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**Lenovo Group Limited 聯想集團有限公司**

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

**FY2017/18 FIRST QUARTER RESULTS ANNOUNCEMENT**

**QUARTERLY RESULTS**

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

**FINANCIAL HIGHLIGHTS**

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

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

## **BUSINESS REVIEW AND OUTLOOK**

### **Business Review**

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

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

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

### **Performance of Product Business Groups**

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

#### **PC and Smart Device Business Group (PCSD)**

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

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

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

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

### **Mobile Business Group (MBG)**

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

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

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

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

### **Data Center Business Group (DCG)**

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

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

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

### **Lenovo Capital and Incubator Group (LCIG) and Others**

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

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

Revenue from the LCIG, and other products such as consumer electronic businesses from previous acquisitions was US\$290 million, representing approximately 3 percent of the Group's total revenue.

### **Performance of Geographies**

Performance of each geography includes a combination of PCSD, data center and mobility businesses. The profitability figures of geographies disclosed in the following paragraphs have excluded the impact of non-cash M&A related accounting charges for the quarter under review.

#### **China**

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

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

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

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

### **Americas (AG)**

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

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

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

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

### **Asia Pacific (AP)**

Asia Pacific accounted for 16 percent of the Group's total revenue. As the Group has higher exposure in the emerging countries in the region that were impacted by slower growth, resulting in the PC market in the emerging part of the region to decline 2 percent year-on-year in shipments, according to industry estimates. Despite the overall market weakness, the Group gained 0.8 percentage points of market share in PCs in the Asia Pacific region during the quarter under review. The Group maintained its number two position in the PC market with market share of 16.4 percent in the quarter.

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

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

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

### **Europe-Middle East-Africa (EMEA)**

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

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

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

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

## **Outlook**

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

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

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

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

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

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

## FINANCIAL REVIEW

### *Results for the three months ended June 30, 2017*

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

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

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

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

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



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

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

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

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

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

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

Finance income mainly represents interest on bank deposits.

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

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

## Capital Expenditure

The Group incurred capital expenditure of US\$168 million (2016/17: US\$114 million) during the period ended June 30, 2017, mainly for the acquisition of property, plant and equipment, prepaid lease payments, additions in construction-in-progress and intangible assets.

## Liquidity and Financial Resources

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

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

The Group adopts a conservative policy to invest the surplus cash generated from operations. At June 30, 2017, 99.6 (March 31, 2017: 78.5) percent of cash are bank deposits, and 0.4 (March 31, 2017: 21.5) percent of cash are investments in liquid money market funds of investment grade.

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

The Group entered into a 5-Year loan facility agreement with syndicated banks for US\$1,200 million, comprising US\$800 million as revolving loan facility and US\$400 million as term loan facility, on December 18, 2013. As at June 30, 2017, the revolving loan facility was not utilized (March 31, 2017: not utilized) and the term loan facility was prepaid (March 31, 2017: US\$400 million).

In addition, on May 26, 2015, the Group entered into a 5-Year loan facility agreement with a bank for US\$300 million. The facility was utilized to the extent of US\$200 million as at June 30, 2017 (March 31, 2017: not utilized).

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

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

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

At June 30, 2017, the Group did not have any term bank loan (March 31, 2017: US\$398 million), and the Group's outstanding borrowings represented by short-term bank loans of US\$264 million (March 31, 2017: US\$70 million) and notes of US\$2,579 million (March 31, 2017: US\$2,569 million). When compared with total equity of US\$4,178 million (March 31, 2017: US\$4,095 million), the Group's gearing ratio was 0.68 (March 31, 2017: 0.74). The net debt position of the Group at June 30, 2017 is US\$1,302 million (March 31, 2017: US\$86 million).

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At June 30, 2017, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US\$8,257 million (March 31, 2017: US\$8,216 million). The Group's forward foreign exchange contracts are either used to hedge a percentage of future transactions which are highly probable, or used as fair value hedges for identified assets and liabilities.

### **Contingent Liabilities**

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

<b>FINANCIAL INFORMATION</b>
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## CONSOLIDATED INCOME STATEMENT

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

## CONSOLIDATED BALANCE SHEET

		June 30, 2017 (unaudited) US\$'000	March 31, 2017 (audited) US\$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		1,273,414	1,236,250
Prepaid lease payments		487,479	473,090
Construction-in-progress		442,668	413,160
Intangible assets		8,317,198	8,349,145
Interests in associates and joint ventures		25,903	32,567
Deferred income tax assets		1,527,370	1,435,256
Available-for-sale financial assets		278,770	255,898
Other non-current assets		124,739	122,221
		12,477,541	12,317,587
Current assets			
Inventories		3,177,532	2,794,035
Trade receivables	7(a)	4,496,852	4,468,392
Notes receivable		46,517	68,333
Derivative financial assets		51,971	53,808
Deposits, prepayments and other receivables	8	4,639,071	4,333,351
Income tax recoverable		196,243	199,149
Bank deposits		153,616	196,720
Cash and cash equivalents		1,387,470	2,754,599
		14,149,272	14,868,387
		26,626,813	27,185,974
Total assets			

## CONSOLIDATED BALANCE SHEET (CONTINUED)

	<i>Note</i>	<b>June 30, 2017</b> <b>(unaudited)</b> <i>US\$'000</i>	March 31, 2017 <b>(audited)</b> <i>US\$'000</i>
Share capital	12	2,689,882	2,689,882
Reserves		441,153	533,719
Equity attributable to owners of the Company		<b>3,131,035</b>	3,223,601
Perpetual securities		1,006,549	843,677
Other non-controlling interests		253,407	240,844
Put option written on non-controlling interest	9(a)(iii)	<b>(212,900)</b>	(212,900)
<b>Total equity</b>		<b>4,178,091</b>	4,095,222
<b>Non-current liabilities</b>			
Borrowings	11	2,579,152	2,966,692
Warranty provision	9(b)	268,757	280,421
Deferred revenue		570,808	537,428
Retirement benefit obligations		385,831	370,207
Deferred income tax liabilities		227,093	221,601
Other non-current liabilities	10	364,581	380,557
		<b>4,396,222</b>	4,756,906
<b>Current liabilities</b>			
Trade payables	7(b)	6,209,107	5,649,925
Notes payable		791,181	835,613
Derivative financial liabilities		118,738	67,285
Other payables and accruals	9(a)	9,071,699	10,004,614
Provisions	9(b)	825,939	873,405
Deferred revenue		591,711	586,536
Income tax payable		179,863	246,465
Borrowings	11	264,262	70,003
		<b>18,052,500</b>	18,333,846
<b>Total liabilities</b>		<b>22,448,722</b>	23,090,752
<b>Total equity and liabilities</b>		<b>26,626,813</b>	27,185,974

## CONSOLIDATED CASH FLOW STATEMENT

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



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company											Total (unaudited) US\$'000
	Share capital (unaudited) US\$'000	Investment revaluation reserve (unaudited) US\$'000	Employee share trusts (unaudited) US\$'000	Share-based compensation reserve (unaudited) US\$'000	Hedging reserve (unaudited) US\$'000	Exchange reserve (unaudited) US\$'000	Other reserve (unaudited) US\$'000	Retained earnings (unaudited) US\$'000	Perpetual securities (unaudited) US\$'000	Other non- controlling interests (unaudited) US\$'000	Put option written on non- controlling interest (unaudited) US\$'000	
At April 1, 2017	2,689,882	(2,965)	(111,228)	123,493	(5,328)	(1,226,618)	62,751	1,693,614	843,677	240,844	(212,900)	4,095,222
(Loss)/profit for the period	-	-	-	-	-	-	-	(72,290)	13,247	5,178	-	(53,865)
Other comprehensive (loss)/income	-	(188)	-	-	(49,752)	19,774	-	-	-	-	-	(30,166)
Total comprehensive (loss)/income for the period	-	(188)	-	-	(49,752)	19,774	-	(72,290)	13,247	5,178	-	(84,031)
Vesting of shares under long-term incentive program	-	-	58,353	(76,661)	-	-	-	-	-	-	-	(18,308)
Share-based compensation	-	-	-	47,315	-	-	-	-	-	-	-	47,315
Contribution to employee share trusts	-	-	(19,117)	-	-	-	-	-	-	-	-	(19,117)
Issue of perpetual securities (Note 13)	-	-	-	-	-	-	-	149,625	-	-	-	149,625
Capital contribution from other non-controlling interests	-	-	-	-	-	-	-	-	7,385	-	-	7,385
At June 30, 2017	2,689,882	(3,153)	(71,992)	94,147	(55,080)	(1,206,844)	62,751	1,621,324	1,006,549	253,407	(212,900)	4,178,091
At April 1, 2016	2,689,882	962	(52,897)	13,161	(88,328)	(1,141,195)	83,363	1,495,252	-	238,949	(212,900)	3,026,249
Profit/(loss) for the period	-	-	-	-	-	-	-	172,947	-	(5,312)	-	167,635
Other comprehensive (loss)/income	-	(2,166)	-	-	74,465	53,038	-	-	-	-	-	125,337
Total comprehensive (loss)/income for the period	-	(2,166)	-	-	74,465	53,038	-	172,947	-	(5,312)	-	292,972
Vesting of shares under long-term incentive program	-	-	41,998	(48,137)	-	-	-	-	-	-	-	(6,139)
Share-based compensation	-	-	-	34,724	-	-	-	-	-	-	-	34,724
Contribution to employee share trusts	-	-	(36,673)	-	-	-	-	-	-	-	-	(36,673)
At June 30, 2016	2,689,882	(1,204)	(47,572)	(252)	(13,863)	(1,088,157)	83,363	1,668,199	-	233,637	(212,900)	3,311,133

## 1 General information and basis of preparation

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

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

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

### Basis of preparation

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

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

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

- Amendments to HKAS 7, Disclosure initiatives
- Amendments to HKAS 12, Recognition of deferred tax assets for unrealized losses

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

The following new standards and amendments to existing standards, which are considered appropriate and relevant to the Group's operations, have been issued but are not effective for the year ending March 31, 2018 and have not been early adopted:

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

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

### HKFRS 9, Financial instruments

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

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

### HKFRS 15, Revenue from contracts with customers

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

### HKFRS 16, Leases

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

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

## **2 Segment information**

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

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

The LEC assesses the performance of the operating segments based on a measure of adjusted pre-tax income/(loss). This measurement basis excludes the effects of non-recurring expenditure such as restructuring costs from the operating segments. The measurement basis also excludes the effects of unrealized gains/(losses) on financial instruments. Certain interest income and

expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

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

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

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

(b) Segment assets for reportable segments

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

(c) Segment liabilities for reportable segments

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

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

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

(e) Other segment information

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

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

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

At June 30, 2017

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

At March 31, 2017

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

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

### 3 Operating (loss)/profit

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

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

#### 4 Finance income and costs

(a) Finance income

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

(b) Finance costs

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

#### 5 Taxation

The amount of taxation in the consolidated income statement represents:

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

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

## 6 (Loss)/earnings per share

### (a) Basic

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

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

### (b) Diluted

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

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

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

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



## 7 Ageing analysis

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

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

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

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

## 8 Deposits, prepayments and other receivables

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

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

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

## 9 Provisions, other payables and accruals

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

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

Notes:

- (i) Allowance for billing adjustments relates primarily to allowances for future volume discounts, price protection, rebates, and customer sales returns.
- (ii) Pursuant to the completion of business combination, the Group is required to pay in cash to Google Inc. deferred consideration. Accordingly, current and non-current liabilities in respect of the present value of deferred consideration has been recognized. Deferred consideration is subsequently measured at amortized cost. The remaining deferred consideration to Google Inc. has been settled during the period.
- (iii) Pursuant to the joint venture agreement entered into between the Company and Compal Electronics, Inc. ("Compal") to establish a joint venture company ("JV Co") to manufacture notebook computer products and related parts, the Company and Compal are respectively granted call and put options which entitle the Company to purchase from Compal and Compal to sell to the Company the 49% Compal's interests in the JV Co. The call and put options will be exercisable at any time after October 1, 2019 and October 1, 2017 respectively. The exercise price for the call and put options will be determined in accordance with the joint venture agreement, and up to a maximum of US\$750 million.

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

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

- (iv) Majority of other payables are obligations to pay for finished goods that have been acquired in the ordinary course of business from subcontractors.
- (v) The carrying amounts of other payables and accruals approximate their fair values.

(b) The components of provisions are as follows:

	<b>Warranty</b> <i>US\$'000</i>	<b>Environmental restoration</b> <i>US\$'000</i>	<b>Restructuring</b> <i>US\$'000</i>	<b>Total</b> <i>US\$'000</i>
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)
	<u>1,061,906</u>	<u>8,390</u>	<u>89,652</u>	<u>1,159,948</u>
Long-term portion classified as non-current liabilities	(280,421)	(6,122)	-	(286,543)
At the end of the year	<u><u>781,485</u></u>	<u><u>2,268</u></u>	<u><u>89,652</u></u>	<u><u>873,405</u></u>
Period ended June 30, 2017				
At the beginning of the period	<b>1,061,906</b>	<b>8,390</b>	<b>89,652</b>	<b>1,159,948</b>
Exchange adjustment	<b>(623)</b>	<b>128</b>	<b>1,102</b>	<b>607</b>
Provisions made	<b>195,378</b>	<b>1,998</b>	<b>-</b>	<b>197,376</b>
Amounts utilized	<b>(222,670)</b>	<b>(1,501)</b>	<b>(32,517)</b>	<b>(256,688)</b>
	<u><b>1,033,991</b></u>	<u><b>9,015</b></u>	<u><b>58,237</b></u>	<u><b>1,101,243</b></u>
Long-term portion classified as non-current liabilities	<b>(268,757)</b>	<b>(6,547)</b>	<b>-</b>	<b>(275,304)</b>
At the end of the period	<u><u><b>765,234</b></u></u>	<u><u><b>2,468</b></u></u>	<u><u><b>58,237</b></u></u>	<u><u><b>825,939</b></u></u>

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

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

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

## 10 Other non-current liabilities

Details of other non-current liabilities are as follows:

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

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

As at June 30, 2017, the potential undiscounted amounts of future payments in respect of the deferred consideration that the Group could be required to make to NEC Corporation under the arrangements is US\$25 million.

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

## 11 Borrowings

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

- (i) The majority of the short-term bank loans are denominated in United States dollar. As at June 30, 2017, the Group has total revolving and short-term loan facilities of US\$1,493 million (March 31, 2017: US\$1,393 million) which has been utilized to the extent of US\$270 million (March 31, 2017: US\$70 million).
- (ii) As at March 31, 2017, term loan comprised a US\$1,200 million 5-year loan facility (comprising US\$800 million short term) entered into in December 2013. The term loan was prepaid as at June 30, 2017 (March 31, 2017: US\$400 million).

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

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

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

## 12 Share capital

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

## 13 Perpetual securities

In March 2017, the Group issued a total of US\$850 million perpetual securities through its wholly owned subsidiary, Lenovo Perpetual Securities Limited (“the issuer”). The net proceed amounted to approximately US\$842 million. The securities are perpetual, non-callable in the first 5 years and entitle the holders to receive distributions at a distribution rate of 5.375% per annum in the first 5 years, floating thereafter and with a fixed step up margin, payable semi-annually in arrears, cumulative and compounding. The distributions are at the Group’s discretion, if the issuer and the Company, as guarantor of the securities, do not (a) declare or pay dividends to their shareholders or (b) cancel or reduce their share capital within each distribution payment period. As the perpetual securities do not contain any contractual obligation to pay cash or other financial assets, in accordance with HKAS 32, they are classified as equity and for accounting purpose regarded as part of non-controlling interests.

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

#### 14 Reconciliation of (loss)/profit before taxation to net cash (used in)/generated from operations

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

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

During the three months ended June 30, 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the respective trustee of the long-term incentive program and the employee share purchase plan of the Company purchased a total of 17,405,210 shares from the market for award to employees upon vesting. Details of these program and plan are set out in the 2016/17 annual report of the Company.

#### **REVIEW BY AUDIT COMMITTEE**

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

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

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

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

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

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

August 17, 2017

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