Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

FY2009/10 ANNUAL RESULTS ANNOUNCEMENT

ANNUAL RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") is pleased to announce the audited results of the Company and its subsidiaries (the "Group") for the year ended March 31, 2010 together with comparative figures of last year, as follows:

CONSOLIDATED INCOME STATEMENT

	Note	**2010** *US$'000*	2009 *US$'000*
Sales	*2*	**16,604,815**	14,900,931
Cost of sales		**(14,815,221)**	(13,103,735)
Gross profit		**1,789,594**	1,797,196
Other income – net	*3*	**83,126**	929
Selling and distribution expenses		**(839,388)**	(938,451)
Administrative expenses		**(566,245)**	(627,903)
Research and development expenses		**(214,343)**	(220,010)
Other operating expenses – net		**(34,058)**	(203,561)
Operating profit/(loss)		**218,686**	(191,800)
Finance income		**20,377**	59,977
Finance costs	*4*	**(62,881)**	(56,473)
Share of profits of associated companies		**121**	351
Profit/(loss) before taxation	5	**176,303**	(187,945)
Taxation	*6*	**(46,935)**	(38,444)
Profit/(loss) for the year		**129,368**	(226,389)
Profit/(loss) attributable to:			
Equity holders of the Company		**129,368**	(226,392)
Minority interests		**-**	3
		129,368	(226,389)
Basic earnings/(loss) per share attributable to equity holders of the Company	*7(a)*	**US1.42 cents**	(US2.56 cents)
Diluted earnings/(loss) per share attributable to equity holders of the Company	*7(b)*	**US1.33 cents**	(US2.56 cents)
Dividends	*8*	**68,728**	35,575

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2010	2009
	US$'000	*US$'000*
Profit/(loss) for the year	**129,368**	(226,389)
Other comprehensive income/(loss)		
Fair value change on available-for-sale financial assets	**67,674**	34,830
Reserve realized on disposal of available-for-sale financial assets	**(70,809)**	(465)
Fair value change on interest rate swap contracts	**4,127**	(5,977)
Fair value change on forward foreign exchange contracts	**18,518**	(8,811)
Actuarial (loss)/gain from defined benefit pension plans	**(10,840)**	7,025
Currency translation differences	**(61,660)**	92,351
	(52,990)	118,953
Total comprehensive income/(loss)	**76,378**	(107,436)
Total comprehensive income/(loss) attributable to:		
Equity holders of the Company	**76,378**	(107,439)
Minority interests	**-**	3
	76,378	(107,436)

CONSOLIDATED BALANCE SHEET

	Note	**2010** **US$'000**	2009 US$'000	2008 US$'000
Non-current assets				
Property, plant and equipment		**248,261**	314,142	364,778
Prepaid lease payments		**3,748**	5,833	6,099
Construction-in-progress		**24,711**	47,062	51,237
Intangible assets		**2,066,337**	1,852,861	1,838,368
Interests in associated companies		**1,061**	2,635	2,690
Deferred tax assets		**254,978**	190,844	156,440
Available-for-sale financial assets		**112,520**	101,916	67,697
Other non-current assets		**8,699**	5,653	7,172
		2,720,315	2,520,946	2,494,481
Current assets				
Inventories		**878,887**	450,370	471,557
Trade receivables	*9(a)*	**1,021,062**	482,086	760,239
Notes receivable		**386,746**	221,575	371,126
Derivative financial assets		**13,283**	13,163	3,392
Deposits, prepayments and other receivables		**1,463,422**	1,034,843	1,207,046
Income tax recoverable		**33,562**	35,301	40,002
Bank deposits		**200,456**	-	540,058
Cash and cash equivalents		**2,238,195**	1,863,379	1,651,420
		6,235,613	4,100,717	5,044,840
Total assets		**8,955,928**	6,621,663	7,539,321

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**2010** *US$'000*	2009 *US$'000*	2008 *US$'000*
Share capital	*11*	**31,388**	29,530	29,699
Reserves		**1,574,453**	1,281,208	1,583,390
Equity attributable to owners of the Company		**1,605,841**	1,310,738	1,613,089
Minority interests		**177**	177	174
Total equity		**1,606,018**	1,310,915	1,613,263
Non-current liabilities				
Interest-bearing bank loans		**200,000**	230,000	465,000
Convertible preferred shares		**94,980**	215,974	211,181
Warranty provision	*10*	**301,234**	170,008	209,071
Deferred revenue		**218,034**	118,993	88,701
Retirement benefit obligations		**80,867**	68,000	85,490
Derivative financial liabilities		**248**	7,382	1,788
Deferred tax liabilities		**10,331**	-	-
Other non-current liabilities		**24,863**	33,864	36,892
		930,557	844,221	1,098,123
Current liabilities				
Trade payables	*9(b)*	**3,141,426**	1,635,290	2,226,129
Notes payable		**94,427**	34,180	46,421
Derivative financial liabilities		**11,259**	23,674	18,197
Provisions, accruals and other payables	*10*	**2,585,850**	2,022,758	2,159,422
Income tax payable		**84,329**	89,459	87,209
Short-term bank loans		**64,706**	20,293	61,130
Current portion of non-current liabilities		**437,356**	640,873	229,427
		6,419,353	4,466,527	4,827,935
Total liabilities		**7,349,910**	5,310,748	5,926,058
Total equity and liabilities		**8,955,928**	6,621,663	7,539,321
Net current (liabilities)/assets		**(183,740)**	(365,810)	216,905
Total assets less current liabilities		**2,536,575**	2,155,136	2,711,386

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED MARCH 31, 2010

	Note	**2010**	2009
		US$'000	*US$'000*
Cash flows from operating activities			
Net cash generated from operations	*12*	**1,060,364**	19,961
Interest paid		**(59,891)**	(41,976)
Tax paid		**(82,231)**	(75,292)
Net cash generated from/(used in) operating activities		**918,242**	(97,307)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(36,144)**	(107,016)
Sale of property, plant and equipment		**8,762**	10,671
Acquisition of subsidiaries, net of cash acquired		**(106,704)**	-
Net proceeds from disposal of subsidiaries		**9,178**	-
Net proceeds from disposal of an associated company		**2,804**	-
Payment for construction-in-progress		**(39,979)**	(63,988)
Payment for intangible assets		**(32,320)**	(22,911)
Net proceeds from disposal of investments		**89,538**	9,788
(Increase)/decrease in bank deposits		**(172,126)**	540,058
Dividend received		**1,558**	1,515
Interest received		**20,377**	64,126
Net cash (used in)/generated from investing activities		**(255,056)**	432,243
Cash flows from financing activities			
Exercise of share options		**13,640**	9,433
Repurchase of shares		**-**	(53,907)
Contributions to employee share trusts		**-**	(17,169)
Dividends paid		**(11,896)**	(179,159)
Net (decrease)/increase in bank borrowings		**(218,884)**	124,493
Net cash used in financing activities		**(217,140)**	(116,309)
Increase in cash and cash equivalents		**446,046**	218,627
Effect of foreign exchange rate changes		**(71,230)**	(6,668)
Cash and cash equivalents at the beginning of the year		**1,863,379**	1,651,420
Cash and cash equivalents at the end of the year		**2,238,195**	1,863,379

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company												
	Share capital *US$'000*	Share premium *US$'000*	Convertible rights in respect of convertible preferred shares and warrants *US$'000*	Investment revaluation reserve *US$'000*	Share redemption 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$'000*	Minority interests *US$'000*	Total *US$'000*
At April 1, 2009	**29,530**	**1,106,379**	**42,159**	**75,501**	**497**	**(157,461)**	**92,684**	**(16,576)**	**25,691**	**30,738**	**81,596**	**177**	**1,310,915**
Profit for the year	–	–	–	–	–	–	–	–	–	–	**129,368**	–	**129,368**
Other comprehensive income/(loss)	–	–	–	**(3,135)**	–	–	–	**22,645**	**(61,660)**	–	**(10,840)**	–	**(52,990)**
Total comprehensive income/(loss) for the year	–	–	–	**(3,135)**	–	–	–	**22,645**	**(61,660)**	–	**118,528**	–	**76,378**
Transfer to statutory reserve	–	–	–	–	–	–	–	–	–	**122**	**(122)**	–	–
Issue of ordinary shares	**359**	**63,141**	–	–	–	–	–	–	–	–	–	–	**63,500**
Conversion of Series A cumulative convertible preferred shares	**1,190**	**126,484**	**(3,970)**	–	–	–	–	–	–	–	–	–	**123,704**
Exercise and repurchase of warrants	**205**	**31,578**	**(35,353)**	–	–	–	–	–	–	**3,570**	–	–	–
Vesting of shares under long-term incentive program	–	–	–	–	–	**46,407**	**(68,043)**	–	–	–	–	–	**(21,636)**
Exercise of share options	**104**	**13,536**	–	–	–	–	–	–	–	–	–	–	**13,640**
Share-based compensation	–	–	–	–	–	–	**51,413**	–	–	–	–	–	**51,413**
Dividend paid	–	–	–	–	–	–	–	–	–	–	**(11,896)**	–	**(11,896)**
At March 31, 2010	**31,388**	**1,341,118**	**2,836**	**72,366**	**497**	**(111,054)**	**76,054**	**6,069**	**(35,969)**	**34,430**	**188,106**	**177**	**1,606,018**
At April 1, 2008	29,699	1,150,684	42,159	41,136	497	(172,235)	78,737	(1,788)	(66,660)	24,537	486,323	174	1,613,263
(Loss)/profit for the year	–	–	–	–	–	–	–	–	–	–	(226,392)	3	(226,389)
Other comprehensive income/(loss)	–	–	–	34,365	–	–	–	(14,788)	92,351	–	7,025	–	118,953
Total comprehensive income/(loss) for the year	–	–	–	34,365	–	–	–	(14,788)	92,351	–	(219,367)	3	(107,436)
Transfer to statutory reserve	–	–	–	–	–	–	–	–	–	6,201	(6,201)	–	–
Vesting of shares under long-term incentive program	–	–	–	–	–	31,943	(40,167)	–	–	–	–	–	(8,224)
Exercise of share options	80	9,353	–	–	–	–	–	–	–	–	–	–	9,433
Share-based compensation	–	–	–	–	–	–	54,114	–	–	–	–	–	54,114
Repurchase of shares	(249)	(53,658)	–	–	–	–	–	–	–	–	–	–	(53,907)
Contributions to employee share trusts	–	–	–	–	–	(17,169)	–	–	–	–	–	–	(17,169)
Dividend paid	–	–	–	–	–	–	–	–	–	–	(179,159)	–	(179,159)
At March 31, 2009	29,530	1,106,379	42,159	75,501	497	(157,461)	92,684	(16,576)	25,691	30,738	81,596	177	1,310,915

Notes:

1 Basis of preparation

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 following revised standards, new interpretations, and amendments to standards and interpretations are mandatory for the year ended March 31, 2010. The Group has adopted these revised standards, new interpretations, and amendments to standards and interpretations where considered appropriate and relevant to its operations. The adoption does not result in substantial changes to the Group's accounting policies or financial results.

– HKFRS 1 (Amendment), "First-time adoption of Hong Kong Financial Reporting Standards"
– HKFRS 2 (Amendment), "Share-based payment – vesting conditions and cancellation"
– HKFRS 7 (Amendment), "Financial instruments: Disclosures", amendment on improving disclosures about financial instruments issued in March 2009
– HKFRS 8 (Amendment), "Operating segments"
– HKAS 1 (Revised), "Presentation of financial statements"
– HKAS 23 (Revised), "Borrowing costs"
– HKAS 32 (Amendment), "Financial instruments: Presentation"
– HKAS 39 (Amendment), "Financial instruments: Recognition and measurement", amendment on embedded derivatives
– HK(IFRIC)-Int 2 (Amendment), "Members' shares in co-operative entities and similar instruments"
– HK(IFRIC)-Int 9 (Amendment), "Reassessment of embedded derivatives"
– HK(IFRIC)-Int 13, "Customer loyalty programmes"
– HK(IFRIC)-Int 15, "Agreements for the construction of real estate"
– HK(IFRIC)-Int 16, "Hedges of a net investment in a foreign operation"
– HK(IFRIC)-Int 18, "Transfers of assets from customers"

The adoption of HKAS 1 (Revised) requires "non-owner changes in equity" to be presented separately from "owner changes in equity". Management has decided to present two statements, a consolidated income statement and a consolidated statement of comprehensive income.

The following revised standards, new interpretations, and amendments to standards and interpretation have been issued but are not effective for the year ended March 31, 2010 and have not been early adopted:

– HKFRS 1 (Revised), "First-time adoption of Hong Kong Financial Reporting Standards", effective for annual periods beginning on or after July 1, 2009
– HKFRS 2 (Amendment), "Share-based payment", effective for annual periods beginning on or after July 1, 2009
– HKFRS 3 (Revised), "Business combinations", effective for annual periods beginning on or after July 1, 2009
– HKFRS 8 (Amendment), "Operating segments", effective for annual periods beginning on or after January 1, 2010

- HKFRS 9, “Financial instruments”, effective for annual periods beginning on or after January 1, 2013
- HKAS 1 (Amendment), “Presentation of financial statements”, effective for annual periods beginning on or after January 1, 2010
- HKAS 7 (Amendment), “Cash flow statements”, effective for annual periods beginning on or after January 1, 2010
- HKAS 17 (Amendment), “Leases”, effective for annual periods beginning on or after January 1, 2010
- HKAS 18 (Amendment), “Revenue”, effective for annual periods beginning on or after January 1, 2010
- HKAS 24 (Revised), “Related party disclosures”, effective for annual periods beginning on or after January 1, 2011
- HKAS 27 (Revised), “Consolidated and separate financial statements”, effective for annual periods beginning on or after July 1, 2009
- HKAS 36 (Amendment), “Impairment of assets”, effective for annual periods beginning on or after January 1, 2010
- HKAS 38 (Amendment), “Intangible assets”, effective for annual periods beginning on or after July 1, 2010
- HKAS 39 (Amendment), “Financial instruments: Recognition and measurement”, amendment on eligible hedged items, effective for annual periods beginning on or after July 1, 2009
- HK(IFRIC)-Int 14 (Amendment), “The limit on a defined benefit asset, minimum funding requirements and their interaction”, effective for annual periods beginning on or after January 1, 2011
- HK(IFRIC)-Int 16, “Hedges of a net investment in a foreign operation”, effective for annual periods beginning on or after July 1, 2009
- HK(IFRIC)-Int 17, “Distributions of non-cash assets to owners”, effective for annual periods beginning on or after July 1, 2009
- HK(IFRIC)-Int 18, “Transfers of assets from customers”, effective for annual periods beginning on or after July 1, 2009
- HK(IFRIC)-Int 19, “Extinguishing financial liabilities with equity instruments”, effective for annual periods beginning on or after July 1, 2010

The Group is in the process of making an assessment of the impact of adoption of the Improvements to HKFRSs, published in October 2008 (effective for annual periods beginning on or after July 1, 2009) and Improvements to HKFRSs 2009, published in May 2009 (effective for annual periods beginning on or after July 1, 2009, or on or after January 1, 2010). So far, it has concluded that both do not have material impact on the Group’s financial statements.

The effect on the adoption of HKFRS 3 (Revised) and HKAS 27 (Revised) to the results and financial position of the Group when they become effective will depend on the incidence and timing of business combinations occurring on or after April 1, 2010.

The Group is currently assessing the impact of the adoption of the other revised standard, new interpretations, and amendments to standards and interpretation above to the Group in future periods.

The Group has changed certain classifications in the income statement and balance sheet with effect from April 1, 2009 as follows:

- Exchange (loss)/gain on cash flow hedges of (US$371,000) and (US$59,592,000) for the year ended March 31, 2010 (2009: (US$420,000) and US$56,007,000) previously recorded in other operating expenses-net has been reclassified to sales and cost of sales respectively
- Costs associated with factoring of US$10,600,000 for the year ended March 31, 2010 (2009: US$18,331,000) previously recorded in other operating expenses-net have been reclassified to finance costs
- Current portion of deferred revenue of US$113,038,000 and US$83,768,000 (2009: US$156,527,000 and US$46,987,000) previously included in other payables and non-current deferred revenue respectively, have been reclassified to current portion of non-current liabilities

– Future billing discounts of US$374,586,000 at March 31, 2010 (2009: US$313,364,000) previously netted with trade and notes receivables have been reclassified to other payables
– Amounts receivable from and payable to subcontracting vendors of US$1,043,498,000 and US$959,082,000 (2009: US$421,017,000 and US$355,996,000) previously included in trade receivables and trade payables have been reclassified to other receivables and other payables respectively

Management considered the current classifications are more appropriate and consistent with industry practice. Comparative information has been reclassified to conform to the current period's presentation.

A consolidated balance sheet as at March 31, 2008 with balances reclassified mentioned above is presented for reference.

2 Segment information

The Group announced a new organizational structure that became effective in April 2009 with the creation of two new business units – one focusing on customers in emerging markets, and the other focusing on customers in mature markets. The new structure, namely China, Emerging Markets (excluding China) and Mature Markets, replaces the Group's original regional market organizations by geography and is designed to align the Group more closely with its strategic direction and market dynamics to better serve customers. In conjunction with the adoption of HKFRS 8 "Operating segments", the Group has adopted the new organizational structure as the reporting format effective for the year ended March 31, 2010. The comparative information has been restated to reflect the current organizational structure.

(a) The segment information for the reportable segments for the year ended March 31, 2010 are as follows:

	China *US$'000*	**Emerging Markets (excluding China)** *US$'000*	**Mature Markets** *US$'000*	**Total** *US$'000*
Sales to external customers	**7,892,275**	**2,639,812**	**6,072,728**	**16,604,815**
Adjusted pre-tax income/(loss)	**444,164**	**(96,625)**	**(65,119)**	**282,420**
Depreciation and amortization	**77,833**	**19,297**	**73,039**	**170,169**
Restructuring costs	**2,112**	**5,708**	**(6,087)**	**1,733**
Total assets	**3,519,421**	**1,586,158**	**1,199,948**	**6,305,527**
Total assets includes				
Additions to non-current assets (other than financial instruments and deferred tax assets)	**49,017**	**3,540**	**20,085**	**72,642**
Total liabilities	**3,238,451**	**1,929,730**	**1,258,603**	**6,426,784**

The segment information for the reportable segments for the year ended March 31, 2009 are as follows:

	China *US$'000*	Emerging Markets (excluding China) *US$'000*	Mature Markets *US$'000*	Total *US$'000*
Sales to external customers	6,223,760	2,352,974	6,324,197	14,900,931
Adjusted pre-tax income/(loss)	377,858	(107,299)	(136,749)	133,810
Depreciation and amortization	46,382	52,410	128,206	226,998
Restructuring costs	20,700	23,586	101,744	146,030
Total assets	3,533,922	927,510	981,500	5,442,932
Total assets includes				
Additions to non-current assets (other than financial instruments and deferred tax assets)	44,686	23,384	62,850	130,920
Total liabilities	1,579,301	382,705	1,062,057	3,024,063

(b) Reconciliation of adjusted pre-tax income for reportable segments to consolidated profit/(loss) before taxation is provided as follows:

	2010	2009
	US$'000	*US$'000*
Adjusted pre-tax income	**282,420**	133,810
Unallocated headquarters and corporate expenses	**(78,819)**	(110,136)
Restructuring costs	**(5,123)**	(145,927)
One-off items	**(62,918)**	(70,476)
Finance income	**20,377**	59,977
Finance costs	**(62,881)**	(56,473)
Impairment of investments	**(522)**	-
Net gain/(loss) on disposal of investments and available-for-sales financial assets	**82,090**	(124)
Dividend income from available-for-sale financial assets	**1,558**	1,053
Share of profits of associated companies	**121**	351
Consolidated profit/(loss) before taxation	**176,303**	(187,945)

(c) Reconciliation of segment assets for reportable segments to total assets per consolidated balance sheet is provided as follows:

	2010	2009
	US$'000	*US$'000*
Segment assets for reportable segments	**6,305,527**	5,442,932
Unallocated:		
Deferred tax assets	**254,978**	190,844
Available-for-sale financial assets	**112,520**	101,916
Investments in associated companies	**1,061**	2,635
Unallocated cash and cash equivalents	**1,499,419**	145,174
Unallocated inventories	**157,544**	174,254
Other unallocated assets	**624,879**	563,908
Total assets per consolidated balance sheet	**8,955,928**	6,621,663

(d) Reconciliation of segment liabilities for reportable segments to total liabilities per consolidated balance sheet is provided as follows:

	2010	2009
	US$'000	*US$'000*
Segment liabilities for reportable segments	**6,426,784**	3,024,063
Unallocated:		
Income tax payable	**84,329**	89,459
Derivative financial liabilities	**11,259**	7,382
Deferred tax liabilities	**10,331**	-
Bank borrowings	**430,000**	465,000
Convertible preferred shares	**94,980**	215,974
Other unallocated liabilities	**292,227**	1,508,870
Total liabilities per consolidated balance sheet	**7,349,910**	5,310,748

(e) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$1,854 million (2009: US$1,677 million). As explained above, the Group underwent an organizational structure change under which these intangible assets have been allocated to the Group's cash-generating units ("CGU") affected using a relative value approach in accordance with HKAS 36, "Impairment of Assets". The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At March 31, 2010

	China US$ million	HARIE * US$ million	Latin America US$ million	North America US$ million	West Europe US$ million	Japan, Australia, New Zealand US$ million	Amounts pending allocation US$ million	Total US$ million
Goodwill	850	143	24	151	92	37	177	1,474
Trademarks and trade names	209	55	9	58	35	14	-	380

* Includes Africa, Asia Pacific, Central/Eastern Europe, Hong Kong, India, Korea, Middle East, Pakistan, Russia, Taiwan and Turkey

At March 31, 2009

	Americas US$ million	Europe, Middle East and Africa US$ million	Asia Pacific (excluding Greater China) US$ million	Greater China US$ million	Total US$ million
Goodwill	364	102	152	679	1,297
Trademarks and trade names	107	30	45	198	380

The reallocation of goodwill and trademarks and trade names with indefinite useful lives does not have any impact on or change in the basis of assessment of their recoverable amounts.

Goodwill pending allocation represents the amount attributable to the acquisition of Lenovo Mobile Communication Ltd. completed on January 31, 2010. The goodwill is primarily attributable to the significant synergies expected to arise in connection with the development of the mobile internet device business of the Group. Management is in the process of determining the allocation of goodwill to the appropriate CGU of the Group.

The directors are of the view that there was no evidence of impairment of goodwill and trademarks and trade names as at March 31, 2010 (2009: nil).

3 Other income – net

	2010	2009
	US$'000	*US$'000*
Net gain/(loss) on disposal of available-for-sale financial assets and investments	**82,090**	(124)
Dividend income from available-for-sale financial assets	**1,558**	1,053
Impairment of investments	**(522)**	-
	83,126	929

4 Finance costs

	2010	2009
	US$'000	*US$'000*
Interest on bank loans and overdrafts	**30,413**	22,310
Dividend and relevant finance costs on convertible preferred shares	**10,915**	14,115
Factoring cost	**10,600**	18,331
Others	**10,953**	1,717
	62,881	56,473

5 Profit/(loss) before taxation

Profit/(loss) before taxation is stated after charging/(crediting) the following:

	2010	2009
	US$'000	*US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**100,826**	143,269
Amortization and impairment of intangible assets	**70,202**	83,729
Employee benefit costs, including	**1,182,019**	1,237,250
- *long-term incentive awards*	***51,412***	*54,114*
- *severance and related costs*	***25,448***	*116,077*
Termination of onerous contracts	**(63)**	19,996
Rental expenses under operating leases	**44,729**	45,976

6 Taxation

The amount of taxation in the consolidated income statement represents:

	2010	2009
	US$'000	*US$'000*
Current taxation		
Hong Kong profits tax	**58**	149
Taxation outside Hong Kong	**87,716**	90,532
Deferred taxation	**(40,839)**	(52,237)
	46,935	38,444

Hong Kong profits tax has been provided for at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits. Tax outside Hong Kong has been provided for at the applicable rate on the estimated assessable profits less estimated available tax losses.

7 Earnings/(loss) per share

(a) Basic

Basic earnings/(loss) per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2010	2009
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**9,113,645,262**	8,851,779,460
	US$'000	*US$'000*
Profit/(loss) attributable to equity holders of the Company	**129,368**	(226,392)

(b) *Diluted*

Diluted earnings/(loss) per share is calculated by adjusting the weighted average number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares. The Company has four categories of dilutive potential ordinary shares: convertible preferred shares, share options, long-term incentive awards and warrants.

For the year ended March 31, 2010, adjustments for the dilutive potential ordinary shares are as follows:

- For the convertible preferred shares, they were antidilutive as the amount of the dividend and related finance costs per ordinary share attainable on conversion exceeded basic earnings per share and they were excluded from the weighted average number of ordinary shares in issue for calculation of diluted earnings per share.

- All warrants were exercised or repurchased on September 9, 2009 and they were excluded from the weighted average number of ordinary shares in issue for calculation of diluted earnings per share.

- For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average periodic market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise in full of the share options.

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

	2010	2009
Weighted average number of ordinary shares in issue	**9,113,645,262**	8,851,779,460
Adjustments for share options and long-term incentive awards	**621,234,062**	-
Weighted average number of ordinary shares in issue for calculation of diluted earnings/(loss) per share	**9,734,879,324**	8,851,779,460
	US$'000	*US$'000*
Profit/(loss) attributable to equity holders of the Company	**129,368**	(226,392)

8 Dividends

	2010 ***US$'000***	2009 *US$'000*
Interim dividend of HK1.0 cent (2009: HK3.0 cents) per ordinary share, paid on December 2, 2009	**12,264**	35,575
Proposed final dividend – HK4.5 cents (2009: nil)	**56,464**	-
	68,728	35,575

9 Ageing analysis

(a) Customers are generally granted credit term of 30 days. Ageing analysis of trade receivables of the Group at the balance sheet date is as follows:

	2010	2009	2008
	US$'000	*US$'000*	*US$'000*
0 – 30 days	**907,412**	391,098	691,428
31 – 60 days	**65,335**	9,014	-
61 – 90 days	**32,730**	21,515	32,528
Over 90 days	**32,904**	90,214	50,168
	1,038,381	511,841	774,124
Less: provision for impairment	**(17,319)**	(29,755)	(13,885)
Trade receivables – net	**1,021,062**	482,086	760,239

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

	2010	2009	2008
	US$'000	*US$'000*	*US$'000*
0 – 30 days	**2,425,237**	995,240	1,590,841
31 – 60 days	**609,720**	476,657	452,141
61 – 90 days	**74,499**	86,164	161,298
Over 90 days	**31,970**	77,229	21,849
	3,141,426	1,635,290	2,226,129

10 Provisions, accruals and other payables

Included in provisions, accruals and other payables are warranty and restructuring costs provisions as follows:

	Warranty	Restructuring	Total
	US$'000	*US$'000*	*US$'000*
Year ended March 31, 2010			
At the beginning of the year	**533,399**	**97,603**	**631,002**
Exchange adjustment	**(2,739)**	**2,673**	**(66)**
Provisions made	**480,402**	**6,631**	**487,033**
Acquisition of subsidiaries	**4,701**	**-**	**4,701**
Amounts utilized	**(451,065)**	**(81,943)**	**(533,008)**
Unused amounts reversed	**(14,009)**	**(13,623)**	**(27,632)**
	550,689	**11,341**	**562,030**
Long-term portion classified as non-current liabilities	**(301,234)**	**-**	**(301,234)**
At the end of the year	**249,455**	**11,341**	**260,796**
Year ended March 31, 2009			
At the beginning of the year	697,915	7,588	705,503
Exchange adjustment	(2,191)	(520)	(2,711)
Provisions made	404,564	108,041	512,605
Amounts utilized	(483,898)	(16,755)	(500,653)
Unused amounts reversed	(82,991)	(751)	(83,742)
	533,399	97,603	631,002
Long-term portion classified as non-current liabilities	(170,008)	-	(170,008)
At the end of the year	363,391	97,603	460,994

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 arrangement with the suppliers.

11 Share capital

	2010 Number of shares	2010 HK$'000	2009 Number of shares	2009 HK$'000
Authorized:				
At the beginning and the end of the year				
Ordinary shares	**20,000,000,000**	**500,000**	20,000,000,000	500,000
Series A cumulative convertible preferred shares	**3,000,000**	**27,525**	3,000,000	27,525
		527,525		527,525

	2010 Number of shares	2010 US$'000	2009 Number of shares	2009 US$'000
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the year	**9,211,389,406**	**29,530**	8,888,786,650	28,496
Issue of ordinary shares	**111,668,936**	**359**	-	-
Conversion from non-voting ordinary shares	**-**	**-**	375,282,756	1,203
Conversion from Series A cumulative convertible preferred shares	**369,112,652**	**1,190**	-	-
Exercise of share options	**32,370,500**	**104**	24,948,000	80
Exercise of warrants	**63,502,788**	**205**	-	-
Repurchase of shares	**-**	**-**	(77,628,000)	(249)
At the end of the year	**9,788,044,282**	**31,388**	9,211,389,406	29,530
Non-voting ordinary shares:				
At the beginning of the year	**-**	**-**	375,282,756	1,203
Conversion to voting ordinary shares	**-**	**-**	(375,282,756)	(1,203)
At the end of the year	**-**	**-**	-	-
Issued and fully paid ordinary shares	**9,788,044,282**	**31,388**	9,211,389,406	29,530
Issued and fully paid Series A cumulative convertible preferred shares:				
At the beginning of the year	**1,774,999**	**2,081**	1,774,999	2,081
Conversion to voting ordinary shares	**(1,005,832)**	**(1,190)**	-	-
At the end of the year	**769,167**	**891**	1,774,999	2,081

12 Reconciliation of profit/(loss) before taxation to net cash generated from operations

	2010	2009
	US$'000	*US$'000*
Profit/(loss) before taxation	**176,303**	(187,945)
Share of profits of associated companies	**(121)**	(351)
Finance income	**(20,377)**	(59,977)
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**100,826**	143,269
Amortization of intangible assets and share-based compensation	**120,756**	137,843
Loss/(gain) on disposal of property, plant and equipment and prepaid lease	**3,369**	(276)
Gain on disposal of subsidiaries	**(1,491)**	-
Gain on disposal of an associated company	**(1,109)**	-
Impairment of assets	**7,372**	-
Dividend income	**(1,558)**	(1,053)
(Gain)/loss on disposal of investments	**(82,090)**	124
(Increase)/decrease in inventories	**(401,082)**	26,028
(Increase)/decrease in trade receivables, notes receivable, deposits, prepayments and other receivables	**(1,086,354)**	616,431
Increase/(decrease) in trade payables, notes payable, provisions, accruals and other payables	**2,183,039**	(692,274)
Finance costs	**62,881**	38,142
Net cash generated from operations	**1,060,364**	19,961

PROPOSED DIVIDEND

The Board recommended the payment of a final dividend of HK4.5 cents per ordinary share (2008/09: Nil). Subject to shareholders' approval at the forthcoming annual general meeting, the final dividend will be payable on Monday, August 9, 2010 to the shareholders whose names appear on the Register of Members of ordinary shares of the Company on Friday, July 30, 2010.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of ordinary shares of the Company will be closed from Wednesday, July 28, 2010 to Friday, July 30, 2010, both days inclusive, during which period no transfer of ordinary shares will be effected. In order to qualify for the proposed final dividend and for attending and voting at the forthcoming annual general meeting, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Abacus Limited of 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, July 27, 2010.

FINANCIAL REVIEW

Results
For the year ended March 31, 2010, the Group achieved total sales of approximately US$16,605 million. Profit attributable to equity holders for the year was approximately US$129 million, representing an increase of US$356 million as compared to last year. Gross profit margin for the year was 1.3 percentage points down from 12.1 percent reported in last year. The balance sheet position remained strong, bank deposits and cash and cash equivalents increased by US$575 million as compared to March 31, 2009. Basic earnings per share and diluted earnings per share were US1.42 cents and US1.33 cents, representing an increase of US3.98 cents and US3.89 cents respectively as compared with last year.

The Group has adopted market segments as the reporting format. Market segments comprise China, Emerging Markets (excluding China) and Mature Markets.

Other income – net
Other income represents gains on disposal of available-for-sale financial assets and dividend income.

Selling and distribution expenses
Selling and distribution expenses for the year decreased by 10.6 percent as compared to last year. This is principally attributable to a US$42 million decrease in promotion activities coupled with US$18 million decrease in contracted services.

Administrative expenses
The Group experienced a decrease in administrative expenses for the year of 9.8 percent as compared to last year. The decrease is mainly driven by fewer contracted services.

Research and development expenses
Research and development spending for the year decreased by 2.6 percent as compared to last year.

Other operating expenses - net
Other operating income for the year decreased by 83.3 percent as compared to last year. This is mainly driven by decrease in cost associated with restructuring actions. Other operating expenses mainly comprise one-off items, including warranty costs not reimbursable by suppliers of US$30 million, IP license fee of US$12 million and severance costs of US$20 million.

Capital Expenditure

The Group incurred capital expenditures of US$108 million (2009: US$194 million) during the year, mainly for the acquisition of marketing rights, property, plant and equipment, completion of construction-in-progress and investments in the Group's information technology systems.

Liquidity and Financial Resources

At March 31, 2010, total assets of the Group amounted to US$8,956 million (2009: US$6,622 million), which were financed by equity attributable to owners of the Company of US$1,606 million (2009: US$1,311 million), minority interests of US$177,000 (2009: US$177,000), and non-current and current liabilities of US$7,350 million (2009: US$5,311 million). At March 31, 2010, the current ratio of the Group was 0.97 (2009: 0.92).

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from its operating activities. At March 31, 2010, bank deposits, cash and cash equivalents totaled US$2,439 million (2009: US$1,863 million), of which 42.9 (2009: 65.7) percent was denominated in US dollars, 46.6 (2009: 24.5) percent in Renminbi, 1.6 (2009: 2.8) percent in Euros, 0.2 (2009: 1.9) percent in Japanese Yen, and 8.7 (2009: 5.1) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated in the operations. At March 31, 2010, 78.2 (2009: 81.0) percent of cash are bank deposits, and 21.8 (2009: 19.0) percent of cash are investments in liquid money market fund of investment grade.

Although the Group has consistently maintained a very liquid position, banking facilities have nevertheless been put in place for contingency purposes. At March 31, 2010, the Group had a US$200 million 5-Year revolving and term loan facility with syndicated banks; and a US$30 million 5-Year fixed rate loan facility with a bank in China. These facilities were fully utilized at March 31, 2010 and both of which will expire before the end of March 2011.

To secure more long-term funding, the Group obtained a new US$300 million 3-year term loan facility with a bank in China in March 2009. This facility was utilized to the extent of US$200 million at March 31, 2010 (2009: US$200 million). In addition, the Group has entered into another 5 years loan facility agreement with a bank of US$300 million on July 17, 2009. The Group is confident that all the loan facilities on hand can meet the funding requirements of the Group's operations and business development.

The Group has also arranged other short-term credit facilities. At March 31, 2010, the Group's total available credit facilities amounted to US$4,936 million (2009: US$4,210 million), of which US$276 million (2009: US$279 million) was in trade lines, US$485 million (2009: US$498 million) in short-term and revolving money market facilities and US$4,175 million (2009: US$3,433 million) in forward foreign exchange contracts. At March 31, 2010, the amounts drawn down were US$191 million (2009: US$91 million) in trade lines, US$2,641 million (2009: US$1,964 million) being used for the forward foreign exchange contracts; and US$65 million (2009: US$20 million) in short-term bank loans.

At March 31, 2010, the Group's outstanding bank loans represented the term loans of US$430 million (2009: US$665 million) and short-term bank loans of US$65 million (2009: US$20 million). Short-term bank loans of US$28 million are secured by the same amount of bank deposits. When compared with total equity of US$1,606 million (2009: US$1,311 million), the Group's gearing ratio was 0.31 (2009: 0.52). The net cash position of the Group at March 31, 2010 is US$1,944 million (2009: US$1,178 million).

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At March 31, 2010, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$2,641 million (2009: US$1,964 million).

The Group's forward foreign exchange contracts are either used to hedge a percentage of future intercompany transactions which are highly probable, or used as fair value hedges for the identified assets and liabilities.

On May 17, 2005, the Company issued 2,730,000 convertible preferred shares at the stated value of HK$1,000 per share and unlisted warrants to subscribe for 237,417,474 ordinary shares of the Company for an aggregate cash consideration of approximately US$350 million. The convertible preferred shares bear a fixed cumulative preferential cash dividend, payable quarterly, at the rate of 4.5 percent per annum on the stated value of each convertible preferred share. The convertible preferred shares are redeemable, in whole or in part, at a price equal to the issue price together with accrued and unpaid dividends at the option of the Company or the convertible preferred shareholders at any time after the maturity date. The warrant holders are entitled to subscribe for 237,417,474 shares in the Company at HK$2.725 per share. The warrant will expire on May 17, 2010.

On September 9, 2009 and February 11, 2010, 621,250 and 384,582 convertible preferred shares were converted into 227,981,647 and 141,131,005 voting ordinary shares respectively. At March 31, 2010, the outstanding number of convertible preferred shares was 769,167.

On September 9, 2009, 63,502,788 warrants were exercised pursuant to which the remaining 173,914,686 warrants were repurchased by the Company at a unit price of HK$0.995 on the same day.

Contingent Liabilities

The Group, in the ordinary course of its business, is involved in various other 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 other 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, 2010, the Group had a total of 22,205 (2009: 22,511) employees.

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

BUSINESS REVIEW AND FUTURE PROSPECTS

Business Review

During the 2009/10 fiscal year, worldwide PC shipments showed improvement in growth from the beginning of the year with momentum gaining pace towards the year-end, benefiting from an improved macro economic environment aided by worldwide government stimulus spending. The consumer PC market continued to show strong growth while commercial PC demand remained relatively weak as enterprises remained conservative and deferred IT spending. The China market recovered earlier and quicker than most of the markets, with momentum continuing towards the year-end, due largely to strong performance in consumer segment.

Lenovo outperformed the worldwide PC market in each of the last four quarters, and recorded the fastest growth rates among the key competitors in the last two quarters of the fiscal year. Lenovo's strong performance was a result of its leadership position in China where it has outperformed the market consistently in each of the last four quarters, together with its continued expansion in transactional business and emerging markets. The Group recorded approximately 28.2 percent year-on-year growth in unit shipments during the year, and reached the historic high of 8.8 percent market share for the fiscal year.

In the fiscal year ended March 31, 2010, the Group's sales increased by approximately 11.4 percent year-on-year to US$16,605 million, as its growth in unit shipments was offset by industry-wide product mix shift to lower price points, aggressive competition and increased component costs. Gross profit (excluding the restructuring costs and one-off items) decreased 2.4 percent year-on-year, amounting to US$1,790 million, while gross margin declined from 12.3 percent in last year to 10.8 percent.

In January 2009, Lenovo announced a global resource restructuring plan aimed at reducing costs and enhancing operational efficiency. The plan is on track to generate expected savings. The company also delivered strong expense reductions during the year, totaling US$224 million, driving the expense-to-revenue ratio (excluding the restructuring costs and one-off items) to a historic low of 9.6 percent, continuing the trend of year-on-year improvement for the last four quarters. The Group reported an operating profit (excluding the restructuring costs and one-off items) of US$204 million for the year, increased by 750 percent year-to-year. Including a net gain of US$82 million from the disposal of some investments and restructuring costs and one-off items totaling US$68 million, of which including approximately US$20 million redundancy costs incurred in fiscal quarter four, Lenovo's profit attributable to equity holders amounted to US$129 million for the year, recovering from the loss of US$226 million in the year before.

The Group's strong performance during the last four quarters was the result of clarifying its strategic priorities at the beginning of the year. The "Protect and Attack" strategy is aimed at protecting its core businesses in China and global commercial business, while at the same time, attacking the hyper-growth areas in global transactional business in emerging markets. Lenovo also reorganized its business by merging operations into two geographies, namely Mature Markets and Emerging Markets. And, to further ensure faster and stronger end-to-end management, two product groups were created: the Think Product Group mainly targets at commercial customers, and the Idea Product Group mainly targets at consumer customers.

Lenovo also took major steps to strengthen its business model, became faster and more efficient, and put the building blocks in place to extend its transactional model globally, while simplifying its relationship business to make it more productive in focusing on the key accounts.

The Group reacquired Lenovo Mobile in November 2009 as part of its strategy to establish a leadership position in the China mobile internet market during its early development phase. The purchase of Lenovo Mobile was approved by shareholders in January 2010, resulting in the inclusion of two months of Lenovo Mobile's performance in the Group's results for the year ended March 31, 2010.

Performance of Geographies

During the year ended March 31, 2010, Lenovo saw year-on-year improvements in its geographic performance as compared to the previous fiscal year, benefiting from the focus on its strategic priorities and its strong execution. The Group's China business delivered solid profits while losses incurred in Mature Markets and Emerging Markets (excluding China) were reduced significantly.

China

Accounted for approximately 47 percent of the Group's total sales. China's economic stimulus packages and its rural subsidy program for PCs aided in driving demand in both commercial and consumer segments, especially for consumer notebooks. Lenovo further expanded its leadership with 37.4 percent year-on-year increase in unit shipments by: focusing on capturing high growth opportunities in the rural market and government stimulus projects, refining the small-and-medium-sized business (SMB) model, strengthening cross-selling capability in the large enterprise segment, and enhancing storefront competitiveness. The Group's market share rose 1.2 percentage points year-on-year to 30.0 percent based on preliminary industry estimates, and achieved a historic high market share at 33.4 percent in its traditional peak season at the quarter's end in

December.

Emerging Markets (excluding China)

Accounted for approximately 16 percent of the Group's total sales. Growth in the PC markets in certain emerging markets declined substantially in the first half of the year, while rebounding in the second half of the fiscal year. Lenovo showed a strong growth momentum in the region in the last fiscal year, and grew by 34.5 percent in unit shipments compared to last year. According to initial industry estimates, Emerging Markets showed a year-on-year increase of 1.0 percentage points to 4.8 percent for the fiscal year.

Mature Markets

Accounted for approximately 37 percent of the Group's total sales. Performance was greatly improved during the second half, largely attributed to the strong growth in SMB and consumer segments. Strong notebook growth was seen consistently across all key geographies within the region which helped offset a continuing decline in the desktop PC business. However, PC demand from the enterprise market continued to remain relatively weak during the year, while future growth indicators, such as requests for proposals, increased towards the end of the fiscal year. Lenovo grew by 8.9 percent in unit shipments in Mature Markets compared to last year. The Group's overall market share increased in all countries within the region with exception of those in North America, and reached 4.4 percent according to the latest industry estimates.

Performance of Product Groups

Lenovo created two product groups last year with an objective to ensure faster and stronger end-to-end management within the Group. The Think Product Group - targets mainly at commercial customers; and the Idea Product Group - targets mainly at consumer customers. Meanwhile, a new Mobile Internet Group was formed upon the completion of it's the reacquisition of Lenovo Mobile.

Think Product Group

Accounted for approximately 65 percent of the Group's sales during the year. The Group's Think branded PC shipments grew at 9 percent year-on-year, better than the worldwide commercial PC market growth. The worldwide commercial PC market stabilized towards the end of the fiscal year as the macro environment improved. Demand for notebook PCs continued to show better growth compared to that of desktops, with the majority of the industry growth occurring at lower price brands. Lenovo's ThinkPad notebooks outperformed the market with 15 percent year-on-year growth in unit shipments during the year. The strength of ThinkPad can be attributed to 68 percent unit shipments growth in China and sustained sales in Mature Markets.

Idea Product Group

Accounted for approximately 33 percent of the Group's sales during the year. Lenovo's Idea branded PC shipments showed a year-on-year increase of 70 percent, and a year-on-year increase of 295 percent outside China. Idea notebooks grew at 98 percent by unit shipments compared to last year, of which netbook accounted for approximately 19 percent of notebooks unit shipments, while Idea desktops grew at 18 percent, boosted by the success of the All-in-One models. Worldwide consumer PC demand remained resilient during the year despite the economic slow-down. Notebook demand continued to show strong growth while demand for desktops shrunk as the trend to replace desktops with notebooks continued with ever closer price points. Meanwhile, Lenovo's All-In-One products continued to show strong growth within the desktop category. The average selling price continued to shift lower, resulting in margin compression.

Mobile Internet Group

The mobile handset industry in China rebounded quickly with a substantial increase in unit shipments during the year which benefited from China's macroeconomic improvement, as well as the release of China's 3G licenses and the official launch of the 3G market. Lenovo Mobile continued to show strong unit shipments growth after its launch of a variety of cost-effective products in the operators market, as well as a range of competitive products in the open market. As a result, Lenovo Mobile grew 32 percent in unit shipments year-on-year and secured a top-three market position during the year.

Notebook and Desktop

Lenovo posted material market share gains in both notebook and desktop PC markets in the fiscal year. The Group captured the strong growth in the robust consumer notebook market with an expanded consumer notebook product portfolio. Lenovo recorded approximately 50 percent growth in unit shipments, and its market share increased 1.3 percentage points to 8.5 percent. The Group’s desktop unit shipments also grew 7.8 percent year-on-year and its market share increased 1.1 percentage points to 9.1 percent. Although market demand was shifting to notebook computers, the recovery in commercial demand, Lenovo’s expansion into transaction business with stylish All-in-One consumer desktop and offering of SMB targeted desktop continued to support its desktop growth.

Future Prospects

The worldwide PC market has shown signs of improvement in the last several quarters, and it is likely that PC demand in China will remain strong as it will in most emerging markets, but there remain challenges that render the macro environment uncertain. While there are some promising signs of corporate refresh, commercial spending will likely improve gradually in the new fiscal year. Consumer demand has been the key driver for worldwide PC market growth for the year, and its growth momentum will likely remain. Meanwhile, the ongoing shift of product mix towards low price bands within consumer PCs will remain challenging as it continues to exert downside pressure on the average selling price.

In addition, as demand for PCs continue to improve, supply constraint in certain key components, such as memory chips, panels and others, will continue to impact production. Component price increases could constrain margins in the new fiscal year even as suppliers increase capacity. Furthermore, volatility in global currencies, like that experienced during the last several quarters, could cause additional challenges for PC makers including Lenovo.

The Group will continue its fundamental “Protect and Attack” strategy that contributed to the Group’s success during the year. It will continue to find ways to maintain growth momentum in its core PC business, while capturing new opportunities. Lenovo’s strategy will take advantage of positive industry factors, leverage new technology trends and expand beyond PCs.

The Group will continue to extend its PC leadership position and profitability in China. The Lenovo Mobile acquisition during the year will accelerate its expansion into the mobile internet area, and the launch of Lenovo’s SmartPhone will start to tap the China mobile internet opportunity. Lenovo will also continue to protect its core relationship business in its Mature Markets, with an aim to deliver a healthier and steadier profit from this business, and at the same time, it will continue to drive unit shipments growth and share gains in the emerging markets outside China to establish substantial market positions in key countries.

Lenovo’s efficient dual business model set its products, services and business process around customer needs and market segmentation. The Group has a clearly defined business model and product portfolio for each customer segment. Lenovo has built the fundamental building blocks for its transaction business, and will further enhance its end-to-end integration in the new fiscal year. Lenovo will further simplify its relationship business to drive both focus and efficiency in the way it services its enterprise customer needs to better serve them, and improve its productivity. These end-to-end refinements will allow the Group to better focus on its customers. It will also enable Lenovo to have a consistent business model across all of its regions, and deliver stronger results.

Lenovo owns a strong track record for innovation in the PC industry, and remains committed to innovation in product, technology and business model, which help differentiate it from its competitors. Through its Innovation Triangle of Raleigh, Yamato and Beijing, the Group has created attractive products that are competitive in the market, and well-received by customers. Lenovo’s innovation strategy is to continue building momentum for its core PC business, while targeting other growth opportunities such as the mobile internet, and other high growth opportunities to drive Lenovo to the next level.

Lenovo is also building on its successful “Protect and Attack” strategic framework by introducing The Lenovo Way, an initiative to foster a culture that is dedicated to helping the Group achieve even stronger results in the future. The Lenovo Way accomplishes this by instilling a common work culture and shared values and priorities across the Group. This means creating a cohesive and consistent approach to work. Success in building a strong culture will enable every employee to do their jobs more efficiently and for Lenovo to be a successful company for the long-term.

With the macro environment showing signs of improvement that are favorable to the PC market, Lenovo is confident that with the successful execution of its strategic priorities based on its business strengths, that it will continue to be a strong player in the worldwide PC market.

PURCHASE, SALE, REDEMPTION OR CONVERSION OF THE COMPANY’S SECURITIES AND WARRANTS

During the year, group companies / funds of TPG Capital, Newbridge Capital and General Atlantic, the holders of the Company's convertible preferred shares and warrants:

(i) exercised the conversion rights under the terms of issue of such shares and converted 1,005,832 convertible preferred shares into 369,112,652 fully paid ordinary shares of the Company;

(ii) exercised the subscription rights of 63,502,788 warrants under the terms of issue of such warrants and subscribed for 63,502,788 fully paid ordinary shares of the Company; and

(iii) surrendered 173,914,686 warrants to the Company for cancellation in satisfaction of the subscription price of the 63,502,788 shares mentioned in (ii) above under the terms of issue of such warrants.

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities and warrants and no further conversion notice was received during the year ended March 31, 2010.

REVIEW BY AUDIT COMMITTEE

The Audit Committee of the Company has been established since 1999 with responsibility of assisting the Board in providing an independent review of the financial statements and internal control system. It acts in accordance with the 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, the other two independent non-executive directors, Professor Woo Chia-Wei and Mr. Ting Lee Sen, and a non-executive director, Ms. Ma Xuezheng.

The Audit Committee of the Company has reviewed the annual results for the year ended March 31, 2010. 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the year ended March 31, 2010, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, and where appropriate, met the recommended best practices in the CG Code, save for the deviations which are explained below.

Code A.4.1
Code A.4.1 of the CG Code articulates that non-executive directors should be appointed for a specific term, subject to re-election. All the existing non-executive directors of the Company currently and the year through do not have specific terms of appointment. Nevertheless, non-executive directors are subject to retirement by rotation at annual general meetings under the Company's articles of association accomplishing the same purpose as a specific term of appointment.

Code A.5.4
The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuer ("Model Code") prevailing before January 1, 2009. Revised Model Code complying with new requirements effective from January 1, 2009 was adopted by the Board on May 21, 2009. Notwithstanding this, the Board and relevant employees were informed of the new changes made in the Model Code and complied with the requirements of the new Model Code throughout the year.

Code C.3.3 (g)
The Audit Committee of the Company regularly discusses with the management the system of internal control and ensures an effective internal control system is in place to discharge its duty during the relevant period albeit the revamped terms of reference of Audit Committee commensurate with the new responsibilities as contained in the revised CG Code taking effect from January 1, 2009 were approved by the Board on May 21, 2009.

Apart from the foregoing, the Company met the recommended best practices in the CG Code as to be disclosed in the respective sections of the 2009/10 Annual Report. Particularly, the Company published quarterly financial results and business review within 45 days after the end of the relevant period in addition to interim and annual results. Quarterly financial results enhanced the shareholders to assess the performance, financial position and prospects of the Company. The quarterly financial results were prepared using the accounting standards consistent with the policies applied to the interim and annual accounts.

By order of the Board
Liu Chuanzhi
Chairman

Hong Kong, May 27, 2010

As at the date hereof, the executive director is Mr. Yang Yuanqing; the non-executive directors are Mr. Liu Chuanzhi, Mr. Zhu Linan, Ms. Ma Xuezheng, Mr. James G. Coulter, Mr. William O. Grabe and Dr. Wu Yibing; and the independent non-executive directors are Professor Woo Chia-Wei, Mr. Ting Lee Sen, Dr. Tian Suning and Mr. Nicholas C. Allen.