-leading environmental attributes and pushing to continually improve its global environmental performance.

Environmental compliance management during rapid growth can be a challenge. In FY 2015/16 it saw increases in the number and types of products offered by Lenovo and the number of countries in which it offers them. At the same time, the year brought new regulatory and voluntary compliance commitments.

Lenovo's compliance organization is driven by the Global Environmental Affairs organization and supported by a global network of internal environmental focal points and external partners. It regularly conducts internal and external audits of its own facilities and those of its suppliers. The environmental and health and safety management systems at both its manufacturing and development sites are subjected to internal audits at least annually. These sites also undergo third-party environmental and health and safety audits at least once every three years, with most sites being audited twice every three years.

Lenovo also acts to ensure compliance in its supply chain, with Lenovo personnel performing environmental audits at the sites of its largest suppliers and those organizations whose services potentially present significant environmental risks. It also requires that its suppliers comply with the Electronics Industry Code of Conduct (EICC) and verify this compliance through third-party audits.

In FY2015/16, Lenovo's Global Supply Chain Sustainability team led efforts to integrate the acquired IBM System X and Motorola Mobility supply chain sustainability programs into our own. Both businesses had robust programs in place prior to being acquired, and a large portion of their procurement spend was common with Lenovo suppliers already in its program.

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

It closely evaluated its first generation interim reduction targets of 16 percent and 20 percent by 2020 and followed Lenovo's Executive Committee and Board of Directors' direction to increase its target for Scope 1 and 2 GHG emissions officially from 20 to 40 percent by 2020 relative to its FY 2009/10 baseline at the beginning of FY 2015/16. This second generation target for GHG emission reductions aligns with its customers' and investors' expectations and follows the latest scientific findings of climate science.

Lenovo recognizes that its plan to achieve these reductions should include direct renewable energy sourcing and in May 2015, Lenovo's Board of Directors and the Lenovo Executive Committee (LEC) challenged the internal teams to achieve 30 megawatts of direct annual renewable generation by 2020. Since then it has been evaluating this goal and investigating opportunities for onsite renewable generation that will align with Lenovo's business strategy and goals.

In addition to expanding its commitments to GHG emissions reductions and the use of renewables, Lenovo has also been measuring the impact of the acquisition of Motorola Mobility and IBM System X on Lenovo's baseline and ongoing emissions profile. In FY 2015/16, Lenovo integrated the relevant emissions from the acquired Motorola Mobility and IBM System X businesses into Lenovo's greenhouse gas emissions baseline and accounting and these numbers will be reflected in Lenovo's GHG data to be reported in its Sustainability Report. The integration of these entities into Lenovo created synergies and consolidation of operations impacts that will significantly reduce the combined organizations' global greenhouse gas emissions.

Since October 2013, Lenovo's Beijing sites have been participating in an emissions trading system in Beijing. Lenovo is closely monitoring other provinces where this trading program has been imposed since its sites in Shanghai, Huiyang, Xiamen, Chengdu, and Wuhan could be impacted in the future. Lenovo has been establishing a comprehensive energy system for its Beijing sites to reduce emissions year-to-year. Lenovo partnered with China Reach Academy of Environmental Sciences on the "Cleaning Production Program" that will take place in all locations in Beijing during 2016 and will focus on identifying energy savings opportunities and eliminating waste generated in its manufacturing and assembly operations.

CORPORATE SOCIAL RESPONSIBILITY REPORT

In FY 2015/16, its main accomplishments in reducing Scope 1 and 2 greenhouse gas emissions were:

- Implementation of new energy efficiency projects worldwide, including implementation of ISO 50001 Energy Management System in all its European Union locations;
- Use of its existing direct renewable energy sources and initiation of a new solar installation in Hefei, China;
- Purchase of renewable energy commodities to support solar, wind and hydro projects in China, USA and Europe (see pictures);



Lenovo supported the Phase 1 portion of the Stephen Ranch wind project in Texas, USA



Lenovo supported small and micro hydro plant projects in southwest China



Lenovo supported wind projects in Fujian province, China

- Lenovo signed the American Business Act on Climate Pledge to support global climate change actions and climate change agreement in Paris;

The American Business Act on Climate Pledge

- We applaud the growing number of countries that have already set ambitious targets for climate action. In this context, we support the conclusion of a climate change agreement in Paris that takes a strong step forward toward a low-carbon, sustainable future.
- We recognize that delaying action on climate change will be costly in economic and human terms, while accelerating the transition to a low-carbon economy will produce multiple benefits with regard to sustainable economic growth, public health, resilience to natural disasters, and the health of the global environment.
- The following companies have joined the pledge and their detailed commitments can be viewed at: www.whitehouse.gov/ClimatePledge

Lenovo's Commitment to the American Business Act on Climate Pledge

- Reduce our global Scope 1 and 2 GHG emissions by 40%, compared to a 2009 baseline, by 2020.
 - Increase our renewable energy portfolio by annually increasing the percentage of energy purchased from renewable generation sources globally, relative to the previous fiscal year.
 - Drive reductions in our products' energy use by showing improvements in energy efficiency relative to the previous generation of the product.
- Lenovo responded to 2015 CDP climate change requests received on behalf of investors and customers and achieved a disclosure score of 100 (out of 100) and performance of band B for its efforts in addressing climate change; and
 - Lenovo received a Corporate Sustainability Award at the CDP China Report launch event in Beijing in November, 2015.



CORPORATE SOCIAL RESPONSIBILITY REPORT

Lenovo's annual climate change report including climate change risk and opportunities analysis is publicly available at <http://www.cdproject.net>.

While it has demonstrated good progress during the early stages of its first generation GHG reduction commitment, it is keenly aware there is still much to be done. In light of its impressive growth, it realizes that accomplishing its goals moving forward will be a significant challenge. With a continued focus on energy efficiency, Lenovo's Global Energy Management teams continue to work to identify and implement energy reduction, renewable energy and carbon offset opportunities that provide the most cost-effective path to meeting its second generation targets.

Besides Scope 1 and 2 emissions, Lenovo's climate change strategy focuses on its supply chain emissions associated with its products from cradle-to-gate-to-grave.

Regarding product transportation, it continues to optimize its logistics programs and, working closely with its partners, to ship products in the most environmentally responsible manner. Lenovo uses local manufacturing facilities in the Americas, Europe and Asia, as well as the lowest carbon shipping methods via truck, rail or sea, where possible. Lighter and smaller products, more compact and reusable packaging materials, bulk shipping alternatives, and regional distribution facilities allow for lighter loads, load consolidation and full truck load shipments. Lenovo's Global Logistics team proactively drives ocean transport consolidation opportunities to reduce the number of containers shipped out of China manufacturing sites with the goal of reducing carbon emissions.

Lenovo established a product transportation carbon emissions baseline for FY 2011/12 and has since worked to improve the data collection process and increase carriers' coverage in the baseline through the use of a web-based carbon dashboard. During FY 2015/16 Lenovo achieved 100 percent coverage for carriers providing air and ocean transportation services.

As for business travel, all employees have access to and are encouraged to use teleconferencing in place of travel. Lenovo also allows employees to telecommute. Business travel greenhouse gas emissions have been tracked and reported from FY 2009/10.

Detailed performance relative to FY 2015/16 energy and GHG emissions targets will be available in the Sustainability Report later this year.

For additional details on Lenovo's GHG emissions inventory and management, see Lenovo's Sustainability Reports and Climate Change website at <http://www.lenovo.com/climate>.

Lenovo is committed to reducing and recycling waste and conserving water. Lenovo tracks waste intensity and works to identify and implement opportunities to reduce waste quantities. Non-hazardous waste generation increased over the past six years due to organic growth in production and employee population and structural changes in terms of forming joint ventures and acquiring other businesses. However, its targeted recycling rate has been achieved each year. From FY 2014/15, it started monitoring and reporting global landfill avoidance rates. Lenovo tracks and monitors water consumption in its operations even though it does not have any wet processes; water is used only for human consumption and sanitation.

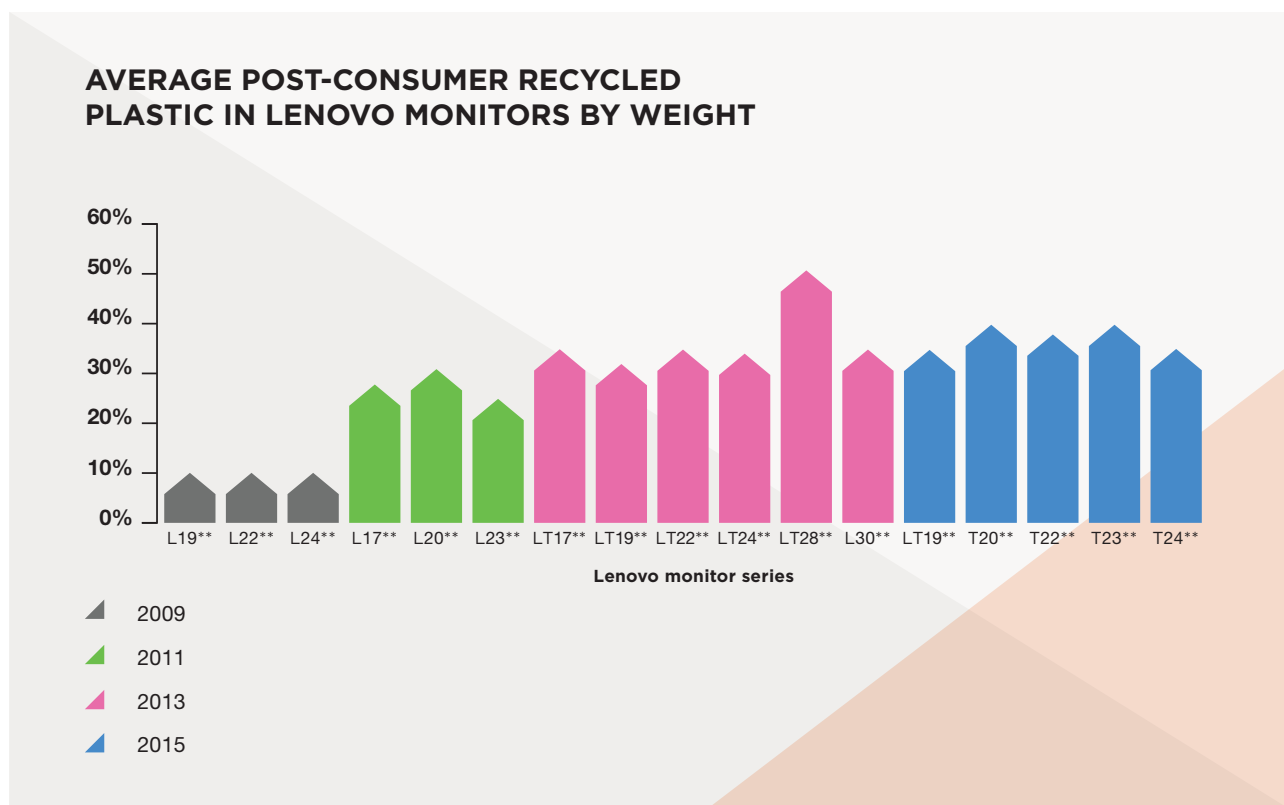
Details on its performance relative to waste and water targets is available in Lenovo's Sustainability Report.

For additional details on Lenovo's waste and water inventory, see Lenovo's Sustainability Reports and Waste and Water website at <http://www.lenovo.com/waterandwaste>.

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

Lenovo continued efforts to improve its ability to quantify, track, and mitigate the environmental impacts of its supply chain and products. During FY 2015/16, it drove efforts on supplier environmental data transparency, reduction and reporting in EICC tools. Lenovo's suppliers have achieved overall greenhouse gas emissions reductions even though Lenovo's business volumes are growing significantly annually, and it has a very high level of suppliers with public reduction goals and third-party verification. It established formal GHG quantitative reduction goals for suppliers in FY 2015/16. For water usage and waste generation, it has established baselines on quantities and public reduction goals.

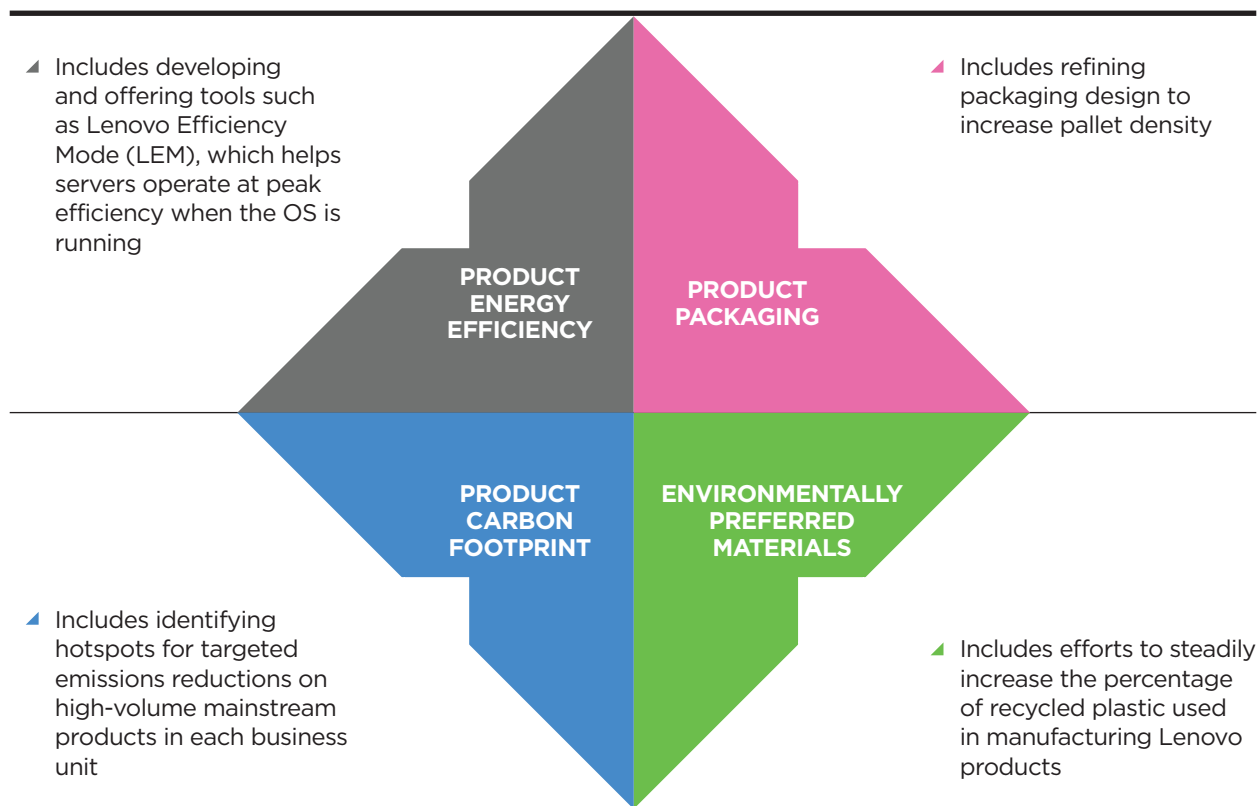
Lenovo continually strives to reduce the environmental impact of its products. Lenovo's corporate-wide environmental standards and specifications require the designers of all Lenovo IT products to consider certain environmentally conscious design practices to facilitate and encourage recycling and minimize resource consumption.



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

CORPORATE SOCIAL RESPONSIBILITY REPORT

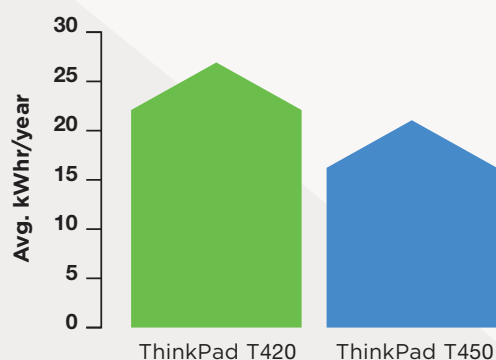
Lenovo's Environmentally Conscious Products program focused on four key areas in FY 2015/16:



Improvements in ThinkPad Energy Efficiency

Lenovo continues to increase the energy efficiency of its products in succeeding generations, leading to a decrease in their carbon emissions.

PRODUCT TYPICAL ENERGY CONSUMPTION



Lenovo's ThinkPad T450 is 21.8% more energy efficient than the ThinkPad T420.

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

Further details on its strategy, objectives, targets and environmental performance are available at <http://www.lenovo.com/environment>. Detailed results regarding its environmental performance are published in its annual Sustainability Report available at <http://www.lenovo.com/sustainability>.

Global Supply Chain

Lenovo is committed to driving sustainable activities through its internal operations as well as in its global supply chain. As a long-standing member of the Electronics Industry Citizenship Coalition (EICC), Lenovo is contributing to the development and execution of global policies and programs to improve supplier compliance across a broad range of sustainability and social responsibility criteria.

Lenovo's supply chain organization implements its own set of programs in support of corporate-wide sustainability initiatives. These include efforts to proactively address concerns about labor, environmental impacts, greenhouse gases, water usage, waste generation and conflict minerals.

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

CORPORATE SOCIAL RESPONSIBILITY REPORT

EICC Code of Conduct

To strengthen and to extend those requirements, Lenovo implements the EICC's Code of Conduct through supplier contracts and strives to directly validate 95 percent of its suppliers by spending.

EICC Code of Conduct Elements



Supplier Requirements

- ◆ Conduct formal self-assessments of compliance to the Code and to report their results annually via EICC tools (EICC-On)
 - ◆ Receive biennial EICC audits conducted by independent third-party and EICC-approved auditors
 - ◆ Provide Audit Reports and Corrective Action Plans
 - ◆ Provide environment footprint results (greenhouse gas emissions, water usage, waste generation) annually using the EICC or CDP (Carbon Disclosure Project) platforms
 - ◆ Use the EICC Conflict Minerals Reporting Template (CMRT) and the Conflict-Free Smelter Program (CFSP) to limit sourcing to smelters validated by industry-acceptable protocols
-

Additionally, all outsourced development manufacturers and top contract manufacturers undergo semi-annual checkpoints and annual Occupational Health & Safety (OH&S) 18001 audits conducted by Lenovo environmental personnel.

Lenovo exceeds the EICC membership requirements substantially for self-assessments (80 percent of suppliers by spend) and audits (25 percent of high-risk suppliers identified by the self assessments). Furthermore, in FY 2015/16 about 75 percent of Lenovo procurement spend is from suppliers who are EICC members. Most of the suppliers also have formal certifications for Quality Management systems (ISO 9001), Environmental Management Systems (ISO14001) and Occupational Health & Safety (OHS 18001).

Conflict Minerals

Lenovo is working vigorously to remove the use of conflict minerals from its supply chain. Conflict minerals are typically defined as tin, tantalum, tungsten and gold (3TG) that have been mined from central Africa. With respect to conflict minerals, it fully complies with the U.S. SEC Dodd-Frank ruling and the Organization for Economic Cooperation and Development (OECD) Due Diligence Guidance for Responsible Supply Chains from Conflict Afflicted Areas. It also uses EICC programs for due diligence.

Efforts to Remove Conflict Minerals from Lenovo's Supply Chain

- ◆ Establishment of formal management systems
 - ◆ A formal Conflict Minerals Policy
 - ◆ Risk assessment for the presence of 3TG in its products
 - ◆ Reasonable Country of Origin Inquiry to identify risk using the EICC Conflict Minerals Reporting Template
 - ◆ Due Diligence to ensure 3TG smelters are conflict-free compliant using the Conflict Free Smelter Initiative and Program (CFSI/CFSP)
 - ◆ Participation in the CFSI Smelter Engagement Team to further identify valid smelters in the supply chain, conduct outreach and drive them toward certification
 - ◆ Report publicly the results of its efforts in its annual Conflict Minerals Report
 - ◆ Supplier contracts to ensure flow of these requirements through the supply chain
 - ◆ Public Conflict Minerals Reporting
-

CORPORATE SOCIAL RESPONSIBILITY REPORT

Lenovo made significant progress in FY 2015/16 with its conflict minerals program. The program's scope targets covering 95 percent of its procurement spend. It conducted a full country-of-origin inquiry utilizing the EICC Conflict Minerals Reporting Template (CMRT) and received a 100 percent response rate. It determined that 58 percent of its suppliers are legally subject to Dodd-Frank, and 94 percent have conflict mineral policies and implement CMRTs with their supply chains.

Furthermore, 95 percent of its suppliers verify due diligence of their suppliers and this is typically done with the EICC Conflict-Free Smelter Program (CFSP). Through these efforts, it improved its conflict-free status from 50 to 63 percent considering all reported potential smelters. Excluding alleged smelters not validated as true smelters, it improved its conflict-free status from 68 to 75 percent. And, importantly, it achieved 100 percent conflict-free status on tantalum. General information on conflict minerals can be found at the EICC Conflict Free Smelter Initiative (CFSI).

Supplier Diversity

Lenovo sees mutual value in promoting diversity in its business relationships. It is a natural part of its business strategy to create a diverse and competitive supplier base and to strengthen economic development in historically underutilized communities. Through its Supplier Diversity Program, Lenovo is committed to maximizing the inclusion of diverse suppliers through identifying opportunities, developing and incubating relationships, creating processes that encourage diverse supplier integration, and building on its already strong culture of inclusion – The Lenovo Way.

Lenovo identifies diverse suppliers as those that are at least 51 percent owned and controlled by women, minorities, veterans, service-disabled veterans, and persons with a disability. Lenovo also includes suppliers that are defined by the U.S. Federal Government as a Small Disadvantaged Business, HUB Zone business, or small business.

Lenovo partners with a variety of national and regional organizations, such as National Minority Supplier Development Council (NMSDC), and Women's Business Enterprise National Council (WBENC) to facilitate supplier identification and program development. Lenovo is also active in local and regional events aimed at promoting, creating opportunities for, and celebrating diverse suppliers. Lenovo currently conducts more than US\$120 million in business annually with small and/or certified diverse suppliers in the United States.

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

As an extension of its Occupational Health and Safety (OHS) process, it continues to monitor the performance of its key worldwide contract manufacturing locations to ensure a high level of regulatory compliance and standard of care. Rigorous compliance reviews are conducted on an annual basis to validate compliance and overall OHS related performance. Identified action items are tracked to closure with a focus on high risk and systemic findings or exposures.

In addition, key contract manufacturing locations are required to have Lenovo-specific Business Continuity Plans and robust Pandemic Response Plans to further mitigate risk and support employee well-being. Validation checks are also completed on a periodic basis.

Lenovo plans to continue optimizing its logistics programs and working closely with its partners to ship products in the most environmentally responsible manner.

Social Investments

Lenovo believes that giving back to the communities where it operates is integral to good corporate citizenship. It annually commits up to one percent of pretax income to global social investment programs and initiatives. Through this approach, the more success it achieves, the more it is able to share its success with those around it. Its investments focus on three corporate giving programs: the Next Generation Hope Fund, Global Disaster Assistance, and Community Outreach, Collaborations and Partnerships.

Lenovo's *Next Generation Hope Fund* supports social investment programs targeting education, entrepreneurship, disaster relief and regional community outreach. Lenovo provides assistance through financial contributions, equipment donations, and employee volunteer hours.

Every year, one or more natural disasters occur somewhere in the world affecting communities that lack the infrastructure and resources to recover from catastrophic loss. Lenovo's *Global Disaster Assistance* program joined the outpouring of assistance for those affected by disaster this past fiscal year with financial contributions to assist the relief efforts for the 2015 Gorkha earthquake in Nepal and the 2016 earthquake in Kaohsiung, Taiwan.

Lenovo's *Community Outreach, Collaborations and Partnerships* program continued to support global education investments in K-12 and higher education, entrepreneurship and particular regional needs in FY 2015/16. For example, in Latin America, Lenovo supported a program that provides young women from low-income backgrounds with access to education and work in the IT sector. In the Asia-Pacific region, it continued to provide Lenovo products for Room to Read projects to support local literacy programs. In North America, in addition to contributing to a variety of education and health initiatives, including support for the National Academy Foundation and STEM education initiatives, Lenovo supported programs to assist U.S. veterans. In Europe, Middle East and Africa (EMEA), Lenovo activities included expanding support for United Way programs and a continuing partnership with the Women's Forum for Society and the Economy in France.

CORPORATE SOCIAL RESPONSIBILITY REPORT

Lenovo's social investments also include matching employee charitable donations as well as supporting the donation of employee time and expertise. As an example, in FY 2015/16, Lenovo North America supported the donation of employee volunteer time totaling more than 17,000 hours.



Motorola employees contributed 320 hours of service to local communities during the March 2016 Day of Service.

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DIRECTORS' REPORT

The directors of Lenovo Group Limited (the "Company") submit their report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended March 31, 2016.

PRINCIPAL BUSINESS AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

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

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

BUSINESS REVIEW

A discussion and analysis of the activities as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong S.A.R. of China) (the "Companies Ordinance"), including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year 2015, and an indication of likely future development in the Group's business, can be found in the "Five-Year Financial Summary", "Chairman and CEO Statement", "Management's Discussion and Analysis" and "Corporate Social Responsibility Report" sections of this annual report. These discussions form part of this directors' report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 159 of this annual report.

The state of affairs of the Group and of the Company as at March 31, 2016 is set out in the consolidated balance sheet on pages 161 to 162 of this annual report and the company balance sheet in note 30(a) to the financial statements respectively.

The consolidated cash flows of the Group for the year are set out in the statement on page 163 of this annual report.

An interim dividend of HK6.0 cents (2015: HK6.0 cents) per share, amounting to a total of approximately HK\$666.5 million (approximately US\$86.0 million) (2015: approximately HK\$666.5 million (approximately US\$86.0 million)), was paid to shareholders during the year.

The directors have resolved to recommend the payment of a final dividend of HK20.5 cents per share for the year ended March 31, 2016 (2015: HK20.5 cents). Subject to shareholders' approval at the forthcoming annual general meeting of the Company to be held on Thursday, July 7, 2016 ("AGM"), the proposed final dividend will be payable on Tuesday, July 19, 2016 to the shareholders whose names appear on the register of members of the Company on Wednesday, July 13, 2016.

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

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

Latest time to lodge transfer documents for registration	4:30 p.m. on Wednesday, July 6, 2016
Closure of register of members	Thursday, July 7, 2016
Record date	Thursday, July 7, 2016

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

Latest time to lodge transfer documents for registration	4:30 p.m. on Tuesday, July 12, 2016
Closure of register of members	Wednesday, July 13, 2016
Record date	Wednesday, July 13, 2016

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

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results for the year and of the assets and liabilities of the Group as at March 31, 2016 and for the last four financial years are set out on page 243 of this annual report.

DISTRIBUTABLE RESERVES

At March 31, 2016, the distributable reserves of the Company amounted to US\$335,170,000 (2015: US\$814,506,000).

BANK BORROWINGS

Particulars of bank borrowings as at March 31, 2016 are set out in note 27 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to US\$1,878,000 (2015: US\$1,535,000).

SHARE CAPITAL

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

DEBENTURES ISSUED

The Company has issued the RMB4,000,000,000 4.950% Notes due 2020 which was listed on The Stock Exchange of Hong Kong S.A.R. of China Limited (the "Stock Exchange") on June 10, 2015. The net proceed of RMB3,977,334,000 from the Notes will be used for general corporate purposes of the Company including working capital. Subject to the terms thereof, the Notes will constitute direct, general, unsecured and unsubordinated obligations of the Company and shall at all times rank *pari passu* and without any preference among themselves.

Details of the debentures issued by the Company during the year are set out in note 27 to the financial statements.

EQUITY-LINKED AGREEMENTS

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

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Particulars of the Company's principal subsidiaries, associates and joint ventures as at March 31, 2016 are set out in notes 37 and 18 to the financial statements respectively.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group sold less than 12% of its goods and services to its five largest customers. The percentages of purchases for the year attributable to the Group's major suppliers are as follows:

The largest supplier	20%
Five largest suppliers combined	39%

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

DIRECTORS' REPORT

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

During the year ended March 31, 2016, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the long-term incentive program of the Company purchased 150,182,248 shares from the market for award to employees upon vesting. Details of the program are set out under section headed "Long-Term Incentive Program" in the Compensation Committee Report on page 110 of this annual report.

DIRECTORS

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

Chairman and Executive Director

Mr. Yang Yuanqing

Non-executive Directors

Mr. Zhu Linan

Mr. Zhao John Huan

Mr. Gordon Robert Halyburton Orr (appointed on September 18, 2015)

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. Ting Lee Sen (retired on July 2, 2015)

In accordance with article 95 of the Company's articles of association, Mr. Gordon Robert Halyburton Orr who was appointed as a director during the year, shall hold office until the AGM and, being eligible, has offered himself for re-election.

In accordance with article 107 of the Company's articles of association, Mr. Zhu Linan, Dr. Tian Suning and Mr. William Tudor Brown will retire by rotation at the AGM and, being eligible, have offered themselves for re-election.

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

The list of directors who have served on the boards of directors of the subsidiaries of the Company during the year ended March 31, 2016 or during the period from April 1, 2015 to the date of this report is available on the Company's website (http://www.lenovo.com/ww/lenovo/list_direct.html).

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Honorary Chairman

Mr. Liu Chuanzhi, 72, has been appointed the Honorary Chairman and Senior Advisor of the Company since November 3, 2011. Mr. Liu is the founder of the Group and held the positions of executive director, non-executive director and chairman of the Board at different times from 1993 until his resignation from the Board on November 3, 2011. As our Honorary Chairman, Mr. Liu is not a director or an officer of the Company or of any subsidiary of the Company, and does not have any management role in the Company or any of its subsidiaries. He obtained his graduate certificate from the Radar Navigation Department of People's Liberation Army Institute of Telecommunication Engineering (中國人民解放軍軍事電信工程學院雷達導航系) (now known as Xidian University) in China in 1967 and has substantial experiences in corporate management. Mr. Liu is the chairman of the board and executive director of Legend Holdings Corporation (HKSE listed), a company holding substantial interests in the issued shares of the Company.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of directors

Chairman and executive director

Mr. Yang Yuanqing, 51, is the Chairman of the Board, Chief Executive Officer and an executive director of the Company. He is also a director and a shareholder of Sureinvest Holdings Limited which holds interests in the issued shares of the Company. Mr. Yang assumed the duties of chief executive officer on February 5, 2009. Prior to that, he was the chairman of the Board from April 30, 2005. Before taking up the office as chairman, Mr. Yang was the chief executive officer and has been an executive director since December 16, 1997.

Mr. Yang has more than 28 years of experience in the field of computers. Under his leadership, Lenovo has been China's best-selling PC brand since 1997 and is currently the world's No. 1 PC vendor and one of the major players in global smartphone and x86 server markets. Mr. Yang holds a master's degree from the Department of Computer Science at the University of Science and Technology of China. Mr. Yang is currently a director of Baidu, Inc. (NASDAQ listed). Mr. Yang is also a guest professor at the University of Science and Technology of China and a member of the International Advisory Council of Brookings Institute.

Non-executive directors

Mr. Zhu Linan, 53, has been a non-executive director of the Company since April 30, 2005. Mr. Zhu graduated with a master's degree in electronic engineering from Shanghai Jiao Tong University and has more than 20 years of management experience. He was previously a senior vice president of the Group. Mr. Zhu is currently an executive director, president and member of executive committee of Legend Holdings Corporation (HKSE listed), a company holding substantial interests in the issued shares of the Company and he also serves as director of its various members. He is a non-executive director of CAR Inc. (HKSE listed). He was previously a non-executive director of Peak Sport Products Co., Limited (HKSE listed) and a director of Foshan Saturday Shoes Co., Ltd. (Shenzhen Stock Exchange listed).

Mr. Zhao John Huan, 53, has been a non-executive director of the Company since November 3, 2011. Mr. Zhao holds a master's degree in Business Administration from the Kellogg School of Management at Northwestern University, dual master's degrees in electric engineering and physics from Northern Illinois University and a bachelor's degree in physics from Nanjing University. He is currently an executive director and executive vice president and member of executive committee of Legend Holdings Corporation (HKSE listed), a company having substantial interests in the issued shares of the Company and the chairman and president of Hony Capital Limited.

Besides, he currently holds the following directorship; the chairman of the board and non-executive director of China Glass Holdings Limited (HKSE listed) and the deputy chairman of Shanghai Chengtou Holding Co., Ltd. 上海城投控股股份有限公司 and a director of Shanghai Jin Jiang International Hotels Development Co., Ltd. 上海錦江國際酒店發展股份有限公司 (both listed on the Shanghai Stock Exchange), a non-executive director of Zoomlion Heavy Industry Science and Technology Co., Ltd. 中聯重科股份有限公司 (HKSE and Shenzhen Stock Exchange listed).

Mr. Zhao was previously a director of Wumart Stores, Inc., New China Life Insurance Company Ltd., CSPC Pharmaceutical Group Limited and Chinasoft International Limited (all HKSE listed), Fiat Industrial S.P.A. (MTA Italian Stock Exchange listed).

Mr. Gordon Robert Halyburton Orr, 53, has been a non-executive director of the Company since September 18, 2015. He holds a Master of Arts degree in Engineering Science from Oxford University, United Kingdom and a Master of Business Administration degree from Harvard University, United States of America.

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

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

DIRECTORS' REPORT

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of directors *(continued)*

Independent non-executive directors

Dr. Tian Suning, 52, has been an independent non-executive director of the Company since August 2, 2007. He is the founder and chairman of a Chinese focused private equity fund China Broadband Capital Partners, L.P.. He is currently an independent non-executive director of MasterCard Incorporated (NYSE listed) and Taikang Life Insurance Company Ltd. He is also an independent director of Shanghai Pudong Development Bank Co., Ltd. (Shanghai Stock Exchange listed). He held various senior positions in China Netcom Group Corporation (Hong Kong S.A.R. of China) Ltd. (formerly listed on HKSE and NYSE) from 2000 to 2007 and was a vice chairman of PCCW Ltd. (HKSE listed) between 2005 and 2007. From 1993 till 1999, he was co-founder and chief executive officer of AsiaInfo-Linkage, Inc. (formerly listed on NASDAQ) of which he is now a board member. He was previously a non-executive director of China Jiuhao Health Industry Corporation Limited (HKSE listed). Dr. Tian holds a Ph.D. in natural resource management from Texas Tech University and a M.S. degree in ecology from Chinese Academy of Sciences.

Mr. Nicholas C. Allen, 61, has been an independent non-executive director of the Company since November 6, 2009. Mr. Allen received a Bachelor of Arts degree in economics/social studies from Manchester University, United Kingdom. He is a Fellow of the Institute of Chartered Accountants in England and Wales and a member of the Hong Kong S.A.R. of China Institute of Certified Public Accountants. Mr. Allen has extensive experience in accounting and auditing and was a partner of PricewaterhouseCoopers until his retirement in June 2007. Mr. Allen is an independent non-executive director and the chairman of Link Real Estate Investment Trust (HKSE listed). He is also an independent non-executive director of CLP Holdings Limited (HKSE listed) and VinaLand Limited (London Stock Exchange AIM listed). He was previously an independent non-executive director of Hysan Development Company Limited (HKSE listed) and Texon International Group Limited.

Mr. Nobuyuki Idei, 78, has been an independent non-executive director of the Company since September 28, 2011. Mr. Idei is the founder and chief executive officer of Quantum Leaps Corporation, an executive advisory company. Until retiring in June 2005, for more than a decade, Mr. Idei held a wide variety of leadership positions at Sony Corporation (Tokyo Stock Exchange, Osaka Securities Exchange, NYSE and London Stock Exchange listed), including chairman and group chief executive officer. He was also the chairman of Sony's advisory board from June 2005 to June 2012.

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

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

Mr. William O. Grabe, 78, has been an independent non-executive director of the Company since February 8, 2012 and was appointed as the lead independent director of the Company on May 23, 2013. Before that, he was a non-executive director of the Company since May 17, 2005. Mr. Grabe is currently a director of the following listed companies: Gartner Inc. (NYSE listed), Covisint Corporation (NASDAQ listed) and QTS Realty Trust, Inc. (NYSE listed). He was previously an independent director of Compuware Corporation. Mr. Grabe is an advisory director of General Atlantic LLC. He formerly served as a managing director of General Atlantic LLC and has been associated with General Atlantic Group since 1992. Prior to that, he served as a corporate vice president and officer of IBM.

Mr. William Tudor Brown, 57, has been an independent non-executive director of the Company since January 30, 2013. Mr. Brown is a Chartered Engineer and holds an MA (Cantab) Degree in electrical sciences from Cambridge University. He is a Fellow of the Institution of Engineering and Technology and a Fellow of the Royal Academy of Engineering. He was awarded as Member of the Order of the British Empire (MBE) on June 15, 2013.

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

Mr. Brown is currently an independent non-executive director of Tessera Technologies, Inc. (NASDAQ listed), Semiconductor Manufacturing International Corporation (HKSE listed). He was previously an independent non-executive director of P2i Limited. He also served on the UK Government Asia Task Force until May 2012.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of directors *(continued)*

Independent non-executive directors *(continued)*

Ms. Ma Xuezheng, 63, was re-designated as an independent non-executive director of the Company on November 7, 2013. Prior to that, she was a non-executive Vice Chairman of the Company since 2007. Before becoming a non-executive director, she was an executive director and the chief financial officer of the Company at different times between 1997 and 2007 and held directorship in various subsidiaries of the Company. She is currently chairman of Boyu Capital Advisory Company Limited and a non-executive director of the Securities and Futures Commission following her resignation from the Main Board and GEM Listing Committees of the HKSE on November 14, 2013. In addition, she is also a non-executive director of STELUX Holdings International Limited (HKSE listed), Unilever N.V. (NYSE and Euronext Amsterdam listed) and Unilever PLC (NYSE and London Stock Exchange listed). She was formerly a non-executive director of Wumart Stores, Inc. (HKSE listed) and an independent non-executive director of Standard Chartered Bank (Hong Kong S.A.R. of China) Limited. Ms. Ma holds a bachelor of arts degree from Capital Normal University.

Mr. Yang Chih-Yuan Jerry, 47, has been an independent non-executive director of the Company since November 6, 2014. Prior to that, he was the board observer of the Company since February 20, 2013. He holds a master's degree and a bachelor's degree of science in electrical engineering from Stanford University and served on the board of trustees of Stanford University from October 2005 until September 2015.

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

Mr. Yang also served as a director of Yahoo! Japan Corporation (Tokyo Stock Exchange listed) from January 1996 to January 2012, an independent director of Cisco Systems, Inc. (NASDAQ listed) from July 2000 to November 2012 and a director of Alibaba Group Holding Limited from October 2005 to January 2012. Mr. Yang is currently an independent director of Workday Inc. and Alibaba Group Holding Limited (all NYSE listed).

Biography of senior management

Mr. Gianfranco Lanci, 61, joined the Group in April, 2012 and is currently the Corporate President and Chief Operating Officer of the Company responsible for running all of the Group's five geographies, the PC and the Smart Device Business Group. Before taking up the office as Corporate President, Mr. Lanci was COO and Executive Vice President of the Company and President of the PC Group, EMEA and AP. Mr. Lanci has substantial experience across the PC business, including leadership roles at Texas Instruments and Acer. He was appointed as President of Acer Inc. in 2005 and in 2008 became Chief Executive Officer and President. Under his leadership, he led Acer to the number two position globally and number one in EMEA while recording record profitability for three consecutive years. He holds a degree in engineering from the Politecnico of Turin.

Mr. Chen Xudong, 48, joined the Group in 1993 and is currently the Senior Vice President of the Company and Co-President of the Mobile Business Group focusing on Lenovo's Mobile business in China, the world's largest mobile market. He was also the founding CEO of ShenQi, a subsidiary mobile company for Lenovo. Prior to taking up these positions, Mr. Chen was the President of Lenovo China and the Asia Pacific Emerging Markets. Mr. Chen graduated from Peking University with a master's degree in probability statistics and also holds an EMBA degree from China Europe International Business School.

Mr. He Zhiqiang, 53, joined the Group in 1986 and is currently the Senior Vice President of the Company, President of Lenovo Capital and Incubator Group and acting Chief Technology Officer of the Company. This group is responsible for driving innovation through investment in startups, spinning off new businesses and exploring new technologies. Prior to that, Mr. He held various leadership positions in the Group including the President of the Ecosystem and Cloud Services Business Group and was the Chief Technology Officer overseeing Lenovo's Research & Technology initiatives and systems. Mr. He holds a bachelor's degree in computer communication from Beijing University of Posts and Telecommunications and a master's degree in computer engineering from the Institute of Computing Technology of the Chinese Academy of Sciences.

Ms. Qiao Jian, 48, joined the Group in 1990 and is currently the Senior Vice President of Human Resources, responsible for Human Resources, Organizational Development, Global Talent, Compensation and Benefits as well as nurturing the Company's culture. Prior to assuming this position, Ms. Qiao held various senior positions in the Group including Senior Vice President of Strategy and Planning and Vice President of Human Resources in China – both before and after the acquisition of IBM's PC Division. Ms. Qiao has extensive experience in human resources, strategy, marketing and branding. She holds a bachelor's degree in management science from Fudan University and holds an EMBA from the China Europe International Business School.

DIRECTORS' REPORT

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of senior management *(continued)*

Mr. Aymar de Lencquesaing, 57, joined the Group in 2013 and is currently the Senior Vice President of the Company, Co-President of the Mobile Business Group and the Chairman and President of Motorola. In this capacity, Mr. de Lencquesaing co-leads Lenovo's mobile business, including R&D, product, supply chain and the Asia Pacific, North America, Latin America and EMEA geographies.

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

Mr. Gerry P. Smith, 53, joined the Group in August, 2006 and is currently the Executive Vice President of the Company and the President of the Data Center Group, overseeing Lenovo's expanding enterprise business worldwide. Prior to that, Mr. Smith was the Executive Vice President and the Chief Operating Officer of the PC and Enterprise Business Groups. In this capacity, Mr. Smith led Lenovo's PC and Enterprise Business Groups, including the Global Operations organization that supports these businesses. Prior to that, Mr. Smith was Senior Vice President of the Company and President of the Americas Group, Senior Vice President of Global Operations and Senior Vice President of Global Supply Chain. Before joining the Group, Mr. Smith held a number of leadership roles at Dell, including Vice President and General Manager of Notebook Development, Peripherals Development and the Display Line of Business. Mr. Smith holds a bachelor's degree in finance and marketing from Pacific Lutheran University.

Mr. Wong Wai Ming, 58, is currently the Executive Vice President of the Company and the Chief Financial Officer. He was previously an investment banker for more than 15 years and also held senior management positions in listed companies in Hong Kong S.A.R. of China. He was an independent non-executive director of the Company from March 30, 1999 until his appointment to the position of Chief Financial Officer in 2007. Mr. Wong is a member of the Hong Kong S.A.R. of China Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales and holds a bachelor's degree in management sciences from the Victoria University of Manchester in the United Kingdom.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

DIRECTORS' INDEMNITIES AND INSURANCE

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

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

DIRECTORS' INTERESTS

As at March 31, 2016, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in the Listing Rules were as follows:

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

Name of director	Capacity and number of shares/underlying shares held					Approximate percentage of interests (Note 2)
	Interests in shares/ underlying shares	Personal interests	Family interests	Corporate interests	Aggregate long/short position	
Mr. Yang Yuanqing	Ordinary shares	69,171,606	-	602,804,000 (Note 3)	671,975,606	6.79%
	Share awards	82,550,121	-	-	82,550,121	
					754,525,727	
Mr. Zhu Linan	Ordinary shares	2,691,879	-	-	2,691,879	0.03%
	Share awards	1,195,319	-	-	1,195,319	
					3,887,198	
Mr. Zhao John Huan	Ordinary shares	247,314	-	708,000	955,314	0.02%
	Share awards	1,603,471	-	-	1,603,471	
					2,558,785	
	Short position	-	-	750,000	750,000	0.01%
Mr. Gordon Robert Halyburton Orr	Share awards	281,523	-	-	281,523	0.01%
					281,523	
Dr. Tian Suning	Ordinary shares	700,610	-	-	700,610	0.03%
	Share awards	2,361,518	-	-	2,361,518	
					3,062,128	
Mr. Nicholas C. Allen	Ordinary shares	550,342	-	-	550,342	0.02%
	Share awards	2,166,902	-	-	2,166,902	
					2,717,244	
Mr. Nobuyuki Idei	Ordinary shares	273,228	-	-	273,228	0.02%
	Share awards	1,643,643	-	-	1,643,643	
					1,916,871	
Mr. William O. Grabe	Ordinary shares	1,625,563	-	744,281	2,369,844	0.04%
	Share awards	2,361,518	-	-	2,361,518	
					4,731,362	
Mr. William Tudor Brown	Ordinary shares	154,614	-	-	154,614	0.01%
	Share awards	1,278,718	-	-	1,278,718	
					1,433,332	
Ms. Ma Xuezheng	Ordinary shares	10,748,162	-	2,240,000	12,988,162	0.13%
	Share awards	1,515,785	-	-	1,515,785	
					14,503,947	
Mr. Yang Chih-Yuan Jerry	Ordinary shares	70,449	-	-	70,449	0.01%
	Share awards	1,059,829	-	-	1,059,829	
					1,130,278	

DIRECTORS' REPORT

DIRECTORS' INTERESTS *(continued)*

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

Name of director	Name of associated corporations	Long position/ short position	Capacity/ nature of interests	Number and class of shares/ underlying shares held	Approximate percentage of interests (Note 4)
Mr. Yang Yuanqing	SHENQI Holdings Limited	Long position	Personal interests held as beneficial owner	4,200,000 ordinary shares	4.42%
Mr. Yang Yuanqing	SHAREit Technology Holdings Inc.	Long position	Personal interests held as beneficial owner	5,500,000 series A preferred shares	15.98%

Notes:

- Share awards represent underlying shares convertible into ordinary shares. Details of share awards are set out under the section headed "Long-Term Incentive Program" in the Compensation Committee Report.
- The approximate percentage of interests is based on the shares/underlying shares comprising the interests held as a percentage of the total number of shares in issue of the Company of the same class immediately after the relevant event and as recorded in the register maintained under section 352 of the SFO.
- The shares are held by Sureinvest Holdings Limited in which Mr. Yang Yuanqing holds more than one-third of the voting power at its general meetings. Therefore, Mr. Yang is taken to have an interest in 602,804,000 shares under the SFO and such interest is also reported under the below section headed "Substantial Shareholders' and Other Persons' Interests".
- The approximate percentage of interests is based on the shares comprising the interests held as a percentage of the total number of shares in issue of the same associated corporation of the same class immediately after the relevant event and as recorded in the register maintained under section 352 of the SFO.

Save as disclosed above, as at March 31, 2016, none of the directors or chief executive of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

Details of the movements in the share awards for the year ended March 31, 2016 are set out under the section headed "Long-Term Incentive Scheme" in the Compensation Committee Report and in the note 29(a) to the financial statements.

Save as disclosed in the sections headed "Directors' Interests" of this report, and "Long-Term Incentive Program" of the Compensation Committee Report, at no time during the year ended March 31, 2016 was the Company or a specified undertaking of the Company a party to any arrangements to enable the directors of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

As at March 31, 2016, the following persons (other than the directors and chief executive of the Company as disclosed above) had an interests or short positions in the shares and/or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name	Long position/ short position	Capacity and number of shares/ underlying shares held		Aggregate long and short positions	Approximate percentage of interests (Note 1)
		Beneficial owner	Corporate interests		
Legend Holdings Corporation	Long position	2,867,636,724	576,529,317 (Note 2)	3,444,166,041	31.00%
	Short position	–	47,700,000	47,700,000 (Note 3)	0.42%
Right Lane Limited	Long position	436,019,317	119,510,000 (Note 4)	555,529,317	5.00%
	Short position	47,900,000	–	47,900,000	0.43%
Sureinvest Holdings Limited	Long position	602,804,000	–	602,804,000 (Note 5)	5.43%

Notes:

1. The approximate percentage of interests is based on the shares/underlying shares comprising the interests held as a percentage of the total number of shares in issue of the Company of the same class immediately after the relevant event and as recorded in the register maintained under section 336 of the SFO.
2. Out of 576,529,317 shares, 436,019,317 shares are directly held by Right Lane Limited ("Right Lane"), a direct wholly-owned subsidiary of Legend Holdings Corporation, and 140,510,000 shares are indirectly held by Right Lane through its wholly-owned subsidiary, Legion Elite Limited ("Legion Elite").
3. These shares are held by Right Lane.
4. These shares are held by Legion Elite.
5. Mr. Yang Yuanqing holds more than one-third of the voting power at general meetings of Sureinvest Holdings Limited ("SHL"). Accordingly, Mr. Yang is deemed to have interests in those 602,804,000 shares of the Company held by SHL under the SFO. This interest is also included as corporate interests of Mr. Yang in the above section headed "Directors' Interests".

Save as disclosed above, as at March 31, 2016, no other persons (other than the directors and chief executive of the Company, whose interests are set out in the above section headed "Directors' Interests") had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' REPORT

RETIREMENT SCHEME ARRANGEMENTS

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

Defined Benefit Pensions Plans

Chinese Mainland – Retirement Schemes

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

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

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

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

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

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

For the year ended March 31, 2016, an amount of US\$2,389,746 was charged to the income statement with respect to the qualified and non-qualified plans.

The principal results of the most recent actuarial valuation of the plan at March 31, 2016 were the following:

- The actuarial valuation was prepared by Fidelity. The actuaries involved are fully qualified under the requirements of US law.
- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:

– Discount rate:	2.75%
– Expected return on plan assets:	2.75%
– Future salary increases:	3.00%
- The qualified plan was 56% funded at the actuarial valuation date.
- There was a net liability of US\$49,623,118 under the qualified plan for this reason at the actuarial valuation date.

RETIREMENT SCHEME ARRANGEMENTS *(continued)*

Defined Benefit Pensions Plans *(continued)*

Japan – Pension Plan

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

For the year ended March 31, 2016, an amount of Yen 1,056,175,048 was charged to the income statement with respect to this plan.

The principal results of the most recent actuarial valuation of the plan at March 31, 2016 were the following:

- The actuarial valuation was prepared by JP Actuary Consulting Co., Ltd. The actuaries involved are fully qualified under the requirements of Japanese law.
- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:
 - Discount rate: 0.50%
 - Expected return on plan assets: 0.50%
 - Future salary increases: Age-group based
- The plan was 58% funded at the actuarial valuation date.
- There was a net liability of Yen 11,059,816,518 under this plan at the actuarial valuation date.

Germany – Pension Plan

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

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

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

For the year ended March 31, 2016, an amount of EUROS 2,685,920 was charged to the income statement with respect to this plan.

The principal results of the most actuarial valuation of the plan at March 31, 2016 were the following:

- The actuarial valuation was prepared by Kern, Mauch & Kollegen (Motorola Mobility valuation prepared by AonHewitt). The actuaries involved are fully qualified under German law.
- The actuarial method used was the Projected Unit Credit Cost method and the principal actuarial assumptions were:
 - Discount rate: 1.00%
 - Future salary increases: Age-group based
 - Future pension increases: 2.00%
- The plans were 18% funded at the actuarial valuation date.
- There was a net liability of EUROS 181,806,936 under this plan at the actuarial valuation date.

DIRECTORS' REPORT

RETIREMENT SCHEME ARRANGEMENTS *(continued)*

Defined Contribution Plans

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

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

US Lenovo Executive Deferred Compensation Plan

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

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

United Kingdom ("UK") – Lenovo Stakeholders Plan

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

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

Canada – Defined Contribution Pension Plan

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

Hong Kong S.A.R. of China – Mandatory Provident Fund

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

FACILITY AGREEMENT WITH COVENANT ON CONTROLLING SHAREHOLDER

The Company entered into a facility agreement with a syndicate of banks on February 2, 2011 (the "Facility Agreement") for a term loan facility of up to US\$500 million (the "Facility"). The final maturity date of the Facility will fall on the date which is 60 months after February 2, 2011. The Facility Agreement includes, inter alia, terms to the effect that it will be an event of default if Legend Holdings Corporation (formerly known as Legend Holdings Limited), the controlling shareholder of the Company: (i) is not or ceases to be the direct or indirect beneficial owner of 20% or more of the issued share capital of the Company; or (ii) is not or ceases to be the single largest shareholder in the Company. The Facility was fully repaid on September 29, 2015 and was cancelled with effect from October 9, 2015.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had conducted continuing connected transactions with certain connected persons (as defined in the Listed Rules). The details of such continuing connected transactions, which are required to be disclosed pursuant to rules 14A.49 and 14A.71 of the Listing Rules, are set out as follow:

(i) Continuing connected transactions with NEC and its associates

On January 27, 2011, the Company entered into a Business Combination Agreement with, amongst others, NEC Corporation (“NEC”, together with its subsidiaries the “NEC Group”), pursuant to which the Company and NEC agreed to establish Lenovo NEC Holdings B.V. (“JVCo”, together with its subsidiaries the “JVCo Group”) to own and operate their respective personal computer businesses in Japan.

At or prior to closing of the Business Combination Agreement on July 1, 2011 (the “Closing Date”), NEC or other members of the NEC Group entered into various agreements (the “CCT Agreements”) with the Company, the JVCo or other members of the JVCo Group in respect of the provision of certain services and products to or by the JVCo Group to facilitate the operation of its personal computer business in Japan. Details of the CCT Agreements are set out in the announcement dated April 21, 2011 and the circular issued by the Company to the shareholders on May 11, 2011. The continuing connected transactions under the NEC Mobiling Agreement ceased subsequently in June 2013 following NEC’s disposal of the shares in NEC Mobiling, Ltd..

Upon the Closing Date, JVCo became an indirect non wholly-owned subsidiary of the Company. As NEC is a substantial shareholder of the JVCo and therefore, a connected person of the Company, the transactions contemplated under the CCT Agreements constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The CCT Agreements were approved by the independent shareholders at an extraordinary general meeting of the Company on May 27, 2011 and are subject to reporting requirements under the Listing Rules.

On January 20, 2014, it was proposed to revise the annual cap on the transaction amount of transactions contemplated under the Supply Agreement and the NEC Patent License Agreement, both of which form part of the CCT Agreements, for the three financial years ending March 31, 2014, 2015 and 2016 and for the period from April 1, 2016 and ending on July 1, 2016 (the “Revised Annual Caps”) given the continued business growth and improving market conditions. Details of the Revised Annual Caps are set out in the announcement dated January 20, 2014 and the circular issued by the Company to the shareholders on February 24, 2014. The Revised Annual Caps were approved by independent shareholders at an extraordinary general meeting of the Company on March 18, 2014 and are subject to reporting requirements under the Listing Rules.

On October 7, 2014, the relevant parties entered into various amendment agreements to the Business Combination Agreement, the relevant shareholders’ agreement and certain agreements governing the existing continuing connected transactions to reflect the extension of the term of the joint venture beyond 5 years. Details are set out in the announcement dated October 7, 2014.

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS *(continued)*

(i) Continuing connected transactions with NEC and its associates *(continued)*

Details of the CCT Agreements are set out below:

Supply Agreement

Date:	February 28, 2011
Parties:	NEC and NEC Embedded Products, Ltd. ("NECP") (formerly known as NEC Personal Products, Ltd.), a wholly owned subsidiary of NEC (whose rights and obligations were transferred to NEC Personal Computers, Ltd. ("NECPCL"), a member of the JVCo Group, on and following the Closing Date)
Services provided/received:	The supply of certain "NEC" branded personal computer products to NEC.
Term:	For a period of five years commencing from the Closing Date or until the date on which NEC no longer holds any shares in JVCo, whichever the earlier.
Annual cap ^(Note 1) :	1/7/2011 – 31/3/2012: JPY65,018 million (US\$786,717,800) 1/4/2012 – 31/3/2013: JPY88,132 million (US\$1,066,397,200)
Revised annual cap ^(Note 2) :	1/4/2013 – 31/3/2014: JPY140,000 million (US\$1,372,000,000) 1/4/2014 – 31/3/2015: JPY140,000 million (US\$1,372,000,000) 1/4/2015 – 31/3/2016: JPY140,000 million (US\$1,372,000,000) 1/4/2016 – 1/7/2016: JPY35,000 million (US\$343,000,000)

Transitional Services Agreement

Date:	May 30, 2011
Parties:	The Company and NEC
Services provided/received:	Services to be provided by NEC Group to JVCo Group and vice versa including business infrastructure related services, development & production services, sales related services, maintenance & support services, real estate services and information technology services.
Term:	For a period of five years commencing from the Closing Date or until the mutual agreement of the parties to early terminate the agreement, whichever the earlier.
Annual cap ^(Note 1) :	Annual fees for services provided to JVCo Group by NEC Group (payable to NEC): 1/7/2011 – 31/3/2012: JPY23,793 million (US\$287,895,300) 1/4/2012 – 31/3/2013: JPY32,351 million (US\$391,447,100) 1/4/2013 – 31/3/2014: JPY32,791 million (US\$396,771,100) 1/4/2014 – 31/3/2015: JPY33,220 million (US\$401,962,000) 1/4/2015 – 31/3/2016: JPY33,660 million (US\$407,286,000) 1/4/2016 – 1/7/2016: JPY8,415 million (US\$101,821,500) Annual fees for services provided to NEC Group by the JVCo Group (payable from NEC): 1/7/2011 – 31/3/2012: JPY7,070 million (US\$85,547,000) 1/4/2012 – 31/3/2013: JPY9,504 million (US\$114,998,400) 1/4/2013 – 31/3/2014: JPY9,592 million (US\$116,063,200) 1/4/2014 – 31/3/2015: JPY9,691 million (US\$117,261,100) 1/4/2015 – 31/3/2016: JPY9,790 million (US\$118,459,000) 1/4/2016 – 1/7/2016: JPY2,448 million (US\$29,620,800)

CONTINUING CONNECTED TRANSACTIONS *(continued)*

(i) Continuing connected transactions with NEC and its associates *(continued)*

NEC Fielding Agreement

Date:	January 15, 2004
Parties:	NEC Fielding Ltd., a subsidiary of NEC, and NECP (whose rights and obligations were transferred to NECPC, a member of the JVCo Group, on and following the Closing Date)
Services provided/received:	NEC Fielding Ltd. agreed to provide maintenance and other ancillary services for certain equipments sold by the JVCo Group following the Closing Date.
Term:	The initial term ended on March 31, 2004 and is automatically renewed for additional one-year term unless either party gives prior termination notice.
Annual cap ^(Note 1) :	1/7/2011 – 31/3/2012: JPY2,665 million (US\$32,246,500) 1/4/2012 – 31/3/2013: JPY3,553 million (US\$42,991,300) 1/4/2013 – 31/3/2014: JPY3,553 million (US\$42,991,300) 1/4/2014 – 31/3/2015: JPY3,553 million (US\$42,991,300) 1/4/2015 – 31/3/2016: JPY3,553 million (US\$42,991,300) 1/4/2016 – 1/7/2016: JPY888 million (US\$10,744,800)

NESIC Agreement

Date:	August 18, 2003
Parties:	NEC Networks & System Integration Corporation (“NESIC”), an associate of NEC, and NECP (whose rights and obligations were transferred to NECPC, a member of the JVCo Group, on and following the Closing Date)
Services provided/received:	NESIC agreed to provide NECPC with operation and maintenance services for intranet and other internal communication systems of NECPC following the Closing Date.
Term:	The term ended on March 31, 2004 and is automatically renewed for additional one-year terms unless either party gives prior termination notice.
Annual cap ^(Note 1) :	1/7/2011 – 31/3/2012: JPY58 million (US\$701,800) 1/4/2012 – 31/3/2013: JPY77 million (US\$931,700) 1/4/2013 – 31/3/2014: JPY77 million (US\$931,700) 1/4/2014 – 31/3/2015: JPY77 million (US\$931,700) 1/4/2015 – 31/3/2016: JPY77 million (US\$931,700) 1/4/2016 – 1/7/2016: JPY19 million (US\$229,900)

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS *(continued)*

(i) Continuing connected transactions with NEC and its associates *(continued)*

NEC Patent Licence Agreement

Date:	The Closing Date
Parties:	NEC and NECPC (a member of the JVCo Group on and following the Closing Date)
Services provided/received:	NEC agreed to grant a licence of certain patents used in connection with the operation of NEC's personal computer business in Japan to NECPC at a royalty of 0.03% of gross sales of certain products and/or services of NEC's personal computer business in Japan bearing the "NEC".
Term:	For a period of five years commencing from Closing Date expiring upon the earlier of (i) the fifth anniversary of the Closing Date, and (ii) expiration of the last to expire of the patents licensed under the NEC Patent License Agreement. The NEC Patent License Agreement will automatically renew for a further period not terminating after the expiration of the last to expire of the patents licensed under the NEC Patent License Agreement.
Annual cap ^(Note 1) :	1/7/2011 – 31/3/2012: JPY50 million (US\$605,000) 1/4/2012 – 31/3/2013: JPY66 million (US\$798,600)
Revised annual cap ^(Note 2) :	1/4/2013 – 31/3/2014: JPY79 million (US\$774,200) 1/4/2014 – 31/3/2015: JPY79 million (US\$774,200) 1/4/2015 – 31/3/2016: JPY79 million (US\$774,200) 1/4/2016 – 1/7/2016: JPY20 million (US\$196,000)

NEC Newco Brand Licence Agreement

Date:	The Closing Date
Parties:	NEC and NECPC (a member of the JVCo Group on and following the Closing Date)
Services provided/received:	NEC agreed to grant NECPC a licence to use certain rights in connection with the letters and the mark "NEC" at royalty payable to NEC by NECPC.
Revised Term:	Commence on the Closing Date to June 30, 2018 and shall automatically extend for an additional term of one year to a date no later than June 30, 2026 pursuant to the amendment agreement dated October 7, 2014.
Annual cap ^(Note 1) :	1/7/2011 – 31/3/2012: JPY512 million (US\$6,195,200) 1/4/2012 – 31/3/2013: JPY682 million (US\$8,252,200) 1/4/2013 – 31/3/2014: JPY682 million (US\$8,252,200) 1/4/2014 – 31/3/2015: JPY682 million (US\$8,252,200) 1/4/2015 – 31/3/2016: JPY682 million (US\$8,252,200) 1/4/2016 – 1/7/2016: JPY170 million (US\$2,057,000)

Pursuant to the relevant rules in Chapter 14A of the Listing Rules, since JVCo has satisfied the exception as an "insignificant subsidiary" (i.e. the total assets, profits and revenue of JVCo accounted for less than 5% under the percentage ratios of that of the Group for the financial year ended March 31, 2016) of the Company under Rule 14A.09 of the Listing Rules, NEC, a substantial shareholder of JVCo, has no longer been the connected person of the Company since April 1, 2016. The Company will comply with the reporting, annual review and announcements requirements under Chapter 14A of the Listing Rules when JVCo ceases to be an "insignificant subsidiary" of the Company.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

(ii) Continuing connected transactions with Compal Electronics, Inc. and its associates

In 2012, the Company and Compal Electronics, Inc. ("Compal", together with its affiliates the "Compal Group") set up a joint venture company, LC Future Center Limited ("LCFC") which is owned as to 51% by the Company and 49% by Compal. Compal is therefore a connected person of the Company at subsidiary level. Before Compal became a connected person of the Company, the Group and Compal Group had entered into certain master agreements in relation to (i) the supply of components from the Group to the Compal Group; and (ii) the purchase of products and services from the Compal Group by the Group. These transactions have been conducted on a continuing and recurring basis.

LCFC has been a subsidiary of the Company since incorporation and the Company had relied on the insignificant subsidiary exemption set out in Chapter 14A of the Listing Rules in respect of the transactions conducted under certain agreements (the "Existing CCT Agreements", as defined in the announcement dated May 22, 2015). However, based on the financial statements of the Company for the financial year ended March 31, 2015, the assets and revenue of LCFC accounted for more than 10% of those of the Company, and thus the Company is no longer able to rely on the insignificant subsidiary exception set out in rule 14A.09(1) of the Listing Rules. Accordingly, the Existing CCT Agreements and the transactions contemplated thereunder constitute continuing connected transactions of the Company under the Listing Rules and are subject to annual review and reporting requirements.

Details of the Existing CCT Agreements are set out below:

OEM Components Purchase Agreement

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

DIRECTORS' REPORT

CONTINUING CONNECTED TRANSACTIONS *(continued)*

(ii) Continuing connected transactions with Compal Electronics, Inc. and its associates *(continued)*

System Purchase Agreement

Date:	January 19, 2006
Parties:	Lenovo (Singapore) Pte. Ltd. (assigned to Lenovo PC HK Limited pursuant to an assignment and novation agreement) and Compal
Services provided/received:	<p>The Compal Group shall supply to the Group:</p> <ul style="list-style-type: none">(i) certain products, including but not limited to, (a) computer system units and the associated documentation, packaging, software packages; (b) any component when separately purchased from the system unit; (c) other materials, such as hard drives, memory cards and modems; and (d) other related computer and mobile products; and(ii) certain services, including but not limited to, activities, tasks and work items related to the manufacture and support of the products.
Annual cap:	<ul style="list-style-type: none">(i) 22/5/2015 – 31/3/2016 The estimated value of the transactions will not exceed US\$16,000 million in aggregate under the Existing CCT Agreements or will not exceed US\$8,000 million under System Purchase Agreement(ii) 1/4/2016 – 31/3/2017 The estimated value of the transactions will not exceed US\$16,000 million in aggregate under the Existing CCT Agreements or will not exceed US\$8,000 million under System Purchase Agreement

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

Full details of the above continuing connected transactions are set out in the respective announcements and/or circulars, and are available in the websites of Hong Kong S.A.R. of China Exchanges and Clearing Limited and the Company.

Details of significant related party transactions are set out in note 31 to the financial statements.

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

- (i) in the ordinary and usual course of business of the Group;
- (ii) on normal commercial terms or better; and
- (iii) according to the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole.

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

Note 1: The translation of Japanese yen into United States dollars is based on the exchange rate of JPY1.00 to US\$0.0121 for information purposes only.

Note 2: The translation of Japanese yen into United States dollars is based on the exchange rate of JPY1.00 to US\$0.0098 for information purposes only.

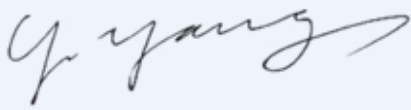
AUDITOR

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

PUBLIC FLOAT

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

On behalf of the Board



Yang Yuanqing

Chairman and Chief Executive Officer

May 26, 2016

INDEPENDENT AUDITOR'S REPORT

Independent Auditor's Report

To the Members of Lenovo Group Limited

(incorporated in Hong Kong S.A.R. of China with limited liability)

We have audited the consolidated financial statements of Lenovo Group Limited (the "Company") and its subsidiaries set out on pages 159 to 242, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong S.A.R. of China Financial Reporting Standards issued by the Hong Kong S.A.R. of China Institute of Certified Public Accountants, and the Hong Kong S.A.R. of China Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong S.A.R. of China Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong S.A.R. of China Standards on Auditing issued by the Hong Kong S.A.R. of China Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at March 31, 2016, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong S.A.R. of China Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong S.A.R. of China Companies Ordinance.



PricewaterhouseCoopers
Certified Public Accountants

Hong Kong S.A.R. of China, May 26, 2016

CONSOLIDATED INCOME STATEMENT

For the year ended March 31, 2016

	Note	2016 US\$'000	2015 US\$'000
Revenue	5	44,912,097	46,295,593
Cost of sales		(38,288,160)	(39,613,780)
Gross profit		6,623,937	6,681,813
Other income – net	6	2,185	1,490
Selling and distribution expenses		(2,372,833)	(2,302,182)
Administrative expenses		(2,108,747)	(1,883,114)
Research and development expenses		(1,491,370)	(1,220,919)
Other operating expenses – net		(714,993)	(168,574)
Operating (loss)/profit	7	(61,821)	1,108,514
Finance income	8(a)	32,816	30,902
Finance costs	8(b)	(236,751)	(185,504)
Share of (losses)/profits of associates and joint ventures	18	(11,095)	17,055
(Loss)/profit before taxation		(276,851)	970,967
Taxation	9	132,276	(134,364)
(Loss)/profit for the year		(144,575)	836,603
(Loss)/profit attributable to:			
Equity holders of the Company		(128,146)	828,715
Non-controlling interests		(16,429)	7,888
		(144,575)	836,603
(Loss)/earnings per share attributable to equity holders of the Company			
Basic	12(a)	US(1.16) cents	US7.77 cents
Diluted	12(b)	US(1.16) cents	US7.69 cents
Dividends	13	379,316	379,646

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31, 2016

	Note	2016 US\$'000	2015 US\$'000
(Loss)/profit for the year		(144,575)	836,603
Other comprehensive (loss)/income:			
<u>Item that will not be reclassified to profit or loss</u>			
Remeasurements of post-employment benefit obligations, net of taxes	9, 35	(24,662)	(68,973)
<u>Items that have been reclassified or may be subsequently reclassified to profit or loss</u>			
Fair value change on available-for-sale financial assets, net of taxes	9, 21	216	7,326
Investment revaluation reserve reclassified to consolidated income statement on disposal of available-for-sale financial assets	9	154	-
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes	9		
- Fair value (loss)/gain, net of taxes		(120,839)	421,138
- Reclassified to consolidated income statement		(85,571)	(299,847)
Currency translation differences		(307,081)	(598,733)
		(537,783)	(539,089)
Total comprehensive (loss)/income for the year		(682,358)	297,514
Total comprehensive (loss)/income attributable to:			
Equity holders of the Company		(665,929)	289,626
Non-controlling interests		(16,429)	7,888
		(682,358)	297,514

CONSOLIDATED BALANCE SHEET

At March 31, 2016

	Note	2016 US\$'000	2015 US\$'000
Non-current assets			
Property, plant and equipment	14	1,391,494	1,443,313
Prepaid lease payments	15	337,929	225,111
Construction-in-progress	16	231,110	311,590
Intangible assets	17	8,661,087	9,225,743
Interests in associates and joint ventures	18	40,439	45,719
Deferred income tax assets	20	1,000,572	526,801
Available-for-sale financial assets	21	139,572	73,400
Other non-current assets		164,410	37,675
		11,966,613	11,889,352
Current assets			
Inventories	22	2,637,317	2,954,425
Trade receivables	23(a)	4,403,507	5,217,740
Notes receivable	23(b)	130,718	334,738
Derivative financial assets		27,021	184,534
Deposits, prepayments and other receivables	23(c)	3,548,760	3,652,502
Income tax recoverable		140,237	136,857
Bank deposits	24	152,336	171,139
Cash and cash equivalents	24	1,926,880	2,855,223
		12,966,776	15,507,158
Total assets		24,933,389	27,396,510

CONSOLIDATED BALANCE SHEET

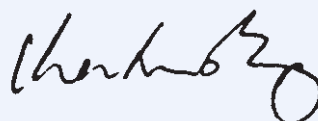
At March 31, 2016

	Note	2016 US\$'000	2015 US\$'000
Share capital	29	2,689,882	2,689,882
Reserves		310,318	1,393,761
Equity attributable to owners of the Company		3,000,200	4,083,643
Non-controlling interests		238,949	235,378
Put option written on non-controlling interest	28(iii)	(212,900)	(212,900)
Total equity		3,026,249	4,106,121
Non-current liabilities			
Borrowings	27	2,505,112	1,885,848
Warranty provision	26(b)	290,857	338,700
Deferred revenue		532,780	550,205
Retirement benefit obligations	35	442,874	410,118
Deferred income tax liabilities	20	222,679	249,823
Other non-current liabilities	28	2,152,578	2,407,303
		6,146,880	5,841,997
Current liabilities			
Trade payables	25(a)	4,266,687	4,664,065
Notes payable	25(b)	234,661	171,049
Derivative financial liabilities		150,864	80,897
Other payables and accruals	26(a)	8,305,844	9,278,052
Provisions	26(b)	1,157,257	1,223,488
Deferred revenue		710,164	693,406
Income tax payable		188,968	169,161
Borrowings	27	745,815	1,168,274
		15,760,260	17,448,392
Total liabilities		21,907,140	23,290,389
Total equity and liabilities		24,933,389	27,396,510

On behalf of the Board



Yang Yuanqing
Chairman and Chief Executive Officer



Ma Xuezheng
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended March 31, 2016

	Note	2016 US\$'000	2015 US\$'000
Cash flows from operating activities			
Net cash generated from operations	34	841,292	669,020
Interest paid		(194,841)	(133,547)
Tax paid		(354,190)	(296,981)
Net cash generated from operating activities		292,261	238,492
Cash flows from investing activities			
Purchase of property, plant and equipment		(203,231)	(258,599)
Purchase of prepaid lease payments		(176,101)	(69,903)
Sale of property, plant and equipment and prepaid lease payments		91,723	9,181
Acquisition of businesses, net of cash acquired		-	(2,325,726)
Interests acquired in associates and a joint venture		(5,815)	(7,911)
Payment for construction-in-progress		(400,585)	(347,506)
Payment for intangible assets		(147,447)	(296,689)
Purchase of available-for-sale financial assets		(69,255)	(32,596)
Net proceeds from disposal of available-for-sale financial assets		4,915	-
Decrease in bank deposits		18,803	16,645
Dividends received		532	305
Interest received		32,816	30,902
Net cash used in investing activities		(853,645)	(3,281,897)
Cash flows from financing activities			
Exercise of share options		-	385
Contribution to employee share trusts		(171,317)	(129,365)
Dividends paid		(379,367)	(326,930)
Capital contribution from non-controlling interests		20,000	-
Proceeds from borrowings		1,480,075	1,803,420
Repayments of borrowings		(1,895,416)	(693,880)
Issue of long term notes		640,895	1,488,980
Net cash (used in)/generated from financing activities		(305,130)	2,142,610
Decrease in cash and cash equivalents		(866,514)	(900,795)
Effect of foreign exchange rate changes		(61,829)	(102,126)
Cash and cash equivalents at the beginning of the year		2,855,223	3,858,144
Cash and cash equivalents at the end of the year	24	1,926,880	2,855,223

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2016

	Attributable to equity holders of the Company									Put option written on non- controlling interest	Total US\$'000
	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	Non- controlling interests US\$'000		
At April 1, 2014	1,650,101	(6,734)	(49,003)	(23,622)	(3,209)	(235,381)	71,880	1,606,098	227,490	(212,900)	3,024,720
Profit for the year	-	-	-	-	-	-	-	828,715	7,888	-	836,603
Other comprehensive income/(loss)	-	7,326	-	-	121,291	(598,733)	-	(68,973)	-	-	(539,089)
Total comprehensive income/(loss) for the year	-	7,326	-	-	121,291	(598,733)	-	759,742	7,888	-	297,514
Acquisition of businesses	-	-	-	121,252	-	-	-	-	-	-	121,252
Transfer to statutory reserve	-	-	-	-	-	-	3,832	(3,832)	-	-	-
Issue of ordinary shares	1,039,396	-	-	-	-	-	-	-	-	-	1,039,396
Exercise of share options	385	-	-	-	-	-	-	-	-	-	385
Vesting of shares under long-term incentive program	-	-	166,927	(237,448)	-	-	-	-	-	-	(70,521)
Deferred tax credit in relation to long-term incentive program	-	-	-	9,693	-	-	-	-	-	-	9,693
Share-based compensation	-	-	-	139,977	-	-	-	-	-	-	139,977
Contribution to employee share trusts	-	-	(129,365)	-	-	-	-	-	-	-	(129,365)
Dividends paid	-	-	-	-	-	-	-	(326,930)	-	-	(326,930)
At March 31, 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
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 non-controlling interests	-	-	-	-	-	-	-	-	20,000	-	20,000
Dividends paid	-	-	-	-	-	-	-	(379,367)	-	-	(379,367)
At March 31, 2016	2,689,882	962	(52,897)	13,161	(88,328)	(1,141,195)	83,363	1,495,252	238,949	(212,900)	3,026,249

NOTES 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 S.A.R. of China. The address of its registered office is 23rd Floor, Lincoln House, Taikoo Place, 979 King’s Road, Quarry Bay, Hong Kong S.A.R. of China. The Company has its primary listing on The Stock Exchange of Hong Kong S.A.R. of China Limited.

The financial statements have been prepared in accordance with all applicable Hong Kong S.A.R. of China 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.

Upon completion of fair value assessments for the net assets acquired from the business combination activities in FY2014/15, the comparative consolidated balance sheet as at March 31, 2015 has been retrospectively reclassified to reflect the final allocation of fair values of the net assets acquired in FY2014/15 (Note 36).

Changes in accounting policies and disclosures

The Group has adopted the following new amendment to existing standard that is mandatory for the year ended March 31, 2016 which the Group considers is appropriate and relevant to its operations:

- Amendments to HKAS 19 (2011), Employee benefits

The adoption of this newly effective amendment to existing standard 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, 2016 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 1, Disclosure initiative	January 1, 2016
Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortization	January 1, 2016
Amendments to HKAS 27, Equity method in separate financial statements	January 1, 2016
Amendments to HKFRS 10, HKFRS 12 and HKAS 28, Investment entities: applying the consolidation exception	January 1, 2016
Amendments to HKFRS 11, Accounting for acquisitions of interests in joint operations	January 1, 2016
Amendments to HKFRS 10 and HKAS 28, Sale or contribution of assets between an investor and its associate or joint venture	Date to be determined

The Group is in the process of making an assessment of the impact of these new standards and amendments to existing standards upon initial application.

NOTES TO THE 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, 2015 and 2016 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Subsidiaries *(continued)*

(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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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, 2015 and 2016 have been used for the preparation of the Group's consolidated financial statements.

Joint operation

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

(c) Segment reporting

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Translation of foreign currencies

- (i) Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements of the Company and of the Group are presented in United States dollars, which is the Company's functional and the Group's presentation currency.
- (ii) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 S.A.R. of China 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

Trademarks and trade names that have a definite useful life are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of trademarks and trade names over their estimated useful lives of up to 8 years.

(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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Intangible assets *(continued)*

(iv) Internal use software *(continued)*

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

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

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

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

(v) Patents and technology

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

(h) Impairment of non-financial assets

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

(i) Financial assets

Classification

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

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

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

(ii) Loans and receivables

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

(iii) Available-for-sale financial assets

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Financial assets *(continued)*

Recognition and measurement

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

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

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

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

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

Offsetting financial instruments

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

(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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of financial assets *(continued)*

(i) **Assets carried at amortized cost** *(continued)*

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Derivative financial instruments and hedging activities *(continued)*

(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 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 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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

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 recognised 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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, recognised 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Employee benefits *(continued)*

(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 recognises 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 recognises 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 expenses – net" in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are included in other non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(z) Operating leases (as the lessee)

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

Interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated balance sheet and is amortised over the lease terms on a straight line basis, ranging from 10 to 50 years for the Group.

(aa) Related party transactions

A related party transaction is a transfer of resources, services or obligations between the Group and a related party of the Group, regardless of whether a price is charged.

(i) A person, or a close member of that person's family, is related to the Group if that person:

- has control or joint control over the Group;
- has significant influence over the Group; or
- is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

- The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third party.
- The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- The entity is controlled or jointly controlled by a person identified in (i) above.
- A person, or a close member of that person's family, who has control or joint control over the Group, has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(ab) Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders in case of final dividend and by the Company's directors in case of interim dividend.

NOTES TO THE FINANCIAL STATEMENTS

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 S.A.R. of China 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.

	2016			2015		
	United States dollar US\$'000	Renminbi US\$'000	Euro US\$'000	United States dollar US\$'000	Renminbi US\$'000	Euro US\$'000
Trade and other receivables	119,441	8,883	73,750	262,319	14	167,002
Bank deposits and cash and cash equivalents	62,056	43,591	85,161	112,198	38,411	10,286
Trade and other payables	(482,730)	(14,556)	(13,165)	(1,224,378)	(22,997)	(14,541)
Borrowings	-	(616,855)	-	-	-	-
Intercompany balances before elimination	(1,911,174)	331,844	(402,243)	(1,683,160)	388,212	(172,687)
Gross exposure	(2,212,407)	(247,093)	(256,497)	(2,533,021)	403,640	(9,940)
Notional amounts of forward exchange contracts used as economic hedges	1,910,648	-	430,473	2,775,878	-	128,162
Net exposure	(301,759)	(247,093)	173,976	242,857	403,640	118,222

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(ii) Cash flow interest rate risk

The Group's interest rate risk mainly arises from short-term and long-term borrowings denominated in United States dollar. It is the Group's policy to mitigate interest rate risk through the use of appropriate interest rate hedging instruments. Generally, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts.

The Group operates various customer financing programs. The Group is exposed to fluctuation of interest rates of all the currencies covered by those programs.

(iii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and other financial institutions, the Group controls its credit risk through monitoring their credit rating and setting approved counterparty credit limits that are regularly reviewed.

The Group has no significant concentration of customer credit risk. The Group has a credit policy in place and exposures to these credit risks are monitored on an ongoing basis.

No credit limits were exceeded by any customers during the reporting period, and management does not expect any significant losses from non-performance by these counterparties.

(iv) Liquidity risk

Cash flow forecasting of the Group is performed by Group Treasury. It monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 27) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements, for example, currency restrictions.

Surplus cash held by the operating entities over and above balances required for working capital management are transferred to Group Treasury. Group Treasury invests surplus cash in interest bearing current accounts, time deposits, money market deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient headroom as determined by the above-mentioned forecasts. At the balance sheet date, the Group held money market funds of US\$153,159,000 (2015: US\$744,233,000) (Note 24).

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(iv) Liquidity risk *(continued)*

The tables below analyze the Group's non-derivative financial liabilities and derivative financial liabilities into relevant maturity groupings based on the remaining periods at the balance sheet date to the contractual maturity dates. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the tables are the contractual undiscounted cash outflows/(inflows).

	Repayable on demand or 3 months or less US\$'000	Over 3 months to 1 year US\$'000	Over 1 to 3 years US\$'000	Over 3 to 5 years US\$'000	Total US\$'000
At March 31, 2016					
Borrowings	748,387	102,167	624,832	2,189,978	3,665,364
Trade, notes and other payables and accruals	9,594,463	1,043,320	-	-	10,637,783
Contingent considerations	260,590	-	-	-	260,590
Deferred considerations	-	-	1,447,890	-	1,447,890
Guaranteed dividend to non-controlling shareholders of a subsidiary	-	4,743	8,261	-	13,004
Written put option liability	-	-	224,790	-	224,790
Others	-	-	177,576	103,900	281,476
Derivatives settled in net:					
Forward foreign exchange contracts	22,609	-	-	-	22,609
Derivatives settled in gross:					
Forward foreign exchange contracts					
- outflow	5,204,197	527,554	-	-	5,731,751
- inflow	(5,124,000)	(513,602)	-	-	(5,637,602)
At March 31, 2015					
Borrowings	1,055,770	121,384	-	1,900,000	3,077,154
Trade, notes and other payables and accruals	10,297,382	3,899,707	-	-	14,197,089
Contingent considerations	-	43,251	275,000	-	318,251
Deferred considerations	-	-	1,502,172	-	1,502,172
Guaranteed dividend to non-controlling shareholders of a subsidiary	-	5,318	9,749	-	15,067
Written put option liability	-	-	224,790	-	224,790
Others	-	-	133,400	109,106	242,506
Derivatives settled in net:					
Forward foreign exchange contracts	1,297	-	-	-	1,297
Derivatives settled in gross:					
Forward foreign exchange contracts					
- outflow	6,117,803	1,006,623	-	-	7,124,426
- inflow	(7,112,439)	(1,024,005)	-	-	(8,136,444)

3 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Market risks sensitivity analysis

HKFRS 7 “Financial instruments: Disclosures” requires the disclosure of a sensitivity analysis for market risks that show the effects of a hypothetical change in the relevant market risk variable to which the Group is exposed to at the balance sheet date on profit or loss and total equity.

The sensitivity analysis for each type of market risks does not reflect inter-dependencies between risk variables. The sensitivity analysis assumes that a hypothetical change of the relevant risk variable had occurred at the balance sheet date and had been applied to the relevant risk variable in existence on that date. The bases and assumptions adopted in the preparation of the analyses will by definition, seldom equal to the related actual results.

The disclosure of the sensitivity analysis on market risks is solely for compliance with HKFRS 7 disclosure requirements in respect of financial instruments, and are for illustration purposes only; and it should be noted that the hypothetical amounts so generated do not represent a projection of likely future events and profits or losses of the Group.

(i) Foreign currency exchange rate sensitivity analysis

At March 31, 2016, if United States dollar had weakened/strengthened by one percent against the major currencies with all other variables held constant, post-tax loss for the year would have been US\$2.2 million lower/higher (2015: post-tax profit for the year would have been US\$2.7 million higher/lower), 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, 2016, if interest rate on borrowings had been 25 basis points higher/lower with all other variables held constant, post-tax loss for the year would have been US\$3.2 million higher/lower (2015: post tax profit for the year would have been US\$1.5 million lower/higher).

At March 31, 2016, if interest rates on customer financing programs had been 25 basis points higher/lower with all other variables held constant, post-tax loss for the year would have been US\$3.7 million higher/lower (2015: post tax profit for the year would have been US\$2.8 million lower/higher). 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.

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

(c) Capital risks management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of gearing ratio. This ratio is calculated as total borrowings (including current and non-current borrowings) divided by total equity. The Group's strategy remains unchanged and the gearing ratios and net debt position of the Group as at March 31, 2016 and 2015 are as follows:

	2016 US\$ million	2015 US\$ million
Bank deposits and cash and cash equivalents	2,079	3,026
Less: total borrowings	(3,251)	(3,054)
Net debt position	(1,172)	(28)
Total equity	3,026	4,106
Gearing ratio	1.07	0.74

(d) Fair value estimation

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Fair value estimation *(continued)*

The following table presents the assets and liabilities that are measured at fair value at March 31, 2016 and 2015.

	2016				2015			
	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total US\$'000
Assets								
Available-for-sale financial assets								
Listed equity investments	39,294	-	-	39,294	39,292	-	-	39,292
Unlisted equity investments	-	-	100,278	100,278	-	-	34,108	34,108
Derivative financial assets	-	27,021	-	27,021	-	184,534	-	184,534
	39,294	27,021	100,278	166,593	39,292	184,534	34,108	257,934
Liabilities								
Derivative financial liabilities	-	150,864	-	150,864	-	80,897	-	80,897
Contingent considerations	-	-	260,590	260,590	-	-	312,083	312,083
Written put option liability	-	-	221,499	221,499	-	-	219,317	219,317
	-	150,864	482,089	632,953	-	80,897	531,400	612,297

NOTES TO THE FINANCIAL STATEMENTS

3 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Fair value estimation *(continued)*

There were no significant transfers of financial assets between Level 1 and Level 2 fair value hierarchy classification during the years ended March 31, 2016 and 2015.

The movements in the financial assets and liabilities included in Level 3 fair value hierarchy for the years ended March 31, 2016 and 2015 are as follows:

Available-for-sale financial assets

	2016 US\$'000	2015 US\$'000
At the beginning of the year	34,108	24,702
Exchange adjustment	22	(459)
Additions	69,255	9,865
Disposal	(3,107)	–
At the end of the year	100,278	34,108

Contingent considerations and written put option liability

	2016 US\$'000	2015 US\$'000
At the beginning of the year	531,400	524,340
Exchange adjustment	6	(8)
Settlement	(56,442)	–
Recognized in consolidated income statement	7,125	7,068
At the end of the year	482,089	531,400
Total losses for the year included in profit or loss under "finance costs"	7,131	7,060
Changes in unrealised losses for the year included in profit or loss	7,131	7,060

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 contingent considerations and written put option liability is disclosed in Note 28.

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.

NOTES TO THE FINANCIAL STATEMENTS

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(g) Fair value of contingent considerations and written put option liabilities

Certain of the Group's business combination activities involved post-acquisition performance-based contingent considerations. The Group recognizes contingent considerations and the corresponding written put option liabilities at their fair values which are determined in accordance with the terms under those relevant agreements and with reference to the estimated post-acquisition performance of the acquired subsidiaries/businesses. Judgment is required to determine key assumptions (such as growth rate, margins and discount rate) adopted in the estimation of post-acquisition performance of the acquired subsidiaries/businesses. Changes to key assumptions can significantly affect the amounts of future liabilities. Contingent considerations shall be re-measured at their fair value resulting from events or factors emerge after the acquisition date, with any resulting gain or loss recognized in the consolidated income statement.

(h) Fair value of identifiable assets and liabilities acquired through business combinations

The Group applies the acquisition method to account for business combinations, which requires the Group to record assets acquired and liabilities assumed at their fair values on the date of acquisition. Significant judgment is used to estimate the fair values of the assets and liabilities acquired, including estimating future cash flows from the acquired business, determining appropriate discount rates, asset lives and other assumptions.

5 SEGMENT INFORMATION

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

The LEC considers business from a geographical perspective. The Group has four geographical segments, China, Asia Pacific ("AP"), Europe-Middle East-Africa ("EMEA") and Americas ("AG"), which are also the Group's reportable operating segments.

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

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

NOTES TO THE FINANCIAL STATEMENTS

5 SEGMENT INFORMATION *(continued)*

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

	2016		2015	
	Revenue from external customers US\$'000	Adjusted pre-tax income/(loss) US\$'000	Revenue from external customers US\$'000	Adjusted pre-tax income US\$'000
China	12,358,639	563,245	14,700,270	794,795
AP	7,154,662	88,516	6,549,339	302,183
EMEA	11,794,698	125,710	12,803,357	410,858
AG	13,604,098	(120,748)	12,242,627	7,999
Segment total	44,912,097	656,723	46,295,593	1,515,835
Unallocated:				
Headquarters and corporate expenses		(167,760)		(449,142)
Restructuring costs		(596,195)		-
Finance income		28,114		14,825
Finance costs		(188,823)		(129,096)
Net gain on disposal of available-for-sale financial assets		1,653		1,185
Dividend income from an available-for-sale financial asset		532		305
Share of (losses)/profits of associates and joint ventures		(11,095)		17,055
Consolidated (loss)/profit before taxation		(276,851)		970,967

5 SEGMENT INFORMATION *(continued)*

(b) Segment assets for reportable segments

	2016 US\$'000	2015 US\$'000
China	7,064,692	6,171,640
AP	3,229,634	2,174,578
EMEA	3,445,913	2,801,788
AG	6,535,732	5,079,629
Segment assets for reportable segments	20,275,971	16,227,635
Unallocated:		
Deferred income tax assets	1,000,572	526,801
Derivative financial assets	27,021	184,534
Available-for-sale financial assets	139,572	73,400
Interests in associates and joint ventures	40,439	45,719
Unallocated bank deposits and cash and cash equivalents	898,577	1,259,658
Unallocated inventories	755,799	1,131,779
Unallocated deposits, prepayments and other receivables	1,355,219	1,508,524
Income tax recoverable	140,237	136,857
Intangible assets pending allocation	-	6,002,031
Other unallocated assets	299,982	299,572
Total assets per consolidated balance sheet	24,933,389	27,396,510

NOTES TO THE FINANCIAL STATEMENTS

5 SEGMENT INFORMATION *(continued)*

(c) Segment liabilities for reportable segments

	2016 US\$'000	2015 US\$'000
China	4,332,504	4,346,489
AP	1,924,875	1,707,546
EMEA	1,762,689	1,592,540
AG	3,559,616	5,161,715
Segment liabilities for reportable segments	11,579,684	12,808,290
Unallocated:		
Income tax payable	188,968	169,161
Deferred income tax liabilities	222,679	249,823
Derivative financial liabilities	150,864	80,897
Unallocated borrowings	3,198,749	2,924,352
Unallocated trade payables	2,506,235	2,631,917
Unallocated other payables and accruals	2,522,636	2,499,007
Unallocated provisions	174,534	11,655
Unallocated other non-current liabilities	1,293,625	1,806,831
Other unallocated liabilities	69,166	108,456
Total liabilities per consolidated balance sheet	21,907,140	23,290,389

(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:

	2016 US\$'000	2015 US\$'000
PC Business Group ("PCG")	29,646,265	33,346,120
Mobile Business Group ("MBG")	9,779,323	9,142,211
Enterprise Business Group ("EBG")	4,553,374	2,627,408
Others	933,135	1,179,854
	44,912,097	46,295,593

5 SEGMENT INFORMATION *(continued)*

(e) Other segment information

	Depreciation and amortization		Finance income		Finance costs		Additions to non-current assets (Note)	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
China	165,098	148,274	2,048	4,197	3,867	2,255	316,831	249,117
AP	139,091	86,248	311	3,254	10,593	9,457	21,127	35,840
EMEA	202,568	118,273	398	463	19,516	24,788	18,004	17,098
AG	233,844	155,948	1,945	8,163	13,952	19,908	152,615	61,681
Total	740,601	508,743	4,702	16,077	47,928	56,408	508,577	363,736

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\$3,872,467,000 (2015: US\$2,628,842,000) and US\$6,954,002,000 (2015: US\$8,660,309,000) respectively.

6 OTHER INCOME - NET

	2016 US\$'000	2015 US\$'000
Net gain on disposal of available-for-sale financial assets	1,653	1,185
Dividend income from an available-for-sale financial asset	532	305
	2,185	1,490

NOTES TO THE FINANCIAL STATEMENTS

7 OPERATING (LOSS)/PROFIT

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

	2016 US\$'000	2015 US\$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	266,100	208,363
Amortization of intangible assets	474,501	300,380
Employee benefit costs (Note 10)	3,749,425	3,524,219
Cost of inventories sold	36,212,787	37,067,180
Inventories write down	86,807	125,284
Inventories write off	173,424	-
Auditor's remuneration		
- Audit services (b)	7,201	9,002
- Non-audit services	5,340	1,937
Rental expenses under operating leases	99,417	113,264
Government grants (Note 28(iv))	(167,334)	(154,571)
Net foreign exchange loss	126,004	189,550
Net gain on foreign exchange forward contracts for cash flow hedges reclassified from equity	(85,571)	(299,847)
Loss on impairment and disposal of assets	310,201	-
Ineffectiveness on cash flow hedges	(6,348)	(9,279)

- (a) During the year, 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, have been recognized in "other operating expenses - net".
- (b) Of the above audit services fees, US\$6,999,000 (2015: US\$7,402,000) is payable to the Company's auditor.

8 FINANCE INCOME AND COSTS

(a) Finance income

	2016 US\$'000	2015 US\$'000
Interest on bank deposits	30,623	28,793
Interest on money market funds	2,184	2,092
Others	9	17
	32,816	30,902

(b) Finance costs

	2016 US\$'000	2015 US\$'000
Interest on bank loans and overdrafts	31,911	28,658
Interest on long term notes	100,950	64,925
Interest on promissory note	38,632	16,599
Factoring costs	49,469	54,075
Commitment fee	4,601	10,787
Interest on contingent considerations and put option liability	7,125	7,068
Others	4,063	3,392
	236,751	185,504

9 TAXATION

The amount of taxation in the consolidated income statement represents:

	2016 US\$'000	2015 US\$'000
Current tax		
– Hong Kong S.A.R. of China profits tax	(8,488)	26,041
– Taxation outside Hong Kong S.A.R. of China	379,220	193,810
Deferred tax (Note 20)	(503,008)	(85,487)
	(132,276)	134,364

Hong Kong S.A.R. of China profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year. Taxation outside Hong Kong S.A.R. of China 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.

NOTES TO THE FINANCIAL STATEMENTS

9 TAXATION (continued)

The differences between the Group's expected tax (credit)/charge, calculated at the domestic rates applicable to the countries concerned, and the Group's tax (credit)/charge for the year are as follows:

	2016 US\$'000	2015 US\$'000
(Loss)/profit before taxation	(276,851)	970,967
Tax calculated at domestic rates applicable in countries concerned	(134,125)	228,660
Income not subject to taxation	(208,556)	(393,290)
Expenses not deductible for taxation purposes	147,371	205,207
Utilization of previously unrecognized tax losses	(6,920)	(31,669)
Effect on opening deferred income tax assets due to change in tax rates	(19,230)	10,269
Deferred income tax assets not recognized	62,888	78,976
Under-provision in prior years	26,296	36,211
	(132,276)	134,364

The weighted average applicable tax rate for the year was 48.4% (2015: 23.5%). The increase is caused by changes in tax concessions and profitability of the Group's subsidiaries in respective countries they are operating.

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

	2016			2015		
	Before tax US\$'000	Tax credit US\$'000	After tax US\$'000	Before tax US\$'000	Tax (charge)/ credit US\$'000	After tax US\$'000
Fair value change on available-for-sale financial assets	216	-	216	7,326	-	7,326
Investment revaluation reserve reclassified to consolidated income statement on disposal of available-for-sale financial assets	154	-	154	-	-	-
Fair value change on cash flow hedges	(213,774)	7,364	(206,410)	125,856	(4,565)	121,291
Remeasurements of post-employment benefit obligations (Note 35)	(24,662)	-	(24,662)	(70,087)	1,114	(68,973)
Currency translation differences	(307,081)	-	(307,081)	(598,733)	-	(598,733)
Other comprehensive (loss)/income	(545,147)	7,364	(537,783)	(535,638)	(3,451)	(539,089)
Current tax		-			-	
Deferred tax (Note 20)		7,364			(3,451)	
		7,364			(3,451)	

10 EMPLOYEE BENEFIT COSTS

	2016 US\$'000	2015 US\$'000
Wages and salaries, including severance and related costs of US\$212,475,000 (2015: nil)	2,849,129	2,627,764
Social security costs	271,921	206,436
Long-term incentive awards granted (Note 29(a))	161,097	99,062
Pension costs		
– Defined contribution plans	162,418	158,236
– Defined benefit plans (Note 35)	19,081	22,630
Others	285,779	410,091
	3,749,425	3,524,219

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 35.

NOTES TO THE FINANCIAL STATEMENTS

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, 2016 and 2015 is set out below:

Name of Director	2016							
	Fees US\$'000	Salaries US\$'000	Discretionary bonuses (note i) US\$'000	Long-term incentive awards (note ii) US\$'000	Retirement payments and employer's contribution to pension schemes US\$'000	Housing allowance US\$'000	Other benefits- in-kind US\$'000	Total US\$'000
<i>Executive director</i>								
Mr. Yang Yuanqing (CEO)	-	1,369	7,783	13,037	137	299	19	22,644
<i>Non-executive directors</i>								
Mr. Zhu Linan	93	-	-	187	-	-	-	280
Mr. Zhao John Huan	93	-	-	187	-	-	-	280
Mr. Gordon Robert Halyburton Orr	50	-	-	22	-	-	-	72
<i>Independent non-executive directors</i>								
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

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

Name of Director	2015							
	Fees US\$'000	Salaries US\$'000	Discretionary bonuses (note i) US\$'000	Long-term incentive awards (note ii) US\$'000	Retirement payments and employer's contribution to pension schemes US\$'000	Housing allowance US\$'000	Other benefits- in-kind US\$'000	Total US\$'000
<i>Executive director</i>								
Mr. Yang Yuanqing (CEO)	-	1,338	5,740	11,921	134	286	22	19,441
<i>Non-executive directors</i>								
Mr. Zhu Linan	88	-	-	193	-	-	-	281
Mr. Zhao John Huan	88	-	-	190	-	-	-	278
<i>Independent non-executive directors</i>								
Mr. William O. Grabe	123	-	-	193	-	-	-	316
Mr. Ting Lee Sen	88	-	-	193	-	-	-	281
Dr. Tian Suning	88	-	-	193	-	-	-	281
Mr. Nicholas C. Allen	115	-	-	193	-	-	-	308
Ms. Ma Xuezheng	108	-	-	193	-	-	-	301
Mr. Nobuyuki Idei	88	-	-	191	-	-	-	279
Mr. William Tudor Brown	88	-	-	163	-	-	-	251
Mr. Yang Chih-Yuan Jerry	72	-	-	108	-	-	-	180
	946	1,338	5,740	13,731	134	286	22	22,197

Notes:

- (i) Discretionary bonuses paid for the two years ended March 31, 2016 and 2015 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2015 and 2014 respectively.
- (ii) Details of the long-term incentive program of the Company are set out in Note 29(a). 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, 2016 and 2015.
- (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(a)) for the two years ended March 31, 2016 and 2015.
- (iv) During the years ended March 31, 2016 and 2015, a pension payment of US\$1.5 million was made to Mr. Liu Chuanzhi, a retired director.
- (v) Mr. Ting Lee Sen retired as a director on July 2, 2015.
- (vi) Mr. Gordon Robert Halyburton Orr was appointed as a non-executive director on September 18, 2015.

NOTES TO THE FINANCIAL STATEMENTS

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

During the year, no retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor any are payable (2015: nil). No consideration was provided to or receivable by third parties for making available directors' service (2015: nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled body corporate and connected entities (2015: 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 (2015: nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2015: one) director whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2015: four) individuals during the year are as follows:

	2016 US\$'000	2015 US\$'000
Basic salaries, allowances, and other benefits-in-kind	5,389	4,093
Discretionary bonuses (note i)	15,553	10,865
Retirement payments and employer's contribution to pension schemes	3,484	625
Long-term incentive awards	11,828	10,630
Others	1,312	575
	37,566	26,788

Note:

- (i) Discretionary bonuses paid for the two years ended March 31, 2016 and 2015 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2015 and 2014 respectively.

The emoluments fell within the following bands:

	Number of individuals	
	2016	2015
Emolument bands		
US\$5,287,147 – US\$5,351,623	-	1
US\$5,480,579 – US\$5,545,055	-	1
US\$5,674,011 – US\$5,738,488	-	1
US\$6,770,127 – US\$6,834,603	2	-
US\$7,801,766 – US\$7,866,242	1	-
US\$10,187,429 – US\$10,251,906	-	1
US\$16,119,350 – US\$16,183,826	1	-

12 (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 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.

	2016	2015
Weighted average number of ordinary shares in issue	11,108,654,724	10,714,763,044
Adjustment for shares held by employee share trusts	(22,234,783)	(44,369,898)
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share	11,086,419,941	10,670,393,146
	US\$'000	US\$'000
(Loss)/profit attributable to equity holders of the Company	(128,146)	828,715

(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 two categories of potential ordinary shares, namely share options and long-term incentive awards. They were anti-dilutive for the year ended March 31, 2016, and dilutive for the year ended March 31, 2015.

	2016	2015
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share	11,086,419,941	10,670,393,146
Adjustments for share options and long-term incentive awards	-	101,511,837
Weighted average number of ordinary shares in issue for calculation of diluted (loss)/earnings per share	11,086,419,941	10,771,904,983
	US\$'000	US\$'000
(Loss)/profit attributable to equity holders of the Company used to determine diluted (loss)/earnings per share	(128,146)	828,715

Adjustments for the dilutive potential ordinary shares are as follows:

- For the share options, a calculation is performed to determine the number of shares that could have been acquired at fair value (determined as the average periodic market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise in full of the share options.
- For the 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.

NOTES TO THE FINANCIAL STATEMENTS

13 DIVIDENDS

	2016 US\$'000	2015 US\$'000
Interim dividend of HK6.0 cents (2015: HK6.0 cents) per ordinary share, paid on December 7, 2015	85,996	85,978
Proposed final dividend – HK20.5 cents (2015: HK20.5 cents) per ordinary share	293,320	293,668
	379,316	379,646

14 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings US\$'000	Leasehold improvements US\$'000	Plant and machinery US\$'000	Furniture and fixtures US\$'000	Office equipment US\$'000	Motor vehicles US\$'000	Total US\$'000
At April 1, 2014							
Cost	382,444	162,102	401,012	48,337	307,252	5,910	1,307,057
Accumulated depreciation and impairment losses	60,447	100,369	235,958	31,240	208,634	2,996	639,644
Net book amount	321,997	61,733	165,054	17,097	98,618	2,914	667,413
Year ended March 31, 2015							
Opening net book amount	321,997	61,733	165,054	17,097	98,618	2,914	667,413
Exchange adjustment	(30,185)	(4,691)	(14,711)	(774)	(4,979)	(653)	(55,993)
Reclassification	(2)	37	(233)	(95)	293	-	-
Additions	21,272	43,495	111,362	7,606	73,231	1,633	258,599
Transfers	71,668	163,265	8,020	8,227	721	-	251,901
Disposals	(3,877)	(523)	(799)	(822)	(2,993)	(329)	(9,343)
Depreciation	(14,877)	(41,784)	(68,367)	(7,603)	(72,968)	(1,365)	(206,964)
Acquisition of businesses (Note 36)	71,647	190,436	81,161	5,012	187,409	2,035	537,700
Closing net book amount	437,643	411,968	281,487	28,648	279,332	4,235	1,443,313
At March 31, 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

NOTES TO THE FINANCIAL STATEMENTS

15 PREPAID LEASE PAYMENTS

	2016 US\$'000	2015 US\$'000
At the beginning of the year	225,111	40,884
Exchange adjustment	(7,558)	(18)
Additions	185,014	69,903
Transfers	(37,082)	115,741
Disposals	(24,658)	-
Amortization	(2,898)	(1,399)
At the end of the year	337,929	225,111

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	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
At the beginning of the year	267,859	337,386	16,558	11,753	27,173	2,795	311,590	351,934
Exchange adjustment	(12,307)	(1,348)	(275)	(96)	(1,570)	-	(14,152)	(1,444)
Reclassification	(1,977)	-	-	-	1,977	-	-	-
Additions	212,090	120,980	53,953	35,967	134,542	190,559	400,585	347,506
Acquisition of businesses	-	-	-	-	-	12,632	-	12,632
Transfers	(297,913)	(189,045)	(54,720)	(31,052)	(114,096)	(178,741)	(466,729)	(398,838)
Disposals	(137)	(114)	(15)	(14)	(32)	(72)	(184)	(200)
At the end of the year	167,615	267,859	15,501	16,558	47,994	27,173	231,110	311,590

During the year, the Group had capitalised borrowing costs amounting to US\$8.4 million (2015: US\$4.5 million) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 3.81% (2015: 3.28%).

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, 2014						
Cost	2,389,822	594,084	715,182	181,468	302,686	4,183,242
Accumulated amortization and impairment losses	-	132,555	488,326	48,318	174,527	843,726
Net book amount	2,389,822	461,529	226,856	133,150	128,159	3,339,516
Year ended March 31, 2015						
Opening net book amount	2,389,822	461,529	226,856	133,150	128,159	3,339,516
Exchange adjustment	(188,878)	(17,990)	-	(48,284)	(472)	(255,624)
Reclassification	-	-	173	-	(173)	-
Additions	-	-	36,936	-	259,753	296,689
Transfer from construction-in-progress	-	-	31,052	-	144	31,196
Disposals	-	-	(1,999)	-	(657)	(2,656)
Amortization	-	(19,964)	(90,046)	(65,847)	(124,523)	(300,380)
Acquisition of businesses (Note 36)	3,019,284	860,000	-	1,289,999	947,719	6,117,002
Closing net book amount	5,220,228	1,283,575	202,972	1,309,018	1,209,950	9,225,743
At March 31, 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

NOTES TO THE FINANCIAL STATEMENTS

17 INTANGIBLE ASSETS *(continued)*

(a) *(continued)*

Amortization of US\$42,427,000 (2015: US\$12,503,000), US\$8,407,000 (2015: US\$8,562,000), US\$330,915,000 (2015: US\$221,967,000) and US\$92,752,000 (2015: US\$57,348,000) are included in the 'cost of sales', 'selling and distribution expenses', 'administrative expenses' and 'research and development expenses' in the consolidated income statement respectively.

(b) Impairment tests for goodwill and intangible assets with indefinite useful lives

The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

	China US\$ million	AP US\$ million	EMEA US\$ million	AG US\$ million	Total US\$ million
At March 31, 2016					
Goodwill					
– PCG	1,085	549	233	326	2,193
– MBG	-	314	362	926	1,602
– EBG	484	162	92	366	1,104
Trademarks and trade names					
– PCG	211	59	103	69	442
– MBG	-	90	104	266	460
– EBG	162	54	31	123	370

The Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amounts to their carrying amounts as at the reporting date. The recoverable amount of a CGU is determined based on value in use. These assessments use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period with a terminal value related to the future cash flow of the CGU extrapolated using constant projection of cash flows beyond the five-year period. The estimated growth rates adopted do not exceed the long-term average growth rates for the businesses in which the CGU operates.

17 INTANGIBLE ASSETS *(continued)*

(b) Impairment tests for goodwill and intangible assets with indefinite useful lives *(continued)*

Future cash flows are discounted at the rate of 9%, 12% and 10% for PCG, MBG and EBG respectively (2015: 9% for all CGUs). The estimated compound annual growth rates used for value-in-use calculations under the five-year financial budgets period are as follows:

	PCG	2016 MBG	EBG	2015
China	1%	N/A	10%	2%
AP	-2%	29%	3%	-2%
EMEA	-1%	28%	4%	-2%
AG	-2%	10%	9%	-2%

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, 2016 arising from the review (2015: 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, 2016, the recoverable amount for AG's MBG (calculated based on value in use) exceeded carrying value by US\$589 million. Had the forecasted compound annual growth rate of AG's MBG been 5.3 percentage point lower than management's estimates, its remaining headroom would be removed.

- (c) At March 31, 2016, patent and technology of US\$33,069,000 is under development (2015: US\$24,452,000).

NOTES TO THE FINANCIAL STATEMENTS

18 INTERESTS IN ASSOCIATES AND JOINT VENTURES

	2016 US\$'000	2015 US\$'000
Share of net assets		
– Associates	9,924	9,277
– Joint ventures	30,515	36,442
	40,439	45,719

The following is a list of the principal associates and joint ventures as at March 31, 2016:

Company name	Place of incorporation/ establishment	Interest held indirectly		Principal activities
		2016	2015	
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%	16.7%	Distribution and development of IT technology
Joint ventures				
成都聯創融錦投資有限責任公司 (Chengdu Lenovo Rongjin Investment Limited) (Note ii)	Chinese Mainland	49%	49%	Property development
Lenovo NNL HK Limited	Hong Kong S.A.R. of China	51%	51%	Provision of IT services and distribution of IT products

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.

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

	2016 US\$'000	2015 US\$'000
Share of losses of associates	(5,168)	(2,148)
Share of (losses)/profits of joint ventures	(5,927)	19,203
	(11,095)	17,055

19 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables US\$'000	Assets at fair value through income statement US\$'000	Derivatives used for hedging US\$'000	Available- for-sale financial assets US\$'000	Total US\$'000
Assets					
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
At March 31, 2015					
Available-for-sale financial assets	-	-	-	73,400	73,400
Derivative financial assets	-	60,459	124,075	-	184,534
Trade receivables	5,217,740	-	-	-	5,217,740
Notes receivable	334,738	-	-	-	334,738
Deposits and other receivables	2,406,619	-	-	-	2,406,619
Bank deposits	171,139	-	-	-	171,139
Cash and cash equivalents	2,855,223	-	-	-	2,855,223
	10,985,459	60,459	124,075	73,400	11,243,393

NOTES TO THE FINANCIAL STATEMENTS

19 FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

	Liabilities at fair value through income statement US\$'000	Derivatives used for hedging US\$'000	Other financial liabilities at amortized cost US\$'000	Total US\$'000
Liabilities				
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
At March 31, 2015				
Trade payables	-	-	4,664,065	4,664,065
Notes payable	-	-	171,049	171,049
Derivative financial liabilities	74,904	5,993	-	80,897
Other payables and accruals	-	-	9,278,052	9,278,052
Borrowings	-	-	3,054,122	3,054,122
Deferred considerations and guaranteed dividend under other non-current liabilities	-	-	1,371,405	1,371,405
Contingent considerations	312,083	-	-	312,083
Written put option liability	219,317	-	-	219,317
	606,304	5,993	18,538,693	19,150,990

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:

	2016 US\$'000	2015 US\$'000
Deferred income tax assets:		
Recoverable within 12 months	483,600	326,715
Recoverable after 12 months	516,972	200,086
	1,000,572	526,801
Deferred income tax liabilities:		
Recoverable after 12 months	(222,679)	(249,823)
Net deferred income tax assets	777,893	276,978

The movements in the net deferred income tax assets are as follows:

	2016 US\$'000	2015 US\$'000
At the beginning of the year	276,978	246,449
Reclassification and exchange adjustment	(4,610)	(4,814)
Credited to consolidated income statement (Note 9)	503,008	85,487
Credited/(charged) to other comprehensive income (Note 9)	7,364	(3,451)
Acquisition of businesses	-	(56,386)
(Charged)/credited to share-based compensation reserve	(4,847)	9,693
At the end of the year	777,893	276,978

NOTES TO THE FINANCIAL STATEMENTS

20 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(continued)*

- (a) The movements in deferred income tax assets (prior to offsetting of balances within the same tax jurisdiction), analyzed by major components, during the year are as follows:

	Provisions and accruals US\$'000	Tax losses US\$'000	Tax depreciation allowance US\$'000	Deferred revenue US\$'000	Share-based payment US\$'000	Others US\$'000	Total US\$'000
At April 1, 2014	259,621	50,582	2,207	74,350	-	5,818	392,578
Reclassification and exchange adjustments	(18,604)	(747)	(1,017)	(5,408)	-	(505)	(26,281)
(Charged)/credited to consolidated income statement	(33,101)	64,699	5,059	27,703	16,646	(320)	80,686
Credited to other comprehensive income	-	-	-	-	-	1,012	1,012
Acquisition of businesses	14,774	725	1,294	8,858	43,380	9,767	78,798
Credited to share-based compensation reserve	-	-	-	-	9,693	-	9,693
At March 31, 2015 and 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	343,495	511,986	14,094	139,772	17,714	12,131	1,039,192

Deferred income tax assets are recognized for deductible temporary differences and tax losses carried forward to the extent that realization of the related tax benefit through the future taxable profits is probable.

20 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(continued)*

(a) (continued)

At March 31, 2016, the Group did not recognize deferred income tax assets in respect of deductible temporary differences of approximately US\$2,130,508,000 (2015: US\$2,373,130,000) and tax losses of approximately US\$2,073,278,000 (2015: US\$1,726,640,000) that can be carried forward against future taxable income, of which, tax losses of US\$1,394,002,000 (2015: US\$1,311,799,000) can be carried forward indefinitely. The remaining balances of tax losses will expire as follows:

	2016 US\$'000	2015 US\$'000
Expiring in		
- 2016	-	-
- 2017	4,408	26,874
- 2018	194,868	202,272
- 2019	62,884	71,536
- 2020	26,276	36,261
- 2021	236,905	9,816
- 2022	68,919	48,977
- 2023	13,300	13,556
- 2024	14,834	5,549
- 2025	56,882	-
	679,276	414,841

(b) The movements in deferred income tax liabilities (prior to offsetting of balances within the same tax jurisdiction), analyzed by major components, during the year are as follows:

	Intangible valuation US\$'000	Undistributed earnings US\$'000	Property valuation US\$'000	Accelerated tax depreciation US\$'000	Others US\$'000	Total US\$'000
At April 1, 2014	67,927	47,498	4,594	24,594	1,516	146,129
Reclassification and exchange adjustments	(17,912)	774	(821)	(3,285)	(223)	(21,467)
(Credited)/charged to consolidated income statement	(6,358)	3,498	(631)	(2,124)	814	(4,801)
Charged to other comprehensive income	-	-	-	-	4,463	4,463
Acquisition of businesses	135,066	-	-	118	-	135,184
At March 31, 2015 and 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	156,010	52,602	3,301	49,386	-	261,299

NOTES TO THE FINANCIAL STATEMENTS

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 US\$'000	2015 US\$'000
At the beginning of the year	73,400	35,157
Exchange adjustment	(192)	(1,442)
Fair value change recognized in other comprehensive income	216	7,326
Additions	69,255	32,596
Disposals	(3,107)	(237)
At the end of the year	139,572	73,400
Equity securities, at fair value		
Listed:		
- In Hong Kong S.A.R. of China	14,830	20,692
- Outside Hong Kong S.A.R. of China	24,464	18,600
	39,294	39,292
Unlisted	100,278	34,108
	139,572	73,400

22 INVENTORIES

	2016 US\$'000	2015 US\$'000
Raw materials and work-in-progress	869,203	1,377,491
Finished goods	1,266,334	1,199,024
Service parts	501,780	377,910
	2,637,317	2,954,425

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:

	2016 US\$'000	2015 US\$'000
0 - 30 days	3,246,600	3,669,635
31 - 60 days	617,199	881,449
61 - 90 days	240,470	320,591
Over 90 days	405,410	426,770
	4,509,679	5,298,445
Less: provision for impairment	(106,172)	(80,705)
Trade receivables - net	4,403,507	5,217,740

23 RECEIVABLES *(continued)*

(a) (continued)

Trade receivables that are not past due are fully performing and not considered impaired.

At March 31, 2016, trade receivables, net of impairment, of US\$739,074,000 (2015: US\$880,901,000) were past due. The ageing of these receivables, based on due date, is as follows:

	2016 US\$'000	2015 US\$'000
Within 30 days	443,507	465,918
31 – 60 days	126,597	192,276
61 – 90 days	68,293	68,599
Over 90 days	100,677	154,108
	739,074	880,901

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

	2016 US\$'000	2015 US\$'000
At beginning of the year	80,705	39,614
Exchange adjustment	3	777
Provisions made	46,955	45,782
Uncollectible receivables written off	(7,708)	(7,475)
Unused amounts reversed	(13,783)	(18,668)
Acquisition of businesses	-	20,675
At the end of the year	106,172	80,705

(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:

	2016 US\$'000	2015 US\$'000
Deposits	13,207	3,481
Other receivables	2,811,260	2,403,138
Prepayments	724,293	1,245,883
	3,548,760	3,652,502

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

(d) The carrying amounts of trade, notes, 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. The Group's receivables in the amount of US\$2 million (2015: US\$54 million) are held as collateral for short-term loans obtained.

NOTES TO THE FINANCIAL STATEMENTS

24 BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2016 US\$'000	2015 US\$'000
Bank deposits		
- matured between three to twelve months	88,531	100,828
- restricted bank balances	63,805	70,311
	152,336	171,139
Cash and cash equivalents		
- cash at bank and in hand	1,773,721	2,110,990
- money market funds	153,159	744,233
	1,926,880	2,855,223
	2,079,216	3,026,362
Maximum exposure to credit risk	2,079,216	3,026,362
Effective annual interest rates	0%-14.25%	0%-11.60%

25 PAYABLES

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

	2016 US\$'000	2015 US\$'000
0 - 30 days	3,013,430	3,764,605
31 - 60 days	789,183	358,296
61 - 90 days	347,257	218,299
Over 90 days	116,817	322,865
	4,266,687	4,664,065

(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 value.

26 PROVISIONS, OTHER PAYABLES AND ACCRUALS

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

	2016 US\$'000	2015 US\$'000
Accruals	2,048,551	2,264,839
Allowance for billing adjustments (i)	1,904,076	2,223,861
Other payables (ii)	4,353,217	4,789,352
	8,305,844	9,278,052

Notes:

- (i) Allowance for billing adjustments relates primarily to allowances for future volume discounts, price protection, rebates, and customer sales returns.
- (ii) Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors.
- (iii) The carrying amounts of other payables and accruals approximate their fair values.

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

	Warranty US\$'000	Environmental restoration US\$'000	Restructuring US\$'000	Total US\$'000
Year ended March 31, 2016				
At the beginning of the year	1,559,795	16,475	-	1,576,270
Exchange adjustment	(19,051)	382	1,501	(17,168)
Provisions made	945,709	9,104	342,103	1,296,916
Amounts utilized	(1,164,186)	(8,477)	(220,501)	(1,393,164)
Unused amounts reversed	-	(8,667)	-	(8,667)
	1,322,267	8,817	123,103	1,454,187
Long-term portion classified as non-current liabilities	(290,857)	(6,073)	-	(296,930)
At the end of the year	1,031,410	2,744	123,103	1,157,257
Year ended March 31, 2015				
At the beginning of the year	1,127,260	19,684	-	1,146,944
Exchange adjustment	(69,142)	(2,919)	-	(72,061)
Provisions made	1,153,855	10,378	-	1,164,233
Amounts utilized	(1,049,291)	(6,919)	-	(1,056,210)
Unused amounts reversed	(19,391)	(3,749)	-	(23,140)
Acquisition of businesses	416,504	-	-	416,504
	1,559,795	16,475	-	1,576,270
Long-term portion classified as non-current liabilities	(338,700)	(14,082)	-	(352,782)
At the end of the year	1,221,095	2,393	-	1,223,488

NOTES TO THE FINANCIAL STATEMENTS

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

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

	2016 US\$'000	2015 US\$'000
Current liabilities		
Short-term loans (i)	745,815	1,168,274
Non-current liabilities		
Term loan (ii)	396,365	395,043
Long term notes (iii)	2,108,747	1,490,805
	2,505,112	1,885,848
	3,250,927	3,054,122

Notes:

- (i) Short-term loans primarily comprised a US\$1,200 million 5-year loan facility (comprising US\$800 million short term) entered into in December 2013 which has been utilized to the extent of US\$400 million as at March 31, 2016 (2015: US\$700 million); and a US\$300 million 5-year loan facility entered into in May 2015 which has been utilized to the extent of US\$300 million as at March 31, 2016. The majority of the short-term bank loans are denominated in United States dollar.
- (ii) Term loan comprised a US\$1,200 million 5-year loan facility (comprising US\$800 million short term) entered into in December 2013 which has been drawn down to the extent of US\$400 million as at March 31, 2016 (2015: US\$400 million).
- (iii) On May 8, 2014, the Group completed the issuance of 5-Year US\$1.5 billion notes bearing annual interest at 4.7% due in May 2019; and on June 10, 2015, the Group completed the issuance of 5-Year RMB4 billion notes bearing annual interest at 4.95% due in June 2020. The proceeds would be used for general corporate purposes including working capital, and to fund any acquisition activities.

27 BORROWINGS *(continued)*

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:

	2016 US\$'000	2015 US\$'000
Within 1 year	745,815	1,168,274
Over 1 to 3 years	396,365	–
Over 3 to 5 years	2,108,747	1,885,848
	3,250,927	3,054,122

The fair value of the long term notes as at March 31, 2016 was 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	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Revolving loans	1,100,000	1,300,000	700,000	1,000,000
Term loan	400,000	400,000	400,000	400,000
Short-term loans	365,645	339,111	45,817	177,154
Foreign exchange contracts	9,018,134	10,530,679	6,871,910	9,821,769
Other trade finance facilities	1,277,603	1,353,244	540,123	315,562
	12,161,382	13,923,034	8,557,850	11,714,485

Except for short-term loans of US\$2 million with collateral at the same amount recorded as trade receivables, all the borrowings are unsecured and the effective annual interest rates at March 31, 2016 are as follows:

	United States dollar		Other currencies	
	2016	2015	2016	2015
Term loan	2.43%	1.73%	N/A	N/A
Short-term loans	0%-3.63%	0%-3.00%	N/A	0%-15.17%

NOTES TO THE FINANCIAL STATEMENTS

28 OTHER NON-CURRENT LIABILITIES

	2016 US\$'000	2015 US\$'000
Contingent considerations (i)	-	270,196
Deferred considerations (i)	1,383,555	1,361,800
Guaranteed dividend to non-controlling shareholders of a subsidiary (ii)	8,195	9,605
Environmental restoration (Note 26(b))	6,073	14,082
Written put option liability (iii)	221,499	219,317
Government incentives and grants received in advance (iv)	144,919	118,371
Deferred rent liabilities	112,934	127,954
Others	275,403	285,978
	2,152,578	2,407,303

Notes:

- (i) Pursuant to the completion of business combinations, the Group is required to pay in cash to the then respective shareholders/sellers contingent considerations with reference to certain performance indicators as written in the respective agreements with those then shareholders/sellers; and deferred consideration. Accordingly, current and non-current liabilities in respect of the present values of contingent and deferred considerations have been recognized. The contingent considerations are subsequently re-measured at their fair values as a result of change in the expected performance at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. Deferred consideration is subsequently measured at amortized cost.

All contingent considerations have been included in other payables and accruals as at March 31, 2016.

As at March 31, 2016, the potential undiscounted amounts of future payments in respect of the contingent and deferred considerations that the Group could be required to make to the then respective shareholders/sellers under the arrangements are as follows:

Joint venture with NEC Corporation	Nil - US\$309 million
Stoneware	Nil - US\$48 million
Google Inc.	US\$1,448 million

With reference to the performance indicators, if their actual performances had been 10% higher/lower than their respective expected performances, contingent considerations would have been increased/decreased by approximately US\$4 million and US\$30 million respectively with the corresponding loss/gain recognized in consolidated income statement.

- (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 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.

28 OTHER NON-CURRENT LIABILITIES *(continued)*

Notes: (continued)

- (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 derecognized with a corresponding adjustment to equity.

- (iv) 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.

29 SHARE CAPITAL

	2016		2015	
	Number of shares	US\$'000	Number of shares	US\$'000
<i>Issued and fully paid:</i>				
Voting ordinary shares:				
At the beginning of the year	11,108,654,724	2,689,882	10,406,375,509	1,650,101
Issue of ordinary shares	-	-	701,107,215	1,039,396
Exercise of share options	-	-	1,172,000	385
At the end of the year	11,108,654,724	2,689,882	11,108,654,724	2,689,882

(a) 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.

NOTES TO THE FINANCIAL STATEMENTS

29 SHARE CAPITAL *(continued)*

(a) Long-term incentive program *(continued)*

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, 2014	103,228,268	137,503,393
Shares awarded upon acquisition of businesses	–	146,594,218
Granted during the year	84,979,487	90,514,143
Vested during the year	(47,499,634)	(134,431,685)
Lapsed/cancelled during the year	(6,600,459)	(17,684,353)
Outstanding at March 31, 2015	134,107,662	222,495,716
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
Average fair value per unit (HK\$)		
– At March 31, 2015	2.39	9.73
– At March 31, 2016	2.08	11.06

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, 2016, 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 36.07 percent (2015: 34.48 percent), expected dividends during the vesting periods of 2.43 percent (2015: 2.23 percent), contractual life of 4.25 years (2015: 4.75 years), and a risk-free interest rate of 0.56 percent (2015: 0.64 percent).

The remaining vesting periods of the awards under the long-term incentive program as at March 31, 2016 ranged from 0.08 to 3.92 years (2015: 0.08 to 3.92 years).

29 SHARE CAPITAL *(continued)*

(b) Share options

Under the Company's employee share option scheme adopted on January 18, 1994 ("Old Option Scheme"), the Company granted options to employees (including directors) of the Company or its subsidiaries to subscribe for ordinary shares in the Company, subject to a maximum of 10 percent of the issued share capital of the Company from time to time. Options granted are exercisable at any time during a period of ten years from the date upon which the option is accepted. The subscription price of the option shares is the higher of the nominal value of the ordinary shares and an amount which is 80 percent of the average of the closing prices of the listed ordinary shares on the five trading days immediately preceding the date on which the offer is made. The Old Option Scheme was terminated on April 26, 2002.

On March 25, 2002, an ordinary resolution approving the adoption of a new share option scheme ("New Option Scheme") was passed by shareholders at an extraordinary general meeting of the Company.

Under the New Option Scheme, the Company may grant options to qualified participants as defined in the New Option Scheme to subscribe for ordinary shares in the Company, subject to a maximum of 10 percent of the issued share capital of the Company as at the date of adoption of the New Option Scheme. Options granted are exercisable at any time during a period of ten years from the date upon which the option is accepted. The subscription price of the option shares is the highest of the closing price of the listed ordinary shares on the date of grant; the average of the closing prices of the listed ordinary shares for the five trading days immediately preceding the date of grant; and the nominal value of the ordinary shares.

The New Option Scheme expired on April 26, 2012, and no further options could thereafter be granted under the New Option Scheme. However, all remaining provisions will remain in full force and effect to govern the exercise of all the options granted under the New Option Scheme prior to its expiration.

	2016 Number of outstanding share options	2015 Number of outstanding share options
At the beginning of the year	-	31,487,601
Exercised during the year (ii)	-	(1,172,000)
Lapsed during the year (iii)	-	(30,315,601)
At the end of the year	-	-

(i) No share options were granted or cancelled by the Company during the years ended March 31, 2016 and 2015.

(ii) Details of share options exercised during the year ended March 31, 2015 are as follows:

Exercise date (MM.DD.YYYY)	Exercise price HK\$	Market value per ordinary share at exercise date HK\$	Number of share options exercised	Gross proceeds received HK\$
04.01.2014 to 04.25.2014	2.545	8.80-9.48	1,172,000	2,982,740
			1,172,000	2,982,740
				US\$385,000

NOTES TO THE FINANCIAL STATEMENTS

29 SHARE CAPITAL *(continued)*

(b) Share options *(continued)*

(iii) Details of share options lapsed during the years ended March 31, 2016 and 2015 are as follows:

Exercise period (MM.DD.YYYY)	Exercise price HK\$	2016 Number of share options lapsed	2015 Number of share options lapsed
New Option Scheme 04.27.2004 to 04.26.2014	2.545	-	30,315,601
		-	30,315,601

30 BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY

(a) Balance sheet of the Company

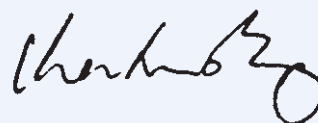
	At March 31	
	2016 US\$'000	2015 US\$'000
Non-current assets		
Property, plant and equipment	2,392	3,049
Construction-in-progress	-	296
Intangible assets	13,720	141,325
Interest in an associate	1,887	1,887
Investments in subsidiaries	8,207,523	8,100,648
Available-for-sale financial assets	58,064	31,801
	8,283,586	8,279,006
Current assets		
Deposits, prepayments and other receivables	96,099	54,252
Amounts due from subsidiaries	2,877,063	3,183,046
Cash and cash equivalents	44,404	15,440
	3,017,566	3,252,738
Total assets	11,301,152	11,531,744
Share capital	2,689,882	2,689,882
Reserves (Note 30(b))	354,443	830,504
Total equity	3,044,325	3,520,386
Non-current liabilities		
Borrowings	2,505,112	1,885,848
Deferred revenue	114	4,806
Other non-current liabilities	1,384,657	1,662,691
	3,889,883	3,553,345
Current liabilities		
Derivative financial liabilities	7,082	131
Other payables and accruals	309,384	90,671
Borrowings	692,514	991,121
Deferred revenue	4,692	35,393
Amounts due to subsidiaries	3,353,272	3,340,697
	4,366,944	4,458,013
Total liabilities	8,256,827	8,011,358
Total equity and liabilities	11,301,152	11,531,744

On behalf of the Board



Yang Yuanqing

Chairman and Chief Executive Officer



Ma Xuezheng

Director

NOTES TO THE FINANCIAL STATEMENTS

30 BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY *(continued)*

(b) Movement of reserves of the Company

The changes in the reserves of the Company during the years ended March 31, 2016 and 2015 are as follows:

	Investment revaluation reserve US\$'000	Share-based compensation reserve US\$'000	Exchange reserve US\$'000	Other reserve US\$'000	Retained earnings US\$'000	Total US\$'000
At April 1, 2015	(2,979)	159	10,204	8,614	814,506	830,504
Loss for the year	-	-	-	-	(99,556)	(99,556)
Other comprehensive loss	(4,881)	-	-	-	-	(4,881)
Total comprehensive loss for the year	(4,881)	-	-	-	(99,556)	(104,437)
Vesting of shares under long-term incentive program	-	(187,504)	-	-	-	(187,504)
Share-based compensation	-	195,660	-	-	-	195,660
Dividends paid	-	-	-	-	(379,780)	(379,780)
At March 31, 2016	(7,860)	8,315	10,204	8,614	335,170	354,443
At April 1, 2014	-	(23,622)	10,204	8,614	375,324	370,520
Profit for the year	-	-	-	-	766,855	766,855
Other comprehensive loss	(2,979)	-	-	-	-	(2,979)
Total comprehensive (loss)/income for the year	(2,979)	-	-	-	766,855	763,876
Acquisition of businesses	-	121,252	-	-	-	121,252
Vesting of shares under long-term incentive program	-	(237,448)	-	-	-	(237,448)
Share-based compensation	-	139,977	-	-	-	139,977
Dividends paid	-	-	-	-	(327,673)	(327,673)
At March 31, 2015	(2,979)	159	10,204	8,614	814,506	830,504

31 SIGNIFICANT RELATED PARTY TRANSACTIONS

- (a) The Group had the following significant related party transactions in the normal course of business during the year:

	2016 US\$'000	2015 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	5,429	–
上海視雲網絡科技有限公司 (Shanghai Shiyun Network Technology Limited) (an associate)		
– Purchase of goods	751	4,522

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.

32 COMMITMENTS

- (a) **Capital commitments**

Apart from disclosed elsewhere in these financial statements, on March 31, 2016, the Group had the following other capital commitments:

	2016 US\$'000	2015 US\$'000
Contracted but not provided for:		
– Property, plant and equipment	393,655	261,663
– IT consulting services	43	6,738
– Investment in financial assets	9,800	–
	403,498	268,401

- (b) **Commitments under operating leases**

The future aggregate minimum lease payments in respect of land and buildings and prepaid lease payments under non-cancelable operating leases of the Group are as follows:

	2016 US\$'000	2015 US\$'000
Not later than one year	223,052	107,222
Later than one year but not later than five years	433,246	428,706
Later than five years	249,339	311,278
	905,637	847,206

NOTES TO THE FINANCIAL STATEMENTS

33 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.

34 RECONCILIATION OF (LOSS)/PROFIT BEFORE TAXATION TO NET CASH GENERATED FROM OPERATIONS

	2016 US\$'000	2015 US\$'000
(Loss)/profit before taxation	(276,851)	970,967
Share of losses/(profits) of associates and joint ventures	11,095	(17,055)
Finance income	(32,816)	(30,902)
Finance costs	236,751	185,504
Depreciation of property, plant and equipment and amortization of prepaid lease payments	266,100	208,363
Amortization of intangible assets	474,501	300,380
Share-based compensation	161,097	99,062
Impairment of property, plant and equipment	134,454	-
(Gain)/loss on disposal of property, plant and equipment and prepaid lease payments	(5,863)	162
Net gain on disposal of available-for-sale financial assets	(1,653)	(1,185)
Loss on disposal of construction-in-progress	184	200
Loss on disposal of intangible assets	976	2,656
Dividend income	(532)	(305)
Fair value change on financial instruments	21,069	20,376
Decrease in inventories	317,108	120,263
Decrease/(increase) in trade receivables, notes receivable, deposits, prepayments and other receivables	1,172,555	(526,439)
Decrease in trade payables, notes payable, provisions, other payables and accruals	(1,759,818)	(491,457)
Effect of foreign exchange rate changes	122,935	(171,570)
Net cash generated from operations	841,292	669,020

35 RETIREMENT BENEFIT OBLIGATIONS

	2016 US\$'000	2015 US\$'000
Pension obligation included in non-current liabilities		
Pension benefits	419,132	387,564
Post-employment medical benefits	23,742	22,554
	442,874	410,118
Expensed in income statement		
Pension benefits (Note 10)	19,081	22,630
Post-employment medical benefits	1,489	(885)
	20,570	21,745
Remeasurements for:		
Defined pension benefits	24,454	70,267
Post-employment medical benefits	208	(180)

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\$204,993,000 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.

NOTES TO THE FINANCIAL STATEMENTS

35 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(a) Pension benefits

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

	2016 US\$'000	2015 US\$'000
Present value of funded obligations	600,288	585,237
Fair value of plan assets	(292,742)	(284,229)
Deficit of funded plans	307,546	301,008
Present value of unfunded obligations	111,586	86,556
Liability in the balance sheet	419,132	387,564
Representing:		
Pension benefits obligation	419,132	387,564

The principal actuarial assumptions used are as follows:

	2016	2015
Discount rate	0.5%-2.75%	1%-2.75%
Future salary increases	0%-2%	0%-3%
Future pension increases	0%-1.75%	0%-1.75%
Life expectancy for male aged 60	21	24
Life expectancy for female aged 60	31	27

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

2016	Impact on defined benefit obligation		
	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%

35 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(a) Pension benefits *(continued)*

2015	Impact on defined benefit obligation		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 8.1%	Increase by 9.1%
Salary growth rate	0.5%	Increase by 0.8%	Decrease by 0.7%
Pension growth rate	0.5%	Increase by 3.0%	Decrease by 2.3%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		Increase by 2.4%	Decrease by 2.1%

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 recognised 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:

	2016 US\$'000	2015 US\$'000
Present value of funded obligations	26,494	26,545
Fair value of plan assets	(4,189)	(5,333)
	22,305	21,212
Present value of unfunded obligations	1,437	1,342
Liability in the balance sheet	23,742	22,554

NOTES TO THE FINANCIAL STATEMENTS

35 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

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

Plan assets of the Group comprise:

	2016			2015		
	Quoted US\$'000	Unquoted US\$'000	Total US\$'000	Quoted US\$'000	Unquoted US\$'000	Total US\$'000
Pension plan						
Equity instruments						
Information technology	1,933	-	1,933	556	-	556
Energy	358	-	358	284	-	284
Manufacturing	3,805	-	3,805	530	-	530
Others	4,771	-	4,771	7,518	9	7,527
	10,867	-	10,867	8,888	9	8,897
Debt instruments						
Government	49,895	-	49,895	27,209	37	27,246
Corporate bonds (investment grade)	46,032	-	46,032	45,446	2	45,448
Corporate bonds (Non-investment grade)	1,366	-	1,366	12	2	14
	97,293	-	97,293	72,667	41	72,708
Others						
Property	-	14,831	14,831	-	3,770	3,770
Qualifying insurance policies	-	58,455	58,455	-	56,132	56,132
Cash and cash equivalents	20,274	-	20,274	14,800	-	14,800
Investment funds	-	35,322	35,322	89	126,401	126,490
Structured bonds	-	55,600	55,600	-	-	-
Others	-	100	100	675	757	1,432
	20,274	164,308	184,582	15,564	187,060	202,624
	128,434	164,308	292,742	97,119	187,110	284,229
Medical plan						
Cash and cash equivalents	4,189	-	4,189	5,333	-	5,333

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 and liability profile, the liquidity requirements of the plans.

The weighted average duration of the defined benefit obligation is 15 years.

35 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

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

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

At March 31, 2016	Less than a year US\$'000	Between 1-2 years US\$'000	Between 2-5 years US\$'000	Over 5 years US\$'000	Total US\$'000
Pension benefits	14,943	15,566	54,300	856,889	941,698
Post-employment medical benefits	801	869	3,080	40,515	45,265
Total	15,744	16,435	57,380	897,404	986,963

Pension and medical plan assets do not include any of the Company's ordinary shares or US real estate occupied by the Group (2015: nil).

Reconciliation of fair value of plan assets of the Group:

	Pension		Medical	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Opening fair value	284,229	266,875	5,333	5,545
Exchange adjustment	9,866	(33,710)	1	(1)
Interest income	5,995	6,150	85	146
<i>Remeasurements:</i>				
Experience (loss)/gain	(3,504)	29,210	(76)	(140)
Contributions by the employer	12,770	13,906	21	30
Contributions by plan participants	615	408	-	-
Benefits paid	(17,229)	(15,677)	(1,175)	(247)
Acquisition of businesses	-	17,067	-	-
Closing fair value	292,742	284,229	4,189	5,333
Actual return on plan assets	2,491	35,360	9	6

Contributions of US\$7,146,000 are estimated to be made for the year ending March 31, 2017.

NOTES TO THE FINANCIAL STATEMENTS

35 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

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

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

	Pension		Medical	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Opening defined benefit obligation	671,793	409,357	27,887	19,578
Exchange adjustment	11,432	(50,501)	(480)	(178)
Current service cost	16,822	14,272	604	455
Past service cost	(1,928)	(1,542)	-	-
Interest cost	10,982	10,845	1,004	676
<i>Remeasurements:</i>				
(Gain)/loss from change in demographic assumptions	(3,498)	6,617	1,187	(104)
Loss/(gain) from changes in financial assumptions	16,700	90,530	(45)	310
Experience loss/(gain)	7,748	2,330	(1,010)	(526)
Contributions by plan participants	615	408	-	-
Benefits paid	(17,992)	(16,393)	(1,182)	(258)
Curtailments	(800)	5,205	(34)	(1,859)
Acquisition of businesses	-	200,665	-	9,793
Closing defined benefit obligation	711,874	671,793	27,931	27,887

During the year, benefits of US\$763,000 were paid directly by the Group (2015: US\$716,000).

Summary of pensions and post-retirement medical benefits of the Group:

	2016 US\$'000	2015 US\$'000	2014 US\$'000	2013 US\$'000	2012 US\$'000
Present value of defined benefit obligations	739,805	699,680	428,935	445,183	435,760
Fair value of plan assets	296,931	289,562	272,420	281,300	230,942
Deficit	442,874	410,118	156,515	163,883	204,818
Actuarial losses/(gains) arising on plan assets	3,580	(29,070)	(588)	(7,840)	1,786
Actuarial losses/(gains) arising on plan liabilities	21,082	99,157	(3,400)	25,014	35,751
	24,662	70,087	(3,988)	17,174	37,537

35 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

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

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

	Pension		Medical	
	2016 US\$'000	2015 US\$'000	2016 US\$'000	2015 US\$'000
Current service cost	16,822	14,272	604	455
Past service cost	(1,928)	(1,542)	-	-
Interest cost	10,982	10,845	1,004	676
Interest income	(5,995)	(6,150)	(85)	(146)
Curtailment (gains)/losses	(800)	5,205	(34)	(1,870)
Total expense recognized in the consolidated income statement	19,081	22,630	1,489	(885)

36 BUSINESS COMBINATIONS

The Group did not undertake any material business combinations in the current year.

In respect of prior year's acquisitions, during the year the Group has finalized the fair value assessments for the net assets acquired (including intangible assets) from the business combination activities in respect of Motorola and System X. On completion of the fair value assessments, adjustments made to the provisional calculation of identifiable assets and liabilities (as at March 31, 2015) amounted to US\$296 million, with an equivalent increase in the reported value of goodwill. The changes mainly represent finalization of future billing adjustments, deferred tax adjustments, provisions and recovery of impaired trade receivables at the respective acquisition dates. The comparative consolidated balance sheet as at March 31, 2015 has been retrospectively reclassified to reflect the final allocation of fair values of the net assets acquired in FY2014/15.

Details of net assets acquired and goodwill arising from the business combination activities at the acquisition dates were as follows:

	Motorola US\$'000	System X US\$'000	Total US\$'000
Total purchase consideration	3,095,940	2,136,150	5,232,090
Less: Fair value of net assets acquired, as finalized			
- Cash and cash equivalents	404,157	17,801	421,958
- Property, plant and equipment	455,060	82,640	537,700
- Deferred tax assets less liabilities	43,925	(100,311)	(56,386)
- Intangible assets	1,587,718	1,510,000	3,097,718
- Other non-current assets	20,906	-	20,906
- Net working capital except cash and cash equivalents	(1,015,115)	(172,112)	(1,187,227)
- Non-current liabilities	(238,887)	(382,976)	(621,863)
Fair value of net assets acquired, as finalized	1,257,764	955,042	2,212,806
Goodwill (Note 17(a))	1,838,176	1,181,108	3,019,284

NOTES TO THE FINANCIAL STATEMENTS

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		Principal activities
			2016	2015	
<i>Held directly:</i>					
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
<i>Held indirectly:</i>					
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 S.A.R. of China	HK\$2,975,124,941.74	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 S.A.R. of China	HK\$2	100%	100%	Procurement agency and distribution of IT products
Lenovo (Denmark) ApS	Denmark	DKK126,000	100%	100%	Distribution of IT products
Lenovo (Deutschland) GmbH	Germany	EUR25,100	100%	100%	Distribution of IT products

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held		Principal activities
			2016	2015	
Lenovo Enterprise Solutions (Singapore) Pte. Ltd.	Singapore	SGD1	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
Lenovo HK Services Limited	Hong Kong S.A.R. of China	HK\$1	100%	100%	Provision of business planning, management, global supply chain, finance, and administration support services
Lenovo (Hong Kong S.A.R. of China) Limited	Hong Kong S.A.R. of China	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 (wholly foreign-owned enterprise)	Chinese Mainland	US\$80,000,000	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	51%	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

NOTES TO THE FINANCIAL STATEMENTS

37 PRINCIPAL SUBSIDIARIES (continued)

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held		Principal activities
			2016	2015	
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 S.A.R. of China	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 S.A.R. of China	HK\$4,758,857,784	100%	100%	Intellectual properties
Lenovo (Schweiz) GmbH	Switzerland	CHF2,000,000	100%	100%	Manufacturing and distribution of IT products
Lenovo (Singapore) Pte. Ltd.	Singapore	SGD1,971,231,035.94	100%	100%	Manufacturing and wholesaling of computers, computer hardware and peripheral equipment
Lenovo (South Africa) (Pty) Limited	South Africa	RAND100	100%	100%	Distribution of IT products
Lenovo (Spain), S.L.U.	Spain	EUR37,475,456.40	100%	100%	Distribution of IT products
Lenovo (Sweden) AB	Sweden	SEK200,200	100%	100%	Distribution of IT products

37 PRINCIPAL SUBSIDIARIES (continued)

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held		Principal activities
			2016	2015	
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	79.82%	79.82%	Retail and service business for consumer electronic products

NOTES TO THE FINANCIAL STATEMENTS

37 PRINCIPAL SUBSIDIARIES (continued)

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held		Principal activities
			2016	2015	
Motorola Mobility Comércio de Produtos Eletrônicos 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	51%	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\$400,000,000	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	RMB20,000,000	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 for the years ended March 31, 2015 and 2016, and Motorola's subsidiaries for the year ended March 31, 2016 and period ended March 31, 2015 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.

38 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on May 26, 2016.

FIVE-YEAR FINANCIAL SUMMARY

CONDENSED CONSOLIDATED INCOME STATEMENT

	2016 US\$'000	2015 US\$'000	2014 US\$'000	2013 US\$'000	2012 US\$'000
Revenue	44,912,097	46,295,593	38,707,129	33,873,401	29,574,438
(Loss)/profit before taxation	(276,851)	970,967	1,014,195	801,299	582,443
Taxation	132,276	(134,364)	(196,725)	(169,707)	(107,027)
(Loss)/profit for the year	(144,575)	836,603	817,470	631,592	475,416
(Loss)/profit attributable to:					
Equity holders of the Company	(128,146)	828,715	817,228	635,148	472,992
Non-controlling interests	(16,429)	7,888	242	(3,556)	2,424
	(144,575)	836,603	817,470	631,592	475,416
(Loss)/earnings per share attributable to equity holders of the Company					
Basic (US cents)	(1.16)	7.77	7.88	6.16	4.67
Diluted (US cents)	(1.16)	7.69	7.78	6.07	4.57

CONDENSED CONSOLIDATED BALANCE SHEET

	2016 US\$'000	2015 US\$'000	2014 US\$'000	2013 US\$'000	2012 US\$'000
Non-current assets	11,966,613	11,889,352	4,956,545	4,492,260	4,040,348
Current assets	12,966,776	15,507,158	13,400,548	12,389,737	11,820,400
Total assets	24,933,389	27,396,510	18,357,093	16,881,997	15,860,748
Non-current liabilities	6,146,880	5,841,997	1,870,051	2,110,342	1,603,102
Current liabilities	15,760,260	17,448,392	13,462,322	12,091,474	11,809,677
Total liabilities	21,907,140	23,290,389	15,332,373	14,201,816	13,412,779
Net assets	3,026,249	4,106,121	3,024,720	2,680,181	2,447,969

CORPORATE INFORMATION

HONORARY CHAIRMAN

Mr. Liu Chuanzhi

BOARD OF DIRECTORS

Chairman and Executive Director

Mr. Yang Yuanqing

Non-executive Directors

Mr. Zhu Linan

Mr. Zhao John Huan

Mr. Gordon Robert Halyburton Orr

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

CHIEF FINANCIAL OFFICER

Mr. Wong Wai Ming

COMPANY SECRETARY

Mr. Mok Chung Fu, Eric

REGISTERED OFFICE

23rd Floor, Lincoln House, Taikoo Place,
979 King's Road, Quarry Bay, Hong Kong S.A.R. of China

PRINCIPAL BANKERS

Bank of China

BNP Paribas

Citibank, N.A.

Industrial and Commercial Bank of China

Standard Chartered Bank (Hong Kong S.A.R. of China)
Limited

INDEPENDENT AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

22nd Floor, Prince's Building,

Central, Hong Kong S.A.R. of China

SHARE REGISTRAR

Tricor Abacus Limited

Level 22, Hopewell Centre,

183 Queen's Road East, Hong Kong S.A.R. of China

AMERICAN DEPOSITARY RECEIPTS

(Depository and Registrar)

Citibank, N.A.

14th Floor, 388 Greenwich Street,

New York, NY 10013, USA

STOCK CODES

Hong Kong S.A.R. of China Stock Exchange: 992

American Depositary Receipts: LNVGY

WEBSITE

www.lenovo.com



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