Lenovo Group Limited | 2017/18 Annual Report

Stock Code 992

Different is better

ABOUT LENOVO

Lenovo (HKSE: 992) (ADR: LNVGY) is a US$45 billion Fortune 500 company with a vision to become the global leader in Intelligent Transformation through smart devices and infrastructure that create the best user experience. Lenovo manufactures one of the world's widest portfolio of connected products, including smartphones (Motorola), tablets, PCs (Thinkpad, Yoga, Lenovo Legion) and workstations as well as AR/VR devices and smart home/office solutions. Lenovo's next generation data center solutions (ThinkSystem, ThinkAgile) are creating the capacity and computing power for the connections that are changing business and society. Lenovo works to inspire the different in everyone and build a smarter future where everyone thrives. Follow us on LinkedIn, Facebook, Twitter, Instagram, Weibo, or visit us at http://www.lenovo.com.

Contents


Different
protects better

ThinkPad X1 Carbon

Tough build quality, industrial yet sexy design.”

Techaeris

X1 Carbon, 6th Generation

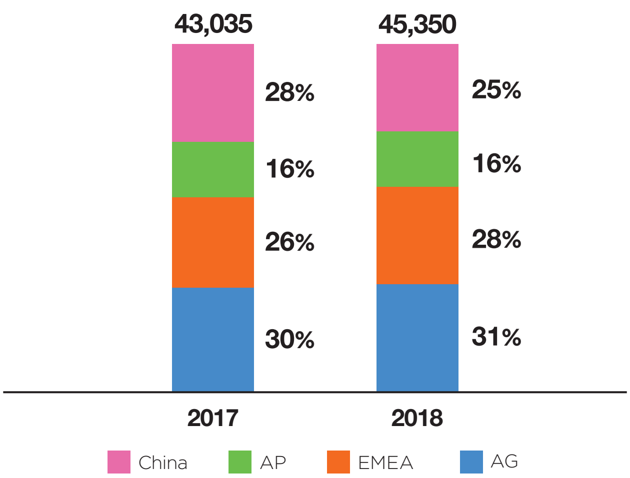
Financial Highlights

For the year ended March 31	**2018 US$ million**	2017 US$ million	Year-on-year Change
Group Results			
Revenue	**45,350**	43,035	5%
Gross profit	**6,272**	6,106	3%
Gross profit margin (%)	**13.8**	14.2	(0.4) pts
Operating expenses	**(5,885)**	(5,434)	8%
Expense-to-revenue ratio (%)	**13.0**	12.6	0.4 pts
EBITDA[1]	**1,325**	1,581	(16)%
Pre-tax income	**153**	490	(69)%
Pre-tax income margin (%)	**0.3**	1.1	(0.8) pts
(Loss)/profit attributable to equity holders of the Company	**(189)**	535	N/A
EPS – basic (US cents)	**(1.67)**	4.86	N/A
EPS – diluted (US cents)	**(1.67)**	4.86	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	**1,932**	2,951	(35)%
Total borrowings	**(3,815)**	(3,037)	26%
Net debt	**(1,883)**	(86)	2,106%
Cash conversion cycle (days)	**(16)**	(10)	(6)

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

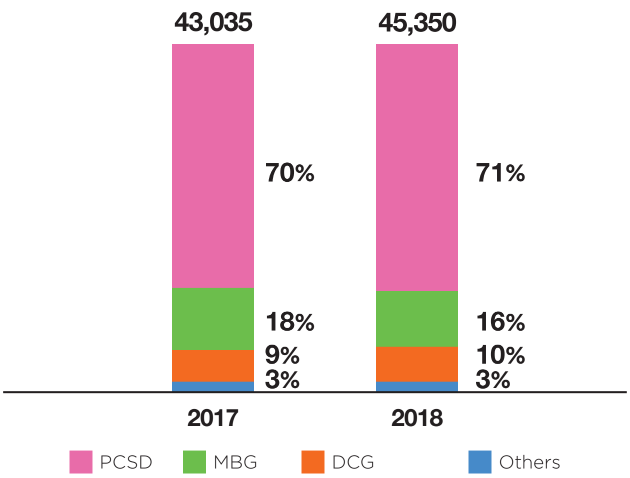
Revenue Analysis by Geography

for the year ended March 31 (US$ million)



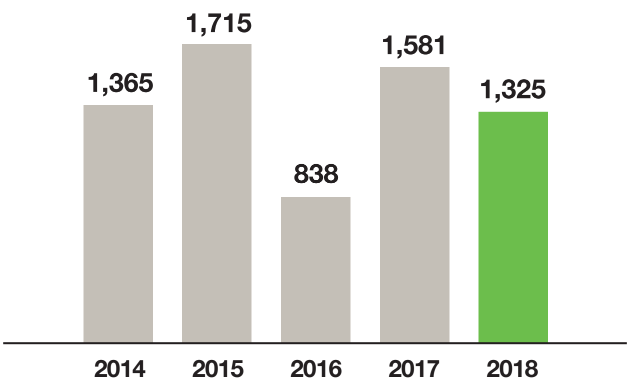
Revenue Analysis by Business Group

for the year ended March 31 (US$ million)



EBITDA[1]

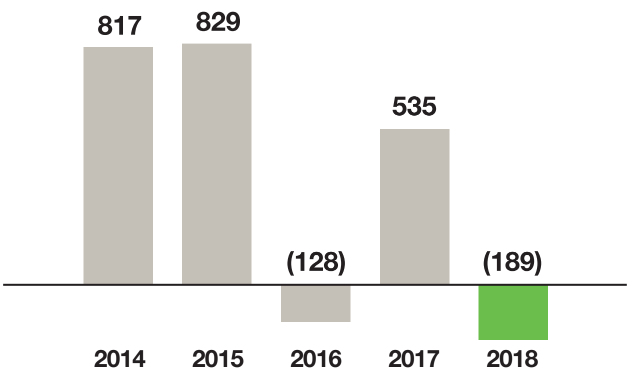
for the year ended March 31 (US$ million)



Note:
[1] Excluding "other income - net".

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

for the year ended March 31 (US$ million)




Different
travels better

The Miix 630 is a mobile user's dream."

GottaBeMobile

Lenovo Miix 630

Lenovo Miix 630

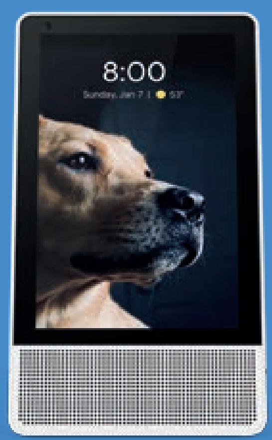
Chairman & CEO Statement

The tech sector continues to be highly competitive and trading conditions remain tough, but we have made progress across the year strategically, operationally and financially. We are confident that Lenovo's future will not only go forward, but also upward as we focus on doing our best every day for every one of customers around the world.

Moto Z2 Play

In fiscal year 17/18, despite a highly competitive global environment, we continued in transforming Lenovo from a single PC hardware business into a multi-business company. Our vision was and is to become the global leader in intelligent transformation. A vision built on our view that Artificial Intelligence (AI) is fundamentally transforming the way we live, work and play.

To fuel that vision we introduced our three-wave strategy at the start of FY16/17. The execution of this strategy has enabled us to create a sustainable leading position in PCs and tablets; build the foundations to grow a healthy and rounded data center business; reshape our mobile business for future success and launch multiple new smart devices that go beyond our core product set. As a company we will continue innovating in PCs, smartphones and smart devices such as Smart Display and AR/VR as well as build next generation Data Center solutions.



Smart Display

Lenovo YOGA 730

LEADERSHIP IN PCS AND TABLETS

In PCs and tablets, our first wave, we continue to maintain industry leading profitability as we drive a strategy of sustainable leadership. We are focusing on where we know we can bring innovation and difference to our customers as well as long term returns for shareholders. For example through high-growth segments such as gaming and workstations – both of which passed the $1 billion revenue mark this past year. Our YOGA products and heartland Think portfolio remain the industry benchmark – winning numerous awards and affording us the "Best Laptop Brand" for the second year running by Laptop Magazine. Equally our unrelenting focus on innovation continues to be applauded. Not least being recognised by the international standard in design, Reddot, with 14 awards overall – 13 for product design and the pinnacle "Best of the Best" award for ThinkPad X1 Tablet. Looking ahead, we see additional opportunities in two further high-growth segments – visuals and the thin-and-light category, as well as in upselling services. Furthermore we announced the joint venture with Fujitsu Client Computing Limited which creates a new opportunity to drive additional growth, scale and competitiveness in the PC market both in Japan and globally.

Chairman & CEO Statement

BUILDING THE GROWTH ENGINES OF THE FUTURE

In our second wave businesses we continue to make progress in line with our transformation goals. Our mobile business has faced challenges in what is a highly-competitive market. To address these we have reshaped the business for growth and are focused on strengthening our leading position and profitability in Latin America; driving breakthrough in mature markets, while maintaining healthy growth and controlled investment in emerging markets. We have optimized the cost and expense structure, are refining the product lineup and are replicating the model we operate in markets such as Brazil, where we are number two in the smartphone space, to other markets around the world. In addition we have strengthened carrier relationships in the important US market where we also range the Moto Z broadly and continue to own the value segment with the Moto G that was cited as "the most important phone of 2017" by Android Central. More recently we have integrated our PC and smart devices group with our mobile business to create a new Intelligent Devices Group (IDG). This new structure will allow us to better optimize shared platforms like global supply chain and global service, as well as accelerate the convergence of computing and communications technologies to better connect our devices, users, applications and content.

Moto Mods GamePad

Our data center business has achieved double-digit year-on-year revenue growth for two consecutive quarters, and has improved margin quarter-to-quarter for four quarters consecutively. We have driven this momentum by building dedicated data center sales and marketing capabilities; leading with new Artificial Intelligence solutions, embracing big data analytics and the growing Internet of Things (IoT); creating a new customer-centric organizational structure; aggressively reengaging our channel partners and global system integrators with new program and solutions; and by introducing our largest data center portfolio in history with our new ThinkSystem and ThinkAgile brands. We refined our Hyperscale business model, and now have design wins with six out of the top 10 global Hyperscale providers. We have been recognized as one of the fastest ramping hyper-converged company and expanded our software defined infrastructure portfolio through partnerships with Nutanix, VMware, Microsoft and others. Lenovo is the second largest OEM supplier to the Top500 Supercomputers in the world and we remain on track to our goal of becoming the #1 Supercomputing OEM by 2020.

ThinkAgile HX Series HX7520

INVESTING IN EMERGING TECHNOLOGIES

In FY17/18 we brought many new products to market. From the multi-award-winning Star Wars Jedi Challenges AR headset, to a Smart Display that takes the idea of smart assistant to the next level by adding a visual screen. We are partnering with some of the industry's most exciting companies such as Google and Disney to bring our ambitions to life. But our emerging technologies focus goes beyond AR/VR to look at wider "as a service" models and big data platform opportunities. More broadly we continue to invest through our Lenovo Capital and Incubator Group (LCIG) into some of the most exciting technologies of tomorrow – with 85 companies invested in and eight independent spin offs.

ARTIFICIAL INTELLIGENCE DRIVING INTELLIGENT TRANSFORMATION

We see a world of technology shaped by intelligence. While the potential for AI technologies across industries is still developing, Lenovo's core technologies in data center computing, PC, mobile and smart devices will make this change happen. As a business we are bringing intelligence to everything we do, from supply chain demand forecasting to customer service solutions that learn to answer the often repeated customer queries online. In the future these AI solutions will be packaged and expanded as we bring them to market for the benefit of industries such as healthcare and retail.

IN SUMMARY

The tech sector continues to be highly competitive and trading conditions remain tough, but we have made progress across the year strategically, operationally and financially. We are confident that Lenovo's future will not only go forward, but also upward as we focus on doing our best every day for every one of customers around the world.

Thank you.

Yang Yuanqing
Chairman and Chief Executive Officer

Tiny P320

Lenovo Management Team

Yang Yuanqing

Chairman and
Chief Executive Officer

Gianfranco Lanci

Corporate President and
Chief Operating Officer

Qiao Jian

Senior Vice President and
Chief Marketing Officer

Yong Rui

Senior Vice President and
Chief Technology Officer

Gao Lan

Senior Vice President,
Human Resources

He Zhiqiang

Senior Vice President and
President of Lenovo Capital and
Incubator Group

Kirk Skaugen

Executive Vice President and
President of the Data Center
Group

Wong Wai Ming

Executive Vice President and
Chief Financial Officer

Laura Quatela

Senior Vice President and
Chief Legal Officer

Not only do the Lenovo Smart Displays look more attractive, but they're also much better for privacy."

Tom's Guide

Lenovo Smart Display

Smart Display

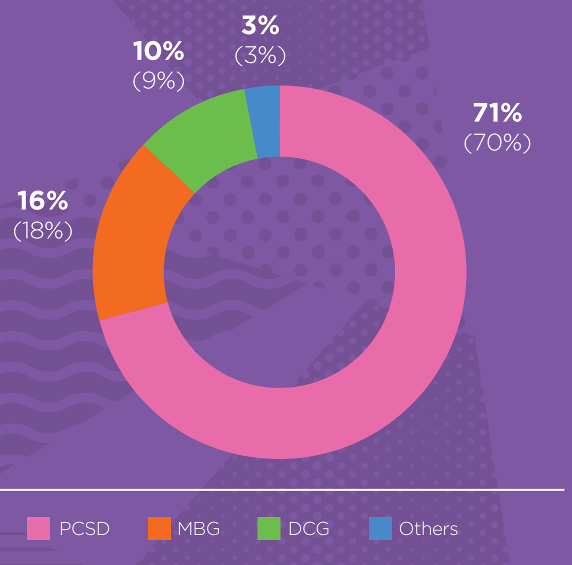

Different
inspires better

Management's Discussion & Analysis

BUSINESS REVIEW

The Group introduced the 3-wave strategy at the beginning of fiscal year 2017/18 and after a year's strong execution, both its full year revenue and operational profit before taxation returned back to growth, despite a highly competitive environment. During the fiscal quarter four ended in March 31, 2018, the Group revenue continued to grow year-on-year for three consecutive quarters led by continued strength in PCSD and Data Center Groups. The first wave PC business continued to deliver solid profitability and cash flow to the Group, which provided a solid base to fuel the growth needs of the second wave strategy in Data Center and Mobile businesses and investment needs for the third wave strategy in Device + Cloud strategy.

Revenue by Business Group (%)



During the fiscal year, the PC and Smart Device business returned to solid revenue growth after two years of decline, and saw its profitability improved quarter-on-quarter in its latest three consecutive quarters. The transformation of the second wave Data Center business continued to show strong results; revenue grew 44 percent year-on-year in fiscal quarter four, the strongest revenue growth since System x acquisition and the second consecutive quarter of double-digit year-on-year growth. In addition, the loss further narrowed quarter-to-quarter for four consecutive quarters. While its Mobile business faced challenges in a highly competitive market during the year, the Group has reshaped its strategy to significantly reduce losses going forward by focusing on profitable markets, continue strengthening in Latin America and North America, and reducing expenses. The Group's Capital and Incubator Group

Star Wars™
Jedi Challenges

As the world moves into the smart IoT era, Lenovo has successfully transformed from a single business focused on PC hardware into a multiple-device company with various smart devices available.

Mirage Solo with Daydream

continued to invest in AI (Artificial Intelligence), IoT (internet of things), big data, and VR/AR (virtual reality/augmented reality) to support its Device + Cloud strategy, through which these added capabilities will both develop new businesses and strengthen existing ones.

As the world moves into the smart IoT era, Lenovo has successfully transformed from a single business focused on PC hardware into a multiple-device company with various smart devices available. For one, the Group teamed up with Disney and launched its first Augmented Reality device – "Star Wars: Jedi Challenge" – in fiscal quarter three and was the clear number one AR headset vendor in the quarter. The Group will continue to invest in the third wave of Device + Cloud and Infrastructure + Cloud strategy to capture next generation opportunities offered by new technologies. Moreover, as Lenovo enhances customer centricity, there is greater emphasis on software and services the Group provides to enhance customer experience. As a result the Group's software and services revenue showed strong year-on-year growth and has exceeded a billion US dollar during the fiscal year under review.

For the fiscal year ended March 31, 2018, the Group's consolidated revenue grew 5 percent year-on-year to US$45,350 million. Revenue of the Group's PC and Smart Device business was US$32,379 million, representing a year-on-year increase of 8 percent. Revenue of the Data Center business increased 8 percent year-on-year to US$4,394 million. Revenue of the Mobile business decreased 6 percent year-on- year to US$7,241 million. Meanwhile, revenue of other goods and services was US$1,336 million.

For the fiscal year ended March 31, 2018, the Group's gross profit was US$6,272 million, an increase of 3 percent year-on-year, while gross margin decreased by 0.4 percentage point year-on-year to 13.8 percent, mainly due to increased component costs especially in memory. Operating expenses increased by 8 percent year-on-year to US$5,885 million, and the expense-to-revenue ratio was 13.0 percent, worsened by 0.4 percentage point year-on-year. However if the one-off items are excluded, the expense- to-revenue ratio in the previous fiscal year would have been 13.6 percent versus the 12.9 percent this fiscal year, an improvement in operating efficiency as the Group further optimized cost structure. The Group's profit before taxation was US$153 million for the fiscal year under review. Excluding the severance expenses of US$101 million and disposal gain on Wuhan R&D property of US$61 million in the fiscal year, the Group's operational profit before taxation was US$193 million, almost double the US$97 million a year ago. The new US tax legislation enacted on December 22, 2017 effectively reduced the US corporate tax rate to 21% starting from January 1, 2018. As a result, the Group recorded a one-time non-cash write-off charge of US$400 million on the deferred income tax assets, which resulted in a loss attributable to equity holders of US$189 million against a US$535 million profit recorded in the previous year. The Group's view is that the lowered tax rate in the US will benefit its operations there over time.

Management's Discussion & Analysis

PERFORMANCE OF PRODUCT BUSINESS GROUPS

During the fiscal year ended March 31, 2018, Lenovo continued to balance between growth and profitability in its PC and Smart Device business, and the transformation in Data Center started to show positive momentum. While in Mobile business, Lenovo narrowed the loss during the year, but more work needs to be done to significantly reduce the loss going forward.

PC AND SMART DEVICE BUSINESS GROUP (PCSD)

During the fiscal year under review, the PC market continued to show signs of stabilization thanks to continued commercial refresh and stabilizing consumer demand. The Group continued its strategy to prioritize profitability and to drive premium-to-market revenue growth in its PC business, which led to product mix improvements. As a result of its strong execution, the Group during the fiscal year returned to solid revenue growth of 8 percent year-on-year after two years of decline. In addition, profitability improved quarter-on-quarter in the past three fiscal quarters during the year and returned to 5 percent pre-tax profit margin in fiscal quarter four despite increases in component costs. In commercial PC, the Group continued to gain share in shipment and revenue during the fiscal year, and accounted for 60 percent of its PC unit mix versus 57 percent prior year, according to industry estimates. Within commercial, the Group continued to grab share in the Workstation segment, growing at 31 percent year-on-year in revenue. In consumer PC, the Group continued to focus on premium segments, in particular the Gaming PC saw around 91 percent year-on-year growth in revenue during the fiscal year, with increased momentum in the Legion gaming brand. The Gaming PC and Workstation product categories each reached billion-dollar scale in the fiscal year. The Group also had initial success in its new Smart Device, the AR product "Star Wars: Jedi Challenge", and grabbed the number one AR headset vendor during fiscal quarter three after its release, according to industry estimates.

In driving towards a customer-centric business, the PCSD group collaborated with the investment companies under the LCIG (Lenovo Capital and Incubator Group) to make devices smarter and provide convenience to customers. For example, the group collaborated with an AR tracking technology provider under the LCIG investment portfolio in its AR headset. And in the Lenovo New Retail stores opened in China beginning of 2018, the group has partnered with several of its portfolio companies to provide over 400 different IoT smart products. The New Retail stores use AI technologies to provide retail efficiency and prompt service delivery which would guarantee customer satisfaction.

For the fiscal year ended March 31, 2018, revenue of the Group's PCSD business was US$32,379 million, representing approximately 71 percent of the Group's total revenue, an increase of 8 percent year-on-year. Most notably, PCSD saw its year-on-year revenue grow the most in fiscal quarter four, when it grew 16 percent. PCSD revenue growth exceeded shipments growth driven by innovative products and better product mix. The business group recorded a pre-tax profit of US$1,459 million, down 2 percent year-on-year mainly due to the higher costs from the increased component prices during the year. Pre-tax profit margin was 4.5 percent, down 0.5 percentage point year-on-year.

DATA CENTER BUSINESS GROUP (DCG)

The Group's previous transformation investments in building sales capability, strengthening the channel and product solution capabilities, started to bring strong positive momentum to the business during the fiscal year under review, most notably in the second half of the fiscal year. As a result of these efforts, the Group's full year revenue returned back to growth and losses narrowed year-on-year. Moreover, the losses improved quarter-on-quarter every quarter in the fiscal year. The revenue in second half of the fiscal year also reached the highest level since the System x acquisition and saw 29 percent year-on-year growth.

YOGA 530

Within the segments, the Group during the fiscal year saw strong double-digit revenue growth in its Hyperscale business. The Hyperscale business had undergone significant business transformation to improve in-house design and manufacturing capabilities, as well as improving the customer mix, as such the margin of this business has improved significantly. The Hyperscale business now has design wins with 6 out of the top 10 largest hyperscaler customers in the world. In its Software Defined Infrastructure segment, the Group saw its revenue grew triple-digit during the fiscal year as the Group's strategic partnership with leading hyperconverged software providers continued to thrive. The Group does not have the hindrance of legacy infrastructure, making the Group the perfect partner to lead in the transition to a software defined infrastructure. While in High Performance Computing (HPC) segment, the group solidified its number two position globally in the HPC Top 500 List and is fast closing the gap with the number one player. The Group also won 5 HPC "Readers' Choice Award" at end of 2017 including best HPC server and best HPC storage as a testimony of the Group's relentless pursuit of innovation, quality and reliability in its products. For one, the Group announced the ThinkSystem SD650 Direct Water Cooled Server, which helps control some of most powerful supercomputers in the world and exemplifies innovation leadership in HPC technology.

Within the geographies, the Data Center Group continued to see strong revenue year-on-year growth in North America and EMEA (Europe, Middle-East and Africa) for four consecutive quarters and profitability improvements. China also returned to growth with double-digit revenue year-on-year growth in the second half of the fiscal year with profitability improvement.

For the fiscal year ended March 31, 2018, revenue of the Data Center business was US$4,394 million, increasing 8 percent year-on-year and representing approximately 10 percent of the Group's total revenue. The loss from the Data Center business further narrowed, more notably in the second half of fiscal year, owing to the strong execution of the transformation strategy to lead in the transition to cloud enterprise solutions. Hence, the Group recorded an operational loss before taxation of US$305 million, excluding the non-cash M&A related accounting charges during the year, which was an improvement from the US$343 million loss last fiscal year.

Management's Discussion & Analysis

MOBILE BUSINESS GROUP (MBG)

The Group's Mobile business faced challenges in some emerging markets, but continued to gain share in its core market in Latin America, where it grew 40 percent year-on-year in shipment, while improved profitability during the fiscal year. Shipments in North America grew 57 percent year-on-year driven by initial success in mainstream models with carrier expansion during the fiscal year, though more work is needed to sharpen the competitiveness in the high-end segment.

In emerging markets, slower brand transition in EMEA emerging areas and the severe competition in Asia Pacific emerging markets impacted the overall shipments performance for the year under review. Thus, the Group's worldwide smartphone shipments for the fiscal year declined by 7 percent year-on-year. In China, the Group has already significantly scaled back its operations there as the market there started to decline and remain crowded, but continued to refine its product and channel strategy to seek healthy growth there.

In light of the challenges in some emerging markets, the Group has reshaped its strategy going forward to significantly reduce losses by focusing on profitable markets, simplifying business and reducing expenses going forward.

Mobile business revenue was US$7,241 million, representing approximately 16 percent of the Group's total revenue, decreasing 6 percent year-on-year for the fiscal year ended March 31, 2018. Operational loss before taxation, excluding non-cash M&A related accounting charges, for the period under review was US$463 million, which was an improvement from the US$566 million loss previous fiscal year.

LENOVO CAPITAL AND INCUBATOR GROUP (LCIG) AND OTHERS

Lenovo Capital and Incubator Group's mission is to invest and build the Group's next-generation IT capabilities in AI, IoT, Big Data and VR/AR across various sectors such as manufacturing, healthcare and transportation. During the fiscal year, the Group's portfolio companies continued to support the core business to bring intelligence, contents and services to the devices. For example, the Group partnered with one of the portfolio companies in AR tracking technology in its AR headset. Another is the Group's investment in facial recognition and deep learning processor to help differentiate its devices. Moreover, Lenovo continued to enhance and differentiate its next-generation devices by partnering with leading best-in-class vendors, such as Google and Disney. As of the year-end under review, the Group has invested in 85 companies to help the Group build the next-generation smart solutions.

The Group also made progress in its Software and Services business to enhance customer experience and provide total intelligent solution, which saw revenue grew double-digit year-on-year and exceeded one billion US dollar mark during the fiscal year under review. LCIG continued to gain traction as a big data solution provider, winning orders from key customers, and as an IoT connectivity solution provider, winning new partners and customers.

The Group established an AI Lab in March 2017, and quickly ramped up the staff to build AI ecosystem capabilities, and has since set up core AI technologies in voice recognition, language understanding, machine learning, computer vision and data analytics.

Revenue from the LCIG, and other products such as consumer electronic businesses from previous acquisitions was US$1,336 million, representing approximately 3 percent of the Group's total revenue.

PERFORMANCE OF GEOGRAPHIES

Performance of each geography includes a combination of PCSD, DCG and MBG 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 25 percent of the Group's total revenue. In its PCSD business, the Group continued to improve the product mix and drive premium revenue growth to protect profitability, in light of a declining China PC market during the year under review. The Group's innovative products including Millennial and Gaming PCs also helped to drive a healthier consumer business. As such, the Group's PCSD revenue was flattish year-on-year against the shipment decline for the full year. The Group remained China's number one player with 36.5 percent market share in the fiscal year.

In Data Center business, the Group's transformation actions, including investing in sales capabilities, strengthening the channel and product solution capabilities to improve the product mix, showed encouraging signs of improvement during the year under review. It resumed revenue growth year-on-year in both fiscal quarter three and four, as well as improved profitability. The profitability improvement was the result of better customer mix and more efficiency in in-house design and manufacturing.

The smartphone market in China started to decline during the fiscal year, while competition remained intense. The Group has significantly scaled back its smartphone operations in China to be nimble, where it will use tactical strategy to address the market opportunities there. The scale back has resulted in shipment and revenue decline year-on-year, but the loss also narrowed significantly as a result.

The PCSD business remained the profit pool in China during the fiscal year, while the losses narrowed in DCG in the second half of fiscal year and MBG's loss for the full year also narrowed. As such, the Group recorded a pre-tax profit of US$558 million and a pre-tax profit margin of 4.8 percent, improved year-on-year.

Management's Discussion & Analysis

AMERICAS (AG)

Americas accounted for 31 percent of the Group's total revenue. In its PCSD business, the Group focused on balancing between growth and profitability in which its revenue grew faster than its shipment volume in AG during the period, driven by improvement in the product mix to protect profitability. The Group's AG PC shipment decreased by 6 percent year-on-year mainly due to a decline in North America as it focused on protecting profitability. As a result, North America PCSD profitability improved in the second half of fiscal year. And in Latin America, the Group continued to see strength with a record market share of 17.4 percent.

The Group's Data Center business continued to show positive momentum as a result of its transformation actions. Its revenue grew by double-digit and profitability improved year-on-year during the fiscal year under review. Notably, North America DCG saw revenue year-on-year growth for four consecutive quarters. The Group continued to see strength across different segments including the Hyperscale, Software Defined, and High Performance Computing segments.

The Group's Moto brand smartphones continued to show strong growth in Latin America with 40 percent shipment growth during the fiscal year and enjoyed premium brand image during the period, which enabled the Group to protect the profitability there. In North America, the Group successfully expanded its carrier channel to all four major U.S. telco partners since fiscal quarter two, and as such saw strong shipment growth during the fiscal year. Its mainstream products such as Moto G and Moto E delivered strong volume across the region. As a result, the Group's smartphone shipments grew 57 percent year on-year, far outpaced the market growth in North America. Nevertheless, more work needs to be done in the breakthrough of high-end smartphone segment in the U.S., which dragged the profit performance in the region during the period under review.

The Group recorded a profit before taxation of US$72 million in the region and its pre-tax profit margin was 0.5 percent in the fiscal year under review, against 1.2 percent in the previous fiscal year, mainly due to the slower progress in its breakthrough in mid to high-end smartphone market.

ASIA PACIFIC (AP)

Asia Pacific accounted for 16 percent of the Group's total revenue. In its PCSD business, the Group gained 1.4 percentage points of shipment market share in PCs in Asia Pacific to 17.2 percent during the fiscal year according to industry estimates, driven by targeting high growth areas.

The Group's transformation of its Data Center business started to bring revenue growth back in the second half of fiscal year on year-on-year basis, owing to its previous investments in enhancing capabilities in sales, channel, and product solutions.

The Group's smartphone business in the region faced fierce competition during the fiscal year, hence the Group readjusted its strategy to focus on margin protection. As such, the Group saw smartphone shipments decline and share loss in the fiscal year.

Loss before taxation was US$134 million and pre-tax profit margin was negative 1.9 percent during the fiscal year, a decrease from negative 0.9 percent of previous fiscal year, mainly due to the readjustment of smartphone strategy in the region.

EUROPE-MIDDLE EAST-AFRICA (EMEA)

EMEA accounted for 28 percent of the Group's total revenue. During the fiscal year under review, the Group saw its PC business in EMEA gaining positive momentum with margin expansion owing to its continued solid performance in Western Europe. Its PC unit shipments grew 4 percent year-on-year, and reached a record market share of 21.2 percent.

The Group's Data Center business saw growth return in the region with strong revenue growth and profitability improvement during the fiscal year. The Group had initial success in Hyperscale and won the largest Supercomputer project in Europe in Germany and further expanded its High Performance Computer business footprint to several other mature countries in the region.

In its smartphone business, the Group adjusted its strategy to focus on the mature markets of EMEA in order to focus on profit protection, as such the smartphone shipment in the region saw a decline during the fiscal year under review.

The Group incurred US$62 million loss before taxation in EMEA during the fiscal year under review, leading to a pre-tax profit margin of negative 0.5 percent, improved from negative 3.0 percent of previous fiscal year thanks to the improvement from PCSD and Data Center businesses.

Management's Discussion & Analysis

MATERIAL RISKS OF THE GROUP

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

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

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

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

Risk Description	Key Risk Mitigations
Business Risk	
The Group operates in a highly competitive industry which faces rapid changes in market trends, consumer preferences and constantly evolving technological advances in hardware performance, software features and functionality. It faces aggressive product and price competition from new entrants and existing competitors. The industry continues to experience consolidation. Failure to respond effectively to changes in market trends or consumer preferences through timely launches of new products, or through competitive prices against the backdrop of global slowdown in the traditional PC market could harm its competitive position.	Continual reviews of competition and market trends. Maintain a competitive position through commitments to innovate and build a broad product portfolio and grow brand name to differentiate the Group and gain market share and recognition. Execution of clear strategy to protect and drive profitability in the core PC business, while continuing to attack the faster growing Mobile and Data Center businesses.

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

Risk Description	Key Risk Mitigations
Merger & Acquisition Risk	
As part of the Group's expansion plan, we acquire companies or businesses, enter into strategic alliances and joint ventures and make investments. The Group faces risk such as economy, political and regulatory uncertainty, market volatility, and other challenges associated with our acquisitions. Our due diligence process may fail to identify significant issues, resulting in an overly optimistic valuation forecasts. We may not fully realise all of the anticipated synergies/benefits, and may result in significant cost and expenses and charges to earnings.	Drive a rigorous due diligence and financial forecasting process to ensure assets are appropriately valued.
The acquisitions affects our liquidity and financial condition. We may borrow to finance the acquisitions. The debt financings could involve restrictive covenants that could limit the Group's capital-raising activities and operating flexibility.	On liquidity and financial implications, see "Financial Risk" on Page 28 for mitigation plan.

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

Risk Description	Key Risk Mitigations
Financial Risk	
As the Group operates globally, significant or prolonged economic instability or financial market deterioration may materially and adversely impact the Group's financial condition. The Group is exposed to a variety of financial risks, such as foreign currency risk, cash flow risk, credit risk and liquidity risks.	The Group Treasury department has put in place a financial risk management programme that focuses on the unpredictability of financial markets and seeks to minimize the potential adverse impact on the Group's financial performance. For more analysis, see "Notes to The Financial Statements" (pages 197 to 205)
Due to the international nature of our business and continuous changes in local and international tax rules and regulations, the application of such rules and regulations to our operations and transactions involves inherent uncertainty and may affect our tax position and the value of tax assets and liabilities carried in the balance sheet.	The Group Tax department carefully monitors developments in our business and in the global tax environment in order to make sure rules and regulations are applied appropriately and risks are mitigated where possible.
Intellectual property (IP) risk	
The Group could suffer if it does not develop and protect its own intellectual property or its suppliers are not able to develop or protect desirable technology or technology licenses. The risks include: • higher business costs as a result of increased licensing demands from patent holders; • loss or diminished value of intellectual property as an asset, as a result of legal findings of unenforceability and challenges to title or ownership; • higher legal costs to defend against claims of intellectual property infringement and potential settlements or damages; • product design-around costs and negative impacts to customer or supplier relationships; • Risk of interruption of Lenovo's ability to ship products due to injunctions or exclusion orders in particular countries resulting from adverse judgments in IP infringement cases filed against Lenovo.	Take appropriate legal measures to protect know-how and trade secrets, apply for and enforce patents, and register and protect trademarks and copyrights. License IP as appropriate, and monitor its continued validity and value to the Group. Obtain IP indemnification from, or otherwise transfer responsibility for IP coverage to suppliers. Monitor, develop and execute IP litigation and settlement strategy. Use Lenovo patent portfolio as appropriate to decrease potential IP exposure.

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

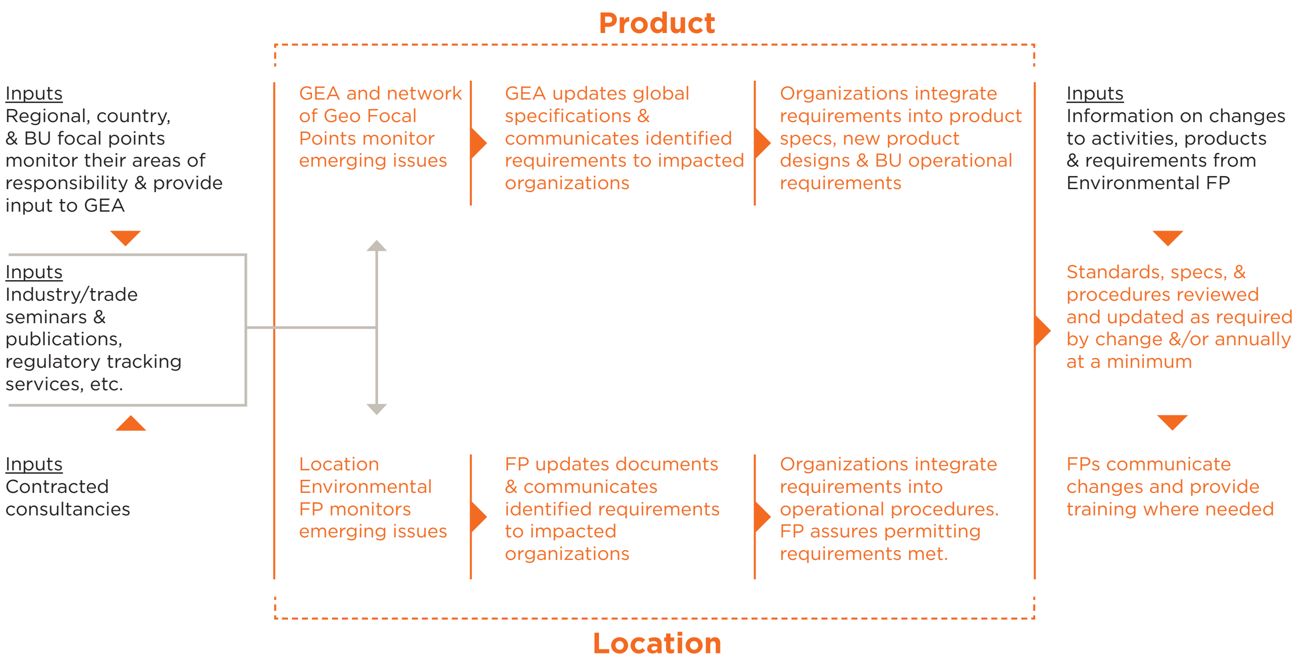
Risk Description	Key Risk Mitigations
Human Capital Risk	
The Group faces intense competition for skilled and experience workers due to fast-changing market dynamics and an increasingly diversified business landscape. For ongoing success, the Group must continue to attract, retain and motivate key talent across the enterprise, and ensure smooth transitions throughout the ongoing business transformation. The uncertainty created by changes in immigration policies will affect the Group's talent mobility and international talent acquisition strategy.	Focus human capital initiatives and strategic workforce planning in the areas of talent acquisition, development, rewards, and retention to address challenges proactively and support the business transformation in an environment of intense competition. Drive continuous improvements in competitive reward strategies and evolve compensation and benefits programs into a more differentiated model to support an increasingly diverse business landscape and employee population. Further invest in employee and leadership development programs to build employee engagement, accelerate the internal movement of top talent, and ensure strength of the leadership pipeline. Proactively review the implications of immigration laws change and carry out contingency planning to mitigate potential impacts. Once new laws and regulatory changes are implemented, we focus to prioritise these changes to align with the Group's workforce strategy.

ENVIRONMENT

Responsible environmental stewardship is a fundamental Lenovo value. A core element of Lenovo's commitment to good environmental stewardship is complying with all applicable laws and regulations wherever we do business. Compliance is central to Lenovo's Environmental Affairs Policy, which applies to all global operations, employees and contractors performing work on behalf of Lenovo. This policy forms the foundation for Lenovo's ISO 14001-certified Environmental Management System (EMS), which includes processes for evaluating legal and voluntary requirements and ensuring compliance across Lenovo's global development and manufacturing operations for personal computers, workstations, servers, storage, mobile device hardware, and smart devices including monitors and accessories.

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

Process for Establishing, Monitoring & Maintaining Compliance



Management's Discussion & Analysis

Lenovo advances 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. All in-house manufacturing sites are audited internally to ISO 14001 and OHSAS 18001 standards annually, and audited externally at least once every three years.

Lenovo's Robust EMS Ensures Environmental Compliance

	FY2017/18	FY2016/17	FY2015/16	FY2014/15	FY2013/14
Total monetary value of significant environmental fines	**0**	0	0	0	0
Number of environmental fines paid	**0**	0	0	0	0
Total number of non-monetary environmental performance-related sanctions	**0**	0	0	0	0

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

In addition, Lenovo conducts a Significant Environmental Aspect evaluation at least annually as part of Lenovo's ISO 14001 EMS. This process evaluates Lenovo's significant or material environmental aspects and includes a consideration of risks and opportunities. Under the EMS, once the significant environmental aspects are identified, objectives and targets are established along with KPIs addressing key impacts in the areas of site operations, product and global supply chain. Progress on objectives and targets is monitored and measured. Results regarding Lenovo's FY 2017/18 objectives and targets, as well as other facets of its environmental performance, will be published in the 2017/18 Sustainability Report.

STAKEHOLDERS

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

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

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

More information about Lenovo's sustainability programs can be found in the Sustainability Overview on pages 123 to 136 of this Annual Report.

TALENT AND CULTURE

We Are Lenovo

The "We Are Lenovo" cultural principles of Customer Focus, Teamwork and Trust, Entrepreneurship, and Innovation are the heart of Lenovo's talent management practices.

"...As we aim higher, ownership and entrepreneurship within the context of One Company are now much needed – in fact, more than ever." – Yuanqing Yang

Employee Performance and Compensation

Lenovo continues to leverage its performance management and compensation programs to reinforce a strong commitment and customer culture. This approach includes annual goal setting and review, calibration of individual ratings across organizations to ensure a fair assessment, and recognition of individual and team performance.

The integration of customer experience metrics into the individual goal setting process and the annual incentive programs helps accelerate the transformation of Lenovo from a product to a customer centric organization.

"Our transformation from product centricity to customer centricity has become relevant to every team, every individual, through clear objectives and measurements." – Yuanqing Yang

A refresh of the Lenovo Compensation Philosophy in 2017/18 retained the focus on pay for performance and added more flexibility in the design of business specific programs within a consistent One Lenovo Compensation framework. This ensures that top contributors are paid competitively in light of their contributions and relevant market practices.

Management's Discussion & Analysis

Talent Management and Succession Planning
Lenovo's 2017-18 annual Organizational and Human Resource Planning (OHRP) process further reflected the Company's transformation from a product centric to customer centric organization. The focus on attracting and promoting top talent to accelerate advances in key technologies and serve new customer segments was seen across all business lines. A significant increase in AI talent was noted for Lenovo Research, as well as within product development groups across the business. Top external female senior leadership new hires within DCG were noted as key wins.

"We should all feel excited about the once-in-life-time opportunities that Lenovo has, in this AI age." – Yuanqing Yang

Talent Acquisition
Lenovo's long-term talent acquisition strategy remains steadily focused on building the employer brand and investing in the attraction of next generation talent for future growth.

Training and Development
At Lenovo our 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. We have enhanced our management and leadership development program to provide support for managers during their leadership progression at Lenovo by offering specific training experiences at key points in their careers. Instructor-led professional development courses and forums are made available throughout the year, in addition to rich online learning resources provided on demand via our global learning management system. Besides formal training, Lenovo's 70-20-10 approach to employee development recognizes that employees learn through three distinct types of experiences: on-the-job training and assignments (70%), developmental coaching and mentoring relationships (20%), and coursework and training (10%). Lenovo also places a high priority on executive development, bringing senior leaders together once a year to share best practices, learn from external experts and drive strategic alignment across the enterprise through Global Leadership Meeting (GLT) and Lenovo Executive Accelerator Program (LEAP).

BRAND BUILDING

Lenovo continued to build its brand presence globally, once again being listed among Interbrand's 100 best global brands. The brand statement 'Different is better' resonates with audiences globally and is helping to establish Lenovo's unique point of view. For us 'Different is better' means that we provide distinctive technology through a global business model that is differentiated in the market by its scale and diversity. Our innovations are sought by customers who share our mindset: by consumers who want to stand out from the crowd, by businesses that are driving disruption, and by pioneers in every discipline who are seeking to tackle the world's biggest problems.

We also are approaching culture with a different point of view. Campaigns like Motorola's tech/life balance campaign, which questions how users can bring control back to their smartphone relationships, helped to drive relevant conversations among consumers. Lenovo ranked in NetBase' Top 100 brand love list for its enthusiastic social community, who actively engaged online in campaigns like the retro ThinkPad launch that solidify the strong connections that consumers have to Lenovo's products.

The 'Different is better' mindset is shaping our approach to every touchpoint – from service and support to talent recruitment. The brand ethos is driving us to define our advantages for employees and customers and to continue proving why Lenovo is the different and better choice.

FINANCIAL HIGHLIGHT

RESULTS

For the year ended March 31	2018 US$'000	2017 US$'000
Revenue	**45,349,943**	43,034,731
Gross profit	**6,272,131**	6,105,516
Gross profit margin	**13.8%**	14.2%
Operating expenses	**(5,885,408)**	(5,433,168)
Operating profit	**386,723**	672,348
Other non-operating expenses – net	**(233,521)**	(182,421)
Profit before taxation	**153,202**	489,927
(Loss)/profit for the year	**(126,775)**	530,441
(Loss)/profit attributable to equity holders of the Company	**(189,323)**	535,084
(Loss)/earnings per share attributable to equity holders of the Company (US cents)		
– Basic	**(1.67)**	4.86
– Diluted	**(1.67)**	4.86
EBITDA*	**1,324,723**	1,581,086
Profit before taxation excluding restructuring charges and disposal gains on properties ("Operational performance")	**192,502**	96,135
Dividend per ordinary share (HK cents)		
– Interim dividend	**6.0**	6.0
– Proposed final dividend	**20.5**	20.5

* Excluding "other income – net"

Management's Discussion & Analysis

For the year ended March 31, 2018, the Group achieved total sales of approximately US$45,350 million. Loss attributable to equity holders for the year was approximately US$189 million, as compared with profit attributable to equity holders of US$535 million reported last year. This is mainly attributable to the write off of deferred income tax assets of US$400 million, pursuant to the Tax Cuts and Jobs Act enacted by the government of United States ("US") on December 22, 2017, with the US corporate tax rate reduced for tax years beginning after December 31, 2017. Gross profit margin for the year was 0.4 points down from 14.2 percent reported last year. Basic and diluted loss per share were US1.67 cents, as compared with basic and diluted earnings per share of US4.86 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	**2018** Revenue from external customers US$'000	**2018** Adjusted pre-tax income/(loss) US$'000	2017 Revenue from external customers US$'000	2017 Adjusted pre-tax income/(loss) US$'000
China	**11,525,321**	**557,641**	11,794,773	539,137
AP	**7,156,293**	**(133,664)**	7,011,595	(65,155)
EMEA	**12,481,897**	**(62,383)**	11,187,313	(336,666)
AG	**14,186,432**	**71,746**	13,041,050	157,452
	45,349,943	**433,340**	43,034,731	294,768

Operating expenses analyzed by function for the years ended March 31, 2018 and 2017 are as follows:

For the year ended March 31	**2018 US$'000**	2017 US$'000
Other income – net	**301**	10,891
Selling and distribution expenses	**(2,833,253)**	(2,680,631)
Administrative expenses	**(1,757,319)**	(1,851,990)
Research and development expenses	**(1,273,729)**	(1,361,691)
Other operating (expenses)/income – net	**(21,408)**	450,253
	(5,885,408)	(5,433,168)

Operating expenses for the year increased by 8 percent as compared with last year. During the year, the Group recorded gain of US$61 million on monetizing the Wuhan R&D property, while in last year, the Group recorded gain of US$553 million on monetizing certain non-core assets and disposal of a joint venture. The Group announced resource actions and incurred severance costs of US$101 million (2017: US$146 million) to further enhance efficiency and competitiveness in view of industrial challenges. The Group has also reduced the advertising and promotional expenses by US$47 million compared with last year. Other income in last year mainly represented net gain on disposal of an available-for-sale financial asset of US$12 million. The Group recorded a net exchange loss of US$56 million (2017: US$111 million) for the year. Key expenses by nature comprise:

For the year ended March 31	**2018 US$'000**	2017 US$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**(148,177)**	(155,583)
Amortization of intangible assets	**(443,809)**	(432,996)
Employee benefit costs, including	**(3,222,012)**	(3,173,774)
– *long-term incentive awards*	***(199,779)***	*(180,892)*
– *severance and related costs*	***(100,775)***	*(146,368)*
Rental expenses under operating leases	**(131,858)**	(123,936)
Net foreign exchange loss	**(55,735)**	(110,968)
Advertising and promotional expenses	**(842,365)**	(888,883)
Impairment of property, plant and equipment	**(4,608)**	(7,303)
Gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**50,937**	336,172
Gain on disposal of a joint venture	**-**	218,366
Dilution gain of interests in associates and a joint venture	**2,499**	14,260
Others	**(1,090,280)**	(1,108,523)
	(5,885,408)	(5,433,168)

Management's Discussion & Analysis

Other non-operating expenses (net) for the years ended March 31, 2018 and 2017 comprise:

For the year ended March 31	2018 US$'000	2017 US$'000
Finance income	**32,145**	27,795
Finance costs	**(263,160)**	(231,627)
Share of (losses)/profits of associates and joint ventures	**(2,506)**	21,411
	(233,521)	(182,421)

Finance income mainly represents interest on bank deposits.

Finance costs for the year increased by 14 percent as compared with last year. This is mainly attributable to the interest expense of US$20 million in relation to the 5-Year US$500 million notes, issued in March 2017, bearing annual interest at 3.875%, and the increase in factoring cost of US$43 million, partly offset by the decrease in interest on promissory note issued to Google Inc. of US$41 million.

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

FINANCIAL POSITION

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

Non-current assets	2018 US$'000	2017 US$'000
Property, plant and equipment	**1,304,751**	1,236,250
Prepaid lease payments	**507,628**	473,090
Construction-in-progress	**382,845**	413,160
Intangible assets	**8,514,504**	8,349,145
Interests in associates and joint ventures	**35,666**	32,567
Deferred income tax assets	**1,530,623**	1,435,256
Available-for-sale financial assets	**373,077**	255,898
Other non-current assets	**181,759**	122,221
	12,830,853	12,317,587

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. Increase of 6 percent is mainly attributable to the Group's further investments in headquarters in China, plant and machinery and office equipment, partly offset by current year depreciation.

Prepaid lease payments
Prepaid lease payments represent the land use rights in respect of the manufacturing sites and headquarters in China. Increase of 7 percent is mainly due to the land use right acquired for the new headquarters in China.

Construction-in-progress
Construction-in-progress comprises mainly the Group's investments in headquarters in China, 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.

Interests in associates and joint ventures
Interests in associates and joint ventures increased by 10 percent, which is mainly brought by additional investments during the year.

Deferred income tax assets
Deferred income tax assets amounted to US$1,531 million as at current year end, representing an increase of 7 percent over last year, which is mainly attributable to tax losses and temporary differences in relation to provisions and accruals arising in the normal course of business. Pursuant to the Tax Cuts and Jobs Act enacted by the government of the US on December 22, 2017, the US corporate tax rate is reduced for tax years beginning after December 31, 2017. The rate change leads to a write-off of US deferred income tax assets of approximately US$400 million for the year.

Available-for-sale financial assets
Available-for-sale financial assets increased by 46 percent, which is mainly attributable to additional investments during the year and exchange adjustment.

Other non-current assets
Other non-current assets amounted to US$182 million as at current year end, representing an increase of 49 percent over last year, which is mainly attributable to the increase of indirect tax recoverable and other construction.

Current assets	**2018 US$'000**	2017 US$'000
Inventories	**3,791,691**	2,794,035
Trade receivables	**4,972,722**	4,468,392
Notes receivable	**11,154**	68,333
Derivative financial assets	**24,890**	53,808
Deposits, prepayments and other receivables	**4,703,335**	4,333,351
Income tax recoverable	**227,203**	199,149
Bank deposits	**84,306**	196,720
Cash and cash equivalents	**1,848,017**	2,754,599
	15,663,318	14,868,387

Inventories

Inventories increased by 36 percent which is in line with the Group's business growth and more purchases in contemplation of the plan to mitigate the risks of cost increases and supply constraints of key components.

Trade receivables and Notes receivable

Trade receivables and notes receivable increased by 11 percent, which is in line with increase in 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 component parts sold in the ordinary course of business. Increase is in line with the increase in business activities and attributable to receivable arising from disposal of a subsidiary holding the Wuhan property.

Total equity

Total equity amounted to US$4,546 million as at current year end. The increase in total equity is mainly due to the issuance of ordinary shares of US$496 million and perpetual securities of US$150 million, and share-based compensation during the year, mainly offset by dividend paid.

Non-current liabilities	**2018 US$'000**	2017 US$'000
Borrowings	**2,648,725**	2,966,692
Warranty provision	**278,908**	280,421
Deferred revenue	**583,405**	537,428
Retirement benefit obligations	**413,482**	370,207
Deferred income tax liabilities	**230,609**	221,601
Other non-current liabilities	**333,332**	380,557
	4,488,461	4,756,906

Borrowings

Borrowings (classified as non-current) decreased by US$318 million mainly attributable to the repayment of bank loans during the year.

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 labour associated with warranty repair and service actions. The period ranges from one to three years. The Group revaluates 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 combination and accelerated tax depreciation.

Other non-current liabilities
Other non-current liabilities mainly comprise government incentives and grants received in advance and deferred rent for offices. The decrease of 12 percent is mainly due to the recognition of government incentives and grants as income upon fulfilment of certain conditions.

Current liabilities	2018 US$'000	2017 US$'000
Trade payables	**6,450,792**	5,649,925
Notes payable	**801,974**	835,613
Derivative financial liabilities	**62,694**	67,285
Other payables and accruals	**9,217,764**	10,004,614
Provisions	**858,475**	873,405
Deferred revenue	**732,552**	586,536
Income tax payable	**168,779**	246,465
Borrowings	**1,166,692**	70,003
	19,459,722	18,333,846

Trade payables and Notes payable
Trade payables and notes payable increased by 12 percent, which is in line with more purchases activities during the fourth quarter of current year.

Other payables and accruals
Other payables and accruals comprise the allowance for billing adjustments relating primarily to allowance for future volume discounts, price protection, rebates, and customer sales returns. Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors. The balances decreased mainly driven by the settlement of remaining deferred consideration payable to Google Inc. settled during the year.

Provisions
Provisions comprise warranty liabilities (due within one year), environmental restorations and restructuring provision. The decrease of 2 percent over last year is due to settlement of severance costs and partly offset by the US$101 million severance provisions during the year.

Borrowings
Borrowings (classified as current) amounted to US$1,166 million as at current year end. The increment in balance is mainly attributable to drawn down of short term loans during the year.

Management's Discussion & Analysis

CAPITAL EXPENDITURE

The Group incurred capital expenditure of US$671 million (2017: US$803 million) during the year ended March 31, 2018, 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, 2018, total assets of the Group amounted to US$28,494 million (2017: US$27,186 million), which were financed by equity attributable to owners of the Company of US$3,519 million (2017: US$3,223 million), perpetual securities of US$994 million (2017: US$844 million) and other non-controlling interests (net of put option written on non-controlling interest) of US$33 million (2017: US$28 million), and total liabilities of US$23,948 million (2017: US$23,091 million). At March 31, 2018, the current ratio of the Group was 0.80 (2017: 0.81).

The Group had a solid financial position. At March 31, 2018, bank deposits, cash and cash equivalents totaled US$1,932 million (2017: US$2,951 million), of which 28.8 (2017: 45.1) percent was denominated in US dollar, 45.6 (2017: 29.0) percent in Renminbi, 6.1 (2017: 6.6) percent in Euro, 7.4 (2017: 5.2) percent in Japanese Yen, and 12.1 (2017: 14.1) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At March 31, 2018, 99.6 (2017: 78.5) percent of cash are bank deposits, and 0.4 (2017: 21.5) percent of cash are investments in liquid money market funds of investment grade.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes.

The Group entered into a 5-Year loan facility agreement with syndicated banks for US$1,200 million, comprising US$800 million as revolving loan facility and US$400 million as term loan facility, on December 18, 2013. The term loan facility has been prepaid. As at March 31, 2018, the revolving loan facility was utilized to the extent of US$800 million (2017: not utilized). The outstanding US$800 million was re-financed and prepaid in April 2018 by a 5-Year revolving loan facility with syndicated banks of US$1,500 million signed on March 28, 2018.

In addition, on May 26, 2015, the Group entered into a 5-Year revolving loan facility agreement with a bank for US$300 million. The facility was utilized to the extent of US$300 million as at March 31, 2018 (2017: not utilized).

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

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

On March 29, 2018, the Group completed the issuance of 5-Year US$750 million notes bearing annual interest at 4.75% due in March 2023 ("Note 2023"). The proceeds were majorly used to repurchase the principal amount of US$714 million of the Note 2019, and for general corporate purpose including working capital.

The Group has also arranged other short-term credit facilities. At March 31, 2018, the Group's other total available credit facilities amounted to US$11,232 million (2017: US$10,710 million), of which US$1,730 million (2017: US$1,584 million) was in trade lines, US$796 million (2017: US$293 million) in short-term and revolving money market facilities and US$8,706 million (2017: US$8,833 million) in forward foreign exchange contracts. At March 31, 2018, the amounts drawn down were US$1,090 million (2017: US$1,086 million) in trade lines, US$8,645 million (2017: US$8,216 million) being used for the forward foreign exchange contracts, and US$70 million (2017: US$70 million) in short-term bank loans.

At March 31, 2018, the Group did not have any term bank loan (2017: US$398 million), and the Group's outstanding borrowings represented by short-term bank loans of US$1,166 million (2017: US$70 million) and notes of US$2,649 million (2017: US$2,569 million). When compared with total equity of US$4,546 million (2017: US$4,095 million), the Group's gearing ratio was 0.84 (2017: 0.74). The net debt position of the Group at March 31, 2018 is US$1,883 million (2017: US$86 million).

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At March 31, 2018, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$8,654 million (2017: US$8,216 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

CONTINGENT LIABILITIES

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

HUMAN RESOURCES

At March 31, 2018, the Group had a headcount of more than 54,000 worldwide.

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

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

Management's Discussion & Analysis

FUTURE PROSPECTS

The Group's strong execution in its transformation started to show positive results with revenue and operational profit before taxation resumed growth during the fiscal year. Lenovo has a clear vision to drive sustainable, profitable growth going forward. Although the markets the Group participates in remain fiercely competitive, management is confident in its ability to successfully execute the strategy and weather the competition. At the same time, Lenovo continues to invest in emerging technologies and merge smart technologies into its core business. And as the market moves into the smart IoT era, Lenovo sees PC, smartphone and IoT devices as one device portal from which the users can move seamlessly from one to another through the cloud and using smarter tools that make tasks easier. As such, the Group has formed the "Intelligent Devices Group", combining PCSD and MBG together, to speed the convergence of computing and communication technologies in products, to optimize shared platforms such as global supply chain and global service, and to accelerate the smart device + cloud services platform in providing intelligent services to users.

Under the new "Intelligent Devices Group", Lenovo will have the structure and business model to be more customer centric, offering customer one-stop solutions to their computing needs right at the edge of the network. The Group will continue to leverage its excellence in branding, operational efficiency and supply chain management to bring best-in-class devices to customers. Moreover, the Group aims to expand business through services or subscriptions model, offering customer a total solution when purchasing devices. The Group remains confident in its core PC business, and aims to grow premium to market in revenue without compromising on profitability. Lenovo will leverage industry consolidation opportunities, and drive growth in the high-growth segments such as gaming PCs and workstations. The Group's iconic commercial brand, ThinkPad, celebrated its 25th anniversary with 125 million units shipped since its launch, will continue to drive growth in the ongoing commercial PC refresh. With Smart Devices, Lenovo continues to invest in and develop next-generation smart capabilities, and has now entered the go-to-market phase to bring more innovative products to the market, i.e. Mirage Solo standalone VR headset with Google's Daydream launched in early May 2018, as well as AI-enabled devices in smart home and smart office coming soon. With smartphone, the Group will continue to strengthen its core markets in Latin America and North America, focus on profitable markets, and cut expenses to significantly reduce the loss in this business. The Group's long-term vision is to build an ecosystem around its devices and generate a healthy business model that comprises of a mixture of hardware, software and services revenues.

In the Data Center business, the Group's transformation has been well executed and starting to see positive results in steering the business into a world-class next-generation IT solution provider. The next-generation IT products and solutions such as software defined solutions, high-performance computing and hyperscale now represent a much larger mix of the DCG revenue in fiscal quarter four. The Group will continue to drive growth in these segments, as well as profitability improvement for overall DCG business. Lenovo also seeks to strengthen various industrial solutions such as those for 5G Telecom and IoT. In Hyperscale, the Group continues to leverage its world-class in-house design and manufacturing capabilities, and bring compelling offerings to the global hyperscalers. And in software defined data center, the Group will continue to partner with the best-in-class software vendors to give customers the flexibility. In high-performance computing, Lenovo aims to further narrow the gap with the number one vendor in the global Top 500 HPC List. And in the customer-centric model, the Group will also strengthen its attach rates in storage, networking, and services; so as to offer a more compelling total solution and build a long-term business relationship with customers. The Group will continue to build on its solid foundation with its strong organizational structure and product portfolio, while also enhancing its sales capabilities, strengthening channel management, and driving growth in high-growth segments. The Group now has the most compelling products in its history under the ThinkSystem and ThinkAgile brands to drive profitable growth in the future, coupled with the fast time-to-market product rollout, industry-leading product reliability and the increasingly capable sales force.

The Group continues to invest in AI, IoT, Big Data and VR/AR with sizable investments over time. With that, the Group is building capabilities in Device + Cloud and Infrastructure + Cloud in order to capture the growth in the smart IoT era. The Group has incorporated its AI core capabilities, such as voice recognition, language understanding and machine learning to strengthen its supercomputer, edge computing, and cloud computing capabilities. Thomson Reuters named Lenovo a Top 100 Global Tech Leader in 2018 for its outstanding performance in the areas of innovation, environmental impact and corporate social responsibility, demonstrating Lenovo's innovation capabilities and focus on sustainability. And most recently, Laptop Magazine named Lenovo the Best Laptop Brand 2018 for the second year, as well as won 14 iF Annual Design Awards for products like "Star Wars: Jedi Challenge" and Mirage Solo VR headset.

Looking forward, market conditions remain challenging in the short term. However, the Group now has a stronger organization with sharper customer focus and more compelling business model across all its businesses. Coupled with strong execution, the Group remains confident it can build leading positions in every business the Group enters and drive profitable growth that, in turn, creates better value for shareholders.

This is one business laptop you'll need to consider.”

LAPTOP

ThinkPad X1 Yoga

ThinkPad X1 Yoga

Different collaborates better

Corporate Governance Report

Corporate Governance

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CORPORATE GOVERNANCE PRINCIPLES AND STRUCTURE

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

Compliance with Corporate Governance Code

Throughout the year ended March 31, 2018, 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 chairs 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 also calls and chairs 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 provide an effective balance on power and authorizations between the Board and the management of the Company.

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

Corporate Governance Report

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

Governance Structure

SHAREHOLDERS AND OTHER STAKEHOLDERS
More details, Pages 93 to 99

BOARD OF DIRECTORS
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Nomination and Governance Committee
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Chief Executive Officer
More details, Page 51

Lenovo Executive Committee*

Senior Management

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

KEY MATTERS RESERVED TO THE BOARD DECISION

The Board has adopted a schedule of key matters relating to the strategy, finance and governance which are for decision by the Board. The table on page 65 sets out these key matters reserved by the Board for decision.

BOARD COMMITTEES STRUCTURE

The Board has delegated authority for its key governance functions to three main committees with the responsibilities outlined on page 72. Details of the activities and decisions taken by these committees during the year are shown in the relevant committees reports.

CEO, LENOVO EXECUTIVE COMMITTEE AND DELEGATED AUTHORITIES

CEO who manages the business in line with the strategy agreed by the Board and is accountable to it. Details of the responsibilities of CEO are set out on page 51.

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

LEADERSHIP

Board Roles

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

CHAIRMAN

Mr. Yang Yuanqing

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

NON-EXECUTIVE DIRECTORS

Independent non-executive directors:

Dr. Tian Suning
Mr. Nicholas C. Allen
Mr. Nobuyuki Idei
Mr. William O. Grabe
Mr. William Tudor Brown
Ms. Ma Xuezheng
Mr. Yang Chih-Yuan Jerry
Mr. Gordon Robert Halyburton Orr

Non-executive directors:

Mr. Zhu Linan
Mr. Zhao John Huan

- participate in Board meetings to bring an independent judgement to bear on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct
- take the lead where potential conflicts of interests arise
- scrutinise the Group's performance in achieving agreed corporate goals and objectives, and 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; and (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

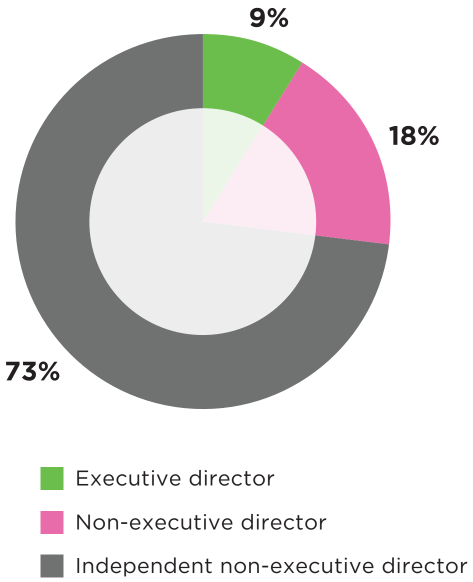
- formulates and recommends the strategy of the Group to the Board
- executes the strategy agreed by the Board
- makes and implements operational decisions and manages the business day-to-day
- leads the business and the management team

Corporate Governance Report

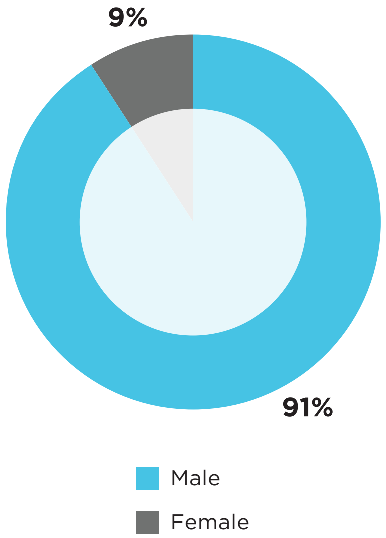
Board Composition
The structure, size and composition (including, for example, gender, age, and length of service) of the Board will be reviewed from time to time by the Nomination and Governance Committee to ensure that the Board has a balance of skills and expertise for providing effective leadership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

The Board diversity mix is shown below while the detailed biographies and snapshot of the Board's experience are set out on pages 142 to 145 of this annual report.

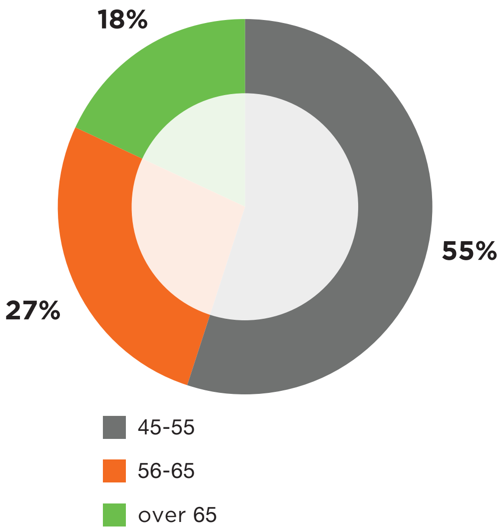
DESIGNATION



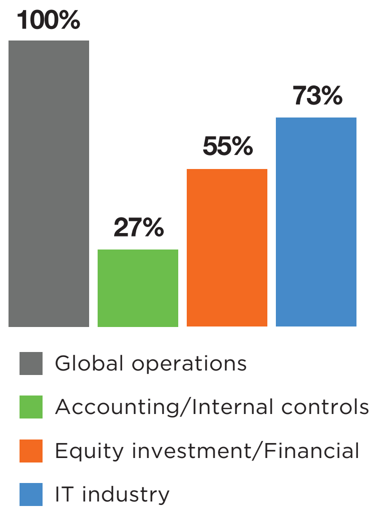
GENDER



AGE GROUP



AREAS OF EXPERIENCE



Key Features of the Board Composition

Diversity	The Board adopted a Board diversity policy (the "**Board Diversity Policy**") which relates to the selection of candidates for the Board. A summary of the Board Diversity Policy including the views and measurable objectives is set out on page 54 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 51 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 29.102% of the total number of shares in issue of the Company as of March 31, 2018 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 99 of this report.
	To the best knowledge of the Board members, there is 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 142 to 145 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 55 of this report.

The Nomination and Governance Committee has been delegated with the responsibilities for the review of the Board Diversity Policy on an annual basis. During the fiscal year 2017/18, 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	• On-going search for appropriate candidates to be appointed as independent non-executive directors • In the ordinary course of the Board succession process
Objective 2	Report annually against the objectives and other initiatives taking place within the Company which promote diversity	• The Board evaluation process includes an assessment of the Board's diversity helping to objectively consider the Board composition and effectiveness • FY2018/19 and ongoing
Objective 3	Report annually on the outcome of the composition and structure of the Board as well as any issues and challenges the Board is facing when considering the diverse make-up of the Company	• Make use of the Board evaluation process as an important means of monitoring the progress • Remain committed to getting the right balance of the composition of the Board and work towards understanding and managing some of the challenges we face in the global information technology sector, particularly in internet, mobile, software and clouds areas • FY2018/19 and ongoing

Appointment process

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

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

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

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

Recommendation to the Board for approval

Final deliberation by Nomination and Governance Committee

Meeting with candidates

Evaluation of suitability of candidates

Identification of candidates

Evaluation of the Board composition and establishment of desired criteria for prospective directors

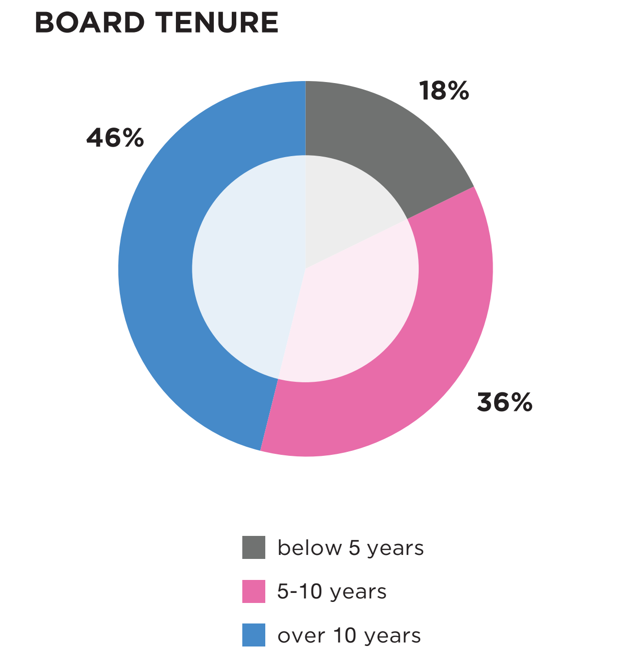
Succession

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 been 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 2018/19.

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, 2018.

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 23, 2018, 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, 2018. 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 resolutions 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, 2018.

Independence Assessment

Before and on appointment

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

Ongoing process

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

Annual assessment

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

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:

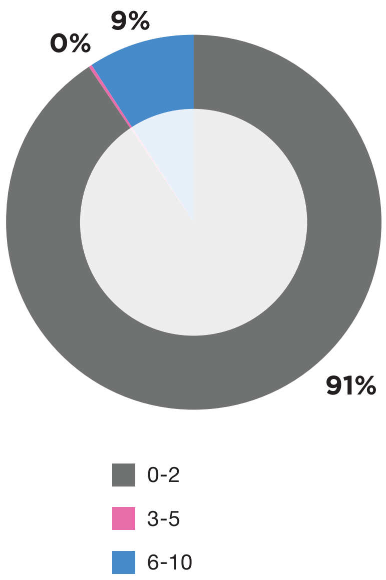
- The Board deals with each appointment on its individual merit and takes into consideration all the circumstances.
- Prior to taking additional responsibilities or external appointments, directors are obliged to ensure that they will be able to meet the time commitment expected of them in their role at the Company and do not have any potential conflicts that may arise when taking 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, 2018.

DIRECTORSHIP WITH OTHER LISTED PUBLIC COMPANIES



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

Share ownership

The Board has adopted stock ownership guidelines for non-employee directors. The Board believes that share ownership aligns the interests of its directors with the long-term interests of the shareholders and further promotes the Company's commitment to sound corporate governance. In general, these guidelines require non-employee directors to maintain a certain level of equity awards granted to them for so long as he/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 ended March 31, 2018.

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 + **Continuous professional development program** > **DIRECTOR'S ROLES AND RESPONSIBILITIES**

Induction program

For new director

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

On Appointment

- **RECEIVING DIRECTOR'S INDUCTION HANDBOOK**: to ensure that the director has a proper understanding of the operations, business and governance policies of the Company
- **ATTENDING BRIEFING / TRAINING BY EXTERNAL LAWYER**: to ensure the director is fully aware of the responsibilities as a director under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements

Following Appointment

- **MEETING WITH CHAIRMAN, DIRECTORS AND A WIDE RANGE OF SENIOR MANAGEMENT FROM ACROSS THE BUSINESS**: to ensure that the director has a proper understanding of the culture of the Board and the operations of the Group
- **ATTENDING BRIEFING AND PRESENTATION FROM SENIOR EXECUTIVES AND VISIT TO BUSINESS OPERATIONS**: to ensure the director has a proper understanding of the operations of the Group and its development
- **ATTENDING CONTINUOUS PROFESSIONAL DEVELOPMENT PROGRAM**: to ensure that the director keeps abreast of new laws, regulations or developments in business that are relevant to the roles as a director of the Company

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

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

During the year ended March 31, 2018, the trainings and activities for the Board were set out below:

Site Visit

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 Shenzhen, China. The GLT meeting presented an excellent opportunity for Lenovo's leaders on the one hand to work together, share ideas, identify challenges and, most importantly, develop solutions; and on the other hand, to build cross-functional networking. Taking this opportunity of GLT meeting, directors and senior management also visited the headquarter of Tencent Holdings Limited in Shenzhen to understand its operations and the latest internet technology and business development.

On October 31 2017, directors visited NTT DoCoMo R&D Center in Yokosuka Research Park. This R&D Center is a hub for intelligent manufacturing activities in mobile and telecommunications. During the visit, directors and management were provided with demonstrations on mobile access including 5G (Fifth-Generation Mobile Communications System) and approach to AI (Artificial Intelligence). These arrangements provided the Board an excellent opportunity of understanding development on 5G and AI which were very relevant to Lenovo's business strategies.

During the third quarter Board meeting in Silicon Valley, home to the world's leading technology startups, the Company invited a number of top end startups to demonstrate to directors their most advanced technologies in various areas such as big data intelligence, quantum computing, telecommunication technology and foods technology. These startups demos provided directors an insight into new technologies, innovations and business opportunities.

Industry Congress

Lenovo operates in an industry which is rapidly changing in terms of market trends, consumer preferences and technologies. In order to keep directors updated with the latest technologies and products development in the industry, the Company has made arrangements for directors to attend Consumer Electronics Show ("**CES**") and Mobile World Congress (the "**MWC**") in Las Vegas and Barcelona respectively. During the visits, directors were given the best product reviews, product demos and displays that showcased 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.

During the year, the Company arranged experts briefing and in-house seminar for directors on topics relating to New US Administration, Artificial Intelligence, Super-Computing and DCG technologies.

Mr. Andrew Ng, a computer scientist in Artificial Intelligence and Deep Learning and formerly a Professor at Stanford University and the Director of the Stanford Artificial Intelligence Lab, was invited to be a guest speaker to give directors an update of the latest technology development in Artificial Intelligence.

Mr. Ryota Kanai, a scientist in Artificial Intelligence and Neuroscience and formerly an Associate Professor at University of Sussex in Neuroscience, gave directors a presentation on Artificial Intelligence and Neuroscience in Japan.

Regulatory Updates

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

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

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

All directors are required to provide the Company with their training records on an annual 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.

Corporate Governance Report

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	√	√	√
Independent non-executive directors			
Dr. Tian Suning	√	√	√
Mr. Nicholas C. Allen	√	√	√
Mr. Nobuyuki Idei	√	√	√
Mr. William O. Grabe	√	√	√
Mr. William Tudor Brown	√	√	√
Ms. Ma Xuezheng	√	√	√
Mr. Yang Chih-Yuan Jerry	√	√	√
Mr. Gordon Robert Halyburton Orr	√	√	√

Remuneration of Directors and Senior Management
A formal and transparent procedure for fixing the remuneration packages of directors and senior management is in place. Details of remuneration policies, remuneration payable to senior management and other relevant information are set out in the Compensation Committee Report of this annual report on pages 110 to 122.

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 145 to 147 of this annual report.

Key Matters Reserved for Board Approval

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

Corporate Governance Report

Board Process

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

Regular Board Meeting

Meeting dates are set 2 years in advance

- To facilitate maximum attendance

The Board meets at least 4 times a year at approximately quarterly intervals

- To review financial performance, strategy and operations

Meeting agenda and notice

- Finalized by the Chairman in consultation with Board members
- Notice of not less than 30 days be given

Dispatch Board papers to directors

- Agenda and supporting documents 7 days, with updated financial figures 3 days (or other reasonable period) prior to the meeting

Minutes of Board meeting recorded in sufficient detail the matters considered by the Board and decisions reached, including any concerns raised by directors or dissenting views expressed.

Minutes of Board meeting were circulated to the respective Board members for comment where appropriate and duly kept in minute book for inspection by any director.

BOARD MEETING

Other Board Meeting

- To consider ad hoc matters

Convene Board Meeting

- Notice of not less than 7 days (or other reasonable period) be given

Dispatch Board papers to directors

- Generally, not less than 3 days (or other reasonable period) before the meeting
- If appropriate, one-on-one briefing offered to each director prior to the meeting

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. In addition to the quarterly regular Board meetings, Board meetings focusing on the Group's strategy will be held on the day before each regular Board meeting starting from the fiscal year 2018/19. During the year, two Board meetings on strategy were held.
	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. As a follow up action item from FY2017/18 Board evaluation, the Company has started to arrange one-on-one meeting at least once a year for (1) the Lead Independent Director to meet with each independent non-executive director; and (2) the Committee Chairman to meet with each Committee member.

Corporate Governance Report

Other Key Features of Board Process	
Professional advices	All directors have direct access to the Chief Legal Officer and the Company Secretary of the Company who are responsible for advising the Board on corporate governance and compliance issues.
	Written procedures are in place for directors to seek, at the Company's expense, independent professional advice in performing directors' duties. No request was made by any director for such advice during the year.
Access to information	All directors were provided with a tablet and a notebook to gain access to meeting materials of the Board and Board committees meetings through an electronic platform.
Communication with senior management	To enhance the communication between directors and senior management and have an understanding of management planning, directors are invited to attend Lenovo's GLT event and participate in small group discussions with relevant senior management.
Indemnification and insurance	As permitted by the Articles of Association, a director or a former director of the Company may be indemnified out of the Company's assets against any liability incurred by the director to a person other than the Company or an associated company of the Company that attaches to such director in his or her capacity as a director of the Company, to the extent permitted by law. Such permitted indemnity provision has been in force since the adoption of the new Articles of Association of the Company on July 2, 2014.
	The Company has arranged appropriate insurance to cover the liabilities of the directors arising from corporate activities. The insurance coverage is reviewed on an annual basis.

Board Activities

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

FINANCIAL AND OPERATIONAL PERFORMANCE

- CEO and Chief Financial Officer reports
- Financial and operational updates
- Annual budget
- Treasury items

STRATEGY AND RISKS

- Discussion of main strategic issues relating to technologies and other commercial, geographic and structural areas
- Review of processes and controls for strategic and operational risks
- Customer experience

GOVERNANCE AND SUSTAINABILITY

- Review and discussion of the practices of governance and sustainability matters
- Board and Board Committees' effectiveness review
- Board diversity and succession planning
- Board Committees' reports

OTHERS

- Employee engagement survey
- Ad hoc projects

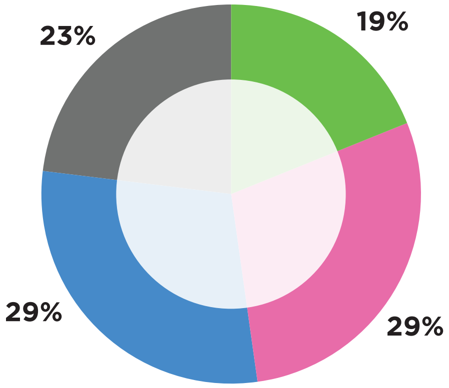
Corporate Governance Report

Main activities during FY2017/18

During the fiscal year 2017/18, a total of eight Board meetings were held, of which four Board meetings were primarily to review quarterly business performance and strategy execution, two Board meetings were for reviewing specific strategy in the geography, business or other relevant areas and the remaining two were for approving ad hoc projects. Given the geographical spread of the Group's businesses, in addition to the meetings in Hong Kong S.A.R. of China and the United States, the Company also held a meeting in Tokyo with a particular focus on discussing the 5G challenges to and opportunities in the core businesses which also provided an opportunity for directors to visit NTT DoCoMo R&D Center. Offsite Board meetings give the Board further insights into the businesses of the Group. The below chart shows how the Board allocated its agenda time during the year.

THE BOARD

Allocation of agenda time



	FY2017/18	FY2016/17
Financial and operational performance	**19%**	23%
Strategic matters	**29%**	42%
Governance, sustainability, training and Board Committee's reports	**29%**	15%
Others matters (including Ad hoc projects and human resources matters)	**23%**	20%

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 a meeting 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 businesses for which they are directly responsible and of which the Board should be aware. Chairpersons 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.

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

FINANCIAL AND OPERATIONAL PERFORMANCE

Throughout the year, the Board received and discussed:

- reports from the CEO and the Chief Financial Officer on performance of operations of different business groups
- information on the financial performance of the Group
- approved FY2018/19 annual budget and operating plan
- approved FY2017/18 financial results and the respective results announcements and reports
- declared/recommended the declaration of dividends
- reviewed updates on capital market
- approved annual caps for the NEC continuing connected transactions for the coming three financial years
- approved the formation of a funding committee for executing funding activities to raise funds for a determined aggregate amount

STRATEGIC MATTERS

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

The Board:

- received updates on Lenovo new launched products and technology outlook
- received updates on Lenovo Capital and Incubator Group
- received regular business developments reports
- received updates on strategy in different business groups
- held a strategy meeting, focusing on the 5G (Fifth-Generation Mobile Communications System) and Customer Experience
- held a strategy meeting focusing on DCG transformation and planning of the 3 core businesses

GOVERNANCE AND SUSTAINABILITY

The Board dealt with governance and sustainability matters, including:

- received reports from the three Board committees
- approved and recommended the re-appointment of external auditor
- discussed the Board matrix and the recommendations following the Board evaluation
- received updates on sustainability and also discussed and approved FY2016/17 sustainability report and approved rules relating to Lenovo supply chain and UK Anti-Slavery Disclosure Statement
- received the directors' professional trainings
- received update on US Tax Reform impact and approved the publication of an announcement to inform shareholders and potential investors

OTHERS

Talents and Employee Survey

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

- organization human resources planning
- results of the Lenovo-Listens Survey 2017, an employee engagement survey

Ad hoc projects

The Board reviewed and approved:

- the acquisition of equity interests in joint venture and specified corporations and sale of property and equity interests in specified corporation
- the subscription agreement in connection with the issue of new shares and bonus warrants of the Company

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 the Audit Committee, Compensation Committee, and Nomination and Governance Committee reference those set out in the CG Code prevailing from time to time.

BOARD OF DIRECTORS

Chairman and Executive Director

Mr. Yang Yuanqing *(CEO)*

Non-executive Directors

Mr. Zhu Linan

Mr. Zhao John Huan

Independent Non-executive Directors

Dr. Tian Suning

Mr. Nicholas C. Allen

Mr. Nobuyuki Idei

Mr. William O. Grabe *(Lead Independent Director)*

Mr. William Tudor Brown

Ms. Ma Xuezheng

Mr. Yang Chih-Yuan Jerry

Mr. Gordon Robert Halyburton Orr

Key Responsibilities

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

AUDIT COMMITTEE

Chairman

Mr. Nicholas C. Allen

Members

Ms. Ma Xuezheng

Mr. William Tudor Brown

Mr. Gordon Robert Halyburton Orr

Key responsibilities

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

COMPENSATION COMMITTEE

Chairman

Ms. Ma Xuezheng

Members

Mr. William O. Grabe

Mr. William Tudor Brown

Mr. Gordon Robert Halyburton Orr

Mr. Zhao John Huan

Key responsibilities

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

NOMINATION AND GOVERNANCE COMMITTEE

Chairman

Mr. Yang Yuanqing

Members

Mr. Nobuyuki Idei

Mr. William O. Grabe

Dr. Tian Suning

Key responsibilities

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

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

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

Audit Committee

The Audit Committee is delegated by the Board to perform its duties within its terms of reference. Details of the Audit Committee, including its membership, responsibilities and main activities during the fiscal year 2017/18, are summarized in the Audit Committee Report as stated on pages 102 to 109 of this annual report.

Compensation Committee

The Compensation Committee is delegated by the Board to perform its duties within its terms of reference. Details of the Compensation Committee, including its membership, responsibilities and work done during the fiscal year 2017/18, are summarized in the Compensation Committee Report as stated on pages 110 to 122 of this annual report.

Nomination and Governance Committee

Membership

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

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

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

More information on the skills and experience of the members of the Committee may be found in the directors' biographies set out on pages 142 to 145 of this annual report.

Responsibilities

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

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

Key Features

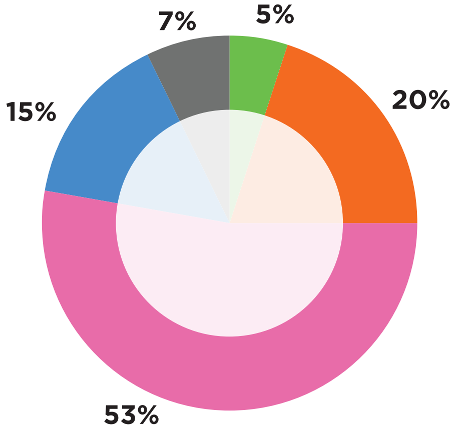
- The Committee's terms of reference which clearly deal with its membership, authority, duties and frequency of meetings are published on the Company's website and HKEx's website.
- The Committee is provided with sufficient resources to perform its duties.
- The Committee is authorised to obtain outside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

Main Activities During FY2017/18

In the fiscal year ended March 31, 2018, the Committee held two meetings. The attendance record of the Committee's members is set out on page 77 in this report and the chart below shows how the Committee allocated its time during the fiscal year 2017/18.

NOMINATION AND GOVERNANCE COMMITTEE

Allocation of agenda time



	FY2017/18	FY2016/17
Board and Board Committees' compositions	**5%**	3%
Assessment of the performance of the Chairman and CEO	**20%**	36%
Corporate Governance	**53%**	32%
Board and Board Committees' evaluation	**15%**	12%
Others	**7%**	17%

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

Board and Board Committees' compositions	• Reviewed and recommended to the Board on the structure, size and composition of the Board including the diversity and balance of skills, knowledge and experience of the directors. • 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 2016/17 and provided 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 2016/17 annual report and 2017/18 interim report. • Reviewed and assessed the independence of independent non-executive directors and affirmed the Committee's view over their independence. • Reviewed and discussed the continuous professional development programs for the directors of the Company. • Reviewed the policies and practices on corporate governance, and the compliance with legal and regulatory requirements of the Group.
Board and Board Committees' evaluation	• Discussed and approved the Board evaluation proposal for the fiscal year 2017/18. • Reviewed report on the results of the Board evaluation for the fiscal year 2017/18 and discussed and proposed actions to be taken.

Board and Board Committees Meetings

During the year ended March 31, 2018, the overall attendance rate of directors at Board and Board Committees meetings was 94% (2016/17: 95%).

The individual attendance records of each director at the meetings of the annual general meeting, general meeting, Board, Audit Committee, Compensation Committee, and Nomination and Governance Committee during the year ended March 31, 2018 are set out below:

	Meetings attended/held					
Name of directors	**Board** *(Notes 1 & 2)*	**Audit Committee** *(Notes 1 & 4)*	**Compensation Committee** *(Note 1)*	**Nomination and Governance Committee** *(Notes 1 & 5)*	**Annual General Meeting** *(Notes 3 & 4)*	**General Meeting held on November 10, 2017**
Executive director						
Mr. Yang Yuanqing *(Chairman & CEO)*	8/8	–	–	2/2	1/1	1/1
Non-executive directors						
Mr. Zhu Linan	7/8	–	–	–	0/1	0/1
Mr. Zhao John Huan	7/8	–	4/4	–	0/1	0/1
Independent non-executive directors						
Dr. Tian Suning	6/8	–	–	2/2	0/1	0/1
Mr. Nicholas C. Allen	8/8	4/4	–	–	1/1	1/1
Mr. Nobuyuki Idei	8/8	–	–	2/2	1/1	0/1
Mr. William O. Grabe *(Lead Independent Director)*	8/8	–	4/4	2/2	1/1	0/1
Mr. William Tudor Brown	8/8	4/4	4/4	–	1/1	0/1
Ms. Ma Xuezheng	8/8	4/4	4/4	–	1/1	0/1
Mr. Yang Chih-Yuan Jerry	5/8	–	–	–	0/1	0/1
Mr. Gordon Robert Halyburton Orr	7/8	4/4	4/4	–	0/1	1/1

Notes:

(1) The attendance figure represents actual attendance/the number of meetings a director is entitled to attend.

(2) The Board held four regular meetings, two strategic meetings and two ad hoc projects meetings during the year.

(3) The Company held the annual general meeting on July 6, 2017.

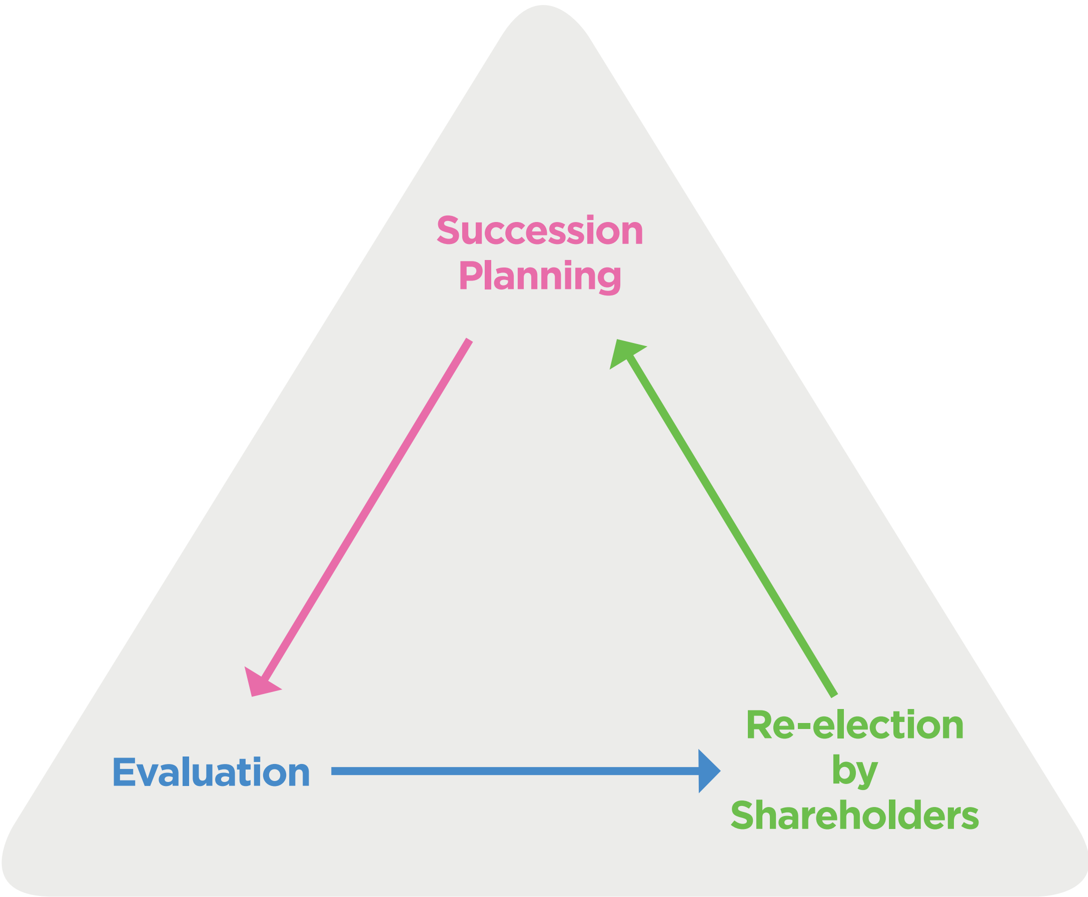
(4) Representatives of the external auditor participated in every Audit Committee meeting and the annual general meeting held during the year.

(5) 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.

Evaluation

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

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

The evaluation covered:
- Board processes and their effectiveness
- Time management of Board meetings
- Board composition and dynamics
- Strategic and operational oversight
- Succession planning
- Board support
- Communications with shareholders and stakeholders

Evaluation process
The evaluation process involves the following three stages:

Stage 1

DETERMINE THE SCOPE

- Board and its Committees

DETERMINE THE APPROACH

- Conducted by completing a comprehensive questionnaire

Stage 2

DISCUSS AND REVIEW THE RESULTS

- Preparing the draft results report
- Discussing the draft results report between the Lead Independent Director and the chairpersons of Audit Committee and Compensation Committee
- Review of the results report by the Nomination and Governance Committee
- Finalizing the results report
- Reporting to the Board in a manner that did not identify individuals' specific responses, ensuring that these responses could be as open, frank and informative as possible

Stage 3

ACTION PLAN AGREED

- Following review of the results, the Board drew conclusions and agreed proposed implementation or action plan

MONITOR AND FOLLOW-UP MEETINGS

- Monitoring the progress of the implementation or action taken semi-annually
- Reporting back to the Board on the progress by Nomination and Governance Committee

Evaluation results

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

Re-election by Shareholders

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

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board acknowledges its responsibility for presenting a balanced, clear and comprehensive assessment of the Group's performance, position and prospects. The Board is also responsible for the preparation of financial statements for each financial year which gives a true and fair view of the state of affairs of the Group on going concern basis while the external auditor's responsibilities to shareholders are set out in the Independent Auditor's Report on pages 162 to 166 of this annual report.

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

Annual Results
• Announced within 2 months • Published the annual report within 14 days following the annual results announcement
Interim Results
• Announced within 1.5 months • Published the interim report within 14 days following the interim results announcement
Quarterly Results
• Announced within 7 weeks

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.

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

Board	• Has overall responsibility for the Lenovo's risk management and internal control systems. • Oversees and monitors the overall effectiveness of the risk management system and internal audit function through the Audit Committee.
Audit Committee	• Supports the Board in reviewing and monitoring the performance of the risk management and internal control systems. • Reviews the process for identifying, assessing and reporting key risks and control issues of the Company. • Reviews the adequacy and efficiency of the Company's internal audit function. • Reviews the enterprise risk management approach. • Reviews risks raised during annual risk registration exercise, and other risks and concerns. • Approves Company's risk tolerance

Corporate Governance Report

Internal Audit	• Supports the Audit Committee in reviewing the effectiveness of internal control 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	• Provides 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 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 function 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 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

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.

Monitoring:

The internal control process is continually monitored. Modifications are made to improve internal control activities as a result of the monitoring process.

Control Environment:

The internal organizational environment driven by the management operating philosophy, risk appetite, integrity, and ethical values.

Control Activities:

Policies and procedures are implemented to ensure organizational objectives and risk-mitigation activities are effectively implemented.

Information and Communication:

Relevant information is communicated in an acceptable format and timely fashion to enable the organization to meet its objectives.

Risk Assessment:

Risks are identified and the likely impact on the organization is assessed.

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 control. 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 control

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

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

Most importantly, Lenovo incorporates an anti-retaliation policy within the Code itself. If an employee seeks advice, raises a concern relating to a potential compliance issue, reports suspected misconduct, or cooperates with an investigation, Lenovo will not tolerate any form of retaliation or harassment against that employee.

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 organizations and process owners.

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

To assist the 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 Chairman of the Audit Committee 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 policy 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, information technology, and compliance controls, and risk management functions. The Board is not aware of any significant areas of concern which may affect the shareholders. The Board is satisfied that the Company has fully complied with the code provisions on internal controls as set forth in the CG Code.

Enterprise Risk Management

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

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

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

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

- Business continuity
- Financial impact
- Reputational risk
- Safety and health
- External regulations
- Social responsibility

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

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

Risk Rating Matrix

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

Risk Rating

VH	Very High
H	High
M	Moderate
L	Low

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

Risk Champions

- Identify risks
- Assess
- Manage
- Monitor
- Review

ERM Team

- Risk registration
- Report risks to Audit Committee
- Risk projects
- Engage actuarial work
- Recommend risk tolerance

Audit Committee

- Review risks
- Raise concerns
- Approve risk tolerance

Board of Directors

Details of some of these risks may be found under "Material Risks of the Group" on Page 24. This framework will continue to be strengthened to create a robust and holistic risk management culture to safeguard the value of the Company.

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

External Auditor

Independence of external auditor

The Group's external auditor is PricewaterhouseCoopers ("**PwC**"), who is remunerated mainly for its audit services provided to the Group. The Company has adopted a policy on engagement of the external auditor for non-audit services, under which the external auditor is required to comply with the independence requirements under the Code of Ethics for Professional Accountants issued by the Hong Kong 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 Group. 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, 2018 and the comparative figures for the financial year ended March 31, 2017 are as follows:

Nature of services	2018 US$ million	2017 US$ million
Audit services	**8.4**	7.7
Non-audit services		
– Tax	**1.4**	1.8
– IT	**1.9**	1.9
– Advisory	**0.1**	0.4
– Other services	**0.5**	0.9
Total	**12.3**	12.7

INVESTOR RELATIONS

Lenovo puts great emphasis on promoting open, transparent, efficient and consistent communications with shareholders, investors and equity analysts. The investor relations team is committed to maintain interactive communications with the capital market and offering all necessary information, data and services in a timely and accurate manner. The team also proactively responds to major issues the capital market concerns about in order to help the investment community to better understand the Company's strategy, operations and latest development.

Communications with Investors

During the fiscal year 2017/18, the Company maintained comprehensive and effective communications with its investors and analysts through multiple channels including investor conferences, roadshows, company visits, one-on-one meetings, teleconferences, IR website, social media, new product newsletters and email alerts on Lenovo events. The senior management team presented its annual and quarterly earnings results through webcast, conference calls, social media and face-to-face meetings to communicate with international and domestic shareholders, investors and analysts. The frequent communication enhanced the understanding of the capital market on the business strategy, development tactics and competitive edges of the Company.

Lenovo Transform

June 20, 2017 | New York City

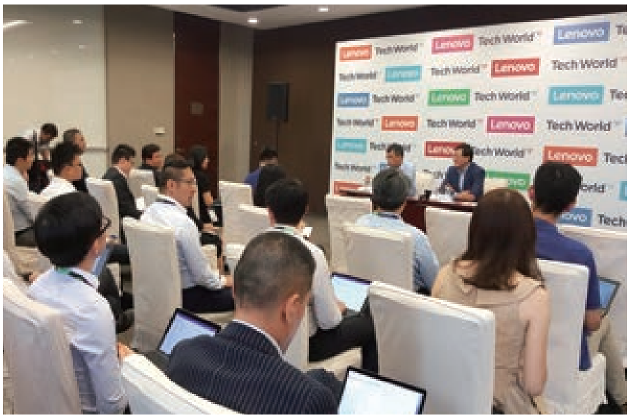
Lenovo organized its inaugural Tech World Transform event to explore how technologies like artificial intelligence and next generation infrastructure are impacting the industry and our customers, and introduced a range of new solutions that will better enable our customers to achieve success in the age of digital transformation. During the event, Lenovo showcased how new data center solutions bring the simplicity of cloud, speed insights to decisions, and enable new levels of flexibility in infrastructure, and Lenovo also shared its vision for the future of personal computing including the office of the future, smart office, AR/VR, and PC as a service (PCaaS). The visitors could also test out the newest products along with product experts who are designing the next generations of our famed ThinkPad.

Corporate Governance Report

Lenovo Tech World
July 20, 2017 | Shanghai, China

Lenovo organized its third Tech World event in Shanghai in 2017 after the success of the events in Beijing and San Francisco in previous years. With the theme "A world powered by AI", the innovation summit shared Lenovo's vision for the future of AI and showed how AI can make life better. Lenovo believe an intelligent future makes people's lives better, and that starts with smart devices. Cloud enabled devices – such as PCs, tablets, smartphones, smart speakers, smart TV and AR/VR – bring content, services and experiences in a new way.

Lenovo hosted global equity analysts and investors to the Tech World event. A roundtable dinner for top management of the Data Center Group to meet with sell-side analysts was organized during the Tech World event. IR breakouts were arranged and 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, the Company continued to cooperate with different securities houses in organizing trips to the Company's brand experience center in Beijing, so as to help the investor community better understand the Company's strategy and operating environment through a different perspective.

Social Media

The Company and the investor relations team have been devoting in leveraging various social media platforms to blast out updates on results announcements and key company events, with an aim to have multi-point engagement via social media with the Company's stakeholders. The team also proactively pushed out updates and key event news wrap up, e.g. Lenovo Tech World, 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:

Investor Conferences

To maintain active communications with institutional investors around the world, the senior management team proactively participated in the following investor conferences held by major international investment banks.

Investor Conferences Attended FY2017/18

Date	Conference	Location
June 2017	JP Morgan Global China Summit 2017	Beijing
Sept 2017	Credit Suisse Annual Asian Technology Conference	Taipei
Sept 2017	CLSA Investors' Forum	Hong Kong S.A.R. of China
Nov 2017	BofAML 2017 China Conference	Beijing
Nov 2017	Daiwa Investment Conference	Hong Kong S.A.R. of China
Nov 2017	UBS Global Technology Conference	San Francisco
Mar 2018	Daiwa Investment Conference	Tokyo
Mar 2018	BofAML 2018 Asia Pacific TMT Conference	Taipei
Mar 2018	Credit Suisse Asian Investment Conference	Hong Kong S.A.R. of China

Corporate Governance Report

Kirk Skaugen, President of the Data Center Group, was invited as the keynote speaker at Credit Suisse 18th Annual Asia Technology Conference in September and UBS Global Technology Conference in November 2017. Kirk presented the three wave strategy and the solid progress in our transformation, and updated the investors with our improving results and latest development across the different business groups. He also highlighted the way forward for Data Center Group and our competitive edges.

Market Recognitions

Lenovo has devoted continuous effort in investor relations and the Company was well-recognized by the investment community.

Forbes 2017 Global Top Regarded Companies 2000

Lenovo was named one of the "Global 2000 – Top Regarded Companies" by the Forbes.

The award is based on the results of an independent survey and the companies receiving the highest total scores are awarded as the Best Regarded Companies within the Global 2000 list. The evaluation was based on the dimensions "Trustworthiness/Honesty", "Social Conduct", "Company as an Employer" and "Performance of the Product/Services".

Zhitong Finance 2017 Golden Hong Kong S.A.R. of China Equities Awards – The Best Value TMT Company Award

Lenovo won the awards of "The Best Value TMT Company" co-organized by the PRC leading financial media Zhitong Finance and Tonghuashun Finance. The judging included results from online polling and a review by a judging panel made up of renowned securities firms and economists.

HKIRA Investor Relations Awards

Lenovo has received the "Certificate of Excellence" from the Investor Relations Awards organized by the Hong Kong S.A.R. of China Investor Relations Association ("**HKIRA**").

HKMA Best Annual Reports Awards

Lenovo's fiscal year 2016/17 annual report with the theme "Different is Better" has won the "Excellence Award for H Share & Red Chip Entries" by The Hong Kong S.A.R. of China Management Association (HKMA). Such award fully demonstrates our leading international best practices of our Annual Report.

Index Recognition

Lenovo has always been well recognized by the capital market and the Company is currently a constituent stock of the following indexes:

- Global Compact 100
- Hang Seng China-Affiliated Corporations Index
- Hang Seng China (Hong Kong S.A.R. of China-listed) 100 Index
- Hang Seng Commerce & Industry Index
- Hang Seng Composite Index
- Hang Seng Composite Industry Index – Information Technology
- Hang Seng Composite LargeCap Index
- Hang Seng Corporate Sustainability Index
- Hang Seng Corporate Sustainability Benchmark Index
- Hang Seng (Mainland and HK) Corporate Sustainability Index
- Hang Seng Equal Weighted Index
- Hang Seng Global Composite Index
- Hang Seng High Dividend Yield Index
- Hang Seng Internet & Information Technology Index
- Hang Seng IT Hardware Index
- Hang Seng SCHK High Dividend Low Volatility Index
- Hang Seng Stock Connect Hong Kong S.A.R. of China Index
- MSCI China Index
- MSCI China Information Technology Index

SHAREHOLDERS

Communications with Shareholders

The Company is committed to safeguard shareholders' interests and believes that effective communication with shareholders and other stakeholders is essential for enhancing investor relations and investor understanding of the business performance and strategies of the Group. To achieve this, the Company has established the shareholders communication policy (the "**Shareholders Communication Policy**") setting out various formal channels of communication with shareholders and other stakeholders for ensuring fair disclosure and comprehensive and transparent reporting of the Company's performance and activities. The Nomination and Governance Committee of the Company reviews 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 shareholders' 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 arranges 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 arranges a product display at the annual general meeting venue to update shareholders on the latest products strategy of the Company, if practicable.

2017 Annual General Meeting

The annual general meeting of the Company held on July 6, 2017 (the "**2017 Annual General Meeting**") was attended by, among others, the CEO, Chief Financial Officer, chairpersons of the Audit Committee, Compensation Committee and Nomination and Governance Committee or his/her delegates, the Lead Independent Director and representatives of the external auditor PwC to answer questions raised by shareholders at the meeting.

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

Matters Being Voted Upon	Percentage of Affirmative Votes
Received and considered the audited consolidated financial statements and the reports of the directors and the independent auditor for the year ended March 31, 2017	99.99%
Declaration of a final dividend for the issued shares of the Company for the year ended March 31, 2017	99.99%
Re-election of retiring directors and authorization of the Board to fix directors' fees	99.44% to 99.99% with respect to each individual resolution
Re-appointment of PwC as auditor and authorization of the Board to fix auditor's remuneration	99.86%
Approval of granting the general mandate to the directors to allot, issue and deal with additional shares not exceeding 20% of the aggregate number of shares in issue of the Company	73.18%
Approval of granting the general mandate to the directors to buy back shares not exceeding 10% of the aggregate number of shares in issue of the Company	99.84%
Approval of extending the general mandate to the directors to issue new shares by adding the number of shares bought back	73.46%
Approval of The Lenovo Group Limited Matching Share Plan and The Lenovo Group Limited Matching Share Plan Subplan for California State Securities Law Compliance	82.93%

General Meeting

During the year, the Company convened and held a general meeting on November 10, 2017 (the "**2017 General Meeting**") to consider and approve the subscription agreement, the specific mandate for the allotment and issue of the subscription shares, the warrant shares and the bonus warrants, the whitewash waiver, the relevant management participation and the authorization to Directors signing all necessary documents to give effect to the foregoing. which meeting was attended by the CEO, Chief Financial Officer, members of the independent board committee and representatives from the independent financial advisor to independent shareholders of the Company.

Separate resolutions were proposed on each issue. 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
Approval of the subscription agreement and the transactions contemplated thereby	62.94%
Approval of specific mandate for the allotment and issue of the subscription shares, the warrant shares and the bonus warrants	62.87%
Approval of the whitewash waiver	62.87%
Approval of relevant management participation	62.54%
Approval of granting authorization to Directors signing all necessary documents to give effect to the foregoing	62.94%

All of the resolutions proposed at the 2017 Annual General Meeting and the 2017 General Meeting were decided by way of poll voting. Procedures for conducting the polls were explained by the Chairman at the commencement of these meetings. The polls were 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 6, 2017 and November 10, 2017 respectively.

2018 Annual General Meeting
All shareholders are encouraged to attend and participate in the Company's 2018 annual general meeting. Details of the proposed resolutions for the 2018 annual general meeting are set out in the circular which will be dispatched to the Company's shareholders with this annual report.

Shareholders' Rights

Procedures for convening a general meeting
Shareholder(s) representing at least 5% of the total voting rights of the Company of all the shareholders having a right to vote at general meetings may, in accordance with the requirements and procedures set out in the 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) representing at least 2.5% of the total voting rights of all the shareholders of the Company having a right to vote on the resolution at the annual general meeting; or (b) at least 50 shareholders having a right to vote on the resolution at the annual general meeting may, in accordance with the requirements and procedures set out in the 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 be 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.

Corporate Governance Report

Shareholding Structure

Shareholding as recorded in the register of members of the Company as of March 31, 2018

According to the register of members of the Company as of March 31, 2018, there were 912 registered shareholders of whom 98.14% had their registered addresses in Hong Kong S.A.R. of China. However, the actual number of investors in the ordinary shares of the Company (the "**Shares**") may be larger than that as a substantial portion of the Shares are held through nominees, custodian houses and HKSCC Nominees Limited.

(i) Details of registered shareholders by domicile as of March 31, 2018 are as follows:

Domicile	Number of shareholders	Percentage of shareholders	Number of shares held	Percentage of the total number of shares in issue
Canada	2	0.22%	50,000	0.00%
China	7	0.77%	1,128,000	0.01%
Hong Kong S.A.R. of China	895	98.14%	12,013,533,614	99.99%
Macau	2	0.22%	40,000	0.00%
Malaysia	2	0.22%	20,000	0.00%
Philippines	1	0.11%	2,000	0.00%
United Kingdom	3	0.33%	18,000	0.00%
Total	**912**	**100.00%**	**12,014,791,614**	**100.00%**

(ii) Details of registered shareholders by size of shareholding as of March 31, 2018 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	251	27.52%	346,446	0.00%
2,001-10,000	412	45.18%	2,858,000	0.02%
10,001-100,000	218	23.90%	7,319,665	0.06%
100,001-1,000,000	26	2.85%	8,288,000	0.07%
1,000,001 and above	5	0.55%	11,995,979,503	99.84%
Total	**912**	**100.00%**	**12,014,791,614**	**100.00%**

Remarks:

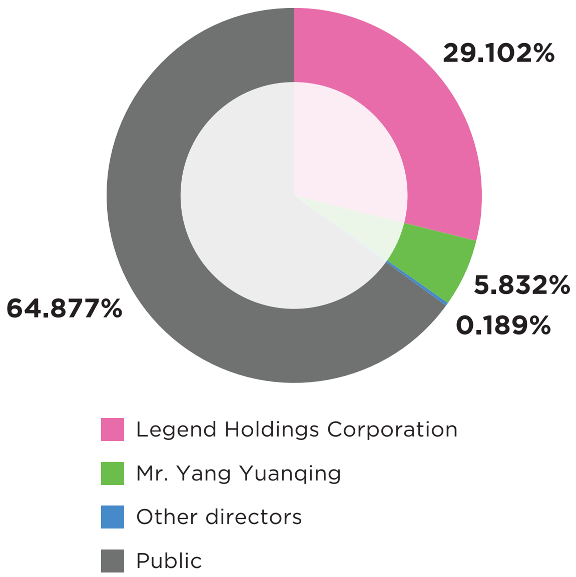
(i) A board lot size comprises 2,000 Shares.

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

(iii) 73.10% of all the issued Shares were held through HKSCC Nominees Limited.

Shareholding structure according to the interest disclosed under the Securities and Futures Ordinance as of March 31, 2018

SHAREHOLDING STRUCTURE AS OF MARCH 31, 2018



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 12,014,791,614 Shares of the Company in issue as of March 31, 2018.

Corporate Governance Report

KEY SHAREHOLDERS INFORMATION

Listing Information

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

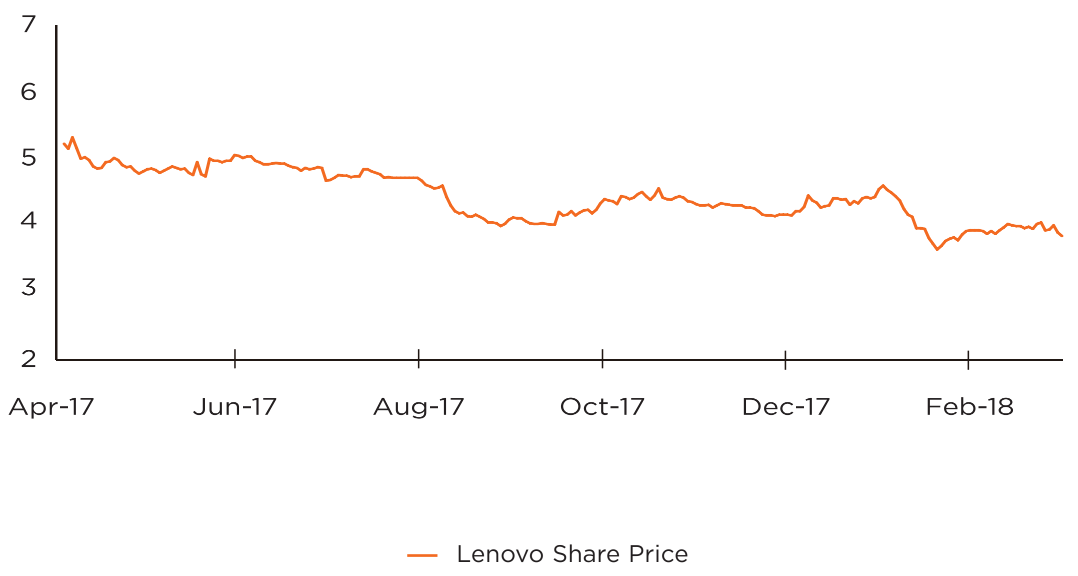
Market Capitalization and Public Float

As at March 31, 2018, the market capitalization of listed shares of the Company was approximately HK$48.18 billion based on the total number of 12,014,791,614 issued Shares of the Company and the closing price of HK$4.01 per share.

The daily average number of traded Shares was approximately 53.56 million Shares over an approximate free float of 7,795 million Shares in the fiscal year 2017/18. The highest closing price for the Shares was HK$5.4 per share on April 7, 2017 and the lowest was HK$3.82 per share on February 13, 2018.

Ordinary Shares (as of March 31, 2018)	
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, 2018	12,014,791,614 Shares
Free float	7,795 million Shares
Market capitalization as of March 31, 2018	HK$48.18 billion (Approx. US$6.18 billion)

Lenovo's share price Apr 1, 2017 to Mar 31, 2018



American Depositary Receipts Level I Program	
Ordinary share to ADR	20:1
Stock code	LNVGY

Basic Loss per Share	
Basic loss per share for the year ended March 31, 2018	(1.67) U.S. cents

Dividend per Share	
Dividend per ordinary share for the year ended March 31, 2018	
– Interim	6.0 HK cents
– Final[1]	20.5 HK cents

Financial Calendar 2017/2018 (Hong Kong S.A.R. of China Time)	
First Quarter Results Announcement	August 18, 2017
Interim Results Announcement	November 2, 2017
Third Quarter Results Announcement	February 1, 2018
Annual Results Announcement	May 24, 2018
Annual General Meeting	July 5, 2018

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

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

Audit Committee Report

THE AUDIT COMMITTEE

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

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

Chairman	Mr. Nicholas C. Allen	Independent non-executive director
Member	Ms. Ma Xuezheng	Independent non-executive director
Member	Mr. William Tudor Brown	Independent non-executive director
Member	Mr. Gordon Robert Halyburton Orr	Independent non-executive director

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 142 to 145 of this annual report.

RESPONSIBILITIES

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

AUDIT COMMITTEE

Main areas of oversight

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

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

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

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

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

Audit Committee Report

MAIN ACTIVITIES DURING FY2017/18

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 external auditor. The timetable of the Audit Committee for the fiscal year 2017/18 is set out in the below diagram.

SPECIFIC ITEMS

MAY

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

AUGUST/JANUARY

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

NOVEMBER

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

STANDING ITEMS

FINANCIAL REPORTING

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

EXTERNAL AUDIT

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

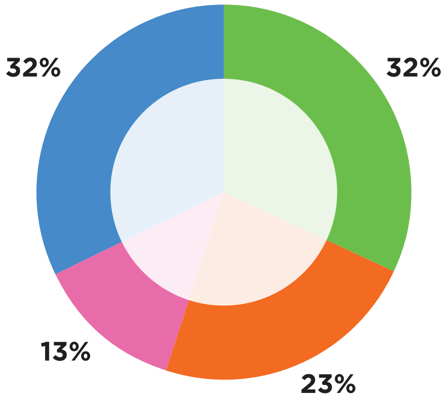
OTHERS

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

In the fiscal year ended March 31, 2018, 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 77 and the chart below shows how the Audit Committee allocated its time during the fiscal year 2017/18.

AUDIT COMMITTEE

Allocation of agenda time



	FY2017/18	FY2016/17
Financial reporting	32%	32%
Risk management and internal control	23%	23%
External audit	13%	13%
Others (including compliance, tax and treasury matters)	32%	32%

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

Financial Reporting

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

- Reviewed and recommended to the Board for approval the audited financial results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended March 31, 2017 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, 2017 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, 2017 and for the nine months ended December 31, 2017 together with its respective results announcements after discussion with the management and external auditor;

Audit Committee Report

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

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

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

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

- Reviewed the enterprise risk management (the "**ERM**") of the Group including Group ERM approach, risk management status and conclusion, risk registration results for fiscal year 2017/18, top 5 risks from 2010 to 2017, and risk management updates;

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

- Reviewed the legal framework, requirements and actions taken/to be taken by the Group regarding the new cyber-security law in China; and

- Approved and adopted the internal audit charter for 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 2016/17, 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, 2017;

- Reviewed and considered the external auditor's audit plan and scope for the fiscal year 2017/18;
- 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, 2018, 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; and
- Evaluated the performance of PwC and recommended to the Board for approval of the re-appointment of PwC as the external auditor of the Group for the year ended March 31, 2018.

Others
During the fiscal year 2017/18, the Audit Committee also:

- Reviewed the succession planning of the finance organization of the Group;
- Received and reviewed the reports from Chief Legal Officer regarding key litigation and other legal matters of the Group;
- Reviewed the Ethics and Compliance program including the whistleblowing procedure of the Group for employees to raise concerns about possible improprieties in financial reporting, internal control or other matters, and the enhancements to this program;
- Reviewed an update from Lenovo Capital and Incubator Group;
- Reviewed and approved the Audit Committee report for incorporating into the annual report for the fiscal year 2016/17; and
- Reviewed and approved the annual agenda of the Audit Committee for the fiscal year 2017/18.

Audit Committee Report

REVIEW OF FINANCIAL RESULTS

At the meeting held on May 23, 2018, the Audit Committee:

- reviewed the key accounting judgements and policies adopted by the Group and confirmed that these are appropriate. The significant areas of judgement identified by the Audit Committee, in conjunction with management and the external auditor, together with a number of other areas that the Audit Committee deemed to be significant in the context of the consolidated financial statements of the Group for the year ended March 31, 2018 are set out in the Independent Auditor's Report on pages 162 to 166;

- after discussion with management and the external auditor, and having considered the Group's financial position, the Audit Committee satisfied that the Group and the Company had adequate resources to continue in operational existence for the foreseeable future and confirmed to the Board that it was appropriate for the consolidated financial statements of the Group for the year ended March 31, 2018 to be prepared on a going concern basis; and

- reviewed the consolidated financial statement of the Group for the year ended March 31, 2018 in conjunction with the narrative sections of this annual report. The Audit Committee satisfied that, taken as a whole, this annual report was present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board the approval of the audited consolidated financial statements of the Group for the year ended March 31, 2018 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 control framework and control processes are set out in the Corporate Governance Report on pages 81 to 87.

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, 2018, 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 2017/18, satisfactorily complied with the code provisions on risk management and internal control as set forth in the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules.

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 88. 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, 2018 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 to the Board the re-appointment of PwC as the Group's external auditor for the financial year ending March 31, 2019 for shareholders' approval at the forthcoming annual general meeting to be held on July 5, 2018.

PRIORITIES FOR FY2018/19

Looking ahead, the priorities of the Audit Committee for the fiscal year 2018/19 are:

- To stay focused on financial accounting and reporting, audit quality, risk management and internal control.
- To remain vigilant on the impacts of the economic conditions on the Group.

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

Compensation Committee Report

THE COMPENSATION COMMITTEE

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

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

Chairman	Ms. Ma Xuezheng	Independent Non-executive Director
Member	Mr. William O. Grabe	Independent Non-executive Director and Lead Independent Director
Member	Mr. William Tudor Brown	Independent Non-executive Director
Member	Mr. Gordon Robert Halyburton Orr	Independent Non-executive Director
Member	Mr. Zhao John Huan	Non-executive 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 142 to 145 of this annual report.

RESPONSIBILITIES

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

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 its independent consultant in the absence of executive director and management to discuss matters relating to any issues and any other matters such persons would like to raise.
The chairman will report back to the Board after each of the Committee meeting regarding decisions or recommendations.

SUMMARY OF WORK IN 2017/18

In the fiscal year ended March 31, 2018, 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 77.

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 overall compensation strategy;
- Reviewed the market positioning for the compensation of CEO and senior management including pay levels and pay mix;
- Reviewed pay efficiency to support understanding of pay affordability and sustainability for entire company;
- Reviewed the Company's retention policy and its effectiveness;
- Reviewed the compensation and remuneration trends and regulatory developments in technology industry;
- Reviewed updates on long-term incentives ("**LTI**") spend versus budget;
- Reviewed the holding power and share ownership positions of both senior management and Non-executive Directors;

Compensation Committee Report

- Reviewed the analysis and recommendations from an independent consultant on the FY2017/18 Non-executive Directors' compensation package;

Compensation Program
- Reviewed the CEO pay and performance evaluation process;
- Reviewed and approved 2016/17 bonus, LTI and FY2017/18 proposed target compensation for Chairman and CEO;
- Reviewed and approved FY16/17 bonus, Top Executive LTI and FY2017/18 proposed target compensation for senior management;
- Reviewed and approved the 3x3 Bonus Plan;
- Reviewed and approved the FY2018/19 LTI budget;

Others
- Reviewed the Compensation Committee Report for incorporating into the annual report for the fiscal year 2016/17; and
- Reviewed and approved the annual agenda of the Committee for the fiscal year 2017/18.

COMPENSATION POLICY

Overall Principles

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

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

The Committee makes regular reviews of Lenovo's compensation practices to ensure they reflect the five overall principles and objectives as presented below.

Balance short and long-term focus, ensuring alignment with shareholder value creation

Flexibility to adjust to diverse businesses and talent markets

Pay for Performance: Strong linkage between financial success, individual performance and employee reward

Pay competitiveness against peer companies, enabling the Company to recognize contribution of key talent

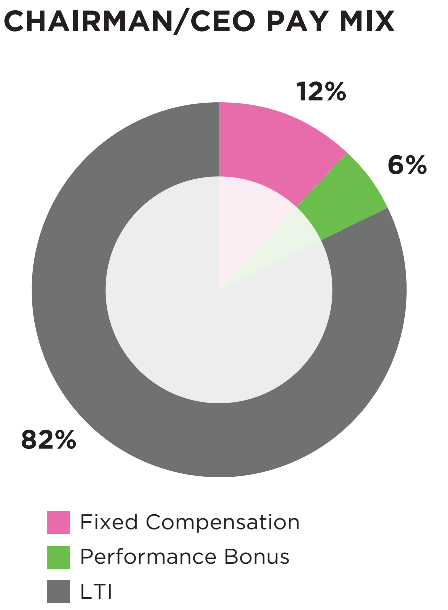
Support effective corporate governance practices

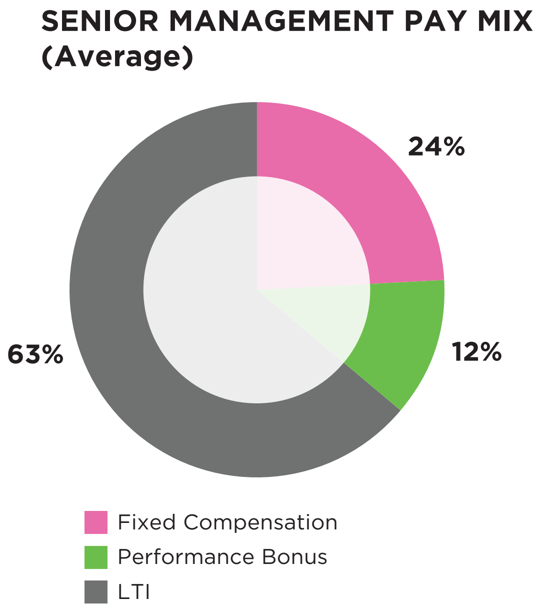
Non-executive Directors
The Committee regularly reviews the compensation of Non-executive Directors to ensure its appropriateness considering the Non-executive Directors' time commitment, workload, job requirements and responsibilities versus Lenovo's peer companies and the broader market. Details of 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 scopes, 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 FY2017/18 emoluments disclosed in note 11 to the financial statements. The senior management pay mix chart reflects average FY2017/18 emoluments including LTI that were awarded in June 2017.





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 selected financial and non-financial metrics, its subsidiaries, relevant performance groups and/or geographies as appropriate, as well as individual performance.

Long-Term Incentive Program ("LTI Program")

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

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

(i) Share Appreciation Rights ("SARs")

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

(ii) Restricted Share Units ("RSUs")

RSU is equivalent to the value of one ordinary share of the Company. Once vested, RSU is converted to an 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 awarded under the LTI Program is set and reviewed annually, reflecting competitive market positioning, market practices, especially those among Lenovo's competitors, as well as the Company's performance and each individual's actual and expected contribution to the business. In certain circumstances, awards under the LTI Program may be made to support the attraction of new hires. Award levels and mix may vary by individual, role and level.

In fiscal year 2017/18, the Company did not issue any new shares under this program, and the program is currently operated through purchasing existing shares from the market.

Retirement Benefits
The Company operates a number of retirement schemes for its employees, including executive directors and senior management. These schemes are reviewed regularly and are intended to deliver benefit levels that are consistent with local market practices. Details of the retirement schemes are set out in the directors' report on pages 151 to 154.

General Employees
As at March 31, 2018, the Group had a headcount of more than 54,000 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 sends clear messages about the Company's priorities and values.

EMPLOYEE COMPENSATION PACKAGE	Fixed Compensation	Performance Bonus	Long-Term Incentive Program

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

Compensation Committee Report

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 award are conducted on a annual basis. Non-executive Directors' fees are reviewed for alignment with market practice on an annual basis as well.

Fiscal Year 2017-18 Non-executive Directors Review

In May 2017, the Committee engaged an independent international compensation consulting firm to conduct an analysis of the compensation package of the Non-executive Directors to ensure its appropriateness considering the Non-executive Directors' time commitment, workload, job requirements and responsibilities versus Lenovo's peer companies and the broader market. Overall, both cash retainer and annual LTI award remained constant at US$92,500 and US$200,000*, respectively. Final recommendations as subsequently approved by the Board (comprising executive director of the Company only) based on the delegation from shareholders of the Company are summarized in the table below:

Compensation Element	2017/18	2016/17
Cash Retainer	**$92,500 USD**	$92,500 USD
LTI Award	**$200,000 USD**	$200,000 USD
Total Remuneration	**$292,500 USD**	$292,500 USD

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

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

Further details of the compensation of the Non-executive Directors are included in note 11 to the financial statements. SAR and RSU awards outstanding for Non-executive Directors as of March 31, 2018 under this scheme are presented in the "Long-Term Incentive Scheme" section of this report.

Fiscal Year 2017-18 Chairman/CEO and Senior Management Review

Fixed Compensation

As a part of its annual review process, the Committee had reviewed and approved base pay for the Chairman/CEO and senior management in May 2017, effective July 1, 2017.

Base salary for the Chairman/CEO remained constant at RMB8,808,815 (approximately US$1,402,407 (Note: the translation of RMB into USD is based on the exchange rate of RMB1.00 to USD0.159205 and is for information purposes only) (actual pay delivered in local currency)). Base salaries for senior management were increased by an average of 3.8% 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 2017/18 performance bonus payouts were approved in the May 2017 Committee meeting. Final bonus payouts for Chairman/CEO and senior management were determined based on overall pre-tax income, total revenue, customer experience as well as individual performance.

Overall PTI	Total Revenue	Customer Experience	Individual Performance

Approved performance bonus payments for the fiscal year 2017/18 will be delivered in June 2018.

LTI Program

The most recent full cycle of LTI awards including both SARs and RSUs was made in June 2017. Selected executives, including the Chairman/CEO and senior management, received LTI awards based on Company's and individual's performance during fiscal year 2016/17. The next cycle of LTI awards including SARs and RSUs is expected to be in June 2018.

Employee Share Purchase Plan (ESPP)

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

For fiscal year 2017/18, the Company did not issue any new shares under this plan, and the plan is currently operated through purchasing existing shares from the market.

Compensation Committee Report

Remuneration of Senior Management

The remuneration of senior management fell within the following bands for the year ended March 31, 2018:

Remuneration bands	Number of senior management
US$1,408,641 to US$1,472,669	1
US$2,689,224 to US$2,753,252	1
US$2,817,282 to US$2,881,310	2
US$3,905,778 to US$3,969,806	1
US$5,122,331 to US$5,186,359	1
US$7,107,234 to US$7,171,262	1
US$11,205,099 to US$11,269,127	1

Emoluments of Directors for FY2017/18 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 2017-18 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, 2017.

Performance Bonus

Performance bonus for general employees is based on individual performance and performance of their respective business unit or "Performance Groups". For fiscal year 2017/18, there were a total of approximately 85 different Performance Groups within the Company each with its unique performance metrics and targets, which consist of a financial component and a customer experience component. For the fiscal year 2017/18 performance bonus, mid-year progress payment was made in December 2017, and full payment based on annual business outcomes will be trued-up in June 2018 based on approved final bonus funding.

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

Performance Group scores may range from 0% to 320% 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 2017/18, 20.1% of eligible employees (excluding executive directors) received an award under the LTI Program. These awards were granted in June 2017.

LONG-TERM INCENTIVE PROGRAM

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

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

				Number of units							
Name	**Award type**	**Fiscal year of award**	**Effective price** (HK$)	**As at April 1, 2017** (Unvested)	**Awarded during the year**	**Vested during the year**	**Exercised during the year**	**Lapsed/ nullified during the year** (Note 1)	**As at March 31, 2018** (unvested)	**Total outstanding as at March 31, 2018**	**Vesting period** (mm.dd.yyyy)
Mr. Yang Yuanqing	SAR	10/11	4.92	-	-	-	-	11,030,219	-	-	02.21.2012 - 02.21.2015
	SAR	11/12	6.80	-	-	-	-	-	-	11,132,358	02.13.2013 - 02.13.2016
	SAR	12/13	8.22	-	-	-	-	-	-	14,059,573	02.04.2014 - 02.04.2017
	SAR	13/14	9.815	7,260,028	-	3,630,017	-	-	3,630,011	14,520,062	06.03.2015 - 06.03.2018
	SAR	15/16	12.29	9,527,748	-	3,175,916	-	-	6,351,832	12,703,664	06.01.2016 - 06.01.2019
	SAR	16/17	4.90	126,972,471	-	63,486,236	-	-	63,486,235	126,972,471	06.01.2017 - 06.01.2019
	SAR	17/18	4.95	-	45,893,773	-	-	-	45,893,773	45,893,773	06.01.2018 - 06.01.2020
	RSU	13/14	9.815	2,664,793	-	1,332,397	-	-	1,332,396	1,332,396	06.03.2015 - 06.03.2018
	RSU	15/16	12.29	3,661,513	-	1,220,505	-	-	2,441,008	2,441,008	06.01.2016 - 06.01.2019
	RSU	17/18	4.95	-	11,895,664	-	-	-	11,895,664	11,895,664	06.01.2018 - 06.01.2020
Mr. Zhu Linan	SAR	12/13	6.36	-	-	-	-	-	-	91,438	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	-	-	-	-	-	-	242,723	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	91,962	-	91,962	-	-	-	275,884	08.15.2015 - 08.15.2017
	SAR	15/16	7.49	269,313	-	134,657	-	-	134,656	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	615,761	-	205,254	-	-	410,507	615,761	08.19.2017 - 08.19.2019
	SAR	17/18	4.74	-	955,316	-	-	-	955,316	955,316	08.21.2018 - 08.21.2020
	RSU	14/15	11.48	22,503	-	22,503	-	-	-	-	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	68,998	-	34,499	-	-	34,499	34,499	08.14.2016 - 08.14.2018
	RSU	16/17	5.38	144,088	-	48,029	-	-	96,059	96,059	08.19.2017 - 08.19.2019
	RSU	17/18	4.74	-	165,079	-	-	-	165,079	165,079	08.21.2018 - 08.21.2020
Mr. Zhao John Huan	SAR	11/12	5.78	-	-	-	-	-	-	103,913	11.03.2012 - 11.03.2014
	SAR	12/13	6.36	-	-	-	-	-	-	274,316	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	-	-	-	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	91,962	-	91,962	-	-	-	275,884	08.15.2015 - 08.15.2017
	SAR	15/16	7.49	269,313	-	134,657	-	-	134,656	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	615,761	-	205,254	-	-	410,507	615,761	08.19.2017 - 08.19.2019
	SAR	17/18	4.74	-	955,316	-	-	-	955,316	955,316	08.21.2018 - 08.21.2020
	RSU	14/15	11.48	22,503	-	22,503	-	-	-	-	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	68,998	-	34,499	-	-	34,499	34,499	08.14.2016 - 08.14.2018
	RSU	16/17	5.38	144,088	-	48,029	-	-	96,059	96,059	08.19.2017 - 08.19.2019
	RSU	17/18	4.74	-	165,079	-	-	-	165,079	165,079	08.21.2018 - 08.21.2020

Compensation Committee Report

				Number of units							
Name	Award type	Fiscal year of award	Effective price (HK$)	As at April 1, 2017 (Unvested)	Awarded during the year	Vested during the year	Exercised during the year	Lapsed/ nullified during the year (Note 1)	As at March 31, 2018 (unvested)	Total outstanding as at March 31, 2018	Vesting period (mm.dd.yyyy)
Dr. Tian Suning	SAR	11/12	4.56	–	–	–	–	–	–	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	–	–	–	–	–	–	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	–	–	–	–	–	–	364,084	08.16.2014 – 08.16.2016
	SAR	14/15	11.48	91,962	–	91,962	–	–	–	275,884	08.15.2015 – 08.15.2017
	SAR	15/16	7.49	269,313	–	134,657	–	–	134,656	403,970	08.14.2016 – 08.14.2018
	SAR	16/17	5.38	615,761	–	205,254	–	–	410,507	615,761	08.19.2017 – 08.19.2019
	SAR	17/18	4.74	–	955,316	–	–	–	955,316	955,316	08.21.2018 – 08.21.2020
	RSU	14/15	11.48	22,503	–	22,503	–	–	–	–	08.15.2015 – 08.15.2017
	RSU	15/16	7.49	68,998	–	34,499	–	–	34,499	34,499	08.14.2016 – 08.14.2018
	RSU	16/17	5.38	144,088	–	48,029	–	–	96,059	96,059	08.19.2017 – 08.19.2019
	RSU	17/18	4.74	–	165,079	–	–	–	165,079	165,079	08.21.2018 – 08.21.2020
Mr. Nicholas C. Allen	SAR	10/11	4.59	–	–	–	237,001	223,146	–	–	08.20.2011 – 08.20.2013
	SAR	11/12	4.56	–	–	–	–	–	–	323,000	08.19.2012 – 08.19.2014
	SAR	12/13	6.36	–	–	–	–	–	–	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	–	–	–	–	–	–	364,084	08.16.2014 – 08.16.2016
	SAR	14/15	11.48	91,962	–	91,962	–	–	–	275,884	08.15.2015 – 08.15.2017
	SAR	15/16	7.49	269,313	–	134,656	–	–	134,657	403,970	08.14.2016 – 08.14.2018
	SAR	16/17	5.38	615,761	–	205,253	–	–	410,508	615,761	08.19.2017 – 08.19.2019
	SAR	17/18	4.74	–	955,316	–	–	–	955,316	955,316	08.21.2018 – 08.21.2020
	RSU	14/15	11.48	22,503	–	22,503	–	–	–	–	08.15.2015 – 08.15.2017
	RSU	15/16	7.49	68,998	–	34,499	–	–	34,499	34,499	08.14.2016 – 08.14.2018
	RSU	16/17	5.38	144,088	–	48,029	–	–	96,059	96,059	08.19.2017 – 08.19.2019
	RSU	17/18	4.74	–	165,079	–	–	–	165,079	165,079	08.21.2018 – 08.21.2020
Mr. Nobuyuki Idei	SAR	11/12	5.23	–	–	–	–	–	–	144,085	09.28.2012 – 09.28.2014
	SAR	12/13	6.36	–	–	–	–	–	–	274,316	07.03.2013 – 07.03.2015
	SAR	13/14	7.88	–	–	–	–	–	–	364,084	08.16.2014 – 08.16.2016
	SAR	14/15	11.48	91,962	–	91,962	–	–	–	275,884	08.15.2015 – 08.15.2017
	SAR	15/16	7.49	269,313	–	134,657	–	–	134,656	403,970	08.14.2016 – 08.14.2018
	SAR	16/17	5.38	615,761	–	205,254	–	–	410,507	615,761	08.19.2017 – 08.19.2019
	SAR	17/18	4.74	–	955,316	–	–	–	955,316	955,316	08.21.2018 – 08.21.2020
	RSU	14/15	11.48	22,503	–	22,503	–	–	–	–	08.15.2015 – 08.15.2017
	RSU	15/16	7.49	68,999	–	34,499	–	–	34,500	34,500	08.14.2016 – 08.14.2018
	RSU	16/17	5.38	144,088	–	48,029	–	–	96,059	96,059	08.19.2017 – 08.19.2019
	RSU	17/18	4.74	–	165,079	–	–	–	165,079	165,079	08.21.2018 – 08.21.2020

Name	Award type	Fiscal year of award	Effective price (HK$)	Number of units As at April 1, 2017 (Unvested)	Awarded during the year	Vested during the year	Exercised during the year	Lapsed/ nullified during the year (Note 1)	As at March 31, 2018 (unvested)	Total outstanding as at March 31, 2018	Vesting period (mm.dd.yyyy)
Mr. William O. Grabe	SAR	10/11	4.59	-	-	-	237,001	213,092	-	-	08.20.2011 - 08.20.2013
	SAR	11/12	4.56	-	-	-	-	-	-	323,000	08.19.2012 - 08.19.2014
	SAR	12/13	6.36	-	-	-	-	-	-	274,316	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	-	-	-	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	91,962	-	91,962	-	-	-	275,884	08.15.2015 - 08.15.2017
	SAR	15/16	7.49	269,313	-	134,656	-	-	134,657	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	615,761	-	205,253	-	-	410,508	615,761	08.19.2017 - 08.19.2019
	SAR	17/18	4.74	-	955,316	-	-	-	955,316	955,316	08.21.2018 - 08.21.2020
	RSU	14/15	11.48	22,503	-	22,503	-	-	-	-	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	68,999	-	34,499	-	-	34,500	34,500	08.14.2016 - 08.14.2018
	RSU	16/17	5.38	144,088	-	48,029	-	-	96,059	96,059	08.19.2017 - 08.19.2019
	RSU	17/18	4.74	-	165,079	-	-	-	165,079	165,079	08.21.2018 - 08.21.2020
	RSU (Deferral)	17/18	4.95	-	50,190	50,190	-	-	-	-	Note 2
	RSU (Deferral)	17/18	5.01	-	49,666	49,666	-	-	-	-	Note 2
	RSU (Deferral)	17/18	4.58	-	54,287	54,287	-	-	-	-	Note 2
	RSU (Deferral)	17/18	4.58	-	54,414	54,414	-	-	-	-	Note 2
Mr. William Tudor Brown	SAR	12/13	8.07	-	-	-	-	-	-	53,476	01.31.2014 - 01.31.2016
	SAR	13/14	7.88	-	-	-	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	91,962	-	91,962	-	-	-	275,884	08.15.2015 - 08.15.2017
	SAR	15/16	7.49	269,313	-	134,657	-	-	134,656	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	615,761	-	205,254	-	-	410,507	615,761	08.19.2017 - 08.19.2019
	SAR	17/18	4.74	-	955,316	-	-	-	955,316	955,316	08.21.2018 - 08.21.2020
	RSU	14/15	11.48	22,503	-	22,503	-	-	-	-	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	68,999	-	34,499	-	-	34,500	34,500	08.14.2016 - 08.14.2018
	RSU	16/17	5.38	144,088	-	48,029	-	-	96,059	96,059	08.19.2017 - 08.19.2019
	RSU	17/18	4.74	-	165,079	-	-	-	165,079	165,079	08.21.2018 - 08.21.2020
Ms. Ma Xuezheng	SAR	11/12	4.56	-	-	-	-	-	-	107,666	08.19.2012 - 08.19.2014
	SAR	12/13	6.36	-	-	-	-	-	-	182,877	07.03.2013 - 07.03.2015
	SAR	13/14	7.88	-	-	-	-	-	-	364,084	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	91,962	-	91,962	-	-	-	275,884	08.15.2015 - 08.15.2017
	SAR	15/16	7.49	269,313	-	134,657	-	-	134,656	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	615,761	-	205,254	-	-	410,507	615,761	08.19.2017 - 08.19.2019
	SAR	17/18	4.74	-	955,316	-	-	-	955,316	955,316	08.21.2018 - 08.21.2020
	RSU	14/15	11.48	22,503	-	22,503	-	-	-	-	08.15.2015 - 08.15.2017
	RSU	15/16	7.49	68,998	-	34,499	-	-	34,499	34,499	08.14.2016 - 08.14.2018
	RSU	16/17	5.38	144,088	-	48,029	-	-	96,059	96,059	08.19.2017 - 08.19.2019
	RSU	17/18	4.74	-	165,079	-	-	-	165,079	165,079	08.21.2018 - 08.21.2020

Compensation Committee Report

Name	Award type	Fiscal year of award	Effective price (HK$)	Number of units: As at April 1, 2017 (Unvested)	Awarded during the year	Vested during the year	Exercised during the year	Lapsed/ nullified during the year (Note 1)	As at March 31, 2018 (unvested)	Total outstanding as at March 31, 2018	Vesting period (mm.dd.yyyy)
Mr. Yang Chih-Yuan Jerry	SAR	12/13	8.63	-	-	-	-	-	-	24,593	02.20.2014 - 02.20.2016
	SAR	13/14	7.88	-	-	-	-	-	-	245,757	08.16.2014 - 08.16.2016
	SAR	14/15	11.48	62,075	-	62,075	-	-	-	186,221	08.15.2015 - 08.15.2017
	SAR	14/15	11.07	12,402	-	12,402	-	-	-	37,202	11.16.2015 - 11.16.2017
	SAR	15/16	7.49	269,313	-	134,657	-	-	134,656	403,970	08.14.2016 - 08.14.2018
	SAR	16/17	5.38	615,761	-	205,254	-	-	410,507	615,761	08.19.2017 - 08.19.2019
	SAR	17/18	4.74	-	955,316	-	-	-	955,316	955,316	08.21.2018 - 08.21.2020
	RSU	14/15	11.48	15,190	-	15,190	-	-	-	-	08.15.2015 - 08.15.2017
	RSU	14/15	11.07	3,035	-	3,035	-	-	-	-	11.06.2015 - 11.06.2017
	RSU	15/16	7.49	68,999	-	34,498	-	-	34,501	34,501	08.14.2016 - 08.14.2018
	RSU	16/17	5.38	144,088	-	48,029	-	-	96,059	96,059	08.19.2017 - 08.19.2019
	RSU	17/18	4.74	-	165,079	-	-	-	165,079	165,079	08.21.2018 - 08.21.2020
Mr. Gordon Robert Halyburton Orr	SAR	15/16	7.25	149,405	-	74,702	-	-	74,703	224,107	09.18.2016 - 09.18.2022
	SAR	16/17	5.38	615,761	-	205,254	-	-	410,507	615,761	08.19.2017 - 08.19.2023
	SAR	17/18	4.74	-	955,316	-	-	-	955,316	955,316	08.21.2018 - 08.21.2020
	RSU	15/16	7.25	38,278	-	19,139	-	-	19,139	19,139	09.18.2016 - 09.18.2018
	RSU	16/17	5.38	144,088	-	48,029	-	-	96,059	96,059	08.19.2017 - 08.19.2019
	RSU	17/18	4.74	-	165,079	-	-	-	165,079	165,079	08.21.2018 - 08.21.2020

Note 1: These units were nullified in accordance with the operation of the SAR plan rules.

Note 2: Proceeds in respect of quarterly deferral grants to be paid only at point of termination from the board of directors or unforeseen emergency.

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 guidelines are not achieved, executives are required to retain a minimum portion of vested shares delivered through Lenovo's incentive plans until the guidelines are met. The guidelines are then expected to be maintained throughout the executives' remaining employment. As of fiscal year end, 96% of executives covered by the guidelines have achieved the targeted level of ownership, and with the upcoming annual LTI grant in June 2018, 100% of executives covered by the guidelines will achieve the targeted level of ownership. Additionally, the Non-executive Directors are subject to similar guidelines and are in full compliance.

Claw Back Policy

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

Members of the Compensation Committee

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

Sustainability Overview

SUSTAINABILITY

Sustainability is a system of core beliefs, and also a management discipline – one with increasingly sophisticated tools and processes for measuring corporate performance.

At Lenovo, we're proud to both uphold the values of sustainability, and be recognized by professionals worldwide as a sustainability leader. The global community has honored our achievements in workplace equality, emissions control, resource use, corporate social responsibility, and supply chain management. Lenovo was one of three companies to receive the highest score overall in the 2017 Hang Seng Corporate Sustainability Index, demonstrating the company's excellence in sustainability performance.

Excellence in sustainability starts at the top, with the support and endorsement of the Chairman and CEO Yuanqing Yang. Our commitment is systematized across the organization with our board-approved Enterprise Risk Management (ERM) framework, and through our Sustainability Materiality Assessment, which guides our sustainability reporting. Every year, our annual Sustainability Report provides a full accounting of the company's environmental and social responsibility performance.

Lenovo is one of the largest advanced-manufacturing enterprises globally. As such, our commitment to sustainability helps elevate the discipline and opportunity for all.

Lenovo uses its ERM framework and process to regularly evaluate and address sustainability and corporate social responsibility risks. This same process is used by the Company's Board of Directors and management team across all major functions of the Company. Lenovo's corporate governance framework includes a Corporate Sustainability Policy, signed by Chairman and CEO Yuanqing Yang, which outlines the social, environmental and economic principles that guide the Company's operation. The policy is available at www.lenovo.com/sustainability.

In August 2017, the Board of Directors was presented an annual update on Lenovo's sustainability and corporate responsibility risks. The update included a review of Lenovo's Sustainability Report and the Company's anti-slavery and human trafficking statement, and the Board approved both. The Board also received an update on Lenovo's ESG Risk Management and Compliance programs, a progress report on Lenovo's climate change commitments and a request for continued support of Lenovo's climate and renewable energy investments.

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

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

Sustainability Overview

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

A selection of Lenovo's FY 2017/18 sustainability achievements is summarized below. More information can be found in Lenovo's Sustainability Report available at www.lenovo.com/sustainability.

Key Recognitions from the Global Community:

- 2017 CDP (formerly Carbon Disclosure Project) Climate Change Leadership Level
  - Lenovo scored A-, "Leadership Level," on CDP's climate and supply chain climate questionnaires assessing progress toward environmental stewardship through climate change mitigation and adaptation
- Corporate Knights 2018 Global 100 Most Sustainable Corporations in the World Index
  - Lenovo was the highest ranked company in its industry
- 2017 Hang Seng Corporate Sustainability Index
  - Lenovo was one of three companies to receive the highest score overall
- Corporate Equality Index 2017
  - Lenovo received a perfect score of 100 percent on corporate policies and practices related to LGBT workplace equality, earning distinction as "Best Places to Work for LGBT Equality"
- Thomson Reuters 2018 Top 100 Global Tech Leader
  - Lenovo scored particularly well on CSR strategy, emissions and resource use
- Gartner 2017 Supply Chain Top 25
- Working Mother 100 Best Companies

UN GLOBAL COMPACT

WE SUPPORT

ETHICS AND COMPLIANCE

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

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

The ECO's mission, in part, is to continually review and assess Lenovo's internal policies and procedures. The ECO conducts in-person training sessions and provides communications to our business teams to improve employee education on ethics and compliance issues. Additionally, the ECO maintains and monitors confidential reporting lines that employees and third parties may use to report misconduct. The ECO also leads Lenovo's efforts to conduct ethics and reputational due diligence on Lenovo business partners.

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

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

All new hires at Lenovo undergo training on Lenovo's Code of Conduct

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

Privacy

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

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

Key projects of the Privacy Program include:

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

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

Sustainability Overview

PRODUCT RESPONSIBILITY

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

Lenovo's Quality Policy forms the foundation of its Quality Management System, which is ISO (International Organization for Standardization) 9001:2015 certified. To maintain the highest level of quality in its products, Lenovo employs an active, closed-loop process whereby feedback mechanisms provide quick resolution to customer issues. When product issues are discovered, Lenovo performs a root cause analysis and feeds the results back into manufacturing, development and test organizations to ensure similar issues do not arise with current or future products.

Lenovo's Product Safety Priorities

- Select suppliers who demonstrate similar commitments to safety
- Investigate product safety incidents and take prompt remedial actions to protect customers and employees
- Comply with applicable legal requirements and voluntary safety and ergonomics practices to which Lenovo subscribes
- Continually improve product safety processes
- Provide customers with labeling, instructions, and other information to safely use Lenovo products

MANUFACTURING AND SUPPLY CHAIN OPERATIONS

Manufacturing Operations

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

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

Occupational Health and Safety

Providing a safe and healthy working environment for all Lenovo employees is essential to the Company's productivity and values. The Company's Global Occupation Health and Safety (OHS) organization has established world-class standards for employee workplace safety through our Occupational Safety and Health Management System that delivers health and safety programs and processes throughout our global manufacturing footprint. We accomplish this through education, prevention, checks and controls that are vital to achieving the Company's objectives for innovation, productivity and continual improvement. New facilities are quickly and fully integrated into our system and measured to our demanding health and safety standards. All Lenovo global manufacturing locations are OHSAS 18001 certified by Bureau Veritas, a leading independent certification body.

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

Brazil | China | India | Japan | Mexico | U.S.A.

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

Sustainability Overview

Supply Chain Operations
Lenovo expects its suppliers to not only provide the highest quality parts, products and services, but also to conduct business ethically, responsibly and sustainably. Our top 100 suppliers, which constitute most of our procurement spend, are measured across 25 key sustainability indicators.

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, follow all laws regarding environmental and workplace conditions, comply with restricted materials requirements and provide necessary declarations.

Lenovo implements the RBA Code of Conduct contractually with our suppliers. Lenovo's own Supplier Code of Conduct is also contractually executed with suppliers and incorporates the RBA code as a component. The RBA code covers elements of labor, environmental and health concerns. In particular, it addresses child labor, forced labor, working hours, overtime, time off, recruitment fees and flow-down of requirements upstream to all levels. Lenovo strives to directly validate compliance of 95 percent of its Tier 1 suppliers and 50 percent of its Tier 2 suppliers by procurement spend with formal self-assessments and independent third-party audits.

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

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

Lenovo's activities regarding conflict minerals include:

An industry-leading Conflict Minerals Policy validated by independent third-party review, as well as a specific Cobalt Policy
Engaging suppliers through formal contracts and directly validating their due diligence efforts via independent third-party RBA audits
Participating in RMAP conflict mineral conferences and smelter work groups
Holding regular education sessions for employees, publishing quarterly newsletters and providing supplier training as needed
Extensively employing the RBA Conflict Minerals Reporting Template (CMRT) for Reasonable Country of Origin Inquiry (RCOI) efforts across 95 percent of our procurement spend and our supply chain
Utilizing RMAP to audit and certify smelters as being conflict-free compliant
Reporting the program status to Lenovo's Chief Sustainability Executive
Publicly reporting our conflict minerals report, the smelters and refiners in our supply chain and their country of location and our list of suppliers

Sustainability Overview

Supplier Diversity
The aims of Lenovo's Supplier Diversity Program are to expand our diverse supplier base, strengthen economic development and create a competitive advantage for all involved. Diverse suppliers are a natural part of our business strategy and these suppliers are an integral part of our productivity, quality, service and innovation.

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

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

HUB Zone business

Service-disabled veteran-owned

Small disadvantaged business

Persons with a disability-owned

Supplier Diversity

Woman-owned

Minority-owned

LGBT-owned

Veteran-owned

Small business

Lenovo partners with a variety of national and regional organizations, such as the National Minority Supplier Development Council (NMSDC) and the Women's Business Enterprise National Council (WBENC), to facilitate supplier identification and program development. 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 our Supplier Diversity website at www.lenovo.com/supplierdiversity.

THE ENVIRONMENT

Lenovo's long-term, comprehensive approach to environmental management encompasses everything from site operations and product design to recycling and product end-of-life management. Lenovo's Environmental Affairs Policy, which applies to all operations and forms the foundation of Lenovo's Environmental Management System (EMS), provides the backbone for Lenovo's strategy. The Environmental Affairs Policy is available at www.lenovo.com/environment.

Lenovo's approach to managing environmental risk and ensuring compliance is described in the Management Discussion & Analysis section on page 31. Lenovo also acts to ensure compliance in its supply chain with a risk-based approach to supplier auditing, including required audits for those organizations whose operations potentially present significant environmental risks. Lenovo also requires that its suppliers comply with the RBA Code of Conduct and verify this compliance through third-party audits. Regarding Lenovo's own Supplier Code of Conduct, compliance is enforced contractually.

Climate Change

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

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

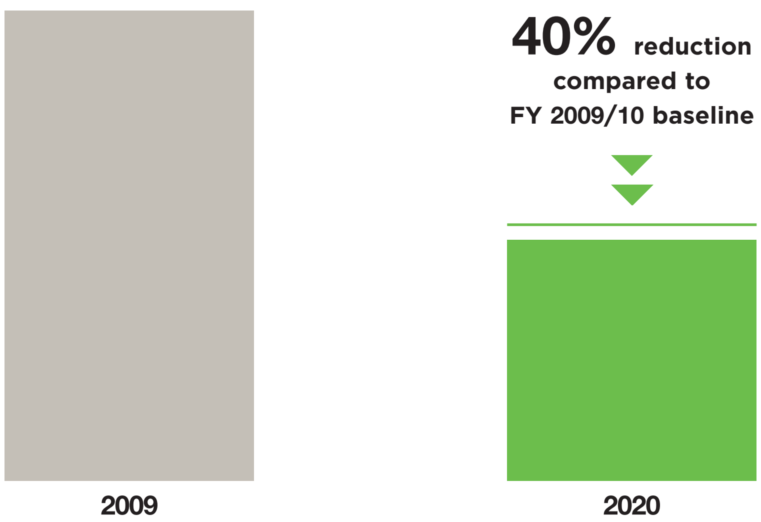
2) As part of Lenovo's ISO 14001 Environmental Management System (EMS), at least annually environmental risks including climate change are evaluated and assigned a quantified score for use in establishing objectives and targets under the EMS.

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

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

Lenovo's climate change strategy receives input from the very highest levels of our organization. Lenovo's Executive Committee and Board of Directors directed Lenovo to establish a second-generation Scope 1 and 2 GHG emissions reductions goal. This new goal was officially released in FY15/16 and calls upon Lenovo to reduce our Scope 1 and 2 GHG emissions by 40 percent by 2020 relative to our FY09/10 adjusted baseline. This second-generation target for GHG emission reductions aligns with our customers' and investors' expectations and follows the latest scientific findings of climate science. In support of this goal, in May 2015 the Lenovo Board of Directors recommended that Lenovo achieve 30 megawatts of direct renewable generation by 2020.

LENOVO GLOBAL GHG EMISSION TARGET



Sustainability Overview

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

In FY17/18, Lenovo started assessing a path forward for our third-generation targets after 2020. We are reviewing and evaluating the Science Based Targets initiative's methodology to determine the best approach for Lenovo to support science based reduction pathways for limiting global temperature rise.

In addition to our work to address these high-level corporate goals, Lenovo also has established more detailed climate change-related goals as part of Lenovo's EMS. For FY 2017/18, Lenovo had the following global targets in place related to climate change:

- New products must show improved energy efficiency relative to the previous generation of the product.
- Ensure select products are compliant with preferred voluntary energy standards.
- Continue to support external development of product carbon footprint (PCF) methodologies and standards.
- Ensure product carbon footprints are published for all new Lenovo products.
- Begin calculating PCFs for a representative sample of newly released servers by January 31, 2018.
- Specified organizations will establish global action plans to reduce combined Scope 1 and Scope 2 GHG emissions by 40 percent by March 31, 2020, relative to FY 2009/10. The plan will be reviewed and updated annually, at a minimum.
- Achieve a four percent reduction in our global CO_2e emissions by the end of FY 2017/18 relative to previous fiscal year.
- Require climate change reduction targets for at least 75 percent of Lenovo direct suppliers.
- Engage with global transportation carriers to ensure they have climate change reduction targets and/or programs.

Results of Lenovo's programs to address these targets will be reported in Lenovo's FY 2017/18 Sustainability Report. In addition, Lenovo responded to the 2017 CDP climate change survey and received an A-, placing Lenovo in the leadership category. Lenovo's annual climate change report, including a climate change risk and opportunities analysis, is publicly available at www.cdp.net. For additional details on Lenovo's GHG emissions inventory and management, see Lenovo's climate change web pages at www.lenovo.com/climate and Sustainability Reports at www.lenovo.com/sustainability.

New packaging made from bamboo and sugar cane fiber is 100 percent biodegradable and lighter than previous packaging materials

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

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

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

Waste and Water
Lenovo is committed to reducing and recycling waste and conserving water. Lenovo tracks waste metrics and works to identify and implement opportunities to reduce waste quantities. Lenovo operations generate minimal quantities of hazardous waste. Lenovo tracks and monitors water consumption and discharge in its operations even though it does not have any wet processes; water is used only for human consumption and sanitation. Lenovo developed a water risk map for Lenovo's sites in a scope of our EMS. Details on performance relative to waste and water are available in Lenovo's Sustainability Report. For additional details on Lenovo's waste and water inventory, see Lenovo's Sustainability Reports and website: www.lenovo.com/waterandwaste.

Lenovo's waste and water data are all third-party verified by Bureau Veritas to a reasonable level of assurance. Please see verification statements at www.lenovo.com/waterandwaste.

Environmentally Conscious Products Program
Lenovo's Environmentally Conscious Products Program is included in its EMS and incorporates an expectation for continual improvement. Lenovo's commitment to product environmental leadership is reflected in its environmental policy which includes product-specific commitments related to responsible materials usage, energy efficiency and recycling. Lenovo's product environmental standards and specifications require the designers of all Lenovo IT products to consider certain environmentally conscious design practices to facilitate and encourage reuse and recycling and to minimize resource consumption.

Lenovo's priority is to use environmentally preferable materials whenever applicable. Lenovo continues to drive innovation in the use of recycled content materials, and in FY2017/18 we released our first product made with closed-loop post-consumer recycled content (CL-PCR), the V410z All-in-One desktop. This product includes 12 percent net by weight post-consumer recycled content sourced from waste electronic and electrical equipment (WEEE) materials. This was followed by the release of the ThinkVision T22v-10 monitor with 45 percent net by weight CL-PCR. Lenovo is working to increase our use of CL-PCR to help close the loop on product lifecycles.

Sustainability Overview

Product energy efficiency	Includes developing and offering tools such as Lenovo Efficiency Mode (LEM), which helps servers operate at peak efficiency when the OS is running
Product carbon footprint	Includes identifying hotspots for targeted emissions reductions on high-volume mainstream products in each business unit
Product packaging	Includes refining packaging design to increase pallet density
Environmentally preferred materials	Includes efforts to steadily increase the percentage of recycled plastic used in manufacturing Lenovo products

Take Back and Recycling

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

OUR PEOPLE

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

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

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

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

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

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

Lenovo measures its employment success across five key elements: compensation and benefits; work-life balance; performance and recognition; development and career opportunities; and retention. In 2017 we made substantial changes to our recognition and rewards programs to more closely align them with our strategic goals. We also implemented more classes and career development initiatives for employees to enhance career development.

Lenovo understands that an unhealthy or dangerous workplace could have significant negative implications for its employees, the quality of its products, and the Company's standing as a legally compliant and responsible corporate citizen. With this in mind, Lenovo's Occupational Health and Safety (OHS) organization is committed to ensuring the implementation of an effective health and safety management system. Please see the Manufacturing and Supply Chain Operations section for more information.

SOCIAL INVESTMENTS

Through generous support of science, technology, engineering and math (STEM) education initiatives and diversity, Lenovo is making a difference in our communities. Most notably, Lenovo aims to increase access to technology for diverse populations through partnerships with organizations like the Boys & Girls Clubs of America, the Smithsonian Center for Learning and Digital Access and NAF, the nonprofit that leads the Lenovo Scholar Network. Now in its fourth year, the Lenovo Scholar Network offers more than 5,000 students at 118 public high schools across the United States the opportunity to learn to develop mobile applications.

Lenovo and NAF created the annual Mobile App Development Competition in 2014 to engage underserved high school students in STEM, while also providing entrepreneurial and technology skills needed to pursue careers in computer science, programming and engineering. In the 2017-18 school year, more than 80 percent of schools that joined the competition are offering mobile app development to students for the very first time.

In addition to STEM education, Lenovo engages with local communities and provides relief in times of natural disasters. Following the unprecedented natural disasters of 2017, Lenovo donated more than $1M USD in disaster aid and recovery for impacted communities.

Sustainability Overview

Employee Engagement in the Community
In addition to its philanthropic initiatives, Lenovo empowers employees to give back to their communities through volunteerism. The company grants employees in North America 32 hours of annual paid time off for volunteerism, and offers a 50 percent match for their charitable donations. Since 2005, North America employees have volunteered over 100,000 hours, and Lenovo and its employees have contributed almost $20 million to charitable causes.

In April 2017, Lenovo launched its first-ever global service event, engaging 2,000 employees around the world in local volunteerism. Employees gave more than 10,000 hours in volunteer service focused on STEM education and the environment.

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

Global Week of Service Project in China

Directors' Report

The directors of Lenovo Group Limited (the "**Company**") submit their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "**Group**") for the year ended March 31, 2018.

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), 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 2017, and an indication of likely future development in the Group's business, can be found in the "Five-Year Financial Summary", "Chairman & CEO Statement", "Management's Discussion & Analysis" and "Sustainability Overview" sections of this annual report. These discussions form part of this directors' report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 167 of this annual report.

The state of affairs of the Group and of the Company as at March 31, 2018 is set out in the consolidated balance sheet on pages 169 and 170 of this annual report and the Company balance sheet in note 31(a) to the financial statements respectively.

The consolidated cash flows of the Group for the year are set out in the statement on page 171 of this annual report.

An interim dividend of HK6.0 cents (2017: HK6.0 cents) per share, amounting to a total of approximately HK$666.5 million (approximately US$85.4 million) (2017: approximately HK$666.5 million (approximately US$85.9 million)), was paid to shareholders during the year.

The Board has resolved to recommend the payment of a final dividend of HK20.5 cents per share for the year ended March 31, 2018 (2017: HK20.5 cents). Subject to shareholders' approval at the forthcoming annual general meeting of the Company to be held on July 5, 2018 ("**AGM**"), the proposed final dividend will be payable on July 18, 2018 to the shareholders whose names appear on the register of members of the Company on July 12, 2018.

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

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

Latest time to lodge transfer documents for registration	4:30 p.m. on June 26, 2018
Closure of register of members	From June 27 to July 5, 2018
Record date	June 27, 2018

RESULTS AND APPROPRIATIONS *(continued)*

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

Latest time to lodge transfer documents for registration	4:30 p.m. on July 11, 2018
Closure of register of members	July 12, 2018
Record date	July 12, 2018

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, 2018 and for the last four financial years are set out on page 267 of this annual report.

DISTRIBUTABLE RESERVES

As at March 31, 2018, the distributable reserves of the Company amounted to US$776,657,000 (2017: US$713,824,000).

BANK BORROWINGS

Particulars of bank borrowings as at March 31, 2018 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$1,788,000 (2017: US$2,150,000).

SHARE CAPITAL

Pursuant to the subscription agreement dated September 29, 2017 (the "**Subscription Agreement**") entered into between the Company as issuer and Union Star Limited as subscriber (the "**Subscriber**"), the Company allotted and issued 906,136,890 shares to the Subscriber at a subscription price of HK$4.31 per share on November 17, 2017 (the "**Share Issuance**"). Upon completion of the Share Issuance, the Company has 12,014,791,614 shares in issue. Save for the Share Issuance, no shares were issued during the year.

Details of movement of share capital of the Company during the year are set out in note 29 to the financial statements.

DEBENTURES ISSUED

The Company issued US$750,000,000 4.750% notes due 2023 on March 29, 2018 under the medium term note programme established by the Company on February 15, 2018. The notes were listed on The Stock Exchange of Hong Kong S.A.R. of China Limited (the "**Stock Exchange**"). Details of the notes are set out in note 27 to the financial statements.

The proceeds of the issues amounting to about US$750,000,000, save for the repurchase of the Company's outstanding US$1,500,000,000 4.700% notes due 2019, the remaining was used for the Company's working capital and general corporate purposes.

Directors' Report

EQUITY-LINKED AGREEMENTS

Pursuant to the Subscription Agreement, the Company issued and the Subscriber subscribed for 90,613,689 units of bonus warrants (the "**Bonus Warrants**") at the initial exercise price of HK$5.17 per Bonus Warrant on November 17, 2017. The exercise in full of the subscription rights attaching to the Bonus Warrants will result in the issue of 90,613,689 shares of the Company. As at March 31, 2018, all the units of Bonus Warrants remained outstanding. For further details of the Bonus Warrants, please refer to note 12 to the financial statements, and also the Company's announcements dated September 29, 2017 and November 17, 2017 and circular dated October 16, 2017 in relation to, among other things, issuance of the Bonus Warrants.

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

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Particulars of the Company's principal subsidiaries, associates and joint ventures as at March 31, 2018 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 11% 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	14%
Five largest suppliers combined	52%

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

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

During the year ended March 31, 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the respective trustee of the long-term incentive program and the employee share purchase plan of the Company purchased a total of 106,257,377 shares from the market for award to employees upon vesting. Details of these program and plan are set out under sections headed "Long-Term Incentive Program" and "Employee Share Purchase Plan" in the Compensation Committee Report on page 114 and page 117 respectively of this annual report.

DIRECTORS

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

Chairman and Executive Director
Mr. Yang Yuanqing

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

Independent Non-executive Directors
Dr. Tian Suning
Mr. Nicholas C. Allen
Mr. Nobuyuki Idei
Mr. William O. Grabe
Mr. William Tudor Brown
Ms. Ma Xuezheng
Mr. Yang Chih-Yuan Jerry
Mr. Gordon Robert Halyburton Orr

In accordance with article 107 of the Company's articles of association, Mr. Yang Yuanqing, Mr. Zhao John Huan, Mr. Nicholas C. Allen 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 (the "**Listing Rules**"). The Nomination and Governance Committee has duly reviewed the independence of each of these directors. The Company considered that all independent non-executive directors meet the independence guidelines set out in rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The list of directors who have served on the boards of directors of the subsidiaries of the Company during the year ended March 31, 2018 or during the period from April 1, 2017 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, 74, has been the Honorary Chairman and Senior Advisor of the Company since November 3, 2011. Mr. Liu is the founder of the Group and held the positions of executive director, non-executive director and chairman of the Board at different times from 1993 until his resignation from the Board on November 3, 2011. As our Honorary Chairman, Mr. Liu is not a director or an officer of the Company or of any subsidiary of the Company, and does not have any management role in the Company or any of its subsidiaries. He obtained his graduate certificate from the Radar Navigation Department of People's Liberation Army Institute of Telecommunication Engineering (中國人民解放軍軍事電信工程學院雷達導航系) (now known as Xidian University) in China in 1967 and has substantial experiences in corporate management. Mr. Liu is the chairman of the board and executive director of Legend Holdings Corporation (HKSE listed), a company holding substantial interests in the issued shares of the Company.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of directors

Chairman and executive director

Mr. Yang Yuanqing, 53, 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 of the Company 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 of the Company since December 16, 1997.

Mr. Yang has nearly 30 years of experience in IT industry. Under his leadership, Lenovo has been China's best-selling PC brand since 1997 and is the leading PC vendor, one of the major players in global smartphone and x86 server markets. Mr. Yang holds a master's degree from the Department of Computer Science at the University of Science and Technology of China. Mr. Yang is currently a director of Baidu, Inc. (NASDAQ listed). Mr. Yang is also a guest professor at the University of Science and Technology of China and a member of the International Advisory Council of Brookings Institute.

Non-executive directors

Mr. Zhu Linan, 55, has been a non-executive director of the Company since April 30, 2005. Mr. Zhu graduated with a master's degree in electronic engineering from Shanghai Jiao Tong University and has more than 20 years of management experience. He was previously a senior vice president of the Group. Mr. Zhu is currently an executive director, president and member of executive committee of Legend Holdings Corporation (HKSE listed), a company holding substantial interests in the issued shares of the Company and he also serves as director of its various members. He is a non-executive director of CAR Inc. (HKSE listed). He was previously a non-executive director of Peak Sport Products Co., Limited (HKSE listed).

Mr. Zhao John Huan, 55, has been a non-executive director of the Company since November 3, 2011. Mr. Zhao holds a master's degree in business administration from the Kellogg School of Management at Northwestern University, dual master's degrees in electric engineering and physics from Northern Illinois University and a bachelor's degree in physics from Nanjing University. He is currently an executive director, executive vice president and member of executive committee of Legend Holdings Corporation (HKSE listed), a company having substantial interests in the issued shares of the Company and the chairman and president of Hony Capital Limited.

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

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

Biography of directors *(continued)*

Independent non-executive directors

Dr. Tian Suning, 54, has been an independent non-executive director of the Company since August 2, 2007. He is the founder and chairman of a Chinese focused private equity fund China Broadband Capital Partners, L.P.. He is currently an independent director of Shanghai Pudong Development Bank Co., Ltd. (Shanghai Stock Exchange listed) and an executive chairman of the holding company of AsiaInfo. He is also an independent non-executive director of Taikang Insurance Group Inc. (formerly Taikang Life Insurance Company Ltd.). From 1993 till 1999, he was co-founder and chief executive officer of AsiaInfo Holdings LLC (formerly listed on NASDAQ). He was previously a non-executive director of Huayi Tencent Entertainment Company Limited (formerly known as China Jiuhao Health Industry Corporation Limited) (HKSE listed), an independent non-executive director of MasterCard Incorporated (NYSE listed) and a vice chairman of PCCW Ltd. (HKSE listed) between 2005 and 2007. Dr. Tian holds a Ph.D. in natural resource management from Texas Tech University and a M.S. degree in ecology from Chinese Academy of Sciences.

Mr. Nicholas C. Allen, 63, 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 the board of directors of Link Real Estate Investment Trust (HKSE listed) and an independent non-executive director of CLP Holdings Limited (HKSE listed). He was previously an independent non-executive director of Hysan Development Company Limited (HKSE listed) and VinaLand Limited (London Stock Exchange AIM listed).

Mr. Nobuyuki Idei, 80, 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 the 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, 80, 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. and QTS Realty Trust, Inc. (both NYSE listed). He was previously an independent director of Compuware Corporation and a director of Covisint 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.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of directors *(continued)*

Independent non-executive directors *(continued)*

Mr. William Tudor Brown, 59, 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 Semiconductor Manufacturing International Corporation (HKSE listed) and a director of Marvell Technology Group Ltd. (NASDAQ listed). He was previously an independent non-executive director of P2i Limited and Xperi Corporation (NASDAQ listed). He also served on the UK Government Asia Task Force until May 2012.

Ms. Ma Xuezheng, 65, was re-designated as an independent non-executive director of the Company on November 7, 2013. Prior to that, she was a non-executive Vice Chairman of the Company since 2007. Before becoming a non-executive director, she was an executive director and the chief financial officer of the Company at different times between 1997 and 2007 and held directorship in various subsidiaries of the Company. She is currently managing partner of Boyu Capital Advisory Company Limited and a non-executive director of the Securities and Futures Commission following her resignation from the Main Board and GEM Listing Committees of the HKSE on November 14, 2013. In addition, she is also a non-executive director of Unilever N.V. (NYSE and Euronext Amsterdam listed) and Unilever PLC (NYSE and London Stock Exchange listed). She was formerly a non-executive director of Wumart Stores, Inc. and STELUX Holdings International Limited (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, 49, 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, where he is serving on the University's Board of Trustees beginning in October 2017. He was previously on Stanford's Board of Trustees from 2005 through 2015 including being a vice chair.

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

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

Biography of directors *(continued)*

Independent non-executive directors *(continued)*

Mr. Gordon Robert Halyburton Orr, 55, was re-designated as an independent non-executive director of the Company on September 1, 2016. Prior to that, he was a non-executive director of the Company since 2015. He holds a Master of Arts degree in Engineering Science from Oxford University, United Kingdom and a Master of Business Administration degree from Harvard University.

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

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

Biography of senior management

Mr. Gianfranco Lanci, 63, joined the Group in April 2012 and is currently the Corporate President and Chief Operating Officer of the Company responsible for the principal operations of all the Group's five geographies, and the Intelligent Device Group, which includes the Company's PC, Smart Devices and Mobile Device businesses. Before taking up the office as Corporate President, Mr. Lanci was Chief Operating Officer 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.

Ms. Gao Lan, 52, joined the Group in 2009 and is currently the Senior Vice President of Human Resources of the Company, responsible for human resources, organizational development, global talent, compensation and benefits, as well as nurturing the Company's culture. Prior to this, Ms. Gao held several Vice President roles leading the HR functions of many teams, including Emerging Markets Group, APLA & China Geography, People & Organization Capability and HR Strategy & Operations. Before joining the Group, Ms. Gao held senior positions in HR in various multinational companies. Ms. Gao holds a bachelor degree of science from Nankai University, a master degree of philosophy from Cambridge University in the UK, studied human resource management at the Western Management Institute of Beijing and completed the Leadership Excellence for Business HR Program at Stanford University in the US.

Mr. He Zhiqiang, 55, joined the Group in 1986 and is currently the Senior Vice President of the Company and President of Lenovo Capital and Incubator Group. This group is responsible for driving innovation through investment in startups, spinning off new businesses and exploring new technologies. Prior to that, Mr. He held various leadership positions in the Group including the President of the Ecosystem and Cloud Services Business Group and was the Chief Technology Officer overseeing Lenovo's Research & Technology initiatives and systems. Mr. He holds a bachelor's degree in computer communication from Beijing University of Posts and Telecommunications and a master's degree in computer engineering from the Institute of Computing Technology of the Chinese Academy of Sciences.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of senior management *(continued)*

Ms. Qiao Jian, 50, joined the Group in 1990 and is currently the Senior Vice President and Chief Marketing Officer of the Company, overseeing Lenovo's global brand, marketing, communications and customer engagement efforts. Before that, Ms. Qiao was Co-President of the Mobile Business Group focusing on Lenovo's Mobile business in China. Prior to that, Ms. Qiao was the Senior Vice President of Human Resources. Ms. Qiao held various senior positions in the Group including Senior Vice President of Strategy and Planning and Vice President of Human Resources in China – both before and after the acquisition of IBM's PC Division. Ms. Qiao has extensive experience in strategy, marketing and branding and human resources. She holds a bachelor's degree in management science from Fudan University and holds an EMBA from the China Europe International Business School.

Ms. Laura G. Quatela, 60, joined the Group in October 2016 as a Senior Vice President and the Chief Legal Officer responsible for the Group's legal, IP, litigation, corporate governance and government relations matters globally. Before joining the Group, Ms. Quatela had a 15-year career with Eastman Kodak Company ("**Kodak**") holding a broad range of leadership positions including Chief Intellectual Property Officer, General Counsel, Senior Vice President, Co-Chief Operating Officer and President of the company. She had responsibility for heading Kodak's OLED business, licensing technology and patents and leading Kodak's consumer film, photographic paper, retail photo kiosk and event imaging businesses. Prior to joining Kodak, Ms. Quatela worked for Clover Capital Management, Inc., SASIB Railway GRS, and Bausch & Lomb. In private law practice, she was a defense litigator specializing in mass tort cases. Ms. Quatela is a graduate of Denison University, B.A., International Politics and Case Western Reserve University School of Law, J.D., where she sponsors the Women in Law and Leadership Conference and was inducted into the Society of Benchers. Ms. Quatela is conversant in Mandarin.

Dr. Yong Rui, 48, joined the Group in November 2016 as a Senior Vice President and Chief Technology Officer of the Company, overseeing Lenovo's corporate technical strategy, research and development directions, and the Lenovo Research organization. Before joining the Group, Dr. Rui had an 18-year career with Microsoft, where he held various leadership roles in R&D strategy, basic research, technology incubation and product development, most recently as Deputy Managing Director of Microsoft Research Asia. Dr. Rui is a world-class technologist in computer science, and a Fellow of the ACM, IEEE, IAPR, and SPIE. He received his BS from Southeast University, his MS from Tsinghua University, and his PhD from University of Illinois at Urbana-Champaign (UIUC).

Mr. Kirk Skaugen, 47, joined the Group in November 2016 as an Executive Vice President of the Company and the President of the Data Center Group. In this capacity he leads the end-to-end data center business including strategic planning, architecture, hardware and software engineering, supply chain and procurement, quality, customer service, and the sales and marketing across Lenovo DCG's five geographies. Mr. Skaugen worked at Intel for 24 years where in his most recent positions he led the Data Center Group and Client Computing Group as senior vice president. Within the Data Center Group at both Intel and now Lenovo, his responsibilities included server, storage, cloud and hyperscale computing, high performance computing, networking, communications infrastructure and Internet of Things businesses. As head of Client Computing, Mr. Skaugen was responsible for Intel's largest revenue and profit contributor including Intel's PC, tablet, and phone businesses. He has also served as general manager of Intel's Asia Pacific Solutions Group responsible for software, system integrator and CIO relationships across the Asia region. Mr. Skaugen holds a bachelor of science in electrical engineering from Purdue University.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT *(continued)*

Biography of senior management *(continued)*

Mr. Wong Wai Ming, 60, is currently the Executive Vice President and the Chief Financial Officer of the Company. 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, 2018, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") in the Listing Rules were as follows:

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

	Capacity and number of shares/underlying shares held				
Name of director	**Interests in shares/ underlying shares**	**Personal interests**	**Corporate interests**	**Aggregate long position**	**Approximate percentage of interests**
Mr. Yang Yuanqing	Ordinary shares	77,906,291	622,804,000 *(Note 2)*	700,710,291	
	Share awards	240,950,969	–	240,950,969	
				941,661,260	7.84%
Mr. Zhu Linan	Ordinary shares	2,886,713	–	2,886,713	
	Share awards	2,880,729	–	2,880,729	
				5,767,442	0.05%
Mr. Zhao John Huan	Ordinary shares	442,148	–	442,148	
	Share awards	3,288,881	–	3,288,881	
				3,731,029	0.03%
Dr. Tian Suning	Ordinary shares	956,223	–	956,223	
	Share awards	3,507,968	–	3,507,968	
				4,464,191	0.04%
Mr. Nicholas C. Allen	Ordinary shares	838,351	–	838,351	
	Share awards	3,507,969	–	3,507,969	
				4,346,320	0.04%
Mr. Nobuyuki Idei	Ordinary shares	470,618	–	470,618	
	Share awards	3,329,054	–	3,329,054	
				3,799,672	0.03%
Mr. William O. Grabe	Ordinary shares	2,472,765	744,281	3,217,046	
	Share awards	3,507,969	–	3,507,969	
				6,725,015	0.06%
Mr. William Tudor Brown	Ordinary shares	369,541	–	369,541	
	Share awards	2,964,129	–	2,964,129	
				3,333,670	0.03%
Ms. Ma Xuezheng	Ordinary shares	10,942,996	2,240,000	13,182,996	
	Share awards	3,201,195	–	3,201,195	
				16,384,191	0.14%
Mr. Yang Chih-Yuan Jerry	Ordinary shares	261,057	–	261,057	
	Share awards	2,764,459	–	2,764,459	
				3,025,516	0.03%
Mr. Gordon Robert Halyburton Orr	Ordinary shares	88,624	–	88,624	
	Share awards	2,075,461	–	2,075,461	
				2,164,085	0.02%

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

Name of director	Name of associated corporations	Long position/ short position	Capacity/ nature of interests	Number and class of shares/ underlying shares/ registered capital held	Approximate percentage of interests *(Note 3)*
Mr. Yang Yuanqing	SHAREit Technology Holdings Inc.	Long position	Personal interests held as beneficial owner	5,500,000 series A preferred shares	15.98%
	北京聯想智慧醫療信息技術有限公司	Long position	Personal interests held as beneficial owner	registered capital of RMB2,400,000	3.00% *(Note 4)*
	國民認證科技(北京)有限公司	Long position	Personal interests held as beneficial owner	registered capital of RMB1,097,144	6.00% *(Note 4)*
	北京聯想雲科技有限公司	Long position	Personal interests held as beneficial owner	registered capital of RMB3,200,000	5.33% *(Note 4)*
	深圳聯想懂的通信有限公司	Long position	Personal interests held as beneficial owner	registered capital of RMB2,584,615	4.80% *(Note 4)*

Notes:

1. Share awards represent underlying shares convertible into ordinary shares. Details of share awards are set out under the section headed "Long-Term Incentive Program" in the Compensation Committee Report.
2. The shares are held by Sureinvest Holdings Limited in which Mr. Yang Yuanqing holds more than one-third of the voting power at its general meetings. Therefore, Mr. Yang is taken to have an interest in 622,804,000 shares under the SFO and such interest is also reported under the below section headed "Substantial Shareholders' and Other Persons' Interests".
3. The approximate percentage of interests is based on the shares comprising the interests held as a percentage of the total number of shares in issue of the associated corporation of the same class immediately after the relevant event and as recorded in the register maintained under section 352 of the SFO.
4. Mr. Yang Yuanqing holds the interests of RMB2,400,000 (being 3%), RMB1,097,144 (being 6%), RMB3,200,000 (being 5.33%) and RMB2,584,615 (being 4.8%) in the registered capital in 北京聯想智慧醫療信息技術有限公司, 國民認證科技(北京)有限公司, 北京聯想雲科技有限公司 and 深圳聯想懂的通信有限公司 respectively.

Save as disclosed above, as at March 31, 2018, 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, 2018 are set out under the section headed "Long-Term Incentive Scheme" in the Compensation Committee Report and in the note 29 to the financial statements.

Save as disclosed in the sections headed "Directors' Interests" of this report, and "Long-Term Incentive Program" of the Compensation Committee Report, at no time during the year ended March 31, 2018 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, 2018, the following persons (other than the directors and chief executive of the Company as disclosed above) had interests or short positions in the shares and/or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

		Capacity and number of shares/ underlying shares held			
Name	**Long position/ Short position**	**Beneficial owner**	**Corporate interests**	**Aggregate long and short positions** *(Note 1)*	**Approximate percentage of interests**
Legend Holdings Corporation	Long position	2,867,636,724	628,919,317 *(Note 2)*	3,496,556,041	29.10%
Right Lane Limited	Long position	388,819,317	240,100,000	628,919,317	5.23%
Red Eagle Group (PTC) Limited	Long position	–	996,750,579	996,750,579 *(Notes 3 & 5)*	8.30%
Harvest Star Limited	Long position	–	996,750,579	996,750,579 *(Notes 4 & 5)*	8.30%
Union Star Limited	Long position	996,750,579	–	996,750,579	8.30%
Sureinvest Holdings Limited	Long position	622,804,000	–	622,804,000 *(Note 6)*	5.18%
BlackRock, Inc.	Long position	–	808,036,109	808,036,109	6.73%
	Short position	–	24,348,000	24,348,000	0.20%

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS *(continued)*

Notes:

1. The interests or short positions include underlying shares as follows:–

	Long position		Short position
Name	Convertible instruments unlisted equity derivatives	Cash settled unlisted equity derivatives	Cash settled unlisted equity derivatives
BlackRock, Inc.	–	1,268,000	13,650,000
Red Eagle Group (PTC) Limited	90,613,689	–	–
Harvest Star Limited	90,613,689	–	–
Union Star Limited	90,613,689	–	–

2. Out of 628,919,317 shares, 388,819,317 shares are directly held by Right Lane Limited ("Right Lane"), a direct wholly-owned subsidiary of Legend Holdings Corporation, and 240,100,000 shares are indirectly held by Right Lane through its wholly-owned subsidiary, Legion Elite Limited.
3. These shares/underlying shares of the Company are indirectly held by Harvest Star Limited through Union Star Limited ("Union Star").
4. These shares/underlying shares of the Company are immediately held through Union Star.
5. The interests represent 906,136,890 shares and 90,613,689 units of bonus warrants issued to Union Star under the Subscription Agreement and as disclosed in the Company's announcements dated September 29, 2017 and November 17, 2017 and circular dated October 16, 2017.
6. Mr. Yang Yuanqing holds more than one-third of the voting power at general meetings of Sureinvest Holdings Limited ("Sureinvest"). Accordingly, Mr. Yang is deemed to have interests in those 622,804,000 shares of the Company held by Sureinvest 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, 2018, no other persons (other than the directors and chief executive of the Company, whose interests are set out in the above section headed "Directors' Interests") had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

RETIREMENT SCHEME ARRANGEMENTS

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

Defined Benefit Pensions Plans

Chinese Mainland – Retirement Schemes

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

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

RETIREMENT SCHEME ARRANGEMENTS *(continued)*

Defined Benefit Pensions Plans *(continued)*

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

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

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

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

For the year ended March 31, 2018, an amount of US$2,951,891 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, 2018 were the following:

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

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

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

- The qualified plan was 59% funded at the actuarial valuation date.

- There was a net liability of US$41,044,503 under the qualified plan for this reason at the actuarial valuation date.

Japan – Pension Plan

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

For the year ended March 31, 2018, an amount of Yen 1,033,275,560 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, 2018 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 64% funded at the actuarial valuation date.

- There was a net liability of Yen 9,259,710,090 under this plan at the actuarial valuation date.

RETIREMENT SCHEME ARRANGEMENTS *(continued)*

Defined Benefit Pensions Plans *(continued)*

Germany – Pension Plan

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

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

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

For the year ended March 31, 2018, an amount of EURO3,633,097 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, 2018 were the following:

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

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

– Discount rate:	1.25%
– Future salary increases:	Age-group based
– Future pension increases:	2.00%

- The plans were 28% funded at the actuarial valuation date.

- There was a net liability of EURO150,765,554 under this plan at the actuarial valuation date.

Defined Contribution Plans

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

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

RETIREMENT SCHEME ARRANGEMENTS *(continued)*

Defined Contribution Plans *(continued)*

US Lenovo Executive Deferred Compensation Plan

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

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

United Kingdom ("UK") – Lenovo Stakeholders Plan

UK regular, full-time, part-time and fixed term Lenovo contract employees are eligible to participate in the Lenovo Stakeholders Plan, which is a tax-qualified defined contribution "stakeholder" plan. The Company contributes 8.7% of an employee's eligible salary to the employee's pension account each year and the employer contributions are dependent on employee contributing no less than 3% of their salary to the same fund.

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 4% of the employee's eligible compensation, in addition the Company matches 50% of the employee's contribution up to the first 4% of the employee's eligible compensation. All contributions are made in cash, in accordance with the participants' investment elections. Employee contributions are voluntary.

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.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group conducted certain continuing connected transactions with certain connected persons (as defined in the Listing Rules) which are required to be disclosed pursuant to rules 14A.49 and 14A.71 of the Listing Rules.

(i) Continuing connected transactions with NEC Corporation and its associates

During the year, the Group conducted the following continuing connected transactions with NEC Corporation and its associates, details of which are set out as follows:

Lenovo NEC Holdings B.V. ("**JVCo**", together with its subsidiaries the "**JVCo Group**"), is a joint venture company held as to 66.6% by the Company (through Lenovo International Coöperatief U.A. (formerly known as Lenovo (International) B.V.), an indirect wholly-owned subsidiary of the Company and 33.4% by NEC Corporation ("**NEC**", together with its subsidiaries the "**NEC Group**") to own and operate their respective personal computer businesses in Japan pursuant to the Business Combination Agreement entered into between the Company and amongst others, NEC dated January 27, 2011 and became effective on July 1, 2011 (the "**Closing Date**") and amended on October 7, 2014. Based on the annual results announcement for the year ended March 31, 2017 which was published by the Company on May 25, 2017, the profits of the JVCo were more than 5% of those of the Company for the same period, and thus the Company was no longer able to rely on the insignificant subsidiary exception set out in Rule 14A.09(1) of the Listing Rules for the continuing connected transactions contemplated under various agreements entered into between the Company, NEC or other members of the NEC Group, the JVCo or other members of the JVCo Group (the "**CCT Agreements**") 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 (the "**CCTs**").

On May 25, 2017, the annual caps for the CCTs were set for the period from May 25, 2017 to March 31, 2018 and for the two financial years ending March 31, 2019 and 2020 (the "**Revised Annual Caps**") given the established business relationship between the Company and NEC and the mutual business development needs and goals. It was contemplated that the term of the CCT Agreements be automatically renewed for an additional year until a prescribed date or unless either party gives notice to the other of its intention to terminate such agreements (the "**Automatic Renewal**").

Directors' Report

CONTINUING CONNECTED TRANSACTIONS *(continued)*

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

Details of the CCT Agreements are set out below:

Supply Agreement

Date:	February 28, 2011 and amended on October 7, 2014
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. ("**NECPC**"), 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:	Commenced from July 1, 2011 and continued until July 1, 2016, subject to Automatic Renewal thereafter.
Revised Annual Cap*(Note)*:	25/5/2017 – 31/3/2018: JPY122,897 million (US$1,106,073,000) 1/4/2018 – 31/3/2019: JPY147,476 million (US$1,327,284,000) 1/4/2019 – 31/3/2020: JPY147,476 million (US$1,327,284,000)

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 equipment sold or leased and used by the NECPC following the Closing Date.
Term:	The initial term ended on March 31, 2004 and had been automatically renewed for an additional one-year term until July 1, 2016, subject to Automatic Renewal thereafter.
Revised Annual Cap*(Note)*:	25/5/2017 – 31/3/2018: JPY2,370 million (US$21,330,000) 1/4/2018 – 31/3/2019: JPY3,009 million (US$27,081,000) 1/4/2019 – 31/3/2020: JPY3,009 million (US$27,081,000)

CONTINUING CONNECTED TRANSACTIONS *(continued)*

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

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 initial term ended on March 31, 2004 and had been automatically renewed for an additional one-year term until July 1, 2016, subject to Automatic Renewal thereafter.
Revised Annual Cap[(Note)]:	25/5/2017 – 31/3/2018: JPY113 million (US$1,017,000) 1/4/2018 – 31/3/2019: JPY121 million (US$1,089,000) 1/4/2019 – 31/3/2020: JPY121 million (US$1,089,000)

NEC Newco Brand Licence Agreement and Ancillary Agreements

Date:	July 1, 2011 and amended on October 7, 2014
Parties:	NEC and NECPC (a member of the JVCo Group on and following the Closing Date)
Services provided/received:	NEC agreed to grant NECPC, JV Co and Lenovo (Japan) Ltd (a member of JVCo Group) a licence to use certain rights in connection with the letters and the mark "NEC" at royalty payable to NEC by NECPC.
Revised Term:	Commenced from July 1, 2011 to June 30, 2018 and is subject to Automatic Renewal until up to June 30, 2026.
Revised Annual Cap[(Note)]:	25/5/2017 – 31/3/2018: JPY253 million (US$2,277,000) 1/4/2018 – 31/3/2019: JPY349 million (US$3,141,000) 1/4/2019 – 31/3/2020: JPY368 million (US$3,312,000)

CONTINUING CONNECTED TRANSACTIONS *(continued)*

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

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.
Revised Term:	Commenced from July 1, 2011 and expired after June 30, 2016 but extended to June 30, 2017, subject to Automatic Renewal thereafter.
Revised Annual Cap[(Note)]:	Annual fees for services provided to JVCo Group by NEC Group (payable to NEC): 25/5/2017 – 31/3/2018: JPY13,516 million (US$121,644,000) 1/4/2018 – 31/3/2019: JPY18,343 million (US$165,087,000) 1/4/2019 – 31/3/2020: JPY18,343 million (US$165,087,000) Annual fees for services provided to NEC Group by JVCo Group (payable from NEC): 25/5/2017 – 31/3/2018: JPY775 million (US$6,975,000) 1/4/2018 – 31/3/2019: JPY1,128 million (US$10,152,000) 1/4/2019 – 31/3/2020: JPY1,179 million (US$10,611,000)

Note: The translation of Japanese yen into United States dollars is based on the exchange rate of JPY1.00 to US$0.0090 for information purposes only.

Full details of the above continuing connected transactions are set out in the announcements and circulars published by the Company on January 27, 2011, April 21, 2011, May 11, 2011, January 20, 2014, February 24, 2014, October 7, 2014 and May 25, 2017 and on the websites of Hong Kong S.A.R. of China Exchanges and Clearing Limited and the Company.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

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

During the year, the Group also engaged in certain other continuing connected transactions as set out below, which were subject to annual review and reporting requirements:

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

The Group and the Compal Group had, prior to the setting up of LCFC, entered into master agreements in relation to (i) the supply of components from the Group to the Compal Group; and (ii) the purchase of products and services from the Compal Group by the Group (together the "**Existing CCT Agreements**"). Details of these Existing CCT Agreements are set out in the announcements published by the Company on May 22, 2015, September 9, 2015, April 1, 2016, March 31, 2017 and March 29, 2018 and on the websites of the Company and Hong Kong S.A.R. of China Exchanges and Clearing Limited.

Details of the Existing CCT Agreements are set out below:

OEM Components Purchase Agreement

Date:	June 20, 2006
Parties:	Lenovo (Singapore) Pte. Ltd., a wholly-owned subsidiary of the Company and Compal
Services provided/received:	The Group shall supply certain components (including but not limited to, electronic components and/or assemblies specified by Compal) to the Compal Group.
Annual cap:	(i) 22/5/2015 – 31/3/2016 (ii) 1/4/2016 – 31/3/2017 (iii) 1/4/2017 – 31/3/2018 (iv) 1/4/2018 – 31/3/2019

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 for each of the above period.

CONTINUING CONNECTED TRANSACTIONS *(continued)*

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

System Purchase Agreement

Date:	January 19, 2006
Parties:	Lenovo (Singapore) Pte. Ltd. (whose rights and obligations were assigned to Lenovo PC HK Limited pursuant to an assignment and novation agreement) and Compal
Services provided/received:	The Compal Group shall supply to the Group: (i) certain products, including but not limited to, (a) computer system units and the associated documentation, packaging, software packages; (b) any component when separately purchased from the system unit; (c) other materials, such as hard drives, memory cards and modems; and (d) other related computer and mobile products; and (ii) certain services, including but not limited to, activities, tasks and work items related to the manufacture and support of the products.
Annual cap:	(i) 22/5/2015 – 31/3/2016 (ii) 1/4/2016 – 31/3/2017 (iii) 1/4/2017 – 31/3/2018 (iv) 1/4/2018 – 31/3/2019

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 for each of the above period.

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

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

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

(ii) on normal commercial terms or better; and

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

CONTINUING CONNECTED TRANSACTIONS *(continued)*

Pursuant to rule 14A.56 of the Listing Rules, the Company's external auditor, PricewaterhouseCoopers ("**PwC**") was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong 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.

SIGNIFICANT RELATED PARTY TRANSACTIONS

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

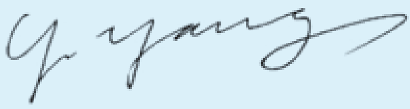
AUDITOR

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

PUBLIC FLOAT

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

On behalf of the Board



Yang Yuanqing
Chairman and Chief Executive Officer
May 24, 2018

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)

OPINION

What we have audited

The consolidated financial statements of Lenovo Group Limited (the "Company") and its subsidiaries (the"Group") set out on pages 167 to 266, which comprise:

- the consolidated balance sheet as at March 31, 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at March 31, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong S.A.R. of China Financial Reporting Standards ("HKFRSs") issued by the Hong Kong S.A.R. of China Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong S.A.R. of China Companies Ordinance.

BASIS FOR OPINION

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

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

Independence

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS *(continued)*

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

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment assessment of goodwill and other intangible assets with indefinite useful lives	
Refer to notes 4(a) and 17 to the consolidated financial statements	Our procedures included:
As at March 31, 2018, the Group had goodwill and other intangible assets with indefinite useful lives totalling US$6,362 million, for which management is required to perform annual impairment assessment.	• We assessed management's identification of CGUs based on the Group's accounting policies and our understanding of the Group's business.
For the purpose of assessing impairment, these assets were allocated to cash generating units ("CGUs"), and the recoverable amount of each CGU was determined by management based on value in use calculations using cash flow projections. In carrying out the impairment assessments, significant management judgements were used to appropriately identify CGUs and to determine the key assumptions, including revenue growth rates, operating margins and discount rates. Management has concluded that there is no impairment in respect of the goodwill and other intangible assets with indefinite useful lives.	• We assessed the value in use calculation methodology adopted by management. • We assessed the reasonableness of key assumptions such as revenue growth rates, operating margins and discount rates with reference to the business and industry circumstances. • We reconciled input data to supporting evidence, such as approved forecasts of future profits and strategic plans. • We considered the reasonableness of the forecasts of future profits and strategic plans by comparing them against past results achieved.
We focused on this area because the value in use calculations required significant management judgements with respect to revenue growth rates, operating margins and discount rates.	• We assessed management's sensitivity analysis around the key assumptions, to ascertain the extent to which adverse changes, both individually or in aggregate, might impact on the outcome of the impairment assessment of the goodwill and other intangible assets with indefinite useful lives. We found the judgements made by management in relation to the impairment assessment to be supportable based on the available evidence.

KEY AUDIT MATTERS *(continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Recognition of deferred income tax assets Refer to notes 4(b) and 20 to the consolidated financial statements As at March 31, 2018, the Group had deferred income tax assets of US$1,531 million. Management has applied tax rates that have been enacted or substantively enacted by the balance sheet date in determining deferred income tax assets, including applying the new corporate tax rate in the United States which is effective from January 1, 2018. The recognition of the deferred income tax assets involves significant management judgements as to the likelihood of their realization that is dependent on a number of factors, including whether there will be sufficient taxable profits, or reversals of taxable temporary differences in future periods and tax plans. Management has performed its assessment on the recognition of these deferred income tax assets and considers that the realization of these assets is probable as at March 31, 2018. We focused on this area because of the inherent uncertainties involved in forecasting future taxable profits and future reversals of taxable temporary differences.	Our procedures included: • We evaluated management's assessment as to whether there will be sufficient taxable profits in future periods by reference to forecasts of future profits and strategic plans and future reversals of taxable temporary differences to support the recognition of deferred income tax assets. • We assessed the underlying assumptions used in management's approved forecasts of future profits such as revenue growth rates and operating margins by comparison to historical results and future strategic and tax plans and with reference to the business and industry circumstances. • We tested management's reconciliations of forecast profits to forecast taxable profits to supporting evidence on a sample basis. • We tested and agreed available tax losses, including the respective expiry periods to tax returns and tax correspondence of the relevant subsidiaries. • We tested the calculation of deferred income tax assets by reference to tax rates enacted or substantively enacted by the balance sheet date. We found the judgements made by management in relation to recognition of deferred income tax assets to be supportable based on the available evidence.

OTHER INFORMATION

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

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

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

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

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong 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.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

Independent Auditor's Report

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

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

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

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

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

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

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

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong S.A.R. of China, May 24, 2018

Consolidated Income Statement

For the year ended March 31, 2018

	Note	2018 US$'000	2017 US$'000
Revenue	5	**45,349,943**	43,034,731
Cost of sales		**(39,077,812)**	(36,929,215)
Gross profit		**6,272,131**	6,105,516
Other income – net	6	**301**	10,891
Selling and distribution expenses		**(2,833,253)**	(2,680,631)
Administrative expenses		**(1,757,319)**	(1,851,990)
Research and development expenses		**(1,273,729)**	(1,361,691)
Other operating (expenses)/income – net		**(21,408)**	450,253
Operating profit	7	**386,723**	672,348
Finance income	8(a)	**32,145**	27,795
Finance costs	8(b)	**(263,160)**	(231,627)
Share of (losses)/profits of associates and joint ventures	18	**(2,506)**	21,411
Profit before taxation		**153,202**	489,927
Taxation	9	**(279,977)**	40,514
(Loss)/profit for the year		**(126,775)**	530,441
(Loss)/profit attributable to:			
Equity holders of the Company		**(189,323)**	535,084
Perpetual securities holders		**53,680**	1,872
Other non-controlling interests		**8,868**	(6,515)
		(126,775)	530,441
(Loss)/earnings per share attributable to equity holders of the Company			
Basic	12(a)	**US(1.67) cents**	US4.86 cents
Diluted	12(b)	**US(1.67) cents**	US4.86 cents
Dividends	13	**399,284**	378,375

Consolidated Statement of Comprehensive Income

For the year ended March 31, 2018

	Note	2018 US$'000	2017 US$'000
(Loss)/profit for the year		**(126,775)**	530,441
Other comprehensive (loss)/income:			
Item that will not be reclassified to profit or loss			
Remeasurements of post-employment benefit obligations, net of taxes	9, 36	**(19,797)**	42,390
Items that have been reclassified or may be subsequently reclassified to profit or loss			
Fair value change on available-for-sale financial assets, net of taxes	9, 21	**224**	8,713
Investment revaluation reserve reclassified to consolidated income statement on disposal of available-for-sale financial assets	9	**-**	(12,640)
Fair value change on cash flow hedges from foreign exchange forward contracts, net of taxes	9		
– Fair value (loss)/gain, net of taxes		**(233,651)**	96,993
– Reclassified to consolidated income statement		**222,073**	(13,993)
Currency translation differences		**288,711**	(85,423)
Other comprehensive income for the year		**257,560**	36,040
Total comprehensive income for the year		**130,785**	566,481
Total comprehensive income/(loss) attributable to:			
Equity holders of the Company		**68,237**	571,124
Perpetual securities holders		**53,680**	1,872
Other non-controlling interests		**8,868**	(6,515)
		130,785	566,481

Consolidated Balance Sheet

At March 31, 2018

	Note	2018 US$'000	2017 US$'000
Non-current assets			
Property, plant and equipment	14	**1,304,751**	1,236,250
Prepaid lease payments	15	**507,628**	473,090
Construction-in-progress	16	**382,845**	413,160
Intangible assets	17	**8,514,504**	8,349,145
Interests in associates and joint ventures	18	**35,666**	32,567
Deferred income tax assets	20	**1,530,623**	1,435,256
Available-for-sale financial assets	21	**373,077**	255,898
Other non-current assets		**181,759**	122,221
		12,830,853	12,317,587
Current assets			
Inventories	22	**3,791,691**	2,794,035
Trade receivables	23(a)	**4,972,722**	4,468,392
Notes receivable	23(b)	**11,154**	68,333
Derivative financial assets		**24,890**	53,808
Deposits, prepayments and other receivables	23(c)	**4,703,335**	4,333,351
Income tax recoverable		**227,203**	199,149
Bank deposits	24	**84,306**	196,720
Cash and cash equivalents	24	**1,848,017**	2,754,599
		15,663,318	14,868,387
Total assets		**28,494,171**	27,185,974

Consolidated Balance Sheet

At March 31, 2018

	Note	2018 US$'000	2017 US$'000
Share capital	29	**3,185,923**	2,689,882
Reserves		**332,697**	533,719
Equity attributable to owners of the Company		**3,518,620**	3,223,601
Perpetual securities	30	**993,670**	843,677
Other non-controlling interests		**246,598**	240,844
Put option written on non-controlling interest	26(a)(iii)	**(212,900)**	(212,900)
Total equity		**4,545,988**	4,095,222
Non-current liabilities			
Borrowings	27	**2,648,725**	2,966,692
Warranty provision	26(b)	**278,908**	280,421
Deferred revenue		**583,405**	537,428
Retirement benefit obligations	36	**413,482**	370,207
Deferred income tax liabilities	20	**230,609**	221,601
Other non-current liabilities	28	**333,332**	380,557
		4,488,461	4,756,906
Current liabilities			
Trade payables	25(a)	**6,450,792**	5,649,925
Notes payable	25(b)	**801,974**	835,613
Derivative financial liabilities		**62,694**	67,285
Other payables and accruals	26(a)	**9,217,764**	10,004,614
Provisions	26(b)	**858,475**	873,405
Deferred revenue		**732,552**	586,536
Income tax payable		**168,779**	246,465
Borrowings	27	**1,166,692**	70,003
		19,459,722	18,333,846
Total liabilities		**23,948,183**	23,090,752
Total equity and liabilities		**28,494,171**	27,185,974

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, 2018

	Note	**2018 US$'000**	2017 US$'000
Cash flows from operating activities			
Net cash (used in)/generated from operations	35	**(61,991)**	2,697,332
Interest paid		**(243,584)**	(173,659)
Tax paid		**(450,718)**	(403,851)
Net cash (used in)/generated from operating activities		**(756,293)**	2,119,822
Cash flows from investing activities			
Purchase of property, plant and equipment		**(217,849)**	(117,873)
Purchase of prepaid lease payments		**(10,908)**	(175,570)
Sale of property, plant and equipment, prepaid lease payments and construction-in-progress		**40,525**	411,872
Interests acquired in an associate and joint ventures		**(2,205)**	(11,024)
Net proceeds from disposal of a joint venture		**160,564**	78,497
Payment for construction-in-progress		**(285,447)**	(345,685)
Payment for intangible assets		**(156,390)**	(164,326)
Purchase of available-for-sale financial assets		**(100,466)**	(124,110)
Net proceeds from disposal of available-for-sale financial assets		**165**	11,897
Repayment of contingent/deferred considerations		**(686,301)**	(983,335)
Decrease/(increase) in bank deposits		**112,414**	(44,384)
Dividends received		**286**	38,674
Interest received		**32,145**	27,795
Net cash used in investing activities		**(1,113,467)**	(1,397,572)
Cash flows from financing activities			
Net proceeds from issue of ordinary shares	12(b)	**496,041**	–
Acquisition of additional interest in a subsidiary		**–**	(20,439)
Contribution to employee share trusts		**(61,211)**	(119,042)
Dividends paid		**(380,750)**	(376,898)
Dividends paid to other non-controlling interests		**(4,937)**	–
Distribution to perpetual securities holders		**(53,312)**	–
Issue of perpetual securities		**149,625**	841,805
Capital contribution from other non-controlling interests		**1,823**	6,023
Proceeds from borrowings		**7,425,740**	3,223,391
Repayments of borrowings		**(6,724,406)**	(3,905,564)
Issue of notes		**749,119**	495,821
Repayment of notes		**(723,389)**	–
Net cash generated from financing activities		**874,343**	145,097
(Decrease)/increase in cash and cash equivalents		**(995,417)**	867,347
Effect of foreign exchange rate changes		**88,835**	(39,628)
Cash and cash equivalents at the beginning of the year		**2,754,599**	1,926,880
Cash and cash equivalents at the end of the year	24	**1,848,017**	2,754,599

Consolidated Statement of Changes in Equity

For the year ended March 31, 2018

	Attributable to equity holders of the Company											
	Share capital US$'000	Investment revaluation reserve US$'000	Employee share trusts US$'000	Share-based compensation reserve US$'000	Hedging reserve US$'000	Exchange reserve US$'000	Other reserve US$'000	Retained earnings US$'000	Perpetual securities US$'000	Other non-controlling interests US$'000	Put option written on non-controlling interest US$'000	Total US$'000
At April 1, 2016	2,689,882	962	(52,897)	13,161	(88,328)	(1,141,195)	83,363	1,495,252	-	238,949	(212,900)	3,026,249
Profit/(loss) for the year	-	-	-	-	-	-	-	535,084	1,872	(6,515)	-	530,441
Other comprehensive (loss)/income	-	(3,927)	-	-	83,000	(85,423)	-	42,390	-	-	-	36,040
Total comprehensive (loss)/income for the year	-	(3,927)	-	-	83,000	(85,423)	-	577,474	1,872	(6,515)	-	566,481
Transfer to statutory reserve	-	-	-	-	-	-	2,214	(2,214)	-	-	-	-
Vesting of shares under long-term incentive program	-	-	60,711	(72,368)	-	-	-	-	-	-	-	(11,657)
Share-based compensation	-	-	-	182,700	-	-	-	-	-	-	-	182,700
Contribution to employee share trusts	-	-	(119,042)	-	-	-	-	-	-	-	-	(119,042)
Change in ownership interest in a subsidiary	-	-	-	-	-	-	(22,826)	-	-	2,387	-	(20,439)
Issue of perpetual securities (Note 30)	-	-	-	-	-	-	-	-	841,805	-	-	841,805
Capital contribution from other non-controlling interests	-	-	-	-	-	-	-	-	-	6,023	-	6,023
Dividends paid	-	-	-	-	-	-	-	(376,898)	-	-	-	(376,898)
At March 31, 2017	2,689,882	(2,965)	(111,228)	123,493	(5,328)	(1,226,618)	62,751	1,693,614	843,677	240,844	(212,900)	4,095,222
At April 1, 2017	**2,689,882**	**(2,965)**	**(111,228)**	**123,493**	**(5,328)**	**(1,226,618)**	**62,751**	**1,693,614**	**843,677**	**240,844**	**(212,900)**	**4,095,222**
(Loss)/profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(189,323)**	**53,680**	**8,868**	**-**	**(126,775)**
Other comprehensive income/(loss)	**-**	**224**	**-**	**-**	**(11,578)**	**288,711**	**-**	**(19,797)**	**-**	**-**	**-**	**257,560**
Total comprehensive income/(loss) for the year	**-**	**224**	**-**	**-**	**(11,578)**	**288,711**	**-**	**(209,120)**	**53,680**	**8,868**	**-**	**130,785**
Transfer to statutory reserve	**-**	**-**	**-**	**-**	**-**	**-**	**15,097**	**(15,097)**	**-**	**-**	**-**	**-**
Vesting of shares under long-term incentive program	**-**	**-**	**70,737**	**(91,528)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(20,791)**
Deferred tax charge in relation to long-term incentive program	**-**	**-**	**-**	**(2,196)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,196)**
Share-based compensation	**-**	**-**	**-**	**202,088**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**202,088**
Contribution to employee share trusts	**-**	**-**	**(61,211)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(61,211)**
Issue of perpetual securities (Note 30)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**149,625**	**-**	**-**	**149,625**
Issue of ordinary shares	**496,041**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**496,041**
Issue of bonus warrants	**-**	**-**	**-**	**-**	**-**	**-**	**(6,399)**	**-**	**-**	**-**	**-**	**(6,399)**
Capital contribution from other non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,823**	**-**	**1,823**
Dividends paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(380,750)**	**-**	**-**	**-**	**(380,750)**
Dividends paid to other non-controlling interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,937)**	**-**	**(4,937)**
Distribution to perpetual securities holders (Note 30)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(53,312)**	**-**	**-**	**(53,312)**
At March 31, 2018	**3,185,923**	**(2,741)**	**(101,702)**	**231,857**	**(16,906)**	**(937,907)**	**71,449**	**1,088,647**	**993,670**	**246,598**	**(212,900)**	**4,545,988**

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 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.

Changes in accounting policies and disclosures

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

– Amendments to HKAS 7, Disclosure initiative

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

The adoption of these newly effective amendments to existing standards does not result in substantial changes to the Group's accounting policies or financial results. The amendments to HKAS 7 require disclosure of changes in liabilities arising from financing activities, see note 35(a).

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

Changes in accounting policies and disclosures *(continued)*

At the date of approval of these financial statements, the following new standards and amendments to existing standards, which are considered appropriate and relevant to the Group's operations, have been issued but are not effective for the year ended March 31, 2018 and have not been early adopted:

	Effective for annual periods beginning on or after
HKFRS 9, Financial instruments	January 1, 2018
HKFRS 15, Revenue from contracts with customers	January 1, 2018
HKFRS 16, Leases	January 1, 2019
HKFRS 17, Insurance contracts	January 1, 2021
HK (IFRIC) – Int 22, Foreign currency transactions and advance consideration	January 1, 2018
HK (IFRIC) – Int 23, Uncertainty over income tax treatments	January 1, 2019
Amendments to HKFRS 2, Share-based payment	January 1, 2018
Amendments to HKFRS 10 and HKAS 28, Consolidated financial statements and investments in associates	Date to be determined

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

HKFRS 9, Financial instruments

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

Under HKFRS 9, trade receivables of the Group are likely to be classified as FVOCI instruments with earlier recognition of loss is expected, and amount of relevant impairment provision may be revised when ECL is referenced. The Group currently holds certain investments in equity instruments which are classified as FVOCI instruments. Gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

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

HKFRS 9, Financial instruments *(continued)*

The Group has assessed the effects of applying the new standard on the consolidated financial statements and has not identified any material impact to the Group.

The Group will apply the new rules retrospectively from April 1, 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated, except in relation to changes in the fair value of foreign exchange forward contracts attributable to forward points, which will be recognised in the costs of hedging reserve.

HKFRS 15, Revenue from contracts with customers

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

The Group has assessed the effects of the applying the new standard on the consolidated financial statements and has not identified any material impact to the Group.

The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of April 1, 2018 and that comparatives will not be restated.

HKFRS 16, Leases

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

At March 31, 2018, the Group had operating lease commitments of US$521 million. Upon adoption of HKFRS 16 the majority of operating lease commitments will be recognized in the consolidated balance sheet as lease liabilities and right-of-use assets. The lease liabilities would subsequently be measured at amortized cost and the right-of-use asset will be depreciated on a straight-line basis during the lease term.

The Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

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

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) Principles of consolidation and equity accounting

(i) Subsidiaries

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 to direct the activities of the entity.

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

The acquisition method of accounting is used to account for business combinations by the Group (refer to (ii))

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, 2017 and 2018 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Principles of consolidation and equity accounting *(continued)*

(ii) Business combinations *(continued)*

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. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

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

(iii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognized in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income 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 in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

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

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Principles of consolidation and equity accounting *(continued)*

(iii) Changes in ownership interests *(continued)*

The potential cash payments related to put options issued by the Group over the equity of a subsidiary are accounted for as financial liabilities. 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 as a result of the change in the expected performance at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. In the event that the option expires unexercised, the written put option liability is derecognized with a corresponding adjustment to equity.

(iv) Disposal of subsidiaries

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

(v) Separate financial statements

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

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

(b) Associates and joint arrangements

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

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, 2017 and 2018 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Segment reporting

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

(d) Translation of foreign currencies

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

(ii) Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognized in the income statement. They are deferred in equity if they are relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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)/income – 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.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on financial assets and liabilities carried at fair value are as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognized as other comprehensive income/expense and included in the investment revaluation reserve in equity.

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

(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 any component accounted for as a separate asset is derecognized when replaced. 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)/income – net" in the income statement.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Construction-in-progress

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

Gain on disposal of construction-in-progress is the difference between the net sales proceeds and the carrying amount of the relevant assets, and is recognized within "Other operating (expenses)/income – net" in the income statement.

(g) Intangible assets

(i) Goodwill

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

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

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

(ii) Trademarks and trade names

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

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

(iii) Customer relationships

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Intangible assets *(continued)*

(iv) Internal use software

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

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

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

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

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

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

Acquired computer software licenses costs and computer software development costs are amortized using the straight-line method over their estimated useful lives of not more than 8 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 or losses arising from changes in the fair value are recognized as follows:

- for financial assets at fair value through profit or loss – in profit or loss within other income or other expenses.
- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortized cost of the security are recognized in income statement and other changes in the carrying amount are recognized in other comprehensive income or loss.
- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income or loss.

Dividends on financial assets at fair value through profit or loss and available-for-sale financial assets are recognized in profit or loss as other income when the Group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss and available-for-sale financial assets is recognized in the income statement as other income.

Details on how the fair value of financial instruments is determined are disclosed in note 3(d).

Offsetting financial instruments

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Impairment of financial assets

(i) Assets carried at amortized cost

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

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

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

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

(ii) Assets classified as available-for-sale

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Derivative financial instruments and hedging activities

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

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

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

(i) Fair value hedge

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

(ii) Cash flow hedge

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

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale or purchase that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognized in the income statement within "Finance costs". The gain or loss relating to the ineffective portion is recognized in the income statement within "Other operating (expenses)/income – 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 recognized as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less cumulative amortization, where appropriate.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

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

(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 labour and an attributable proportion of production overheads. For trading products, cost represents invoiced value on purchases, less purchase returns and discounts. Net realizable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(n) Trade and other receivables

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

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

(o) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents mainly comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments that are readily convertible to known amounts of cash and 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.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Share capital

Ordinary shares are classified as equity.

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

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

(q) Borrowings and borrowing costs

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

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

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

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

(r) Trade and other payables

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

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

(u) Contingent liabilities

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

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

(v) Revenue

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

(i) Sale of goods and services

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

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

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

(v) Revenue *(continued)*

(ii) Interest income

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

(iii) Dividend income

Dividend income is recognized when the right to receive payment is established.

(w) Non-base manufacturing costs

Non-base manufacturing costs are costs that are periodic in nature as opposed to product specific. They are typically incurred after the physical completion of the product and include items such as outbound freight for in-country finished goods shipments, warranty costs, engineering charges, storage and warehousing costs, and contribute to bringing inventories to their present location and condition. Non-base manufacturing costs enter into the calculation of gross margin but are not inventoriable costs.

(x) Employee benefits

(i) Pension obligations

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

A defined benefit plan is a pension plan which defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. Significant portion of the defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

The 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. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

Notes to the Financial Statements

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Employee benefits *(continued)*

(i) Pension obligations *(continued)*

Past service costs are recognized immediately in the income statement. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due and are reduced by employer's portion of voluntary contributions forfeited by those employees who leave the scheme prior to vesting fully. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

The Group's contributions to local municipal government retirement schemes in connection with retirement benefit schemes in the Mainland of China ("Chinese Mainland") are expensed as incurred. The local municipal governments in the Chinese Mainland assume the retirement benefit obligations of the qualified employees.

(ii) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, the largest being in the United States. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized as other comprehensive income/expense in the period in which they arise. The obligations of these schemes in the United States are valued annually by independent qualified actuaries.

(iii) Long-term incentive program

The Group operates a long-term incentive program to recognize employees' individual and collective contributions, and includes two types of awards, namely share appreciation rights and restricted share units ("Long-term Incentive Awards"). The Company reserves the right, at its discretion, to pay the award in cash or ordinary shares of the Company. The fair value of the employee services received in exchange for the grant of the Long-term Incentive Awards is recognized as employee benefit expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the Long-term Incentive Awards granted, including any market performance conditions (for example, an entity's share price); excluding the impact of any service and non-market performance vesting conditions (for example, profitability and sales growth targets); and including the impact of non-vesting conditions. Non-market performance and service conditions are included in assumptions about the number of Long-term Incentive Awards that are expected to become exercisable/ vested. The total expense is recognized over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Employee benefits *(continued)*

(iii) Long-term incentive program *(continued)*

At each balance sheet date, the Group revises its estimates of the number of Long-term Incentive Awards that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to share-based compensation reserve under equity.

Employee share trusts are established for the purposes of awarding shares to eligible employees under the long-term incentive program. The employee share trusts are administered by independent trustees and are funded by the Group's cash contributions and recorded as contributions to employee share trusts, an equity component. The administrator of the employee share trusts buys the Company's shares in the open market for award to employees upon vesting.

Upon vesting, the corresponding amounts in the share-based compensation reserve will be transferred to share capital for new allotment of shares to employees, or to the employee share trusts for shares awarded to employees by the employee share trusts.

(iv) Termination benefit

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(v) Share options

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

(y) Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized as "Other operating (expenses)/ income – 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 amortized over the lease terms on a straight line basis, ranging from 10 to 50 years for the Group.

(aa) Related party transactions

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

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

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

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

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

(ab) Dividend distribution

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

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, such as market risk (including foreign currency risk and cash flow interest rate risk), credit risk, and liquidity risk. The Group's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures. Financial risk management is carried out by the centralized treasury department ("Group Treasury").

(a) Financial risk factors

(i) Foreign currency risk

The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to United States dollar, Renminbi and Euro. Foreign currency risk arises from future commercial transactions, recognized assets and liabilities and net investment in foreign operations denominated in a currency that is not the group companies' functional currency.

Management has set up a policy to require group companies to manage their foreign currency risk against their functional currency. The Group's forward foreign currency contracts are either used to hedge a percentage of anticipated cash flows (mainly export sales and purchase of inventories) which are highly probable, or used as fair value hedges for the identified assets and liabilities.

For segment reporting purposes, external hedge contracts on assets, liabilities or future transactions are designated to each operating segment, as appropriate.

The following tables detail the Group's exposure at the balance sheet date to currency risk arising from recognized assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate, except for the currency risk between United States dollar and Hong Kong 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.

Notes to the Financial Statements

3 FINANCIAL RISK MANAGEMENT *(continued)*

(a) Financial risk factors *(continued)*

(i) Foreign currency risk *(continued)*

	2018			2017		
	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	182,738	44,530	14,803	195,839	24,535	169,571
Bank deposits and cash and cash equivalents	24,478	9,132	20,554	29,378	26,052	81,430
Trade and other payables	(320,730)	(24,341)	(18,422)	(532,157)	(111,446)	(19,468)
Borrowings	-	(635,015)	-	–	(578,103)	–
Intercompany balances before elimination	(2,716,689)	1,136,490	(318,945)	(2,383,059)	370,199	(367,276)
Gross exposure	(2,830,203)	530,796	(302,010)	(2,689,999)	(268,763)	(135,743)
Notional amounts of forward exchange contracts used as economic hedges	3,118,896	-	269,936	2,373,294	–	313,114
Net exposure	288,693	530,796	(32,074)	(316,705)	(268,763)	177,371

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 and subcontractors, 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$8,393,000 (2017: US$634,356,000) (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, 2017					
Borrowings	53,005	148,629	2,109,617	1,133,778	3,445,029
Trade, notes and other payables and accruals	13,956,373	1,623,775	–	–	15,580,148
Deferred considerations	–	697,890	25,072	–	722,962
Written put option liability	–	224,790	–	–	224,790
Others	–	–	22,013	110,321	132,334
Derivatives settled in net:					
Forward foreign exchange contracts	1,597	–	–	–	1,597
Derivatives settled in gross:					
Forward foreign exchange contracts					
– outflow	6,470,583	194,434	–	–	6,665,017
– inflow	(6,457,668)	(195,600)	–	–	(6,653,268)
At March 31, 2018					
Borrowings	**1,138,704**	**159,243**	**1,599,043**	**1,340,625**	**4,237,615**
Trade, notes and other payables and accruals	**14,225,510**	**385,920**	**-**	**-**	**14,611,430**
Deferred consideration	**-**	**-**	**25,072**	**-**	**25,072**
Written put option liability	**224,813**	**-**	**-**	**-**	**224,813**
Others	**-**	**-**	**106,906**	**53,409**	**160,315**
Derivatives settled in net:					
Forward foreign exchange contracts	**4,844**	**-**	**-**	**-**	**4,844**
Derivatives settled in gross:					
Forward foreign exchange contracts					
– outflow	**5,952,722**	**909,683**	**-**	**-**	**6,862,405**
– inflow	**(5,930,706)**	**(903,571)**	**-**	**-**	**(6,834,277)**

3 FINANCIAL RISK MANAGEMENT *(continued)*

(b) Market risk 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, 2018, if United States dollar had weakened/strengthened by one percent against the major currencies with all other variables held constant, pre-tax profit for the year would have been US$2.1 million higher/lower (2017: pre-tax profit for the year would have been US$2.2 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, 2018, if interest rate on borrowings had been 25 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been US$3.6 million lower/higher (2017: pre-tax profit for the year would have been US$4.0 million lower/higher).

At March 31, 2018, if interest rates on customer financing programs had been 25 basis points higher/lower with all other variables held constant, pre-tax profit for the year would have been US$4.0 million lower/higher (2017: pre-tax profit for the year would have been US$3.7 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 risk 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, 2018 and 2017 are as follows:

	2018 US$ million	2017 US$ million
Bank deposits and cash and cash equivalents	**1,932**	2,951
Less: total borrowings	**(3,815)**	(3,037)
Net debt position	**(1,883)**	(86)
Total equity	**4,546**	4,095
Gearing ratio	**0.84**	0.74

3 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Fair value estimation

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities

- Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)

- Level 3 Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

- The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

- Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

3 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Fair value estimation *(continued)*

The following table presents the assets and liabilities that are measured at fair value at March 31, 2018 and 2017.

	2018				2017			
	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	**29,563**	**-**	**-**	**29,563**	24,143	–	–	24,143
Unlisted equity investments	**-**	**-**	**343,514**	**343,514**	–	–	231,755	231,755
Derivative financial assets	**-**	**24,890**	**-**	**24,890**	–	53,808	–	53,808
	29,563	**24,890**	**343,514**	**397,967**	24,143	53,808	231,755	309,706
Liabilities								
Derivative financial liabilities	**-**	**62,694**	**-**	**62,694**	–	67,285	–	67,285
	-	**62,694**	**-**	**62,694**	–	67,285	–	67,285

3 FINANCIAL RISK MANAGEMENT *(continued)*

(d) Fair value estimation *(continued)*

There were no significant transfers of financial assets among Levels 1, 2 and 3 fair value hierarchy classification during the years ended March 31, 2018 and 2017.

The movements in the financial assets and liabilities included in Level 3 fair value hierarchy for the years ended March 31, 2018 and 2017 are as follows:

Available-for-sale financial assets

	2018 US$'000	2017 US$'000
At the beginning of the year	**231,755**	100,278
Exchange adjustment	**15,172**	(2,332)
Fair value change recognized in other comprehensive income	**(2,828)**	10,704
Additions	**100,466**	124,110
Transferred to investment in a joint venture	**(901)**	–
Disposals	**(150)**	–
Impairment	**-**	(1,005)
At the end of the year	**343,514**	231,755

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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements often requires the use of judgment to select specific accounting methods and policies from several acceptable alternatives. Estimates and judgments used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The following are the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the financial statements:

(a) Impairment of non-financial assets

The Group tests at least annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets that are subject to depreciation and amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amounts of an asset or a cash-generating unit have been determined based on value-in-use calculations. These calculations require the use of estimates.

The value-in-use calculations primarily use cash flow projections based on financial budgets, in general covered five years, were approved by management and estimated terminal values at the end of the five-year period. There are a number of assumptions and estimates involved for the preparation of cash flow projections for the period covered by the approved budget and the estimated terminal value. Key assumptions include the expected growth in revenues and operating margin, growth rates and selection of discount rates, to reflect the risks involved and the earnings multiple that can be realized for the estimated terminal value.

Management prepared the financial budgets reflecting actual and prior year performance and market development expectations. Judgment is required to determine key assumptions adopted in the cash flow projections and changes to key assumptions can significantly affect these cash flow projections and therefore the results of the impairment reviews.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The tax liabilities recognized are based on management's assessment of the likely outcome.

The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(b) Income taxes *(continued)*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values in the financial statements.

Deferred income tax assets are mainly recognized for temporary differences such as warranty provision, accrued sales rebates, bonus accruals, and other accrued expenses, and unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which deductible temporary differences and the unused tax losses can be utilized, based on all available evidence. Recognition primarily involves judgment regarding the future financial performance of the particular legal entity or tax group in which the deferred income tax asset has been recognized. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred income tax assets will ultimately be realized, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilized. The carrying amount of deferred income tax assets and related financial models and budgets are reviewed at each balance sheet date and to the extent that there is insufficient convincing evidence that sufficient taxable profits will be available within the utilization periods to allow utilization of the carry forward tax losses, the asset balance will be reduced and the difference charged to the income statement.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax provisions and deferred income tax assets and liabilities in the period in which such determination is made.

(c) Warranty provision

Warranty provision is based on the estimated cost of product warranties when revenue is recognized. Factors that affect the Group's warranty liability include the number of sold units currently under warranty, historical and anticipated rates of warranty claims on those units, and cost per claim to satisfy our warranty obligation. The estimation basis is reviewed on an on-going basis and revised where appropriate. Certain of these costs are reimbursable from the suppliers in accordance with the terms of relevant arrangements with the suppliers. These amounts are recognized as a separate asset, to the extent of the amount of the provision made, when it is virtually certain that reimbursement will be received if the Group settles the obligation.

(d) Revenue recognition

Application of various accounting principles related to the measurement and recognition of revenue requires the Group to make judgments and estimates. Specifically, complex arrangements with non-standard terms and conditions may require significant contract interpretation to determine the appropriate accounting, including whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting. Other significant judgments include determining whether the Group or a reseller is acting as the principal in a transaction and whether separate contracts are considered part of one arrangement.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(d) Revenue recognition *(continued)*

The Group sells products to channels. Sales through channels are primarily made under agreements allowing for volume discounts, price protection and rebates, and marketing development funds. The Group monitors the channel inventory level with reference to historical data. Revenue recognition is also impacted by the Group's ability to estimate volume discounts, price protection and rebates, marketing development funds. The Group considers various factors, including a review of specific transactions, historical experience, market and economic conditions and channel inventory level when calculating these provisions and allowances.

Revenue from sales of goods is recognized when both ownership and risk of loss are effectively transferred to customer, which are generally occurred upon shipment. For certain transactions, risk of loss associated with goods-in-transit is retained by the Group, in which the Group books revenue upon delivery of products and defers the amounts of revenue based on the estimated days-in-transit at the end of each month. The days-in-transit is estimated based on the Group's weighted average estimated time of shipment arrival. Cost of in-transit products is deferred in deposits, prepayment and other receivables in the balance sheet until revenue is recognized. The estimates of days-in-transit are reviewed semi-annually.

(e) Retirement benefits

Pension and other post-retirement benefit costs and obligations are dependent on various assumptions. The Group's major assumptions primarily relate to discount rate, expected return on assets, and salary growth. In determining the discount rate, the Group references market yields at the balance sheet date on high quality corporate bonds. The currency and term of the bonds are consistent with the currency and estimated term of the benefit obligations being valued. The expected return on plan assets is based on market expectations for returns over the life of the related assets and obligations. The salary growth assumptions reflect the Group's long-term actual experience and future and near-term outlook. Actual results that differ from the assumptions are generally recognized in the year they occur.

(f) Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group has used discounted cash flow analyses for various available-for-sale financial assets that are not traded in active markets.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(continued)*

(g) Fair value of identifiable assets and liabilities acquired through business combinations

The Group applies the acquisition method to account for business combinations, which requires the Group to record assets acquired and liabilities assumed at their fair values on the date of acquisition. Significant judgment is used to estimate the fair values of the assets and liabilities acquired, including estimating future cash flows from the acquired business, determining appropriate discount rates, asset lives and other assumptions.

5 SEGMENT INFORMATION

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

The LEC considers business from a geographical perspective. The Group has four geographical segments, China, Asia Pacific ("AP"), Europe-Middle East-Africa ("EMEA") and Americas ("AG"), which are also the Group's reportable operating segments.

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

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

5 SEGMENT INFORMATION *(continued)*

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

	2018		2017	
	Revenue from external customers US$'000	**Adjusted pre-tax income/(loss) US$'000**	Revenue from external customers US$'000	Adjusted pre-tax income/(loss) US$'000
China	**11,525,321**	**557,641**	11,794,773	539,137
AP	**7,156,293**	**(133,664)**	7,011,595	(65,155)
EMEA	**12,481,897**	**(62,383)**	11,187,313	(336,666)
AG	**14,186,432**	**71,746**	13,041,050	157,452
Segment total	**45,349,943**	**433,340**	43,034,731	294,768
Unallocated:				
Headquarters and corporate expenses		**(26,675)**		(57,160)
Restructuring costs		**(100,775)**		(159,481)
Finance income		**15,258**		18,263
Finance costs		**(219,177)**		(207,563)
Impairment of an available-for-sale financial asset		**-**		(1,005)
Gain on disposal of available-for-sale financial assets		**15**		11,575
Dividend income from available-for-sale financial assets		**286**		321
Share of (losses)/profits of associates and joint ventures		**(2,506)**		21,411
Gain on disposal of a joint venture		**-**		218,366
Gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress		**50,937**		336,172
Dilution gain of interests in associates and a joint venture		**2,499**		14,260
Consolidated profit before taxation		**153,202**		489,927

5 SEGMENT INFORMATION *(continued)*

(b) Segment assets for reportable segments

	2018 US$'000	2017 US$'000
China	**8,868,706**	7,754,296
AP	**3,817,436**	3,497,366
EMEA	**3,347,797**	3,282,761
AG	**6,936,707**	6,633,117
Segment assets for reportable segments	**22,970,646**	21,167,540
Unallocated:		
Deferred income tax assets	**1,530,623**	1,435,256
Derivative financial assets	**24,890**	53,808
Available-for-sale financial assets	**373,077**	255,898
Interests in associates and joint ventures	**35,666**	32,567
Unallocated bank deposits and cash and cash equivalents	**313,366**	1,075,639
Unallocated inventories	**911,506**	823,619
Unallocated deposits, prepayments and other receivables	**1,808,182**	1,829,387
Income tax recoverable	**227,203**	199,149
Other unallocated assets	**299,012**	313,111
Total assets per consolidated balance sheet	**28,494,171**	27,185,974

5 SEGMENT INFORMATION *(continued)*

(c) Segment liabilities for reportable segments

	2018 US$'000	2017 US$'000
China	**4,927,436**	4,884,148
AP	**1,725,803**	1,631,624
EMEA	**1,584,893**	1,569,619
AG	**3,032,107**	3,375,555
Segment liabilities for reportable segments	**11,270,239**	11,460,946
Unallocated:		
Deferred income tax liabilities	**230,609**	221,601
Derivative financial liabilities	**62,694**	67,285
Unallocated borrowings	**3,815,417**	2,966,692
Unallocated trade and notes payables	**4,592,569**	4,249,522
Unallocated other payables and accruals	**3,378,036**	3,570,065
Unallocated provisions	**374,589**	237,907
Unallocated other non-current liabilities	**29,074**	25,070
Income tax payable	**168,779**	246,465
Other unallocated liabilities	**26,177**	45,199
Total liabilities per consolidated balance sheet	**23,948,183**	23,090,752

(d) Analysis of revenue by significant category

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

	2018 US$'000	2017 US$'000
PC and Smart Device Business Group ("PCSD") (Note)	**32,378,666**	30,075,953
Mobile Business Group ("MBG")	**7,240,927**	7,707,448
Data Center Group ("DCG")	**4,394,360**	4,068,488
Others	**1,335,990**	1,182,842
	45,349,943	43,034,731

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

5 SEGMENT INFORMATION *(continued)*

(e) Other segment information

	Depreciation and amortization		Finance income		Finance costs		Additions to non-current assets (Note)	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000
China	**139,075**	197,306	**169**	225	**4,014**	3,818	**178,028**	174,458
AP	**143,158**	131,623	**1,256**	1,344	**10,941**	6,958	**33,441**	62,392
EMEA	**163,297**	183,927	**334**	147	**10,986**	4,925	**22,497**	38,818
AG	**292,992**	229,250	**15,128**	7,816	**18,042**	8,363	**81,802**	141,348
Total	**738,522**	742,106	**16,887**	9,532	**43,983**	24,064	**315,768**	417,016

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$4,245,626,000 (2017: US$3,880,145,000) and US$6,681,527,000 (2017: US$6,746,288,000) respectively.

6 OTHER INCOME – NET

	2018 US$'000	2017 US$'000
Impairment of an available-for-sale financial asset	**–**	(1,005)
Gain on disposal of available-for-sale financial assets	**15**	11,575
Dividend income from available-for-sale financial assets	**286**	321
	301	10,891

7 OPERATING PROFIT

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

	2018 US$'000	2017 US$'000
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**259,121**	269,107
Amortization of intangible assets	**479,401**	472,999
Employee benefit costs (Note 10)	**3,663,301**	3,580,788
Cost of inventories sold	**36,970,355**	34,852,885
Inventories write down	**60,534**	23,533
Auditor's remuneration		
– Audit services (b)	**9,252**	8,023
– Non-audit services	**3,856**	5,009
Rental expenses under operating leases	**147,133**	140,286
Government grants (Note 28(ii))	**(161,820)**	(177,357)
Net foreign exchange loss	**55,735**	110,968
Net loss/(gain) on foreign exchange forward contracts for cash flow hedges reclassified from equity	**222,073**	(13,993)
Impairment of property, plant and equipment	**4,608**	7,303
Gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**(50,937)**	(336,172)
Gain on disposal of a joint venture	**-**	(218,366)
Ineffectiveness on cash flow hedges	**(7,807)**	(4,380)

(a) During the year, the Group announced resource actions to further enhance efficiency and competitiveness in view of industrial challenges. Severance costs of approximately US$101 million (2017: exceptional charges of approximately US$159 million comprising mainly severance costs, loss on impairment of assets and provision for lease obligations) were recognized in "other operating (expenses)/income – net".

(b) Of the above audit services fees, US$8,421,000 (2017: US$7,748,000) is payable to the Company's auditor.

8 FINANCE INCOME AND COSTS

(a) Finance income

	2018 US$'000	2017 US$'000
Interest on bank deposits	**27,672**	23,975
Interest on money market funds	**4,473**	3,820
	32,145	27,795

(b) Finance costs

	2018 US$'000	2017 US$'000
Interest on bank loans and overdrafts	**44,376**	38,546
Interest on notes	**130,229**	103,489
Interest on promissory note	**11,589**	52,746
Factoring costs	**71,897**	28,905
Commitment fee	**779**	440
Interest on contingent/deferred considerations and put option liability	**1,110**	3,434
Others	**3,180**	4,067
	263,160	231,627

9 TAXATION

The amount of taxation in the consolidated income statement represents:

	2018 US$'000	2017 US$'000
Current tax		
– Hong Kong S.A.R. of China profits tax	**16,997**	2,043
– Taxation outside Hong Kong S.A.R. of China	**332,795**	411,397
Deferred tax (Note 20)		
– Credit for the year	**(469,815)**	(453,954)
– Effect of change in tax rate	**400,000**	–
	279,977	(40,514)

Notes to the Financial Statements

9 TAXATION *(continued)*

Hong Kong S.A.R. of China profits tax has been provided at the rate of 16.5% (2017: 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.

Pursuant to the Tax Cuts and Jobs Act enacted by the government of the United States ("US") on December 22, 2017, the US corporate tax rate is reduced for tax years beginning after December 31, 2017. The rate change leads to a write-off of US deferred income tax assets of approximately US$400 million for the year.

The Group has been granted certain tax concessions by tax authorities in the Chinese Mainland and overseas whereby the subsidiaries operating in the respective jurisdictions are entitled to tax concessions.

The differences between the Group's expected tax charge, calculated at the domestic rates applicable to the countries concerned, and the Group's tax charge/(credit) for the year are as follows:

	2018 US$'000	2017 US$'000
Profit before taxation	**153,202**	489,927
Tax calculated at domestic rates applicable in countries concerned	**45,038**	163,091
Income not subject to taxation	**(282,563)**	(237,916)
Expenses not deductible for taxation purposes	**141,540**	144,994
Recognition/utilization of previously unrecognized temporary differences/tax losses	**(58,020)**	(145,199)
Effect on deferred income tax assets due to change in tax rates	**400,000**	(1,599)
Deferred income tax assets not recognized	**20,023**	55,074
Under/(over)-provision in prior years	**13,959**	(18,959)
	279,977	(40,514)

The weighted average applicable tax rate for the year was 29.4% (2017: 33.3%). The decrease is caused by changes in tax concessions and profitability of the Group's subsidiaries in respective countries they are operating, and the enactment of Tax Cuts and Jobs Act by the US government.

9 TAXATION *(continued)*

The tax charge relating to components of other comprehensive income is as follows:

	2018			2017		
	Before tax US$'000	**Tax charge US$'000**	**After tax US$'000**	Before tax US$'000	Tax charge US$'000	After tax US$'000
Fair value change on available-for-sale financial assets	**224**	**-**	**224**	9,180	(467)	8,713
Investment revaluation reserve reclassified to consolidated income statement on disposal of available-for-sale financial assets	**-**	**-**	**-**	(12,640)	–	(12,640)
Fair value change on cash flow hedges	**(11,538)**	**(40)**	**(11,578)**	85,540	(2,540)	83,000
Remeasurements of post-employment benefit obligations (Note 36)	**(19,797)**	**-**	**(19,797)**	42,778	(388)	42,390
Currency translation differences	**288,711**	**-**	**288,711**	(85,423)	–	(85,423)
Other comprehensive income	**257,600**	**(40)**	**257,560**	39,435	(3,395)	36,040
Deferred tax (Note 20)		**(40)**			(3,395)	

10 EMPLOYEE BENEFIT COSTS

	2018 US$'000	2017 US$'000
Wages and salaries, including severance and related costs of US$100,775,000 (2017: US$146,368,000)	**2,778,153**	2,759,039
Social security costs	**247,117**	210,465
Long-term incentive awards granted (Note 29)	**199,779**	177,523
Pension costs		
– Defined contribution plans	**182,721**	165,148
– Defined benefit plans (Note 36)	**16,439**	18,011
Others	**239,092**	250,602
	3,663,301	3,580,788

The Group contributes to respective local municipal government retirement schemes which are available to all qualified employees in the Chinese Mainland. Contributions to these schemes are calculated with reference to the monthly average salaries as set out by the local municipal government.

The Group participates in various defined contribution schemes, either voluntary or mandatory, for all qualified employees. The assets of those defined contribution schemes are held separately from those of the Group in independently administered funds.

The Group also contributes to certain defined benefit pension schemes, details of which are set out in Note 36.

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS

(a) Directors' and senior management's emoluments

Directors' emoluments comprise payments by the Group to directors of the Company in connection with the management of the affairs of the Company and its subsidiaries. The remuneration of each director and the chief executive who is also a director, for the years ended March 31, 2018 and 2017 is set out below:

	2018							
Name of Director	Fees US$'000	Salaries US$'000	Discretionary bonuses (note i) US$'000	Long-term incentive awards (note ii) US$'000	Retirement payments and employer's contribution to pension schemes US$'000	Housing allowance US$'000	Other benefits in-kind US$'000	Total US$'000
Executive director								
Mr. Yang Yuanqing (CEO)	-	1,404	1,213	15,286	149	-	700	18,752
Non-executive directors								
Mr. Zhu Linan	93	-	-	196	-	-	-	289
Mr. Zhao John Huan	93	-	-	196	-	-	-	289
Independent non-executive directors								
Dr. Tian Suning	93	-	-	196	-	-	-	289
Mr. Nicholas C. Allen	120	-	-	196	-	-	-	316
Mr. Nobuyuki Idei	93	-	-	196	-	-	-	289
Mr. William O. Grabe	128	-	-	196	-	-	-	324
Mr. William Tudor Brown	93	-	-	196	-	-	-	289
Ms. Ma Xuezheng	113	-	-	196	-	-	-	309
Mr. Yang Chih-Yuan Jerry	93	-	-	198	-	-	-	291
Mr. Gordon Robert Halyburton Orr	93	-	-	174	-	-	-	267
	1,012	1,404	1,213	17,226	149	-	700	21,704

Notes to the Financial Statements

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(continued)*

(a) Directors' and senior management's emoluments *(continued)*

	2017							
Name of Director	Fees US$'000	Salaries US$'000	Discretionary bonuses (note i) US$'000	Long-term incentive awards (note ii) US$'000	Retirement payments and employer's contribution to pension schemes US$'000	Housing allowance US$'000	Other benefits in-kind US$'000	Total US$'000
Executive director								
Mr. Yang Yuanqing (CEO)	-	1,310	89	17,392	131	127	196	19,245
Non-executive directors								
Mr. Zhu Linan	93	-	-	190	-	-	-	283
Mr. Zhao John Huan	93	-	-	190	-	-	-	283
Independent non-executive directors								
Dr. Tian Suning	93	-	-	190	-	-	-	283
Mr. Nicholas C. Allen	120	-	-	190	-	-	-	310
Mr. Nobuyuki Idei	93	-	-	190	-	-	-	283
Mr. William O. Grabe	128	-	-	190	-	-	-	318
Mr. William Tudor Brown	93	-	-	190	-	-	-	283
Ms. Ma Xuezheng	113	-	-	190	-	-	-	303
Mr. Yang Chih-Yuan Jerry	93	-	-	186	-	-	-	279
Mr. Gordon Robert Halyburton Orr	93	-	-	115	-	-	-	208
	1,012	1,310	89	19,213	131	127	196	22,078

Notes:

(i) Discretionary bonuses paid for the two years ended March 31, 2018 and 2017 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2017 and 2016 respectively.

(ii) Details of the long-term incentive program of the Company are set out in Note 29. The fair value of the employee services received in exchange for the grant of the long-term incentive awards is recognized as an expense. The total amount to be amortized over the vesting period is determined by reference to the fair value of the long-term incentive awards at the date of grant. The amounts disclosed above represent the amortized amounts for the two years ended March 31, 2018 and 2017.

(iii) Mr. William O. Grabe has elected to defer his receipt of the cash of director's fee into fully vested share units under the long-term incentive program (Note 29) for the two years ended March 31, 2018 and 2017.

(iv) During the years ended March 31, 2018 and 2017, a pension payment of US$1.5 million was made to Mr. Liu Chuanzhi, a retired director.

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 (2017: nil). No consideration was provided to or receivable by third parties for making available directors' service (2017: nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled body corporate and connected entities (2017: 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 (2017: nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2017: one) director whose emoluments are reflected in the analysis presented above. The emoluments of the remaining four (2017: four) individuals during the year are as follows:

	2018 US$'000	2017 US$'000
Basic salaries, allowances, and other benefits-in-kind	**5,349**	5,099
Discretionary bonuses (note i)	**4,987**	6,286
Retirement payments and employer's contribution to pension schemes	**2,062**	2,088
Long-term incentive awards	**18,375**	15,297
Compensation for loss of office	**6,680**	–
Others	**623**	550
	38,076	29,320

Note:

(i) Discretionary bonuses paid for the two years ended March 31, 2018 and 2017 represent the amounts in connection with the performance bonuses for the two years ended March 31, 2017 and 2016 respectively.

11 EMOLUMENTS OF DIRECTORS AND HIGHEST PAID INDIVIDUALS *(continued)*

(b) Five highest paid individuals *(continued)*

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
Emolument bands		
US$3,841,748 – US$3,905,776	**–**	1
US$5,122,331 – US$5,186,359	**1**	–
US$5,378,448 – US$5,442,476	**–**	1
US$6,274,856 – US$6,338,884	**–**	1
US$7,107,234 – US$7,171,262	**1**	–
US$11,205,099 – US$11,269,127	**1**	–
US$13,574,177 – US$13,638,205	**–**	1
US$14,470,585 – US$14,534,613	**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.

	2018	2017
Weighted average number of ordinary shares in issue	**11,441,318,678**	11,108,654,724
Adjustment for shares held by employee share trusts	**(130,726,638)**	(99,384,505)
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share	**11,310,592,040**	11,009,270,219

	US$'000	US$'000
(Loss)/profit attributable to equity holders of the Company	**(189,323)**	535,084

(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 dilutive potential ordinary shares, namely long-term incentive awards and bonus warrants. They were anti-dilutive for the year ended March 31, 2018 and dilutive for the year ended March 31, 2017.

	2018	2017
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share	**11,310,592,040**	11,009,270,219
Adjustments for long-term incentive awards and bonus warrants	**-**	11,377,359
Weighted average number of ordinary shares in issue for calculation of diluted (loss)/earnings per share	**11,310,592,040**	11,020,647,578

	US$'000	US$'000
(Loss) /profit attributable to equity holders of the Company used to determine diluted (loss)/earnings per share	**(189,323)**	535,084

On September 29, 2017, the Company as issuer and Union Star Limited as subscriber ("the Subscriber") entered into a subscription agreement in relation to issuance of new shares and bonus warrants. On November 17, 2017, the Company issued and the Subscriber subscribed for 90,613,689 units of bonus warrants at exercise price of HK$5.17. The gross proceeds from the share subscription is approximately HK$3,905,450,000. Upon certain changes in the shareholding of the Subscriber immediately before or after the subscription, 32% of the Subscriber will be indirectly held by Legend Holdings Corporation (through Legion Elite Limited) and 68% of the Subscriber will be indirectly held by senior management of the Group.

The subscription and issuance of bonus warrants increase the total number of shares in issue of the Company ("the Company's shares"). Shares from the subscription represent (i) approximately 8.16% of the Company's shares and (ii) approximately 7.54% of the Company's shares as enlarged by the subscription. The exercise in full of the subscription rights attaching to the bonus warrants will result in the issue of 90,613,689 shares which represent (i) approximately 0.75% of the Company's shares as enlarged by the subscription and (ii) approximately 0.75% of the Company's shares as enlarged by the subscription and the full exercise of the bonus warrants (assuming there will be no other changes in the Company's shares). As at March 31, 2018, all of Bonus Warrants remains outstanding.

Notes to the Financial Statements

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

(b) Diluted *(continued)*

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

For the bonus warrants, 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 share) based on the monetary value of the subscription rights attached to outstanding bonus warrants. 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 bonus warrants.

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

13 DIVIDENDS

	2018 US$'000	2017 US$'000
Interim dividend of HK6.0 cents (2017: HK6.0 cents) per ordinary share, paid on November 30, 2017	**85,434**	85,948
Proposed final dividend – HK20.5 cents (2017: HK20.5 cents) per ordinary share	**313,850**	292,427
	399,284	378,375

14 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Leasehold improvements	Plant and machinery	Furniture and fixtures	Office equipment	Motor vehicles	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
At April 1, 2016							
Cost	610,686	511,353	638,645	65,629	556,994	7,761	2,391,068
Accumulated depreciation and impairment losses	84,540	210,169	337,049	39,035	325,090	3,691	999,574
Net book amount	526,146	301,184	301,596	26,594	231,904	4,070	1,391,494
Year ended March 31, 2017							
Opening net book amount	526,146	301,184	301,596	26,594	231,904	4,070	1,391,494
Exchange adjustment	(6,721)	(268)	(1,950)	(370)	(6,702)	(10)	(16,021)
Reclassification	(331)	585	357	(65)	(542)	(4)	-
Additions	1,709	9,227	41,116	2,722	61,335	1,764	117,873
Transfers	62,062	11,844	3,689	1,109	4,617	110	83,431
Disposals	(55,824)	(2,297)	(3,234)	(511)	(5,085)	(248)	(67,199)
Depreciation	(15,821)	(46,461)	(103,497)	(8,209)	(90,581)	(1,456)	(266,025)
Impairment recognized	-	(3,597)	-	-	(3,706)	-	(7,303)
Closing net book amount	511,220	270,217	238,077	21,270	191,240	4,226	1,236,250
At March 31, 2017							
Cost	578,103	447,879	661,786	66,197	580,635	8,479	2,343,079
Accumulated depreciation and impairment losses	66,883	177,662	423,709	44,927	389,395	4,253	1,106,829
Net book amount	511,220	270,217	238,077	21,270	191,240	4,226	1,236,250
Year ended March 31, 2018							
Opening net book amount	**511,220**	**270,217**	**238,077**	**21,270**	**191,240**	**4,226**	**1,236,250**
Exchange adjustment	**35,270**	**2,668**	**8,444**	**1,051**	**7,982**	**10**	**55,425**
Additions	**36,435**	**6,214**	**86,634**	**1,723**	**85,474**	**1,369**	**217,849**
Transfers	**60,777**	**3,614**	**5,546**	**516**	**2,570**	**447**	**73,470**
Disposals	**(907)**	**(1,633)**	**(7,836)**	**(282)**	**(6,453)**	**(340)**	**(17,451)**
Depreciation	**(20,631)**	**(41,266)**	**(98,339)**	**(7,473)**	**(87,051)**	**(1,424)**	**(256,184)**
Impairment recognized	**-**	**(4,608)**	**-**	**-**	**-**	**-**	**(4,608)**
Closing net book amount	**622,164**	**235,206**	**232,526**	**16,805**	**193,762**	**4,288**	**1,304,751**
At March 31, 2018							
Cost	**714,053**	**449,194**	**735,491**	**67,796**	**636,074**	**9,393**	**2,612,001**
Accumulated depreciation and impairment losses	**91,889**	**213,988**	**502,965**	**50,991**	**442,312**	**5,105**	**1,307,250**
Net book amount	**622,164**	**235,206**	**232,526**	**16,805**	**193,762**	**4,288**	**1,304,751**

Notes to the Financial Statements

15 PREPAID LEASE PAYMENTS

	2018 US$'000	2017 US$'000
At the beginning of the year	**473,090**	337,929
Exchange adjustment	**43,229**	(20,011)
Additions	**10,908**	175,570
Disposals	**(7,327)**	(8,501)
Amortization	**(12,272)**	(11,897)
At the end of the year	**507,628**	473,090

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	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000	**2018 US$'000**	2017 US$'000
At the beginning of the year	**210,674**	167,615	**156,769**	15,501	**45,717**	47,994	**413,160**	231,110
Exchange adjustment	**19,544**	(12,702)	**4,928**	(724)	**7,066**	(709)	**31,538**	(14,135)
Additions	**104,621**	111,255	**180,826**	204,192	**-**	30,238	**285,447**	345,685
Transfers	**(45,608)**	(55,494)	**(187,016)**	(62,200)	**(41,205)**	(31,806)	**(273,829)**	(149,500)
Disposals	**(71,206)**	-	**(2,265)**	-	**-**	-	**(73,471)**	-
At the end of the year	**218,025**	210,674	**153,242**	156,769	**11,578**	45,717	**382,845**	413,160

During the year, the Group had capitalised borrowing costs amounting to US$4.4 million (2017: US$6.9 million) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 4.60% (2017: 4.34%).

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, 2016						
Cost	4,898,637	1,438,131	815,387	1,422,110	1,598,762	10,173,027
Accumulated amortization and impairment losses	-	165,692	589,103	229,637	527,508	1,511,940
Net book amount	4,898,637	1,272,439	226,284	1,192,473	1,071,254	8,661,087
Year ended March 31, 2017						
Opening net book amount	4,898,637	1,272,439	226,284	1,192,473	1,071,254	8,661,087
Exchange adjustment	(42,899)	(3,581)	(5,798)	(14,768)	(1,875)	(68,921)
Additions	-	-	49,506	-	114,820	164,326
Transfer from construction-in-progress	-	-	66,069	-	-	66,069
Disposals	-	-	(218)	-	(199)	(417)
Amortization	-	(2,905)	(130,373)	(120,958)	(218,763)	(472,999)
Closing net book amount	4,855,738	1,265,953	205,470	1,056,747	965,237	8,349,145
At March 31, 2017						
Cost	4,855,738	1,305,073	910,972	1,387,483	1,709,761	10,169,027
Accumulated amortization and impairment losses	-	39,120	705,502	330,736	744,524	1,819,882
Net book amount	4,855,738	1,265,953	205,470	1,056,747	965,237	8,349,145
Year ended March 31, 2018						
Opening net book amount	**4,855,738**	**1,265,953**	**205,470**	**1,056,747**	**965,237**	**8,349,145**
Exchange adjustment	**232,483**	**8,803**	**5,331**	**32,901**	**9,203**	**288,721**
Additions	**-**	**-**	**35,358**	**-**	**121,032**	**156,390**
Transfer from construction-in-progress	**-**	**-**	**197,716**	**-**	**2,643**	**200,359**
Disposals	**-**	**-**	**(683)**	**-**	**(27)**	**(710)**
Amortization	**-**	**(355)**	**(82,877)**	**(127,618)**	**(268,551)**	**(479,401)**
Closing net book amount	**5,088,221**	**1,274,401**	**360,315**	**962,030**	**829,537**	**8,514,504**
At March 31, 2018						
Cost	**5,088,221**	**1,313,745**	**1,171,245**	**1,433,773**	**1,846,553**	**10,853,537**
Accumulated amortization and impairment losses	**-**	**39,344**	**810,930**	**471,743**	**1,017,016**	**2,339,033**
Net book amount	**5,088,221**	**1,274,401**	**360,315**	**962,030**	**829,537**	**8,514,504**

17 INTANGIBLE ASSETS *(continued)*

(a) *(continued)*

Amortization of US$35,592,000 (2017: US$40,003,000), US$10,979,000 (2017: US$10,658,000), US$326,397,000 (2017: US$314,971,000) and US$106,433,000 (2017: US$107,367,000) 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, 2018					
Goodwill					
– PCSD	**1,117**	**574**	**247**	**334**	**2,272**
– MBG	**-**	**328**	**378**	**970**	**1,676**
– DCG	**503**	**161**	**123**	**353**	**1,140**
Trademarks and trade names					
– PCSD	**209**	**59**	**109**	**67**	**444**
– MBG	**-**	**90**	**104**	**266**	**460**
– DCG	**162**	**54**	**31**	**123**	**370**

	China US$ million	AP US$ million	EMEA US$ million	AG US$ million	Total US$ million
At March 31, 2017					
Goodwill					
– PCSD	1,032	552	208	336	2,128
– MBG	–	314	362	984	1,660
– DCG	468	157	89	354	1,068
Trademarks and trade names					
– PCSD	209	59	101	67	436
– MBG	–	90	104	266	460
– DCG	162	54	31	123	370

17 INTANGIBLE ASSETS *(continued)*

(b) Impairment tests for goodwill and intangible assets with indefinite useful lives *(continued)*

The Group completed its annual impairment test for goodwill allocated to the Group's various CGUs by comparing their recoverable amounts to their carrying amounts as at the reporting date. The recoverable amount of a CGU is determined based on value in use. These assessments use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period with a terminal value related to the future cash flow of the CGU extrapolated using constant projection of cash flows beyond the five-year period. The estimated growth rates adopted do not exceed the long-term average growth rates for the businesses in which the CGU operates.

Future cash flows are discounted at the rate of 9%, 11% and 10% for PCSD, MBG and DCG respectively (2017: 9%, 11% and 10% respectively). The estimated compound annual growth rates used for value-in-use calculations under the five-year financial budgets period are as follows:

	2018			2017		
	PCSD	**MBG**	**DCG**	PCSD	MBG	DCG
China	**0%**	**N/A**	**11%**	3%	N/A	7%
AP	**-1%**	**24%**	**6%**	-1%	26%	5%
EMEA	**-1%**	**32%**	**4%**	-1%	26%	7%
AG	**0%**	**7%**	**12%**	-1%	13%	16%

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 Group announced a new organizational structure in May 2018 by combining PCSD and MBG under Intelligent Devices Group, following the earlier creation of the new reporting business units for MBG based upon market structure, namely MBG Mature Market and MBG Emerging Market. MBG's goodwill and trademarks and trade names with indefinite useful lives have been reallocated to the CGU affected using a relative value approach in accordance with HKAS 36 "Impairment of assets". The estimated compound annual growth rates used for value-in-use calculations under the five-year financial budgets period for MBG Mature Market and MBG Emerging Market are 22% and 10% respectively.

The directors are of the view that there was no evidence of impairment of goodwill and trademarks and trade names as at March 31, 2018 arising from the review (2017: nil).

The Group has performed a sensitivity analysis on key assumptions used for the annual impairment test for goodwill. 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.

(c) At March 31, 2018, patent and technology of US$34,459,000 (2017: US$61,939,000) is under development.

Notes to the Financial Statements

18 INTERESTS IN ASSOCIATES AND JOINT VENTURES

	2018 US$'000	2017 US$'000
Share of net assets		
– Associates	**26,005**	21,992
– Joint ventures	**9,661**	10,575
	35,666	32,567

The following is a list of the principal associates and joint ventures:

Company name	Place of incorporation/ establishment	Interest held indirectly 2018	2017	Principal activities
Associates				
北京閃聯雲視信息技術有限公司 (Beijing Shanlian Yunshi Information Technology Limited) (Note ii)	Chinese Mainland	**23.7%**	23.7%	Distribution and development of IT technology
成都諦聽科技有限公司 (Chengdu Diting Technology Limited) (Note ii)	Chinese Mainland	**17.3%**	17.3%	Distribution and development of IT technology
茄子技術控股有限公司 (Shareit Technology Holdings Inc.) (Note ii)	Cayman Islands	**47.7%**	47.7%	Software development
深圳視見醫療科技有限公司 (Imsight Medical Technology Inc.) (Note ii)	Chinese Mainland	**17.8%**	-	Development of techniques applied to clinical medical image analysis
Joint ventures				
北京聯想金服科技有限公司 (Beijing Lenovo Fintech Co., Ltd.) (Note ii)	Chinese Mainland	**50.0%**	50.0%	Online payment platform development
聯想新視界(北京)科技有限公司 (Lenovo New Vision (Beijing) Technology Co., Ltd.) (Note ii)	Chinese Mainland	**35.1%**	48.2%	Software development

Notes:
(i) All the above associates and joint ventures operate principally in their respective places of incorporation or establishment.

(ii) The English name of the company is a direct translation or transliteration of its Chinese registered name.

18 INTERESTS IN ASSOCIATES AND JOINT VENTURES *(continued)*

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

	2018 US$'000	2017 US$'000
Share of profits/(losses) of associates	**1,323**	(2,192)
Share of (losses)/profits of joint ventures	**(3,829)**	23,603
	(2,506)	21,411

19 FINANCIAL INSTRUMENTS BY CATEGORY

	Loans and receivables US$'000	**Assets at fair value through profit and loss** US$'000	**Derivatives used for hedging** US$'000	**Available for-sale financial assets** US$'000	**Total** US$'000
Assets					
At March 31, 2018					
Available-for-sale financial assets	**-**	**-**	**-**	**373,077**	**373,077**
Derivative financial assets	**-**	**15,037**	**9,853**	**-**	**24,890**
Other non-current assets	**43,901**	**-**	**-**	**-**	**43,901**
Trade receivables	**4,972,722**	**-**	**-**	**-**	**4,972,722**
Notes receivable	**11,154**	**-**	**-**	**-**	**11,154**
Deposits and other receivables	**3,362,293**	**-**	**-**	**-**	**3,362,293**
Bank deposits	**84,306**	**-**	**-**	**-**	**84,306**
Cash and cash equivalents	**1,848,017**	**-**	**-**	**-**	**1,848,017**
	10,322,393	**15,037**	**9,853**	**373,077**	**10,720,360**
At March 31, 2017					
Available-for-sale financial assets	–	–	–	255,898	255,898
Derivative financial assets	–	45,024	8,784	–	53,808
Other non-current assets	43,184	–	–	–	43,184
Trade receivables	4,468,392	–	–	–	4,468,392
Notes receivable	68,333	–	–	–	68,333
Deposits and other receivables	3,345,946	–	–	–	3,345,946
Bank deposits	196,720	–	–	–	196,720
Cash and cash equivalents	2,754,599	–	–	–	2,754,599
	10,877,174	45,024	8,784	255,898	11,186,880

Notes to the Financial Statements

19 FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

	Liabilities at fair value through profit and loss US$'000	Derivatives used for hedging US$'000	Other financial liabilities at amortized cost US$'000	Total US$'000
Liabilities				
At March 31, 2018				
Trade payables	**-**	**-**	**6,450,792**	**6,450,792**
Notes payable	**-**	**-**	**801,974**	**801,974**
Derivative financial liabilities	**35,937**	**26,757**	**-**	**62,694**
Other payables and accruals	**-**	**-**	**8,992,951**	**8,992,951**
Borrowings	**-**	**-**	**3,815,417**	**3,815,417**
Deferred consideration	**-**	**-**	**25,072**	**25,072**
Written put option liability	**-**	**-**	**224,813**	**224,813**
	35,937	**26,757**	**20,311,019**	**20,373,713**
At March 31, 2017				
Trade payables	–	–	5,649,925	5,649,925
Notes payable	–	–	835,613	835,613
Derivative financial liabilities	53,305	13,980	–	67,285
Other payables and accruals	–	–	9,094,610	9,094,610
Borrowings	–	–	3,036,695	3,036,695
Deferred considerations	–	–	711,373	711,373
Written put option liability	–	–	223,703	223,703
	53,305	13,980	19,551,919	19,619,204

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:

	2018 US$'000	2017 US$'000
Deferred income tax assets:		
Recoverable within 12 months	**635,386**	600,763
Recoverable after 12 months	**895,237**	834,493
	1,530,623	1,435,256
Deferred income tax liabilities:		
Recoverable after 12 months	**(230,609)**	(221,601)
Net deferred income tax assets	**1,300,014**	1,213,655

The movements in the net deferred income tax assets are as follows:

	2018 US$'000	2017 US$'000
At the beginning of the year	**1,213,655**	777,893
Reclassification and exchange adjustment	**18,780**	(14,797)
Credited to consolidated income statement (Note 9)	**469,815**	453,954
Charged to other comprehensive income (Note 9)	**(40)**	(3,395)
Charged to share-based compensation reserve	**(2,196)**	–
Effect of change in tax rate (Note 9)	**(400,000)**	–
At the end of the year	**1,300,014**	1,213,655

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, 2016	343,495	511,986	14,094	139,772	17,714	12,131	1,039,192
Reclassification and exchange adjustments	(39,494)	2,987	351	3,135	-	(1,639)	(34,660)
Credited/(charged) to consolidated income statement	146,515	389,591	1,179	(47,375)	2,021	(1,907)	490,024
Charged to other comprehensive income	(388)	-	-	-	-	(3,191)	(3,579)
At March 31, 2017 and April 1, 2017	**450,128**	**904,564**	**15,624**	**95,532**	**19,735**	**5,394**	**1,490,977**
Reclassification and exchange adjustments	**10,081**	**(303)**	**10,746**	**5,407**	**-**	**(1,527)**	**24,404**
Credited/(charged) to consolidated income statement	**99,193**	**394,009**	**2,760**	**(8,102)**	**7,942**	**846**	**496,648**
Credited to other comprehensive income	**-**	**-**	**-**	**-**	**-**	**488**	**488**
Charged to share-based compensation reserve	**-**	**-**	**-**	**-**	**(2,196)**	**-**	**(2,196)**
Effect of change in tax rate	**(56,580)**	**(351,713)**	**(836)**	**(11,210)**	**(8,851)**	**(823)**	**(430,013)**
At March 31, 2018	**502,822**	**946,557**	**28,294**	**81,627**	**16,630**	**4,378**	**1,580,308**

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, 2018, the Group did not recognize deferred income tax assets in respect of deductible temporary differences of approximately US$1,036,897,000 (2017: US$1,574,999,000) and tax losses of approximately US$2,258,581,000 (2017: US$2,435,848,000) that can be carried forward against future taxable income, of which, tax losses of US$1,015,591,000 (2017: US$1,596,982,000) can be carried forward indefinitely. The remaining balances of tax losses will expire as follows:

	2018 US$'000	2017 US$'000
Expiring in		
– 2018	**131,173**	174,129
– 2019	**16,911**	17,558
– 2020	**21,635**	12,337
– 2021	**199,549**	188,426
– 2022	**381,940**	382,929
– 2023	**396,743**	2,436
– 2024	**51,870**	4,778
– 2025	**23,177**	56,273
– 2026	**6,114**	–
– 2027	**13,878**	–
	1,242,990	838,866

20 DEFERRED INCOME TAX ASSETS AND LIABILITIES *(continued)*

(b) The movements in deferred income tax liabilities (prior to offsetting of balances within the same tax jurisdiction), analyzed by major components, during the year are as follows:

	Intangible valuation US$'000	Undistributed earnings US$'000	Property valuation US$'000	Accelerated tax depreciation US$'000	Others US$'000	Total US$'000
At April 1, 2016	156,010	52,602	3,301	49,386	-	261,299
Reclassification and exchange adjustments	(17,244)	(5,429)	(191)	3,012	(11)	(19,863)
(Credited)/charged to consolidated income statement	(9,503)	10,504	6	34,730	333	36,070
Credited to other comprehensive income	-	-	-	-	(184)	(184)
At March 31, 2017 and April 1, 2017	**129,263**	**57,677**	**3,116**	**87,128**	**138**	**277,322**
Reclassification and exchange adjustments	**8,485**	**(233)**	**472**	**(2,434)**	**(666)**	**5,624**
(Credited)/charged to consolidated income statement	**(25,256)**	**27,551**	**25**	**24,513**	**-**	**26,833**
Charged to other comprehensive income	**-**	**-**	**-**	**-**	**528**	**528**
Effect of change in tax rate	**(57)**	**-**	**-**	**(29,956)**	**-**	**(30,013)**
At March 31, 2018	**112,435**	**84,995**	**3,613**	**79,251**	**-**	**280,294**

21 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2018 US$'000	2017 US$'000
At the beginning of the year	255,898	139,572
Exchange adjustment	17,540	(2,529)
Fair value change recognized in other comprehensive income	224	9,180
Additions	100,466	124,110
Transferred to investment in a joint venture	(901)	–
Disposals	(150)	(13,430)
Impairment	-	(1,005)
At the end of the year	373,077	255,898
Equity securities, at fair value		
Listed:		
– In Hong Kong S.A.R. of China	12,108	11,039
– Outside Hong Kong S.A.R. of China	17,455	13,104
	29,563	24,143
Unlisted	343,514	231,755
	373,077	255,898

22 INVENTORIES

	2018 US$'000	2017 US$'000
Raw materials and work-in-progress	2,005,975	1,273,562
Finished goods	1,133,363	1,007,413
Service parts	652,353	513,060
	3,791,691	2,794,035

Notes to the Financial Statements

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:

	2018 US$'000	2017 US$'000
0 – 30 days	**3,046,240**	2,923,083
31 – 60 days	**1,169,286**	985,251
61 – 90 days	**320,183**	283,050
Over 90 days	**545,629**	381,387
	5,081,338	4,572,771
Less: provision for impairment	**(108,616)**	(104,379)
Trade receivables – net	**4,972,722**	4,468,392

Trade receivables that are not past due are fully performing and not considered impaired.

At March 31, 2018, trade receivables, net of impairment, of US$862,020,000 (2017: US$637,895,000) were past due. The ageing of these receivables, based on due date, is as follows:

	2018 US$'000	2017 US$'000
Within 30 days	**444,377**	368,336
31 – 60 days	**136,373**	117,341
61 – 90 days	**67,406**	53,225
Over 90 days	**213,864**	98,993
	862,020	637,895

23 RECEIVABLES *(continued)*

(a) *(continued)*

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

	2018 US$'000	2017 US$'000
At beginning of the year	**104,379**	106,172
Exchange adjustment	**(2,390)**	5,752
Provisions made	**55,052**	35,154
Uncollectible receivables written off	**(18,002)**	(9,495)
Unused amounts reversed	**(30,423)**	(33,204)
At the end of the year	**108,616**	104,379

(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:

	2018 US$'000	2017 US$'000
Deposits	**15,818**	19,018
Other receivables	**3,346,475**	3,326,928
Prepayments	**1,341,042**	987,405
	4,703,335	4,333,351

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

(d) The carrying amounts of trade receivables, notes receivables, deposits and other receivables approximate their fair values. The maximum exposure to credit risk at the balance sheet date is the fair value of each class of receivable mentioned above.

24 BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	2018 US$'000	2017 US$'000
Bank deposits		
– maturing between three to twelve months	**11,013**	119,292
– restricted bank balances	**73,293**	77,428
	84,306	196,720
Cash and cash equivalents		
– cash at bank and in hand	**1,839,624**	2,120,243
– money market funds	**8,393**	634,356
	1,848,017	2,754,599
	1,932,323	2,951,319
Maximum exposure to credit risk	**1,932,323**	2,951,319
Effective annual interest rates	**0%-6.5%**	0%-11.25%

25 PAYABLES

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

	2018 US$'000	2017 US$'000
0 – 30 days	**3,694,507**	3,497,382
31 – 60 days	**1,793,380**	1,098,575
61 – 90 days	**727,029**	846,804
Over 90 days	**235,876**	207,164
	6,450,792	5,649,925

(b) Notes payable of the Group are mainly repayable within three months.

(c) The carrying amounts of trade payables and notes payable approximate their fair values.

26 PROVISIONS, OTHER PAYABLES AND ACCRUALS

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

	2018 US$'000	2017 US$'000
Accruals	**1,865,507**	2,066,687
Allowance for billing adjustments (i)	**1,634,287**	1,611,495
Deferred considerations (ii)	**-**	686,301
Written put option liability (iii)	**224,813**	223,703
Other payables (iv)	**5,493,157**	5,416,428
	9,217,764	10,004,614

Notes:

(i) Allowance for billing adjustments relates primarily to allowances for future volume discounts, price protection, rebates, and customer sales returns.

(ii) Pursuant to the completion of business combination, the Group is required to pay in cash to Google Inc. deferred consideration. Accordingly, current liability in respect of the present value of deferred consideration has been recognized. Deferred consideration is subsequently measured at amortized cost. The remaining deferred consideration payable to Google Inc. has been settled during the year.

(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 resulting from the change in the expected performance of the JV Co at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement.

In the event that the put option lapses unexercised, the liability will be derecognized with a corresponding adjustment to equity.

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

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

Notes to the Financial Statements

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

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

	Warranty US$'000	Environmental restoration US$'000	Restructuring US$'000	Total US$'000
Year ended March 31, 2017				
At the beginning of the year	1,322,267	8,817	123,103	1,454,187
Exchange adjustment	(16,316)	308	154	(15,854)
Provisions made	736,693	9,442	150,470	896,605
Amounts utilized	(980,738)	(10,177)	(184,075)	(1,174,990)
	1,061,906	8,390	89,652	1,159,948
Long-term portion classified as non-current liabilities	(280,421)	(6,122)	–	(286,543)
At the end of the year	781,485	2,268	89,652	873,405
Year ended March 31, 2018				
At the beginning of the year	**1,061,906**	**8,390**	**89,652**	**1,159,948**
Exchange adjustment	**24,577**	**638**	**3,794**	**29,009**
Provisions made	**895,939**	**9,662**	**100,775**	**1,006,376**
Amounts utilized	**(901,204)**	**(9,771)**	**(140,168)**	**(1,051,143)**
	1,081,218	**8,919**	**54,053**	**1,144,190**
Long-term portion classified as non-current liabilities	**(278,908)**	**(6,807)**	**-**	**(285,715)**
At the end of the year	**802,310**	**2,112**	**54,053**	**858,475**

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

	2018 US$'000	2017 US$'000
Current liabilities		
Short-term loans (i)	**1,166,692**	70,003
Non-current liabilities		
Term loan (ii)	**-**	397,687
Notes (iii)	**2,648,725**	2,569,005
	2,648,725	2,966,692
	3,815,417	3,036,695

Notes:

(i) The majority of the short-term bank loans are denominated in United States dollar. As at March 31, 2018 the Group has total revolving and short-term loan facilities of US$1,896 million (2017: US$1,393 million) which has been utilized to the extent of US$1,170 million (2017: US$70 million).

(ii) Term loan comprised a US$1,200 million 5-year loan facility (comprising US$800 million short term) entered into in December 2013. The term loan was prepaid during the year (2017: US$400 million).

(iii)

Issue date	**Principal amount**	**Term**	**Interest rate per annum**	**Due date**	**2018 US$'000**	2017 US$'000
May 8, 2014	US$786 million (2017: US$1.5 billion)	5 years	4.7%	May 2019	**774,341**	1,495,081
June 10, 2015	RMB4 billion	5 years	4.95%	June 2020	**635,015**	578,103
March 16, 2017	US$500 million	5 years	3.875%	March 2022	**496,590**	495,821
March 29, 2018	US$750 million	5 years	4.75%	March 2023	**742,779**	–
					2,648,725	2,569,005

On March 29, 2018, the Group completed the issuance of 5-Year US$750 million notes bearing annual interest at 4.75% due in March 2023. The proceeds would be used to repurchase the outstanding 2019 notes and for the Company's working capital and general corporate purposes.

Notes to the Financial Statements

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:

	2018 US$'000	2017 US$'000
Within 1 year	**1,166,692**	70,003
Over 1 to 3 years	**1,409,356**	1,892,768
Over 3 to 5 years	**1,239,369**	1,073,924
	3,815,417	3,036,695

The fair value of the notes as at March 31, 2018 was US$2,659 million (2017: US$2,633 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	
	2018 US$'000	2017 US$'000	2018 US$'000	2017 US$'000
Revolving loans	**1,100,000**	1,100,000	**1,100,000**	–
Term loan	**–**	400,000	**–**	400,000
Short-term loans	**795,637**	292,807	**70,000**	70,000
Foreign exchange contracts	**8,706,553**	8,833,620	**8,644,518**	8,215,817
Other trade finance facilities	**1,730,185**	1,583,685	**1,090,008**	1,085,974
	12,332,375	12,210,112	**10,904,526**	9,771,791

All borrowings are unsecured and the effective annual interest rates at March 31, 2018 and March 31, 2017 are as follows:

	United States dollar	
	2018	2017
Term loan	**N/A**	2.63%
Short-term loans	**3.38%-5.31%**	0%-4.15%

28 OTHER NON-CURRENT LIABILITIES

	2018 US$'000	2017 US$'000
Deferred consideration (i)	**25,072**	25,072
Environmental restoration (Note 26(b))	**6,807**	6,122
Government incentives and grants received in advance (ii)	**58,988**	95,774
Deferred rent liabilities	**94,377**	102,756
Others	**148,088**	150,833
	333,332	380,557

Notes:

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

As at March 31, 2018, the potential undiscounted amount of future payment in respect of the deferred consideration that the Group could be required to make to NEC Corporation under the arrangement is US$25 million.

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

29 SHARE CAPITAL

	2018		2017	
	Number of shares	US$'000	Number of shares	US$'000
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the year	**11,108,654,724**	**2,689,882**	11,108,654,724	2,689,882
Issue of ordinary shares	**906,136,890**	**496,041**	–	–
At the end of the year	**12,014,791,614**	**3,185,923**	11,108,654,724	2,689,882

On November 17, 2017, the Company has issued 906,136,890 shares at price of HK$4.31 through a subscription agreement entered into by the Company and Union Star Limited (Note 12).

29 SHARE CAPITAL *(continued)*

Long-term incentive program

A performance-related long-term incentive program was approved on May 26, 2005 for the purpose of rewarding and motivating directors, executives and top-performing employees of the Company and its subsidiaries (the "Participants"). The long-term incentive program is designed to enable the Company to attract and retain the best available personnel, and encourage and motivate Participants to work towards enhancing the value of the Company and its shares by aligning their interests with those of the shareholders of the Company.

The Company also approved a share-based compensation package for non-executive directors.

Under the long-term incentive program, the Company may grant awards, at its discretion, using any of the two types of equity-based compensation: (i) share appreciation rights and (ii) restricted share units, which are described below:

(i) Share Appreciation Rights ("SARs")

An SAR entitles the holder to receive the appreciation in value of the Company's share price above a predetermined level.

(ii) Restricted Share Units ("RSUs")

An RSU equals to the value of one ordinary share of the Company. Once vested, an RSU is converted to an ordinary share.

Under the two types of compensation, the Company reserves the right, at its discretion, to settle the award in cash or ordinary shares of the Company.

Movements in the number of units of award granted during the year and their related weighted average fair values are as follows:

	Number of units	
	SARs	**RSUs**
Outstanding at April 1, 2016	286,222,558	186,431,731
Granted during the year	473,195,957	300,802,097
Vested during the year	(104,580,378)	(65,548,767)
Lapsed/cancelled during the year	(99,575,652)	(61,002,782)
Outstanding at March 31, 2017	555,262,485	360,682,279
Outstanding at April 1, 2017	**555,262,485**	**360,682,279**
Granted during the year	**490,920,405**	**301,523,867**
Vested during the year	**(249,496,096)**	**(142,386,897)**
Lapsed/cancelled during the year	**(87,244,882)**	**(41,623,477)**
Outstanding at March 31, 2018	**709,441,912**	**478,195,772**
Average fair value per unit (HK$)		
– At March 31, 2017	1.45	6.49
– At March 31, 2018	**1.01**	**5.50**

29 SHARE CAPITAL *(continued)*

Long-term incentive program *(continued)*

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, 2018, 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 34.04 percent (2017: 37.06 percent), expected dividends during the vesting periods of 5.59 percent (2017: 2.74 percent), contractual life of 4.5 years (2017: 4.5 years), and a risk-free interest rate of 0.94 percent (2017: 0.70 percent).

The remaining vesting periods of the awards under the long-term incentive program as at March 31, 2018 ranged from 0.41 to 2.92 years (2017: 0.25 to 3 years).

30 PERPETUAL SECURITIES

In March 2017, the Group issued a total of US$850 million perpetual securities through its wholly owned subsidiary, Lenovo Perpetual Securities Limited ("the issuer"). The net proceed amounted to approximately US$842 million. The securities are perpetual, non-callable in the first 5 years and entitle the holders to receive distributions at a distribution rate of 5.375% per annum in the first 5 years, floating thereafter and with a fixed step up margin, payable semi-annually in arrears, cumulative and compounding. The distributions are at the Group's discretion, if the issuer and the Company, as guarantor of the securities, do not (a) declare or pay dividends to their shareholders or (b) cancel or reduce their share capital within each distribution payment period. As the perpetual securities do not contain any contractual obligation to pay cash or other financial assets, in accordance with HKAS 32, they are classified as equity and for accounting purpose regarded as part of non-controlling interests.

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

31 BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY

(a) Balance sheet of the Company

	At March 31 2018 US$'000	2017 US$'000
Non-current assets		
Property, plant and equipment	**1,376**	1,548
Intangible assets	**1,581**	5,217
Interest in an associate	**1,887**	1,887
Investments in subsidiaries	**8,580,253**	8,367,819
Available-for-sale financial assets	**46,291**	66,004
	8,631,388	8,442,475
Current assets		
Deposits, prepayments and other receivables	**52,050**	81,736
Amounts due from subsidiaries	**4,201,643**	3,206,011
Cash and cash equivalents	**15,936**	99,600
	4,269,629	3,387,347
Total assets	**12,901,017**	11,829,822
Share capital	**3,185,923**	2,689,882
Reserves (Note 31(b))	**981,864**	839,845
Total equity	**4,167,787**	3,529,727
Non-current liabilities		
Borrowings	**2,648,725**	2,966,692
Amount due to a subsidiary	**1,000,000**	850,000
Other non-current liabilities	**25,900**	26,149
	3,674,625	3,842,841
Current liabilities		
Derivative financial liabilities	**4,884**	68
Other payables and accruals	**86,904**	754,233
Borrowings	**1,096,689**	–
Deferred revenue	**-**	114
Amounts due to subsidiaries	**3,870,128**	3,702,839
	5,058,605	4,457,254
Total liabilities	**8,733,230**	8,300,095
Total equity and liabilities	**12,901,017**	11,829,822

On behalf of the Board

Yang Yuanqing
Chairman and Chief Executive Officer

Ma Xuezheng
Director

31 BALANCE SHEET AND MOVEMENT OF RESERVES OF THE COMPANY *(continued)*

(b) Movement of reserves of the Company

The changes in the reserves of the Company during the years ended March 31, 2018 and 2017 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, 2016	(7,860)	8,315	10,204	8,614	335,170	354,443
Profit for the year	-	-	-	-	758,261	758,261
Other comprehensive loss	(3,584)	-	-	-	-	(3,584)
Total comprehensive (loss)/ income for the year	(3,584)	-	-	-	758,261	754,677
Vesting of shares under long-term incentive program	-	(72,368)	-	-	-	(72,368)
Share-based compensation	-	182,700	-	-	-	182,700
Dividends paid	-	-	-	-	(379,607)	(379,607)
At March 31, 2017	(11,444)	118,647	10,204	8,614	713,824	839,845
At April 1, 2017	**(11,444)**	**118,647**	**10,204**	**8,614**	**713,824**	**839,845**
Profit for the year	**-**	**-**	**-**	**-**	**446,962**	**446,962**
Other comprehensive loss	**(22,779)**	**-**	**-**	**-**	**-**	**(22,779)**
Total comprehensive (loss)/ income for the year	**(22,779)**	**-**	**-**	**-**	**446,962**	**424,183**
Vesting of shares under long-term incentive program	**-**	**(91,528)**	**-**	**-**	**-**	**(91,528)**
Share-based compensation	**-**	**199,892**	**-**	**-**	**-**	**199,892**
Issue of bonus warrants	**-**	**-**	**-**	**(6,399)**	**-**	**(6,399)**
Dividends paid	**-**	**-**	**-**	**-**	**(384,129)**	**(384,129)**
At March 31, 2018	**(34,223)**	**227,011**	**10,204**	**2,215**	**776,657**	**981,864**

Notes to the Financial Statements

32 SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) The Group had the following significant related party transactions in the normal course of business during the year:

	2018 **US$'000**	2017 US$'000
閃聯信息技術工程中心有限公司 (IGRS Engineering Lab Limited) (an associate) – Purchase of goods	**15,654**	11,811
上海視雲網絡科技有限公司 (Shanghai Shiyun Network Technology Limited) (an associate) – Purchase of goods	**219**	295

Note: The English name of each company is a direct translation of its Chinese registered name.

(b) Key management compensation

Details on key management compensation are set out in Note 11.

33 COMMITMENTS

(a) Capital commitments

Apart from disclosed elsewhere in these financial statements, on March 31, 2018, the Group had the following other capital commitments:

	2018 **US$'000**	2017 US$'000
Contracted but not provided for:		
– Property, plant and equipment	**154,658**	271,369
– IT consulting services	**1,092**	4,401
– Investment in a subsidiary	**188,692**	–
– Investment in financial assets	**13,776**	–
	358,218	275,770

(b) Commitments under operating leases

The future aggregate minimum lease payments in respect of land and buildings and prepaid lease payments under non-cancellable operating leases of the Group are as follows:

	2018 **US$'000**	2017 US$'000
Not later than one year	**33,454**	48,518
Later than one year but not later than five years	**293,253**	356,335
Later than five years	**194,161**	236,993
	520,868	641,846

34 CONTINGENT LIABILITIES

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

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

	2018 **US$'000**	2017 US$'000
Profit before taxation	**153,202**	489,927
Share of losses/(profits) of associates and joint ventures	**2,506**	(21,411)
Finance income	**(32,145)**	(27,795)
Finance costs	**263,160**	231,627
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**259,121**	269,107
Amortization of intangible assets	**479,401**	472,999
Share-based compensation	**199,779**	177,523
Impairment of an available-for-sale financial asset	**-**	1,005
Impairment of property, plant and equipment	**4,608**	7,303
Gain on disposal of property, plant and equipment, prepaid lease payments and construction-in-progress	**(50,937)**	(336,172)
Gain on disposal of a joint venture	**-**	(218,366)
Dilution gain of interests in associates and a joint venture	**(2,499)**	(14,260)
Gain on disposal of available-for-sale financial assets	**(15)**	(11,575)
Loss on disposal of intangible assets	**710**	417
Dividend income from available-for-sale financial assets	**(286)**	(321)
Fair value change on financial instruments	**12,749**	(27,366)
Fair value change on bonus warrants	**(3,003)**	–
Increase in inventories	**(997,656)**	(156,718)
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(1,012,749)**	(580,005)
Increase in trade payables, notes payable, provisions, other payables and accruals	**919,996**	2,354,218
Effect of foreign exchange rate changes	**(257,933)**	87,195
Net cash (used in)/generated from operations	**(61,991)**	2,697,332

35 RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH (USED IN)/GENERATED FROM OPERATIONS *(continued)*

(a) Reconciliation of financing liabilities

This section sets out an analysis of financing liabilities and the movements in financing liabilities for the year presented.

Financing liabilities	2018 US$'000
Short-term loans – current	1,166,692
Notes – non-current	2,648,725
Financing liabilities	3,815,417
Short-term loans – variable interest rates	1,166,692
Notes – fixed interest rates	2,648,725
Financing liabilities	3,815,417

	Short-term loans current US$'000	Long-term loans non-current US$'000	Notes non-current US$'000	Total US$'000
Financing liabilities as at April 1, 2017	70,003	397,687	2,569,005	3,036,695
Proceeds from borrowings	7,413,740	12,000	-	7,425,740
Repayments of borrowings	(6,324,406)	(400,000)	-	(6,724,406)
Issue of notes	-	-	749,119	749,119
Repayment of notes	-	-	(723,389)	(723,389)
Foreign exchange adjustments	-	-	56,175	56,175
Other non-cash movements	7,355	(9,687)	(2,185)	(4,517)
Financing liabilities as at March 31, 2018	1,166,692	-	2,648,725	3,815,417

36 RETIREMENT BENEFIT OBLIGATIONS

	2018 US$'000	2017 US$'000
Pension obligation included in non-current liabilities		
Pension benefits	**387,632**	345,277
Post-employment medical benefits	**25,850**	24,930
	413,482	370,207
Expensed in income statement		
Pension benefits (Note 10)	**16,439**	18,011
Post-employment medical benefits	**1,177**	1,084
	17,616	19,095
Remeasurements for:		
Defined pension benefits	**20,597**	(43,007)
Post-employment medical benefits	**(800)**	229

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$132,052,000 of defined benefit obligations in Germany. The defined benefit plan for Motorola's employees in Germany contains less than 10 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 1.1% of employees. There is also a supplemental defined benefit plan that covers certain executives.

The Group also operates final salary defined benefit plans in a number of countries as a result of past acquisitions.

The Group's major plans are valued by qualified actuaries annually using the projected unit credit method.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income in the period in which they arise.

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(a) Pension benefits

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

	2018 US$'000	2017 US$'000
Present value of funded obligations	**548,060**	511,815
Fair value of plan assets	**(334,597)**	(300,872)
Deficit of funded plans	**213,463**	210,943
Present value of unfunded obligations	**174,169**	134,334
Liability in the balance sheet	**387,632**	345,277
Representing:		
Pension benefits obligation	**387,632**	345,277

The principal actuarial assumptions used are as follows:

	2018	2017
Discount rate	**0.5%-3.25%**	0.5%-3.25%
Future salary increases	**0%-3.5%**	0%-2.9%
Future pension increases	**0%-2%**	0%-1.75%
Life expectancy for male aged 60	**27**	23
Life expectancy for female aged 60	**29**	29

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

		Impact on defined benefit obligation	
2018	**Change in assumption**	**Increase in assumption**	**Decrease in assumption**
Discount rate	**0.5%**	**Decrease by 10.6%**	**Increase by 11.4%**
Salary growth rate	**0.5%**	**Increase by 1.2%**	**Decrease by 1.1%**
Pension growth rate	**0.5%**	**Increase by 8.0%**	**Decrease by 7.3%**
		Increase by 1 year in assumption	**Decrease by 1 year in assumption**
Life expectancy		**Increase by 3.3%**	**Decrease by 3.3%**

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

(a) Pension benefits *(continued)*

2017	Change in assumption	Impact on defined benefit obligation Increase in assumption	Decrease in assumption
Discount rate	0.5%	Decrease by 10.7%	Increase by 12.4%
Salary growth rate	0.5%	Increase by 0.1%	Decrease by 1.6%
Pension growth rate	0.5%	Increase by 7.9%	Decrease by 7.2%
		Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy		Increase by 3.8%	Decrease by 3.4%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

(b) Post-employment medical benefits

The Group operates a number of post-employment medical benefit schemes, principally in the US. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes.

The US plan (Lenovo Future Health Account and Retiree Life Insurance Program) is currently funded by a trust that qualifies for tax exemption under US tax law, out of which benefits to eligible retirees and dependents will be made.

Changes in future medical cost trend rates has no effect on the liabilities for post-employment medical benefits.

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

	2018 **US$'000**	2017 US$'000
Present value of funded obligations	**26,652**	27,090
Fair value of plan assets	**(2,391)**	(3,568)
	24,261	23,522
Present value of unfunded obligations	**1,589**	1,408
Liability in the balance sheet	**25,850**	24,930

Notes to the Financial Statements

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

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

Plan assets of the Group comprise:

	2018			2017		
	Quoted US$'000	**Unquoted US$'000**	**Total US$'000**	Quoted US$'000	Unquoted US$'000	Total US$'000
Pension plan						
Equity instruments						
Information technology	**2,079**	**-**	**2,079**	1,028	–	1,028
Energy	**235**	**-**	**235**	309	–	309
Manufacturing	**9,726**	**-**	**9,726**	4,309	–	4,309
Others	**3,573**	**-**	**3,573**	5,402	–	5,402
	15,613	**-**	**15,613**	11,048	–	11,048
Debt instruments						
Government	**49,617**	**-**	**49,617**	45,944	–	45,944
Corporate bonds (investment grade)	**50,056**	**-**	**50,056**	47,808	–	47,808
Corporate bonds (Non-investment grade)	**8,864**	**-**	**8,864**	2,507	–	2,507
	108,537	**-**	**108,537**	96,259	–	96,259
Others						
Property	**-**	**13,270**	**13,270**	–	10,476	10,476
Qualifying insurance policies	**-**	**43,503**	**43,503**	–	48,495	48,495
Cash and cash equivalents	**16,302**	**-**	**16,302**	22,891	–	22,891
Investment funds	**-**	**55,821**	**55,821**	–	41,876	41,876
Structured bonds	**-**	**81,180**	**81,180**	–	69,279	69,279
Others	**-**	**371**	**371**	–	548	548
	16,302	**194,145**	**210,447**	22,891	170,674	193,565
	140,452	**194,145**	**334,597**	130,198	170,674	300,872
Medical plan						
Cash and cash equivalents	**2,391**	**-**	**2,391**	3,568	–	3,568

The long term strategic asset allocations of the plans are set and reviewed from time to time by the plans' trustees taking into account the membership, liability profile and the liquidity requirements of the plans.

The weighted average duration of the defined benefit obligation is 12.5 years.

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

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

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

At March 31, 2018	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	**19,515**	**17,177**	**66,892**	**801,881**	**905,465**
Post-employment medical benefits	**914**	**994**	**3,523**	**42,415**	**47,846**
Total	**20,429**	**18,171**	**70,415**	**844,296**	**953,311**

Pension and medical plan assets do not include any of the Company's ordinary shares or US real estate occupied by the Group (2017: nil).

Reconciliation of fair value of plan assets of the Group:

	Pension		**Medical**	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000
Opening fair value	**300,872**	292,742	**3,568**	4,189
Exchange adjustment	**21,767**	(12,128)	**-**	–
Interest income	**5,287**	5,862	**103**	105
Remeasurements:				
Experience gain/(loss)	**5,644**	(6,334)	**318**	(286)
Contributions by the employer	**25,681**	35,061	**41**	41
Contributions by plan participants	**663**	568	**-**	–
Benefits paid	**(25,317)**	(14,899)	**(1,639)**	(481)
Closing fair value	**334,597**	300,872	**2,391**	3,568
Actual return on plan assets	**10,931**	(472)	**421**	(181)

Contributions of US$9,925,000 are estimated to be made for the year ending March 31, 2019.

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

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

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

	Pension		Medical	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000
Opening defined benefit obligation	**646,149**	711,874	**28,498**	27,931
Exchange adjustment	**54,847**	(25,189)	**215**	(76)
Current service cost	**14,516**	15,950	**315**	412
Past service cost	**(1,141)**	(1,908)	**-**	–
Interest cost	**11,051**	10,157	**965**	790
Remeasurements:				
(Gain)/loss from change in demographic assumptions	**(609)**	(3,133)	**5**	8
Loss/(gain) from changes in financial assumptions	**13,487**	(29,806)	**10**	(74)
Experience loss/(gain)	**13,363**	(16,402)	**(497)**	9
Contributions by plan participants	**663**	568	**-**	–
Benefits paid	**(27,397)**	(15,636)	**(1,270)**	(489)
Curtailments	**(2,700)**	(326)	**-**	(13)
Closing defined benefit obligation	**722,229**	646,149	**28,241**	28,498

During the year, benefits of US$2,080,000 were paid directly by the Group (2017: US$737,000).

Summary of pensions and post-retirement medical benefits of the Group:

	2018 US$'000	2017 US$'000	2016 US$'000	2015 US$'000	2014 US$'000
Present value of defined benefit obligations	**750,470**	674,647	739,805	699,680	428,935
Fair value of plan assets	**336,988**	304,440	296,931	289,562	272,420
Deficit	**413,482**	370,207	442,874	410,118	156,515
Actuarial (gains)/losses arising on plan assets	**(5,962)**	6,620	3,580	(29,070)	(588)
Actuarial losses/(gains) arising on plan liabilities	**25,759**	(49,398)	21,082	99,157	(3,400)
	19,797	(42,778)	24,662	70,087	(3,988)

36 RETIREMENT BENEFIT OBLIGATIONS *(continued)*

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

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

	Pension		Medical	
	2018 US$'000	2017 US$'000	**2018 US$'000**	2017 US$'000
Current service cost	**14,516**	15,950	**315**	412
Past service cost	**(1,141)**	(1,908)	**–**	–
Interest cost	**11,051**	10,157	**965**	790
Interest income	**(5,287)**	(5,862)	**(103)**	(105)
Curtailment gains	**(2,700)**	(326)	**–**	(13)
Total expense recognized in the consolidated income statement	**16,439**	18,011	**1,177**	1,084

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
			2018	2017	
Held directly:					
聯想(北京)有限公司 (Lenovo (Beijing) Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$175,481,300	**100%**	100%	Manufacturing and distribution of IT products and provision of IT services
聯想(上海)有限公司 (Lenovo (Shanghai) Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$10,000,000	**100%**	100%	Distribution of IT products and provision of IT services
Held indirectly:					
聯寶(合肥)電子科技有限公司 (LCFC (Hefei) Electronics Technology Co., Ltd.)[1] (wholly foreign-owned enterprise)	Chinese Mainland	US$265,000,000	**51%**	51%	Manufacturing and distribution of IT products

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 2018	2017	Principal activities
Lenovo (Asia Pacific) Limited	Hong Kong S.A.R. of China	HK$3,042,972,340.42	**100%**	100%	Investment holding and distribution of IT products
北京聯想軟件有限公司 (Beijing Lenovo Software Limited)[1] (wholly foreign-owned enterprise)	Chinese Mainland	HK$5,000,000	**100%**	100%	Provision of IT services and distribution of IT products
Lenovo (Australia & New Zealand) Pty Limited	Australia	AUD45,860,993.40	**100%**	100%	Distribution of IT products
Lenovo (Belgium) BVBA	Belgium	EUR1,317,700,834.94	**100%**	100%	Investment holding and distribution of IT products
Lenovo (Canada) Inc.	Canada	CAD10,000,000	**100%**	100%	Distribution of IT products
Lenovo Computer Limited	Hong Kong S.A.R. of China	HK$2	**100%**	100%	Procurement agency and distribution of IT products
Lenovo (Danmark) ApS	Denmark	DKK126,000	**100%**	100%	Distribution of IT products
Lenovo (Deutschland) GmbH	Germany	EUR25,100	**100%**	100%	Distribution of IT products
Lenovo Enterprise Solutions (Singapore) Pte. Ltd.	Singapore	SGD55,958,592	**100%**	100%	Manufacturing and wholesaling of computers, computer hardware and peripheral equipment
Lenovo Enterprise Solutions Ltd.	Japan	JPY50,000,000	**100%**	100%	Distribution of IT products
Lenovo (France) SAS	France	EUR1,837,000	**100%**	100%	Distribution of IT products

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2018	Percentage of issued capital held 2017	Principal activities
Lenovo HK Services Limited	Hong Kong S.A.R. of China	HK$2	**100%**	100%	Provision of business planning, management, global supply chain, finance, and administration support services
Lenovo Global Technology (Asia Pacific) Limited	Hong Kong S.A.R. of China	US$123,001	**100%**	100%	Investment holding and distribution of IT products
Lenovo Global Technology HK Limited	Hong Kong S.A.R. of China	US$1	**100%**	100%	Procurement agency and distribution of IT products
Lenovo Global Technology (Hong Kong S.A.R. of China) Distribution Limited	Hong Kong S.A.R. of China	US$1	**100%**	100%	Distribution of IT products
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] (limited liability company (wholly-owned entity))	Chinese Mainland	RMB643,966,800	**100%**	100%	Manufacturing and 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 2018	Percentage of issued capital held 2017	Principal activities
Lenovo (Israel) Ltd.	Israel	ILS1,000	**100%**	100%	Distribution of IT products
Lenovo (Italy) S.r.l	Italy	EUR100,000	**100%**	100%	Distribution of IT products
Lenovo (Japan) Ltd.	Japan	JPY100,000,000	**66.64%**	66.64%	Distribution of IT products
Lenovo Korea LLC	Korea	KRW3,580,940,000	**100%**	100%	Distribution of IT products
Lenovo Mexico, S. de R.L. de C.V.	Mexico	MXN226,308,454	**100%**	100%	Distribution of IT products
聯想移動通信科技有限公司 (Lenovo Mobile Communication Technology Ltd.)[1] (foreign-investment enterprise wholly-owned entity)	Chinese Mainland	RMB187,500,000	**100%**	100%	Manufacturing and distribution of IT products and provision of IT services
聯想移動通信軟件(武漢)有限公司 (Lenovo Mobile Communication Software (Wuhan) Limited)[1] (foreign-investment enterprise wholly-owned entity)	Chinese Mainland	RMB10,000,000	**-**	100%	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

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2018	2017	Principal activities
Lenovo PC International Limited	Hong Kong S.A.R. of China	HK$4,758,857,785	**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.	Spain	EUR37,475,456.40	**100%**	100%	Distribution of IT products
Lenovo (Sweden) AB	Sweden	SEK200,200	**100%**	100%	Distribution of IT products
聯想系統集成（深圳）有限公司 (Lenovo Systems Technology Company Limited)[1] (有限責任公司（法人獨資）) (limited liability company (wholly-owned entity))	Chinese Mainland	RMB263,407,660	**100%**	100%	Manufacturing and distribution of IT products
Lenovo Technology (United Kingdom) Limited	United Kingdom	GBP8,629,510	**100%**	100%	Distribution of IT products
Lenovo Technology B.V.	Netherlands	EUR20,000	**100%**	100%	Distribution of IT products
Lenovo Technology Sdn. Bhd.	Malaysia	MYR1,000,000	**100%**	100%	Selling and distribution of computer hardware, software and peripherals and services

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2018	2017	Principal activities
Lenovo Tecnologia (Brasil) Ltda	Brazil	BRL4,424,321,818	**100%**	100%	Manufacturing and distribution of IT products
Lenovo (Thailand) Limited	Thailand	THB243,000,000	**100%**	100%	Distribution of IT products as well as mobile phone, smart phone and tablet, server and storage
Lenovo (United States) Inc.	United States	US$1	**100%**	100%	Distribution of IT products
Lenovo (Venezuela), SA	Venezuela	VEB3,846,897	**100%**	100%	Distribution of IT products
聯想(西安)有限公司 (Lenovo (Xian) Limited)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB10,000,000	**100%**	100%	Provision of IT services and distribution of IT products
LLC "Lenovo (East Europe/Asia)"	Russia	RUB1,910,000	**100%**	100%	Distribution and marketing of IT products
Medion AG	Germany	EUR48,418,400	**79.83%**	79.83%	Retail and service business for consumer electronic products
Motorola Mobility Comércio de Produtos Eletronicos Ltda.	Brazil	BRL756,663,401	**100%**	100%	Developer, owner, licensor and seller of communications hardware and software
Motorola Mobility International Sales LLC	United States	-	**100%**	100%	Holding company

37 PRINCIPAL SUBSIDIARIES *(continued)*

Company name	Place of incorporation/ establishment	Issued and fully paid up capital	Percentage of issued capital held 2018	Percentage of issued capital held 2017	Principal activities
Motorola Mobility LLC	United States	-	**100%**	100%	Developer, owner, licensor and seller of communications hardware and software
NEC Personal Computers, Ltd.	Japan	JPY500,000,000	**66.64%**	66.64%	Manufacturing and distribution of IT products
深圳聯想海外控股有限公司 (Shenzhen Lenovo Overseas Holdings Limited)[1] (wholly-foreign owned enterprise)	Chinese Mainland	US$760,822,799.24	**100%**	100%	Investment management
Stoneware, Inc.	United States	US$861,341.25	**100%**	100%	Development and distribution of IT products
陽光雨露信息技術服務(北京)有限公司 (Sunny Information Technology Service, Inc.)[1] (Chinese-foreign equity joint venture)	Chinese Mainland	RMB50,000,000	**100%**	100%	Provision of repair services for computer hardware and software systems

Notes:

(i) All the above subsidiaries operate principally in their respective places of incorporation or establishment.

(ii) All the Chinese Mainland subsidiaries and Motorola's subsidiaries are limited liability companies. They have adopted December 31 as their financial year end date for statutory reporting purposes. For the preparation of the consolidated financial statements, financial statements of these Chinese Mainland subsidiaries and Motorola's subsidiaries for the years ended March 31, 2017 and 2018 have been used.

(iii) Medion AG is a publicly traded German stock corporation listed on the Frankfurt am Main stock exchange. The percentage of issued capital held is equivalent to approximately 86.51% (2017: 86.51%) excluding treasury shares.

(iv) In November 2017, the Company entered into an equity interest transfer and framework agreement in relation to disposal of 100% equity interest in 聯想移動通信軟件(武漢)有限公司 (Lenovo Mobile Communication Software (Wuhan) Limited) to a third party.

(v) The company whose English name ends with a "1" is a direct transliteration of its Chinese registered name.

Notes to the Financial Statements

38 NON-ADJUSTING POST BALANCE SHEET EVENT

On May 2, 2018, the Company completed the acquisition of 51% in Fujitsu Client Computing Limited and its subsidiary, Shimane Fujitsu Limited (together "FCCL"), pursuant to the sales and purchase agreement and joint venture agreement dated November 2, 2017. FCCL is principally engaged in manufacturing and distribution of PC products. Immediately following completion, the Company, Fujitsu Corporation ("Fujitsu"), and Development Bank of Japan ("DBJ") respectively owns 51%, 44%, and 5% of the interest in FCCL.

Pursuant to the joint venture agreement, both the Company and Fujitsu are respectively granted call and put options which entitle the Company to purchase from Fujitsu and DBJ, or Fujitsu and DBJ to sell to the Company, 49% interest in FCCL. Both options will be exercisable following the fifth anniversary of the date of completion.

The estimated total consideration for the business combination activity comprises:

(i) JPY17.85 billion, on the assumption that FCCL has zero net debt and normalized working capital, payable in cash on completion, minus 51% of (a) the net debt and (b) the working capital adjustment; and

(ii) JPY2.55 billion to JPY12.75 billion performance-adjusted consideration based on business performance to March 31, 2020, payable in cash after March 31, 2020.

39 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on May 24, 2018.

Five-Year Financial Summary

CONDENSED CONSOLIDATED INCOME STATEMENT

	2018 US$'000	2017 US$'000	2016 US$'000	2015 US$'000	2014 US$'000
Revenue	**45,349,943**	43,034,731	44,912,097	46,295,593	38,707,129
Profit/(loss) before taxation	**153,202**	489,927	(276,851)	970,967	1,014,195
Taxation	**(279,977)**	40,514	132,276	(134,364)	(196,725)
(Loss)/profit for the year	**(126,775)**	530,441	(144,575)	836,603	817,470
(Loss)/profit attributable to:					
Equity holders of the Company	**(189,323)**	535,084	(128,146)	828,715	817,228
Perpetual securities holders	**53,680**	1,872	–	–	–
Other non-controlling interests	**8,868**	(6,515)	(16,429)	7,888	242
	(126,775)	530,441	(144,575)	836,603	817,470
(Loss)/earnings per share attributable to equity holders of the Company					
Basic (US cents)	**(1.67)**	4.86	(1.16)	7.77	7.88
Diluted (US cents)	**(1.67)**	4.86	(1.16)	7.69	7.78

CONDENSED CONSOLIDATED BALANCE SHEET

	2018 US$'000	2017 US$'000	2016 US$'000	2015 US$'000	2014 US$'000
Non-current assets	**12,830,853**	12,317,587	11,966,613	11,889,352	4,956,545
Current assets	**15,663,318**	14,868,387	12,966,776	15,507,158	13,400,548
Total assets	**28,494,171**	27,185,974	24,933,389	27,396,510	18,357,093
Non-current liabilities	**4,488,461**	4,756,906	6,146,880	5,841,997	1,870,051
Current liabilities	**19,459,722**	18,333,846	15,760,260	17,448,392	13,462,322
Total liabilities	**23,948,183**	23,090,752	21,907,140	23,290,389	15,332,373
Net assets	**4,545,988**	4,095,222	3,026,249	4,106,121	3,024,720

Corporate Information

HONORARY CHAIRMAN
Mr. Liu Chuanzhi

BOARD OF DIRECTORS
Chairman and Executive Director
Mr. Yang Yuanqing

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

Independent Non-executive Directors
Dr. Tian Suning
Mr. Nicholas C. Allen
Mr. Nobuyuki Idei
Mr. William O. Grabe
Mr. William Tudor Brown
Ms. Ma Xuezheng
Mr. Yang Chih-Yuan Jerry
Mr. Gordon Robert Halyburton Orr

CHIEF FINANCIAL OFFICER
Mr. Wong Wai Ming

COMPANY SECRETARY
Mr. Mok Chung Fu, Eric

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DBS Bank Ltd.

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