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lenovo 联想

Lenovo Group Limited 聯想集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 0992)

FY2011/12 ANNUAL RESULTS ANNOUNCEMENT

ANNUAL RESULTS

The board of directors (the "Board") of Lenovo Group Limited (the "Company") announces the audited results of the Company and its subsidiaries (the "Group") for the year ended March 31, 2012 together with comparative figures of last year, as follows:

CONSOLIDATED INCOME STATEMENT

	Note	**2012** *US$'000*	2011 *US$'000*
Revenue	*2*	**29,574,438**	21,594,371
Cost of sales		**(26,128,216)**	(19,230,417)
Gross profit		**3,446,222**	2,363,954
Other income - net	*3*	**1,199**	419
Selling and distribution expenses		**(1,690,778)**	(1,038,455)
Administrative expenses		**(730,294)**	(719,708)
Research and development expenses		**(453,334)**	(303,413)
Other operating income - net		**11,070**	79,427
Operating profit	*4*	**584,085**	382,224
Finance income	*5(a)*	**42,693**	24,927
Finance costs	*5(b)*	**(43,484)**	(49,175)
Share of losses of associates and jointly controlled entities		**(851)**	(225)
Profit before taxation		**582,443**	357,751
Taxation	*6*	**(107,027)**	(84,515)
Profit for the year		**475,416**	273,236
Profit attributable to:			
Equity holders of the Company		**472,992**	273,234
Non-controlling interests		**2,424**	2
		475,416	273,236
Dividends	*7*	**183,214**	96,601
Earnings per share attributable to equity holders of the Company			
Basic	*8(a)*	US 4.67 cents	US 2.84 cents
Diluted	*8(b)*	US 4.57 cents	US 2.73 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2012 *US$'000*	2011 *US$'000*
Profit for the year	**475,416**	273,236
Other comprehensive (loss)/income:		
Fair value change on available-for-sale financial assets, net of taxes	**(36,337)**	(15,892)
Fair value change on cash flow hedges		
- interest rate swap contracts		
Fair value loss, net of taxes	**(763)**	(3,662)
Reclassified to consolidated income statement	**1,778**	6,033
- forward foreign exchange contracts		
Fair value gain, net of taxes	**23,233**	61,538
Reclassified to consolidated income statement	**9,610**	(88,561)
Actuarial loss from defined benefit pension plans, net of taxes	**(34,703)**	(7,190)
Exchange reserve reclassified to consolidated income statement on disposal of a subsidiary	**-**	(12,996)
Currency translation differences	**(51,055)**	47,442
	(88,237)	(13,288)
Total comprehensive income for the year	**387,179**	259,948
Total comprehensive income attributable to:		
Equity holders of the Company	**389,366**	259,946
Non-controlling interests	**(2,187)**	2
	387,179	259,948

CONSOLIDATED BALANCE SHEET

	Note	**2012**	2011
		US$'000	*US$'000*
Non-current assets			
Property, plant and equipment		**392,474**	209,417
Prepaid lease payments		**13,552**	9,682
Construction-in-progress		**103,986**	32,092
Intangible assets		**3,091,205**	2,134,452
Interests in associates and jointly controlled entities		**3,410**	914
Deferred income tax assets		**332,493**	251,098
Available-for-sale financial assets		**71,946**	78,689
Other non-current assets		**31,282**	53,132
		4,040,348	2,769,476
Current assets			
Inventories		**1,218,494**	803,702
Trade receivables	*9(a)*	**2,354,909**	1,368,924
Notes receivable		**639,331**	391,649
Derivative financial assets		**62,883**	13,295
Deposits, prepayments and other receivables	*10*	**3,303,053**	2,305,325
Income tax recoverable		**70,406**	56,912
Bank deposits		**413,672**	42,158
Cash and cash equivalents		**3,757,652**	2,954,498
		11,820,400	7,936,463
Total assets		**15,860,748**	10,705,939

CONSOLIDATED BALANCE SHEET (CONTINUED)

	Note	**2012**	2011
	Note	***US$'000***	*US$'000*
Share capital	*12*	**33,131**	31,941
Reserves		**2,328,104**	1,802,780
Equity attributable to owners of the Company		**2,361,235**	1,834,721
Non-controlling interests		**86,734**	179
Total equity		**2,447,969**	1,834,900
Non-current liabilities			
Warranty provision	*11(a)*	**291,111**	395,242
Deferred revenue		**381,593**	277,205
Retirement benefit obligations		**204,818**	74,870
Deferred income tax liabilities		**83,594**	17,093
Other non-current liabilities		**641,986**	73,976
		1,603,102	838,386
Current liabilities			
Trade payables	*9(b)*	**4,050,272**	2,179,839
Notes payable		**127,315**	98,964
Derivative financial liabilities		**49,253**	39,223
Provisions, accruals and other payables	*11*	**7,074,196**	5,100,562
Deferred revenue		**310,159**	245,793
Income tax payable		**135,530**	96,711
Bank borrowings		**62,952**	271,561
		11,809,677	8,032,653
Total liabilities		**13,412,779**	8,871,039
Total equity and liabilities		**15,860,748**	10,705,939
Net current assets/(liabilities)		**10,723**	(96,190)
Total assets less current liabilities		**4,051,071**	2,673,286

CONSOLIDATED CASH FLOW STATEMENT

	Note	**2012** **US$'000**	2011 US$'000
Cash flows from operating activities			
Net cash generated from operations	*14*	**2,126,765**	1,089,097
Interest paid		**(38,477)**	(48,089)
Tax paid		**(148,332)**	(75,754)
Net cash generated from operating activities		**1,939,956**	965,254
Cash flows from investing activities			
Purchase of property, plant and equipment		**(101,238)**	(48,834)
Sale of property, plant and equipment		**6,311**	8,440
Sale of intangible assets		**-**	25
Acquisition of subsidiaries, net of cash acquired		**(172,316)**	-
Interests acquired in jointly controlled entities		**(3,237)**	-
Payment for construction-in-progress		**(205,601)**	(78,531)
Payment for intangible assets		**(22,354)**	(20,297)
Purchase of available-for-sale financial assets		**(10,055)**	-
Net proceeds from disposal of financial instruments		**-**	21,398
Proceeds from disposal of an associate		**145**	-
(Increase)/decrease in bank deposits		**(371,514)**	158,298
Dividend received		**95**	93
Interest received		**42,693**	24,927
Net cash (used in)/generated from investing activities		**(837,071)**	65,519
Cash flows from financing activities			
Exercise of share options		**10,889**	25,116
Repurchase of shares		**-**	(86,610)
Dividends paid		**(114,687)**	(87,870)
Net decrease in bank borrowings		**(211,726)**	(223,145)
Net cash used in financing activities		**(315,524)**	(372,509)
Increase in cash and cash equivalents		**787,361**	658,264
Effect of foreign exchange rate changes		**15,793**	58,039
Cash and cash equivalents at the beginning of the year		**2,954,498**	2,238,195
Cash and cash equivalents at the end of the year		**3,757,652**	2,954,498

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$'000*	Non-controlling interests *US$'000*	Total *US$'000*
At April 1, 2011	31,941	1,377,529	-	56,474	1,003	(76,110)	63,280	(18,583)	(1,523)	58,236	342,474	179	1,834,900
Profit for the year	-	-	-	-	-	-	-	-	-	-	472,992	2,424	475,416
Other comprehensive (loss)/income	-	-	-	(36,337)	-	-	-	33,890	(46,725)	-	(34,454)	(4,611)	(88,237)
Total comprehensive (loss)/income for the year	-	-	-	(36,337)	-	-	-	33,890	(46,725)	-	438,538	(2,187)	387,179
Consideration for acquisition	-	-	-	-	-	-	-	-	-	36,555	-	-	36,555
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	88,742	88,742
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	6,057	(6,057)	-	-
Issue of ordinary shares	1,088	196,206	-	-	-	-	-	-	-	-	-	-	197,294
Exercise of share options	102	10,787	-	-	-	-	-	-	-	-	-	-	10,889
Vesting of shares under long-term incentive program	-	-	-	-	-	48,252	(76,620)	-	-	-	-	-	(28,368)
Share-based compensation	-	-	-	-	-	-	66,418	-	-	-	-	-	66,418
Dividend paid	-	-	-	-	-	-	-	-	-	-	(114,687)	-	(114,687)
Guaranteed dividend	-	-	-	-	-	-	-	-	-	-	(30,953)	-	(30,953)
At March 31, 2012	33,131	1,584,522	-	20,137	1,003	(27,858)	53,078	15,307	(48,248)	100,848	629,315	86,734	2,447,969
At April 1, 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
Profit for the year	-	-	-	-	-	-	-	-	-	-	273,234	2	273,236
Other comprehensive (loss)/income	-	-	-	(15,892)	-	-	-	(24,652)	34,446	-	(7,190)	-	(13,288)
Total comprehensive (loss)/income for the year	-	-	-	(15,892)	-	-	-	(24,652)	34,446	-	266,044	2	259,948
Transfer to statutory reserve	-	-	-	-	-	-	-	-	-	23,806	(23,806)	-	-
Conversion of Series A cumulative convertible preferred shares	891	98,073	(2,836)	-	-	-	-	-	-	-	-	-	96,128
Exercise of share options	168	24,948	-	-	-	-	-	-	-	-	-	-	25,116
Repurchase of shares	(506)	(86,610)	-	-	506	-	-	-	-	-	-	-	(86,610)
Vesting of shares under long-term incentive program	-	-	-	-	-	34,944	(54,149)	-	-	-	-	-	(19,205)
Share-based compensation	-	-	-	-	-	-	41,375	-	-	-	-	-	41,375
Dividends paid	-	-	-	-	-	-	-	-	-	-	(87,870)	-	(87,870)
At March 31, 2011	31,941	1,377,529	-	56,474	1,003	(76,110)	63,280	(18,583)	(1,523)	58,236	342,474	179	1,834,900

Notes

1 Basis of preparation

The financial information presented above and notes thereto is 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 revised standard, new interpretations, and amendments to existing standards and interpretations (including Improvements to HKFRSs 2010) that are mandatory for the year ended March 31, 2012 and where considered appropriate and relevant to its operations.

Revised standard, new interpretations and amendments to existing standards and interpretations
HKAS 24 (Revised), Related party disclosures
HK(IFRIC)-Int 19, Extinguishing financial liabilities with equity instruments
Amendments to HK(IFRIC)-Int 14, Prepayments of a minimum funding requirement
Improvements to HKFRSs 2010

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

The following new and revised standards and amendments to existing standards have been issued but are not effective for the year ended March 31, 2012 and have not been early adopted:

	Effective for annual periods beginning on or after
HKAS 19 (2011), Employee benefits	January 1, 2013
HKAS 27 (2011), Separate financial statements	January 1, 2013
HKAS 28 (2011), Investments in associates and joint ventures	January 1, 2013
HKFRS 9, Financial instruments	January 1, 2015
HKFRS 10, Consolidated financial statements	January 1, 2013
HKFRS 11, Joint arrangements	January 1, 2013
HKFRS 12, Disclosure of interests in other entities	January 1, 2013
HKFRS 13, Fair value measurement	January 1, 2013
Amendments to HKAS 1 (Revised), Presentation of items of other comprehensive income	July 1, 2012
Amendments to HKAS 12, Deferred tax: Recovery of underlying assets	January 1, 2012
Amendments to HKAS 32, Financial instruments: Presentation – Offsetting financial assets and financial liabilities	January 1, 2014
Amendments to HKFRS 7, Financial instruments: Disclosures – Offsetting financial assets and financial liabilities	January 1, 2013
Amendments to HKFRS 7, Financial instruments: Disclosures – Transfers to financial assets	July 1, 2011

The Group is currently assessing the impact of the adoption of these standards and amendments to the Group in future periods. So far, it has concluded that the adoption of the above does not have material impact on the Group's financial statements.

Changes in presentation

For presentation of segment results, certain expenses have been reclassified, in particular, expenditures on aligning the information technology systems ("IT systems"). In the previous years, expenditures on aligning the IT systems of mature and emerging markets were included in the respective markets. The Group has substantially completed the alignment of the IT systems with key business systems converged in the same platform. With effect from the current fiscal year, expenditures on IT systems are allocated to market segments on a flat rate basis with reference to revenue contributions of the respective markets. Management considers this basis is more appropriate in the measurement of market segment results.

For presentation of segment assets and liabilities, assets and liabilities of certain entities performing centralized functions for the Group, previously included in market segments based on their respective geographical locations, have been reclassified to unallocated assets and liabilities. Management considers this is more appropriate in light of their increased roles as centralized functions. The amounts of assets and liabilities of US$2,717 million and US$ 4,373 million (2011: US$2,023 million and US$3,627 million) previously included in respective market segments have been reclassified as unallocated.

The comparative information has been reclassified to conform to the current year's presentation.

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 market perspective. The Group has three market segments, China, Emerging Markets (excluding China) and Mature Markets, 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 market segment assets and liabilities presented below is primarily based on the geographical location of the entities 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 market.

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

	2012		2011	
	Revenue from external customers	**Adjusted pre-tax income/ (loss)**	Revenue from external customers	Adjusted pre-tax income/ (loss)
	US$'000	***US$'000***	*US$'000*	*US$'000*
China	**12,395,324**	**552,165**	10,015,371	435,945
Emerging markets (excluding China)	**4,803,489**	**(94,483)**	3,859,739	(61,986)
Mature markets	**12,375,625**	**353,862**	7,719,261	134,314
Segment total	**29,574,438**	**811,544**	21,594,371	508,273
Unallocated:				
Headquarters and corporate expenses		**(246,028)**		(134,879)
Restructuring costs		**3,212**		(3,878)
Finance income		**31,625**		18,643
Finance costs		**(18,258)**		(30,602)
Net gain on disposal of available-for-sale financial assets and investments		**1,104**		326
Dividend income from available-for-sale financial assets		**95**		93
Share of losses of associates and jointly controlled entities		**(851)**		(225)
		582,443		357,751

(b) Segment assets for reportable segments

	2012	2011
	US$'000	*US$'000*
China	**4,375,651**	3,368,166
Emerging markets (excluding China)	**1,431,924**	1,407,639
Mature markets	**4,461,902**	1,386,766
Segment assets for reportable segments	**10,269,477**	6,162,571
Unallocated:		
Deferred income tax assets	**332,493**	251,098
Derivative financial assets	**62,883**	13,295
Available-for-sale financial assets	**71,946**	78,689
Interests in associates and jointly controlled entities	**3,410**	914
Unallocated bank deposits and cash and cash equivalents	**2,428,698**	1,653,870
Unallocated inventories	**356,678**	394,998
Unallocated deposits, prepayments and other receivables	**2,225,144**	2,062,952
Income tax recoverable	**70,406**	56,912
Other unallocated assets	**39,613**	30,640
Total assets per consolidated balance sheet	**15,860,748**	10,705,939

(c) Segment liabilities for reportable segments

	2012	2011
	US$'000	*US$'000*
China	**3,171,430**	1,833,711
Emerging markets (excluding China)	**456,608**	366,575
Mature markets	**3,808,911**	1,563,680
Segment liabilities for reportable segments	**7,436,949**	3,763,966
Unallocated:		
Income tax payable	**135,530**	96,711
Deferred income tax liabilities	**83,594**	17,093
Derivative financial liabilities	**49,253**	39,223
Unallocated bank borrowings	**-**	200,000
Unallocated trade payables	**2,588,379**	1,771,633
Unallocated provisions, accruals and other payables	**3,076,210**	2,942,621
Other unallocated liabilities	**42,864**	39,792
Total liabilities per consolidated balance sheet	**13,412,779**	8,871,039

(d) Other segment information

	China		Emerging Markets (excluding China)		Mature Markets		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Depreciation and amortization	**72,912**	71,380	**28,151**	22,017	**74,342**	82,743	**175,405**	176,140
Finance income	**2,988**	2,126	**4,449**	3,574	**3,631**	584	**11,068**	6,284
Finance costs	**-**	250	**4,306**	3,423	**20,920**	14,900	**25,226**	18,573
Additions to non-current assets *	**86,071**	46,256	**11,474**	6,305	**27,591**	15,510	**125,136**	68,071

* Other than financial instruments and deferred income tax assets; and exclude construction-in-progress pending allocation to segments.

(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$2,736 million (2011: US$1,926 million). During the year, the Group underwent an organizational structure change under which Latin America previously a reportable segment merged with REM, forming a cash-generating unit ("CGU"). The intangible assets have been reallocated to the 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, 2012

	China US$ million	REM * US$ million	North America US$ million	West Europe US$ million	Japan, Australia, New Zealand US$ million	Total US$ million
Goodwill	1,101	167	160	242	611	2,281
Trademarks and trade names	209	64	58	110	14	455

* Includes Africa, Asia Pacific, Central/Eastern Europe, Hong Kong, India, Korea, Middle East, Pakistan, Russia, Taiwan, Turkey and Latin America (previously a stand-alone CGU).

At March 31, 2011

	China US$ million	REM ** US$ million	Latin America US$ million	North America US$ million	West Europe US$ million	Japan, Australia, New Zealand US$ million	Total US$ million
Goodwill	1,065	143	24	161	84	69	1,546
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

On July 1, 2011, the Group completed the establishment of a joint venture with NEC Corporation ("NEC") under a business combination agreement dated January 27, 2011 (Note 13). The corresponding goodwill is calculated at US$549 million. The goodwill is attributable to the significant synergies expected to arise in connection with the Group's commitment to its core personal computer business and NEC's market leadership in Japan. The entire amount of goodwill has been allocated to the Japan, Australia and New Zealand market segment.

On July 29, 2011, the Group completed the acquisition of Medion AG ("Medion") under a business combination agreement dated June 1, 2011 (Note 13). The goodwill arising from this acquisition is calculated at US$179 million. The goodwill is primarily attributable to the significant synergies expected to arise in connection with the Group's strategic objectives and the development of customer-focused products to capitalize on the entertainment electronics and service business growth in Europe. The entire amount of goodwill has been allocated to the West Europe market segment.

The directors are of the view that there was no evidence of impairment of goodwill and trademarks and trade names as at March 31, 2012 (2011: Nil).

3 Other income - net

	2012	2011
	US$'000	*US$'000*
Net gain on disposal of available-for-sale financial assets and investments	**1,104**	326
Dividend income from available-for-sale financial assets	**95**	93
	1,199	419

4 Operating profit

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

	2012	2011
	US$'000	*US$'000*
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**77,721**	81,856
Amortization of intangible assets	**97,684**	94,284
Employee benefit costs, including	**1,938,256**	1,431,218
- long-term incentive awards	***66,418***	41,375
Gain on disposal of subsidiaries and an associate	**(50)**	(13,015)
Rental expenses under operating leases	**63,252**	52,670

5 Finance income and costs

(a) Finance income

	2012	2011
	US$'000	*US$'000*
Interest on bank deposits	**34,731**	23,229
Interest on money market funds	**2,952**	1,118
Others	**5,010**	580
	42,693	24,927

(b) Finance costs

	2012	2011
	US$'000	*US$'000*
Interest on bank loans and overdrafts	**7,794**	16,330
Dividend and relevant finance costs on convertible preferred shares	**-**	3,810
Factoring cost	**21,955**	17,022
Commitment fee	**6,130**	11,218
Interest on contingent considerations	**4,911**	-
Others	**2,694**	795
	43,484	49,175

6 Taxation

The amount of taxation in the consolidated income statement represents:

	2012	2011
	US$'000	*US$'000*
Current taxation		
Hong Kong profits tax	**236**	234
Taxation outside Hong Kong	**174,548**	67,334
Deferred taxation	**(67,757)**	16,947
	107,027	84,515

Hong Kong profits tax has been provided for at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year. Taxation outside Hong Kong has been provided for at the applicable rates on the estimated assessable profits less estimated available tax losses.

7 Dividends

	2012	2011
	US$'000	*US$'000*
Interim dividend of HK3.8 cents (2011: HK2.6 cent) per ordinary share, paid on November 30, 2011	**50,473**	32,581
Proposed final dividend – HK10.0 cents (2011: HK5.0 cents) per ordinary share	**132,741**	64,020
	183,214	96,601

8 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. Shares held by the employee share trusts established for the purposes of awarding shares to eligible employees under the long term incentive program of 135,699,015 (2011: 213,321,560) shares are excluded and 57,560,317 consideration shares in respect of the acquisition of Medion as detailed in Note 13 are included in the calculation of weighted average number of ordinary shares in issue.

	2012	2011
Weighted average number of ordinary shares in issue	**10,133,177,289**	9,634,806,069

	US$'000	*US$'000*
Profit attributable to equity holders of the Company	**472,992**	273,234

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares, namely share options and long-term incentive awards.

	2012	2011
Weighted average number of ordinary shares in issue	**10,133,177,289**	9,634,806,069
Adjustments for convertible preferred shares	**-**	176,317,792
Adjustments for share options and long-term incentive awards	**208,243,718**	337,099,963
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share	**10,341,421,007**	10,148,223,824

	US$'000	*US$'000*
Profit attributable to equity holders of the Company	**472,992**	273,234
Interest expense on convertible preferred shares	**-**	3,810
Profit used to determine diluted earnings per share	**472,992**	277,044

Adjustments for the dilutive potential ordinary shares are as follows:

– All remaining convertible preferred shares were converted into voting ordinary shares during the previous fiscal year. For the year ended March 31, 2011, the convertible preferred shares were assumed to have been converted into ordinary shares during the period they were outstanding and the net profit was adjusted to eliminate the relevant finance costs.

– 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.

9 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:

	2012	2011
	US$'000	*US$'000*
0 – 30 days	**1,504,488**	941,811
31 – 60 days	**642,754**	251,698
61 – 90 days	**112,871**	92,817
Over 90 days	**124,193**	103,679
	2,384,306	1,390,005
Less: provision for impairment	**(29,397)**	(21,081)
Trade receivables – net	**2,354,909**	1,368,924

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

	2012	2011
	US$'000	*US$'000*
0 – 30 days	**2,543,626**	1,381,832
31 – 60 days	**1,025,131**	503,648
61 – 90 days	**307,223**	230,791
Over 90 days	**174,292**	63,568
	4,050,272	2,179,839

10 Deposits, prepayments and other receivables

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

	2012	2011
	US$'000	*US$'000*
Deposits	**884**	504
Other receivables (a)	**2,442,656**	1,765,680
Prepayments (b)	**859,513**	539,141
	3,303,053	2,305,325

(a) Majority of other receivables are amounts due from subcontractors for part components sold in the ordinary course of business.

(b) The Group defers the cost of shipped products awaiting revenue recognition until the goods are delivered and revenue is recognized. In-transit product shipments to customers of US$392 million as at March 31, 2012 (2011: US$236 million) are included in prepayments.

11 Provisions, accruals and other payables

Details of provisions, accruals and other payables are as follows:

	2012	2011
	US$'000	*US$'000*
Provisions (a)	**725,062**	311,813
Accruals	**1,146,665**	904,219
Allowance for billing adjustments (b)	**1,753,910**	1,139,828
Other payables (c)	**3,448,559**	2,744,702
	7,074,196	5,100,562

(a) The components of provisions are as follows:

	Warranty *US$'000*	Restructuring *US$'000*	Environmental restoration *US$'000*	Total *US$'000*
Year ended March 31, 2011				
At the beginning of the year	550,689	11,341	22,502	584,532
Exchange adjustment	11,310	84	151	11,545
Provisions made	644,778	3,126	4,191	652,095
Amounts utilized	(510,054)	(3,585)	(2,759)	(516,398)
Unused amounts reversed	(2,000)	(2,547)	(9,091)	(13,638)
	694,723	8,419	14,994	718,136
Long-term portion classified as non-current liabilities	(395,242)	-	(11,081)	(406,323)
At the end of the year	299,481	8,419	3,913	311,813
Year ended March 31, 2012				
At the beginning of the year	**694,723**	**8,419**	**14,994**	**718,136**
Exchange adjustment	**8,835**	**(564)**	**(1,699)**	**6,572**
Provisions made	**771,391**	**-**	**10,573**	**781,964**
Amounts utilized	**(615,684)**	**(4,761)**	**(5,085)**	**(625,530)**
Unused amounts reversed	**(1,286)**	**(2,861)**	**(870)**	**(5,017)**
Acquisition of subsidiaries	**155,885**	**-**	**68,039**	**223,924**
	1,013,864	**233**	**85,952**	**1,100,049**
Long-term portion classified as non-current liabilities	**(291,111)**	**-**	**(83,876)**	**(374,987)**
At the end of the year	**722,753**	**233**	**2,076**	**725,062**

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.

(b) Allowance for billing adjustments relates primarily to allowances for future volume discounts, price protection, rebates, and customer sales returns.

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

12 Share capital

	2012		2011	
	Number of shares	***HK$'000***	*Number of shares*	*HK$'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
		500,000		527,525

	Number of shares	***US$'000***	*Number of shares*	*US$'000*
Issued and fully paid:				
Voting ordinary shares:				
At the beginning of the year	**9,965,161,897**	**31,941**	9,788,044,282	31,388
Conversion from series A cumulative convertible preferred shares	**-**	**-**	282,263,115	891
Issue of ordinary shares	**338,689,699**	**1,088**	-	-
Exercise of share options	**31,761,000**	**102**	52,614,500	168
Repurchase of shares	**-**	**-**	(157,760,000)	(506)
At the end of the year	**10,335,612,596**	**33,131**	9,965,161,897	31,941
Series A cumulative convertible preferred shares:				
At the beginning of the year	**-**	**-**	769,167	891
Conversion to voting ordinary shares	**-**	**-**	(769,167)	(891)
At the end of the year	**-**	**-**	-	-

Pursuant to an ordinary resolution passed in the annual general meeting of the Company held on July 22, 2011, the series A cumulative convertible preferred shares were cancelled from the existing authorized share capital of the Company.

13 Business combinations

During the year, the Group completed two business combination activities aiming at expanding the Group's existing scale of operations and to enlarge the Group's market share.

On July 1, 2011, the Group completed the formation of a joint venture company to own and operate the Group's and NEC's respective personal computer businesses in Japan (the "NEC JV") pursuant to the business combination agreement dated January 27, 2011. Immediately following completion, the Group and NEC respectively owns 51% and 49% of the issued share capital of NEC JV.

On July 29, 2011, the Group acquired 51.89% of the issued share capital of Medion, a publicly traded German stock corporation listed on the Frankfurt am Main stock exchange. Medion is the parent company of the Medion group which is an enterprise in the retail and service business for consumer electronic products, such as notebooks, PCs, TVs, audio and mobile telecommunication. Thereafter, the Group acquired another 9.43% of the issued share capital in Medion through a takeover offer pursuant to the German Securities Acquisition and Takeover Act. Immediately following the lapse of the takeover offer period, the Group owns 61.32% of the issued share capital in Medion.

The Group's business combination activities involve post-acquisition performance-based contingent considerations. HKFRS 3 (Revised) "Business Combinations" requires the recognition of the fair value of those contingent considerations as of their respective dates of business combination as part of the consideration transferred in exchange for the acquired subsidiaries/businesses. These fair value measurements require, among other things, significant estimation of post-acquisition performance of the acquired subsidiaries/businesses and significant judgment on time value of money. Contingent considerations shall be re-measured at their fair value resulting from events or factors emerge after the date of business combination, with any resulting gain or loss recognized in the consolidated income statement in accordance with HKFRS 3 (Revised).

HKAS 27 "Consolidated and Separate Financial Statements" (as amended in 2008) requires that the proportions allocated to the parent and non-controlling interests are determined on the basis of present ownership interests. The two business combination activities completed during the year involve arrangements on the transfer of ownership interest with the respective shareholders of NEC JV and Medion and have been accounted for in accordance with HKAS 27.

The estimated total consideration for the two business combination activities is approximately US$1,208 million, including cash and the Company's shares as consideration shares.

Set forth below is the calculation of goodwill:

	NEC JV *US$'000*	Medion *US$'000*	Total *US$'000*
Purchase consideration:			
- Cash paid	**58,274**	**479,338**	**537,612**
- Fair value of consideration shares*	**160,730**	**73,119**	**233,849**
- Present value of contingent considerations	**251,557**	**185,393**	**436,950**
Total purchase consideration	**470,561**	**737,850**	**1,208,411**
Less: Fair value of net (liabilities)/assets acquired	**(78,181)**	**559,234**	**481,053**
Goodwill (Note 2(e))	**548,742**	**178,616**	**727,358**

* The fair values of 281,129,381 and 115,120,635 ordinary shares of the Company issued/to be issued as part of the purchase consideration for the business combinations of NEC JV and Medion were based on the published share price on July 1, 2011 and July 29, 2011 respectively.

57,560,317 consideration shares in respect of the acquisition of Medion with an aggregate fair value of approximately US$36,555,000 which serve as security for any potential damages are to be issued to the seller as deferred consideration within an 18-month period after completion.

The major components of assets and liabilities arising from the business combination activities are as follows:

	NEC JV *US$'000*	Medion *US$'000*	Total *US$'000*
Cash and cash equivalents	**110,832**	**254,464**	**365,296**
Property, plant and equipment	**65,480**	**55,925**	**121,405**
Other non-current assets	**35,174**	**5,327**	**40,501**
Intangible assets	**31,976**	**170,106**	**202,082**
Net working capital except cash and cash equivalents	**(103,304)**	**249,826**	**146,522**
Non-current liabilities	**(218,339)**	**(87,672)**	**(306,011)**
Fair value of net (liabilities)/assets	**(78,181)**	**647,976**	**569,795**
Non-controlling interests	**-**	**(88,742)**	**(88,742)**
Fair value of net (liabilities)/assets acquired	**(78,181)**	**559,234**	**481,053**

Intangible assets arising from the business combination activities mainly represent customer relationships, trademarks and brand licenses. The Group has engaged external valuers to perform fair value assessments on these intangible assets in accordance with HKAS 38 "Intangible Assets" and HKFRS 3 (Revised) "Business Combinations".

The costs incurred in connection with these business combination activities have been recognized as administrative expenses in the consolidated income statement.

14 Reconciliation of profit before taxation to net cash generated from operations

	2012	2011
	US$'000	*US$'000*
Profit before taxation	**582,443**	357,751
Share of losses of associates and jointly controlled entities	**851**	225
Finance income	**(42,693)**	(24,927)
Finance costs	**43,484**	49,176
Depreciation of property, plant and equipment and amortization of prepaid lease payments	**77,721**	81,856
Amortization of intangible assets and share-based compensation	**164,102**	135,659
Loss/ (gain) on disposal of property, plant and equipment	**1,505**	(191)
Loss on disposal of construction-in-progress	**6**	1,415
Loss/(gain) on disposal of intangible assets	**1,113**	(14)
Gain on disposal of subsidiaries and an associate	**(50)**	(13,015)
Dividend income	**(95)**	(93)
Gain on disposal of financial instruments	**(7,274)**	(326)
(Increase)/decrease in inventories	**(13,587)**	75,185
Increase in trade receivables, notes receivable, deposits, prepayments and other receivables	**(1,322,485)**	(1,238,985)
Increase in trade payables, notes payable, provisions, accruals and other payables	**2,724,863**	1,761,769
Effect of foreign exchange rate changes	**(83,139)**	(96,388)
Net cash generated from operations	**2,126,765**	1,089,097

PROPOSED DIVIDEND

The Board recommended the payment of a final dividend of HK10.0 cents per ordinary share (2010/11: HK5.0 cents). Subject to shareholders' approval at the forthcoming annual general meeting, the final dividend will be payable on Friday, July 13, 2012 to the shareholders whose names appear on the Register of Members of ordinary shares of the Company on Monday, July 9, 2012.

CLOSURE OF REGISTER OF MEMBERS

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

(i) For determining eligibility to attend and vote at the forthcoming annual general meeting:

Latest time to lodge transfer documents for registration	4:30 pm on Thursday, June 28, 2012
Closure of register of members of ordinary shares	Friday, June 29, 2012 to Tuesday, July 3, 2012 (both dates inclusive)
Record date	Tuesday, July 3, 2012

(ii) For determining entitlement to the final dividend:

Latest time to lodge transfer documents for registration	4:30 pm on Friday, July 6, 2012
Closure of register of members of ordinary shares	Monday, July 9, 2012
Record date	Monday, July 9, 2012

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the forthcoming annual general meeting, and to qualify for the final dividend, all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with Company's share registrar in Hong Kong, Tricor Abacus Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong no later than the aforementioned latest times.

FINANCIAL REVIEW

Results

For the year ended March 31, 2012, the Group achieved total sales of approximately US$29,574 million. Profit attributable to equity holders for the year was approximately US$473 million, representing an increase of US$200 million as compared with last year. Gross profit margin for the year was 0.8 percent point up from 10.9 percent reported in last year. The balance sheet position remained strong, bank deposits and cash and cash equivalents increased by US$1,174 million as compared with last year. Basic earnings per share and diluted earnings per share were US4.67 cents and US4.57 cents, representing an increase of US1.83 cents and US1.84 cents respectively as compared with last year.

The Group adopts market segments as the reporting format. Market segments comprise China, Emerging Markets (excluding China) and Mature Markets. Analyses of sales by segment are set out in Business Review and Outlook below.

For the year ended March 31, 2012, overall operating expenses across the board increased when compared to last year as current year includes NEC JV and Medion. Employee benefit costs increased by 35 percent as compared to last year due to increased headcount and performance-driven incentive payments. Legal and professional fees increased by 16 percent as compared to last year due to the increase in merger and acquisition activities. Branding and promotional expenses increased by 75 percent as compared to last year as a result of the branding campaign.

Further analyses of income and expense by function for the year ended March 31, 2012 are set out below:

Other income – net
Other income represents mainly net gain on disposal of available-for-sale financial assets and investments.

Selling and distribution expenses
Selling and distribution expenses for the year increased by 63 percent as compared to last year. This is principally attributable to a US$248 million increase in promotional, branding and marketing activities and a US$221 million increase in employee benefit costs.

Administrative expenses
Administrative expenses for the year increased slightly by 2 percent as compared to last year. This is mainly attributable to a US$26 million increase in employee benefit costs and a US$20 million increase in legal and professional fees relating to merger and acquisition activities. The increase is partly offset by a decrease in contracted service expense of US$25 million.

Research and development expenses
Research and development spending for the year increased by 49 percent as compared to last year. The major part of the increase is attributable to an increase in employee benefit costs of US$78 million, and an increase in R&D supplies & laboratory expenses of US$64 million. There was also a R&D laboratory relocation expense of US$7 million in last year.

Other operating expense/income **-** *net*
Net other operating income for the year decreased by US$68 million as compared to last year. The decrease is attributable to one-off items such as IP license fee of US$35 million noted in current year and in prior year the Group recognized a gain of US$13 million relating to the disposal of a subsidiary. Net exchange gain also decreased by US$17 million as compared to last year.

Capital Expenditure

The Group incurred capital expenditure of US$329 million (2011: US$148 million) during the year ended March 31, 2012, mainly for the acquisition of office equipment, completion of construction-in-progress and investments in the Group’s information technology systems.

Liquidity and Financial Resources

At March 31, 2012, total assets of the Group amounted to US$15,861 million (2011: US$10,706 million), which were financed by equity attributable to owners of the Company of US$2,361 million (2011: US$1,835 million), non-controlling interests of US$87 million (2011: US$179,000), and total liabilities of US$13,413 million (2011: US$8,871 million). At March 31, 2012, the current ratio of the Group was 1.0 (2011: 0.99).

The Group had a solid financial position and continued to maintain a strong and steady cash inflow from its operating activities. At March 31, 2012, bank deposits, cash and cash equivalents totaled US$4,171 million (2011: US$2,997 million), of which 56.9 (2011: 53.9) percent was denominated in US dollars, 27.6 (2011: 37.1) percent in Renminbi, 7.7 (2011: 0.7) percent in Euros, 3.5 (2011: 0.4) percent in Japanese Yen, and 4.3 (2011: 7.9) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At March 31, 2012, 74.2 (2011: 75.6) percent of cash are bank deposits, and 25.8 (2011: 24.4) 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 a bank of US$300 million on July 17, 2009. The facility has not been utilized as at March 31, 2012 (2011: Nil).

In addition, the Group entered into another 5-Year loan facility agreement with syndicated banks for US$500 million on February 2, 2011. The facility has not been utilized as at March 31, 2012 (2011: Nil).

The Group has also arranged other short-term credit facilities. At March 31, 2012, the Group's total available credit facilities amounted to US$6,642 million (2011: US$5,570 million), of which US$362 million (2011: US$331 million) was in trade lines, US$521 million (2011: US$475 million) in short-term and revolving money market facilities and US$5,759 million (2011: US$4,764 million) in forward foreign exchange contracts. At March 31, 2012, the amounts drawn down were US$220 million (2011: US$201 million) in trade lines, US$4,720 million (2011: US$3,190 million) being used for the forward foreign exchange contracts; and US$63 million (2011: US$72 million) in short-term bank loans.

At March 31, 2012, the Group's outstanding bank loans represented the short-term bank loans of US$63 million (2011: US$72 million). When compared with total equity of US$2,448 million (2011: US$1,835 million), the Group's gearing ratio was 0.03 (2011: 0.15). The net cash position of the Group at March 31, 2012 is US$4,108 million (2011: US$2,725 million).

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 adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At March 31, 2012, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$4,720 million (2011: US$3,190 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 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, 2012, the Group had approximately 27,000 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

Fiscal year 2011/12 was a year of records for Lenovo. With the "Protect and Attack" strategy driving strong execution, Lenovo continued to outperform the markets with balanced, strong growth in all geographic segments covering China, Emerging Markets (excluding China) and Mature Markets, as well as in all product and customer segments. Lenovo also achieved strong performance in unit shipments, revenue and profit growth for its PC business. With this consistent strong performance, Lenovo became the world's number two PC maker in fiscal year 2011/12 and continued to close the gap with the industry leader. According to the preliminary industry estimate, the Group's global market share grew 3.0 percentage points year-on-year to record-high 12.9 percent, with strong PC shipments growth of 35 percent year-on-year to record-high 47.6 million units. This was compared to, worldwide PC market growth of 3 percent year-on-year, due to slow economic conditions, stiff competition from other consumer electronic devices such as media tablets and smartphones, as well as a shortage of hard disk drives (HDDs) in second half of the fiscal year stemming from flooding in Thailand.

Through its continuous solid execution, Lenovo has been the fastest PC company for the past 10 consecutive quarters, and outperformed the global PC market for 12 consecutive quarters. Lenovo has become the second largest commercial PC company and the third largest consumer PC company in the world for the fiscal year and continued to be the largest PC company in emerging markets including China.

During the year under review, the Group completed the business combination of NEC Joint Venture and the acquisition of Medion in the end of June and July, respectively. Both companies performed better than their respective markets and their original forecast. The Group has included NEC joint venture's full quarter contribution since its fiscal quarter two, whereas Medion contributed two months in the fiscal quarter two, then full quarter thereafter, and the two entities were both earnings accretive.

With the solid foundation in its core PC business, Lenovo has expanded its footprint into the mobile internet area under the Group's Mobile Internet and Digital Home (MIDH) Group. The business has shown good progress and momentum has been ramping up, particularly in the second half of the fiscal year, driven by the smartphone business.

For the fiscal year ended March 31, 2012, the Group's consolidated revenue increased by 37 percent year-on-year to record-high US$29,574 million. Under the personal technology products and services, revenue of the Group's PC and related business were US$27,191 million, representing a year-on-year increase of 31 percent; whilst the revenue of MIDH business, which was largely from mobile phone revenue in China, increased 85 percent year-on-year to US$1,484 million. Meanwhile, revenue of other goods and services were US$899 million.

The Group's gross profit increased by 46 percent year-on-year to US$3,446 million and gross margin increased from 10.9 percent in the previous fiscal year to 11.7 percent, driven by effective margin management, strong unit shipment growth and stringent cost control.

Operating expenses increased by 44 percent year-on-year to US$2,862 million, with an expenses-to-revenue ratio of 9.7 percent. The Group continued to enjoy good scaling benefits from its strong shipment growth, but as it needed to continue its investments in product innovation, branding, MIDH business and emerging markets, to drive long-term sustainable growth and better profitability, which resulted in a higher expenses-to-revenue ratio compared to last year. The Group achieved a record-high profit before taxation of US$582 million and profit attributable to equity holders of the company amounted US$473 million, representing an increase of 63 percent and 73 percent, respectively, from the previous fiscal year.

Performance of Geographies

During the year ended March 31, 2012, Lenovo achieved strong performance in all geographies where it has operations, gaining PC market share across the board in China, Emerging Markets (excluding China) and Mature Markets. The Group achieved record high PC market share in China, Mature Markets and Emerging Market (excluding China).

Lenovo ranked number one in two of the top three PC markets in the world, namely China and Japan, in the fiscal year 2011/12.

China

China accounted for 42 percent of the Group's total revenue. Although the government's tightening measures to curb inflation remained in place, leading to softer economic growth, China's PC market continued to outgrow the worldwide PC market, driven mainly by the relatively stronger demand in emerging cities. According to preliminary industry estimates, the China PC market grew by 13 percent year-on-year during the fiscal year, and became the largest PC market in the world.

During the fiscal year, Lenovo continued to outperform in the market and further extended its leadership in China through its solid strategic execution to protect mature cities; and at the same time, attack emerging smaller cities and rural areas where demand is stronger due to low PC penetration. Lenovo's unit shipments growth in China was 25 percent year-on-year for the fiscal year and market share increased by 3.2 percentage point year-on-year to an all-time high of 32.0 percent, according to industry estimates. Leveraging its position as the country's PC market leader with a strong consumer presence, Lenovo continued to expand its MIDH business in China by rolling out a wide range of new smartphones and tablets products. Lenovo's smartphone market share in China reached 9.5% in the fiscal quarter four and its tablet products had a dominant position of about 50% of the Android market in China. These new MIDH products achieved a strong start, laying a solid foundation for the Group's initiatives to tap the growth opportunity in China's mobile internet arena.

Operating profit in China grew to US$552 million during the fiscal year, and operating margin was up 0.1 percentage point year-on-year to 4.5 percent, even as the Group continued to invest in its mobile internet business during the year. Operating margin for China PC business was 5.6 percent, up from 4.9 percent in the previous fiscal year.

Emerging Markets (excluding China)

Emerging Markets (excluding China) accounted for 16 percent of the Group's total revenue.

The Group's strong growth momentum continued in Emerging Markets (excluding China) during the fiscal year. Lenovo successfully expanded its business scale in the geography through continued improvement in distribution channels, product portfolio, and investments in branding and marketing. The Group's unit shipments grew 38 percent year-on-year for the fiscal year, which was about 4 times the overall market growth of 10 percent. Lenovo's market share increased by 1.5 percentage point year-on-year to record-high of 7.2 percent, according to industry estimates. Strong unit shipments growth and share gains were recorded across all key regions. The Group has achieved milestone achievements in some key markets. In India, Lenovo has become the number one PC vendor in the fiscal quarter four with 10th straight quarters of faster than market growth closing off the fiscal year 11/12 with a market share of 13 percent. The Group has also become the number three PC vendor in Russia in the fiscal quarter four. The Group will continue to attack in markets with less than 10% market share; once 10%

market share is hit in the markets, the Group will balance further share growth with improved profitability; and if the Group achieves market leadership, Lenovo will seek to maximize profitability.

Operating loss in Emerging Markets (excluding China) recorded US$94 million during the fiscal year, against an operating loss of US$62 million recorded in the previous fiscal year.

Mature Markets

Mature Markets accounted for 42 percent of the Group's total revenue.

The Group continued to record strong performance in shipments and improved profitability in Mature Markets during the fiscal year. The Group's unit shipments in Mature Market grew 53 percent, against overall market decline of 5 percent. According to preliminary industry estimates, its market share reached a record high level of 8.7 percent during the fiscal year, and record-high 10.1 percent market share in the fiscal quarter four, the first time its mature market share to reach double-digit level.

Leveraging its unique strength in commercial business, Lenovo continued to benefit from solid corporate PC demand during the year. At the same time, the Group increased its presence in SMB business with encouraging growth through its strong performance in Transaction Model and execution of its channel strategy. Lenovo also expanded its footprint in consumer markets through expanding retail presence, supported by investments in branding to assert the Group's consumer image.

The strong growth in the market was a result of successes across all regions. The Group achieved unit shipment growth of 30 percent year-on-year in North America and recorded historical high market share of 7.1 percent in the region. During the fiscal year, the Group also successfully completed the business combination of NEC Joint Venture and Medion. These two entities helped improve the Group's already good performance in Japan and Western Europe. The Group's unit shipment grew 37 percent year-on-year and recorded market share of 7.8 percent in Western Europe; and its unit shipments in Japan also surged 237 percent year-on-year with market share of 20.6 percent for the fiscal year 2011/12.

Operating profit in Mature Markets was US$354 million during the fiscal year, against US$134 million recorded in the previous fiscal year. The Group's operating profit continued to show improvement in every quarter during the fiscal year. Mature Markets' operating margin was 2.9 percent for the fiscal year, against 1.7 percent last year.

Performance of Product Groups

During the fiscal year 2011/12, Lenovo achieved strong and balanced unit shipments growth in both commercial and consumer PC products, as well as in both desktop and notebook PC products. The MIDH Group also made good progress in its first full year since being established. It has rolled out a wide range of smartphones, feature phones and tablets, and Smart TV, which will be launched later this year.

Lenovo is committed to and investing in innovation that differentiates its products. At the International Consumer Electronics Show (CES) in Las Vegas in January 2012, Lenovo won a record 23 major awards, more than our top 5 competitors combined, demonstrating the industry's recognition of the outstanding quality, design and functionality of the Group's products.

Think Product Group

The performance of the Think Product Group, which mainly targets commercial customers, benefited from solid corporate PC demand. The Group leveraged its unique, dual-business model which serves global, large enterprise customers through its relationship model, as well as small-to-medium business through its Transaction Model. According to industry estimates, Lenovo's commercial PC unit shipments grew 26 percent year-on-year and its market share in the worldwide commercial PC market increased by 3.0 percentage point year-on-year to 16.8 percent during the fiscal year.

Lenovo offers a wide range of commercial desktops and notebooks to businesses of all sizes that feature cutting-edge technology, customer-centric innovation and powerful productivity features. In January 2012, Lenovo unveiled the ThinkPad X1 Hybrid laptop, which combined the thin, light and performance benefits of its predecessor – the X1 – with double the battery life. The Group also in the same month announced the launch of the ThinkPad T430u UltrabookTM, the Company's first business ultrabook giving professionals exceptionally thin and light design without sacrificing performance and productivity.

In addition to the CES Innovation Award won, the ThinkPad X1 Laptop was awarded the prestigious International Forum (iF) Product Design Award for 2012 in the computer category. ThinkPad X1 Laptop was selected out of nearly 3,000 entries for its design quality, finish, choice of materials, innovation, environmental impact, functionality, ergonomics and brand value among other aspects.

Idea Product Group

The Idea Product Group, which primarily focuses on the consumer products, was propelled by continued strong growth of the consumer PC segment in China and other emerging markets, as well as growth in Mature Markets under the Group's strategy to attack consumer business in the region. According to industry estimates, Lenovo's consumer PC's unit shipments grew 51 percent year-on-year and its market share increased by 3.1 percentage point year-on-year to 9.7 percent.

During the fiscal year, Lenovo launched a number of innovative IdeaPad PCs including the spectacularly slim IdeaPad U300s Ultrabook® and ultra-slim IdeaPad U400, designed for sophisticated consumers who value style and functionality. Lenovo's IdeaPad U300s, as its first Ultrabook, won a Gold Product Design Award from the iF 2012 out of over 2,000 product entries from around the world, for its pioneering design strategy that combines stylish aesthetics and innovative comfort features.

Notebook Products

Lenovo also achieved strong balanced unit shipments growth and market share gains for notebook PCs during the fiscal year. The Group's notebook PC unit shipments grew 36 percent year-on-year against the market growth of only 5 percent, and its market share in worldwide notebook PC increased by 2.9 percentage point year-on-year to 13.0 percent for the fiscal year. This performance helped Lenovo to become the world's third largest notebook company and maintain the world's second largest commercial notebook company.

Desktop Products

In the desktop PC segment, Lenovo captured the increasing demand for All-in-One PCs (AIO) in the consumer desktop market, and successfully grew its AIO business, making it the world's largest consumer AIO player in the fiscal quarter four and reinforced its world's number two commercial AIO position, as the fastest growing player among the top five worldwide AIO industry players. The Group's desktop PC unit shipments grew 34 percent year-on-year, about 75 times of the growth of the overall worldwide desktop PC market of 0.5 percent. As a result, Lenovo's worldwide market share in desktop

PC increased by 3.2 percentage point year-on-year, to 12.8 percent, and the Group has become the world's second largest desktop PC company from the third position in previous fiscal year, according to industry estimates.

Mobile Internet Products

Seeing the growing demand for mobile internet devices, Lenovo has been driving its expansion into these new devices through its MIDH Group, which has seen very encouraging progress. The MIDH Group is responsible for creating mobile internet-focused devices, including smartphones, feature phones, and tablet products, as well as new category devices like Smart TV. It is also responsible for developing cloud services and applications that will fuel these next generation convergence devices.

MIDH revenue accounted for 5 percent of the Group's total revenue. Lenovo's mobile internet business recorded strong growth in the fiscal year from strong demand in mobile phone market in China. Total mobile phone unit shipments including smartphones and feature phones grew strongly and outperformed the market quarter after quarter, helping Lenovo to achieve a record year in the fiscal year 2011/12, with unit shipments grew 62 percent year-on-year. The Group's smartphones -- especially the entry level smartphones such as A60 -- continued to capture strong growth momentum and grew about 11 times year-on-year against the market growth of 1.8 times. Lenovo's market share in China smartphone increased by 8.6 percentage point from the fiscal quarter one to record-high 9.5 percent in the fiscal quarter four , making its full-year smartphone market share to reach 5.8 percent for the fiscal year 2011/12, a 4.6 percentage point growth year-on-year. At the fiscal year end, Lenovo was the number four smartphone company in China. The traditional feature phone market in China further shrunk by 6 percentage year-on-year affected by the cannibalization of entry-level smartphones. Nevertheless, Lenovo continued to outperform the market with a solid unit shipments growth of 11 percent. The Group's market share in China's feature phone business increased by 1.6 percentage points from last year to 6.9 percent.

In tablets, the Group rolled out a range of new tablet products of different screen sizes, targeting both consumer and commercial customers in China, as well as in certain countries outside of China. The Group's effective strategy to focus on small-to-medium size tablets led to a growth of 5.3 times of unit shipments for tablet products from the fiscal quarter one, when the products were first launched, to the fiscal quarter four. Lenovo was the number one provider in Android tablet market in China, the number two of overall China tablet market in the fiscal year 2011/12, and has become the number four tablet vendor in the world in the fiscal quarter four.

The Group has also planned for the launch of more new smartphones and tablets products to transit successful products to fuel future continuous growth. The Group just announced in May the launch of the K-series Lenovo Smart TV products, the first Google certified television product to adopt the Android 4.0 OS in the world. With the launch of Smart TV, Lenovo is now offering products across all four screens – PCs, smartphones, tablets and Smart TV --- that define the company's long-term "PC+" strategy.

Future Prospects

Lenovo is entering a new era in technology – we call it the PC+ Era. While PCs are central to the digital lives of millions of people and businesses, there are many new devices emerging on the scene. They offer different experiences and applications, but all share the "heart" of a PC.

Although challenges to worldwide PC demand remain, Lenovo remains optimistic that its growth momentum will continue. The Group is fully committed to the PC industry and is strong where the market is strong. The Group will continue its successful "Protect and Attack" strategy to drive balanced, strong unit shipments growth, business scale expansion and profitability enhancement and innovation in PCs while also expanding its business across the four screens (PC, tablet, smartphone, smart TV) of devices and into the ecosystem of cloud, services and other applications that make up the PC+ market.

In China, where growth momentum will continue, maintaining its premium against the global PC market in coming year, Lenovo will continue to expand its market leading position in PC market. Lenovo will also leverage on its mature market leader position with strong commercial presence, and solidly execute its Protect and Attack strategy to evolve from a winning PC company to a winning PC+ company. The Group will strive to breakthrough its PC+ area, building on its strong consumer and four-screen foundation in the China, and grow tablet and smartphones in China and launch Smart TV, while expand cloud offerings worldwide.

Outside China, Lenovo is focused on its protect and attack strategy by not only addressing the growing "consumerization" trend but to start building the solid channel, brand and ecosystem to win in the PC+ Era.

Lenovo is strengthening its position in core markets, such as in China and in PCs for large organizations globally (Protect), while aggressively pursuing new high-growth opportunities, such as tablets, smartphones, mobile Internet and cloud computing, and in emerging markets (attack). An important part of "protect and attack" is balance. Balance between emerging and mature markets; balance between leading innovation in PCs and developing new PC+ products, as well as balance between commercial and consumer customer groups. The Group's emerging markets business has shown strong growth and as reaching scale is also moving to a more profitable model.

The Group will continue its investment in building its core competencies, product innovation, branding and new PC+ segments, including mobile internet and digital home (MIDH), balancing expenses and revenues to drive long-term sustainable profit growth.

Lenovo will continue to refine its business model and deliver efficient growth. The Group has modified its new geographic organizational structure that will be effective in the new fiscal year, and the new organizational structure will create a more balanced geographic organization structure, improve end-to-end operational efficiency, and drive stronger growth. The new organizational structure will include four geographies, namely China, North America, EMEA, and Asia Pacific and Latin America, and each of them will be led by experienced, strong leaders.

The NEC joint venture and Medion acquisition have contributed to the Group after being consolidated into the Group's results since the fiscal quarter two. Both are well on track with its plan. The Group, given its strong financial position, will continue to actively look for inorganic growth opportunities which will supplement its organic growth strategy to accelerate future expansion. Lenovo will build on the success by continuing to focus on scaling its growth and controlling costs, thereby enhancing its competitiveness.

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

During the year ended March 31, 2012, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 and internal control system. 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, 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 of the Group for the year ended March 31, 2012. 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, 2012, 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 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.2.1
Under Code A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Following the resignation of Mr. Liu Chuanzhi on November 3, 2011, Mr. Yang Yuanqing has been appointed as the chairman of the Board ("Chairman") and has performed both the roles as the Chairman and Chief Executive Officer of the Company. The Board is of the opinion that it is appropriate and in the best interests of the Company at the present stage for Mr. Yang to hold both the positions as it helps to maintain the continuity of the policies and stability of the operations of the Company. The Board comprising a vast majority of non-executive directors meets regularly on a quarterly basis to review the operations of the Company led by Mr. Yang. Accordingly, the Board believes that this arrangement will not have negative influence on the balance of power and authorizations between the Board and the management of the Company.

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. In February 2012, all the non-executive directors (including independent non-executive directors) have entered into letters of appointment with the Company for a term of three years subject to retirement by rotation as provided for in the articles of association of the Company.

Code E.1.2
Mr. Liu Chuanzhi, the former Chairman was unable to attend the Company's annual general meeting which was held on July 22, 2011 as he had an engagement that was important to the businesses of the Company.

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 2011/12 Annual Report. Particularly, the Company published quarterly financial results and business review 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
Yang Yuanqing
Chairman and
Chief Executive Officer

Hong Kong, May 23, 2012

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