Lenovo Group Limited 聯想集團有限公司

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

# FY2014/15 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, 2015 together with comparative figures of last year, as follows:

## FINANCIAL HIGHLIGHTS

- **Group revenue of US$46.3B, up 20% YTY, includes 2 quarters of System X and 5 months of Motorola performances**
- **Group PTI before non-cash M&A-related accounting charges was US$1,139M, up 12% YTY (non-cash M&A-related accounting charges, such as intangible asset amortization, imputed interest expense of promissory notes and others were US$168M)**
- **Group PTI of US$971M and Group Net Income of US$829M**
- **Group Net Income before non-cash M&A related accounting charges was US$997M, up 22% YTY**

| | 3 months ended March 31, 2015 *US$'million* | Year ended March 31, 2015 *US$'million* | 3 months ended March 31, 2014 *US$'million* | Year ended March 31, 2014 *US$'million* | Year-on-year change 3 months ended March 31 | Year-on-year change Full-year |
|---|---|---|---|---|---|---|
| Revenue | 11,334 | 46,296 | 9,357 | 38,707 | 21% | 20% |
| Gross profit | 1,779 | 6,682 | 1,244 | 5,064 | 43% | 32% |
| Gross profit margin | 15.7% | 14.4% | 13.3% | 13.1% | 2.4 pts | 1.3 pts |
| Operating expenses | (1,652) | (5,574) | (1,013) | (4,012) | 63% | 39% |
| Operating profit | 127 | 1,108 | 231 | 1,052 | (45)% | 5% |
| Other non-operating expenses - net | (23) | (137) | (19) | (38) | 20% | 263% |
| Profit before taxation | 104 | 971 | 212 | 1,014 | (51)% | (4)% |
| Profit for the period/year | 97 | 837 | 168 | 817 | (42)% | 2% |
| Profit attributable to equity holders of the Company | 100 | 829 | 158 | 817 | (37)% | 1% |
| Earnings per share attributable to equity holders of the Company | | | | | | |
| Basic | US 0.91 cents | US 7.77 cents | US 1.53 cents | US 7.88 cents | US (0.62) cents | US (0.11) cents |
| Diluted | US 0.90 cents | US 7.69 cents | US 1.51 cents | US 7.78 cents | US (0.61) cents | US (0.09) cents |

## PROPOSED DIVIDEND

The Board recommended the payment of a final dividend of HK20.5 cents per share for the year ended March 31, 2015 (2014: HK18.0 cents). Subject to shareholders' approval at the forthcoming annual general meeting ("AGM"), the proposed final dividend will be payable on Tuesday, July 14, 2015 to the shareholders whose names appear on the register of members of the Company on Wednesday, July 8, 2015.

## CLOSURE OF REGISTER OF MEMBERS

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

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

| | |
|---|---|
| Latest time to lodge transfer documents for registration | 4:30 p.m. on Tuesday, June 30, 2015 |
| Closure of register of members | Thursday, July 2, 2015 |
| Record date | Thursday, July 2, 2015 |

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

| | |
|---|---|
| Latest time to lodge transfer documents for registration | 4:30 p.m. on Tuesday, July 7, 2015 |
| Closure of register of members | Wednesday, July 8, 2015 |
| Record date | Wednesday, July 8, 2015 |

During the above closure periods, no transfer of shares will be registered. To be eligible to attend and vote at the AGM, and to qualify for the proposed final dividend, all properly completed transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's share registrar, Tricor Abacus Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than the aforementioned latest times.

## BUSINESS REVIEW AND OUTLOOK

### Business Review

Fiscal year 2014/15 was another record year for Lenovo with a more diversified business. Lenovo continued to deliver solid performance along with smooth integration of Motorola and System X. The Group has broadened its device business from PC to include mobile and enterprise businesses. All these businesses delivered strong performance and contributed to the Group's record performance during the year under review. The Group's PC business continued to lead the industry, while the M&A transactions further strengthened its mobile and enterprise business as two new growth pillars for the Group. During the year under review, Lenovo continued to strengthen its leading position in the PC industry with record shipments and continuous growth in revenue, share and profit. The Group's mobile business together with Motorola delivered record shipments and built a more globally balanced business. The Group's Think Server business recorded hyper-growth while the System X business integration has been on track and stabilized towards the fiscal year-end. The Group has included two quarters of System X and five months' of Motorola performance in the Group's fiscal year results.

For the fiscal year ended March 31, 2015, the Group's consolidated revenue increased by 20 percent year-on-year to record-high US$46,296 million. Excluding currency impacts, the revenue increase would be 23 percent compared to last fiscal year. Revenue of the Group's PC business was US$33,346 million, representing a year-on-year increase of 5 percent. The revenue of Mobile business increased 71 percent year-on-year to US$9,142 million. The revenue of Enterprise business increased 420 percent year-on-year to US$2,628 million. Meanwhile, revenue of other goods and services were US$1,180 million.

The Group's gross profit increased by 32 percent year-on-year to US$6,682 million and gross margin increased 1.3 percentage points year-on-year to 14.4 percent. Operating expenses increased by 39 percent year-on-year to US$5,574 million. The expenses-to-revenue ratio was 12.0 percent. Both gross margin and expense to revenue ratio have included the increase from adding System X and Motorola businesses. The Group profit before taxation before non-cash M&A related accounting charges was US$1,139 million, up 12 percent against last year. The non-cash M&A-related charges included intangible asset amortization, imputed interest expense of the three-year promissory note issued as part of the transaction, and others. The Group's profit before taxation reached US$971 million, representing a 4 percent decrease year-on-year. The Group's net income before non-cash M&A related accounting charges was US$997 million, up 22 percent year-on-year. The Group's net income was US$829 million, representing an increase of 1 percent from the previous fiscal year.

**Performance of Product Business Groups**

During the fiscal year 2014/15, Lenovo has built a more balanced product portfolio and each of its products achieved strong unit shipments growth. The Group's non PC revenue contribution rose from 18 percent a year ago to 28 percent in the fiscal year under review.

**PC Business Group (PCG)**

During the fiscal year under review, the global PC industry continued to decline due to macro-economic issues and the evolution of new form factors. Despite the market challenges, the Group continued to outperform the PC market through solid execution of its strategy to reach record-high market share across all geographic, product and customer segments. In December 2014, Lenovo achieved an important milestone with ThinkPad products reaching 100 million units sold.

The Group's commercial PC unit shipments increased 3 percent year-on-year, compared to the 3 percent year-on-year decline by the market. Lenovo's market share in the worldwide commercial PC market increased by 1.3 percentage points year-on-year to a record high of 20.9 percent during the period under review, according to preliminary industry estimates. The Group's consumer PC unit shipments grew 15 percent year-on-year, a 17-point premium to the market, to drive its market share up by 2.8 percentage points year-on-year to a record high of 18.5 percent, according to the preliminary industry estimates.

Revenue of the Group's PC business was US$33,346 million, representing approximately 72 percent of the Group's total revenue, recorded a year-on-year increase of 5 percent. The business group also recorded a record high pre-tax income of US$1,771 million, up 51 percent year-on-year and pre-tax margin was 5.3 percent against 3.7 percent last year.

**Mobile Business Group (MBG)**

During the fiscal year under review, the Group's mobile business continued to deliver strong growth driven through aggressive expansion in markets outside of China. The Group's worldwide smartphone shipments grew over 50 percent year-on-year to 76 million including two quarters of Motorola, driven by aggressive business expansion in emerging markets outside of China from Lenovo brand products and strong growth of the Motorola brand products. Together with Motorola, the Group's total smartphone shipments from markets outside of China represent 41 percent of worldwide shipments in the fiscal year under review, which now makes Lenovo a truly global player that ranked number three worldwide. Lenovo's market share in the worldwide smartphone market continued to expand by 1.0 percentage points year-on-year to 5.7 percent during the period under review, according to preliminary industry estimates.

On the tablet side, the Group's tablet shipments increased 26 percent year-on-year, a 24-point premium to the market, to 11.6 million unit shipments during the fiscal year under review, according to preliminary industry estimates. The Group's tablet shipments outside of China continued to show strong growth, accounting for 87 percent of the Group's total shipments. The Group's worldwide tablet market share increased by 1.0 percentage points year-on-year to 5.1 percent.

The total revenue from Mobile business including Motorola increased 71 percent year-on-year to US$9,142 million, representing approximately 20 percent of the Group's total revenue. Profitability of Motorola has been improving since closing of the transaction in October last year. Nevertheless, the Mobile Business Group still recorded a loss before taxation of US$370 million and a negative 4.0 percent pre-tax margin.

**Enterprise Business Group (EBG)**

The Group's enterprise business that now includes System X has become number three worldwide, according to preliminary industry estimates. During the year under review, the Think server business continued to show strong growth while the System X business showed signs of stabilization during the first two quarters of integration.

Revenue of the Enterprise business was US$2,628 million, including two quarters of System X contribution, representing approximately 6 percent of the Group's total revenue. The loss before taxation was US$121 million, and its pre-tax margin was negative 4.6 percent.

**Others**

Apart from devices, the Group continued to build a foundation for its ecosystem business during the period under review, helping to create a better user experience for Lenovo's product users. The Group's star applications, including SHAREit and SECUREit apps, continued to show good customer traction. The Group now has one of the world's largest app stores with around 400 million users and 70 million monthly active users, an increase of 170 percent year-on-year.

Revenue from ecosystem, cloud services and other products such as consumer electronic businesses acquired in previous acquisitions decreased 3 percent to US$1,180 million, representing approximately 2 percent of the Group's total revenue.

**Performance of Geographies**

Lenovo achieved solid and balanced performance in all geographies where it has operations —China, Americas, Asia Pacific, and Europe-Middle East-Africa – as well as across product and customer segments.

**China**

China accounted for 32 percent of the Group's total revenue. Despite the softness of the PC market due to macro-economic issues, Lenovo continued to outperform in the China PC market through its solid execution and strong brand and distribution channel network. The Group maintained its strong number one position with market share gain of 1.5 point year-on-year to record-high 36.6 percent, and continued to improve its profitability by leveraging its leadership position.

The Group has refined its Lenovo brand smartphone strategy and focused on balancing growth and profitability amid stiff competition in China. The Group believes China remains an important market and will continue to expand its business through more routes to market, including online and the new channel from ShenQi, and a broader product portfolio from mainstream to premium with Motorola re-entering China.

During the year under review, the Think server business continued to show strong growth while the System X business showed signs of stabilization during the first two quarters of integration in China.

Profit before taxation remained flat at US$795 million and operating margin was 5.4 percent, flat year-on-year attribute to the performance in smartphone business.

**Americas (AG)**

Americas accounted for 26 percent of the Group’s total revenue driven by growth across all products. Lenovo’s PC unit shipments in AG grew by 4 percent year-on-year, an 8-point premium to the market, driven by strong growth in consumer businesses. The Group’s market share increased by 0.9 percentage points from a year ago to a record-high of 11.7 percent, according to preliminary industry estimates. The Group continued to deliver solid growth in the North America region driven by balanced growth in both consumer and commercial businesses, and further increased its market share in North America by 0.5 points to 10.9 percent year-on year. However, the Group’s performance in Brazil was still impacted by the weak market environment, though actions have been taken to stabilize the business.

The Group’s smartphone shipments have achieved strong growth in the region during the period under review, thanks to the inclusion of Motorola. The Group’s EBG business is preparing to attack and gain more enterprise customers in the future.

The Group earned US$8 million operating profit in the region, and operating margin was 0.1 percent, a decrease of 0.7 percentage point year-on-year. The decrease was mainly attributable to the poor performance in Brazil.

**Asia Pacific (AP)**

Asia Pacific accounted for 14 percent of the Group’s total revenue. The Group continued to drive strong profitable growth in its businesses in AP during the year under review. The Group’s PC shipments achieved a 6-point premium growth to the market driven by strong shipments growth in ASEAN and ANZ regions with year-on-year growth of 8 percent and 51 percent, respectively. The Group’s market share in AP increased by 0.9 percentage points year-on-year, to a record-high of 15.7 percent during the period under review, according to preliminary industry estimates.

The Group also achieved strong growth in smartphones driven by strong growth from Motorola during the period under review. The Group’s EBG business will leverage its existing PC channel expertise and product portfolio from System X to accelerate the business in the future.

Profit before taxation increased by 176 percent to US$302 million during the fiscal year and operating margin was 4.6 percent, an increase of 2.8 percentage points year-on-year.

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

EMEA accounted for 28 percent of the Group’s total revenue. Lenovo’s PC unit shipments in EMEA grew by 35 percent year-on-year, which was a 32-point premium to the market. The Group’s market share in EMEA increased by 4.5 percentage points year-on-year to a record high of 19.4 percent for the fiscal year, according to preliminary industry estimates. Strong year-on-year unit shipments growth and share gains were recorded across all EMEA regions during the period under review.

The Group continued to expand its smartphone business in EMEA and achieved strong growth during the year under review. The Group’s EBG business will attack with more aggression to grow the enterprise business in the region.

Profit before taxation in EMEA regions increased by 119 percent to US$411 million during the fiscal year under review with operating margin improved by 1.2 percentage points year-on-year to 3.2 percent.

**Outlook**

Lenovo has demonstrated a consistent and solid track record in delivering results through strong execution of its clear strategy to balance short-term results and long-term objectives. The Group will continue to focus on protecting and driving profitability in the core PC business, while attacking in fast growing mobile, enterprise and ecosystem/cloud businesses. Lenovo believes its strong PC leadership remains a solid profit engine with plenty of further opportunities for profitable growth, particularly as the industry continues to consolidate.

Meanwhile, the rise of new technology and market trends, particularly the social mobile internet, has posed market opportunities and challenges as consumer behavior is changing. The Group is undergoing a transformation process, changing its focus from a product-centric to customer-centric company; from selling products to providing a distinctive experience & engaging customers. The Group will increase the number and quality of touch points with customers beyond purchase, establishing a stronger connection and engagement with customers. From the product perspective, the Group will broaden from hardware to end to end experiences beyond devices. This will include a focus on personalization and connectivity (to networks, device to device & cloud services). In addition, the Group will pursue innovations from its sales, manufacturing, services and marketing process, to further enhance its user experiences. The Group believes this transformation will position Lenovo well to capture the growth opportunities arising from this trend.

To facilitate the Group's strategy, effective from April 1, 2015, Lenovo has realigned its four business groups into two strategic business groups – PCG/EBG and MBG/ECS – to increase focus where synergies exist and align leadership strengths. PCG/EBG will continue to drive savings from the integration of its supply chain, procurement and R&D resources and provide the most comprehensive portfolio to its customers. MBG/ECS will prioritize growth and innovation by creating strong affinity between device and service in the mobile internet market to capture those growth opportunities from new trends such as the Internet of Things.

Lenovo's solid execution of its clear strategy continues to be the firm foundation upon which the Group's success is built. The Group's commitment to innovation across its entire product portfolio helps differentiate the Group worldwide. Lenovo has a clear strategy, great global scale, and proven operational excellence. With the integration of System X and Motorola, it will give the Group three growth engines – PC, Mobile and Enterprise. Looking forward, the Group will continue to focus on transforming into a truly global and diversified company with improved operating efficiency and strengthened competitiveness. The Group is confident that Motorola and System X are on track to deliver their targets. The Group will continue to invest in building its core competencies, product innovation, and end-to-end efficiency enhancing its competitiveness to ensure future sustainable profit growth.

## FINANCIAL REVIEW

***Results for the year ended March 31, 2015***

| | **2015** *US$'million* | 2014 *US$'million* | Year-on-year change |
|---|---|---|---|
| Revenue | **46,296** | 38,707 | 20% |
| Gross profit | **6,682** | 5,064 | 32% |
| Gross profit margin | **14.4%** | 13.1% | 1.3pts |
| Operating expenses | **(5,574)** | (4,012) | 39% |
| Operating profit | **1,108** | 1,052 | 5% |
| Other non-operating expenses - net | **(137)** | (38) | 263% |
| Profit before taxation | **971** | 1,014 | (4)% |
| Profit for the year | **837** | 817 | 2% |
| Profit attributable to equity holders of the Company | **829** | 817 | 1% |
| Earnings per share attributable to equity holders of the Company | | | |
| Basic | **US 7.77 cents** | US 7.88 cents | US (0.11) cents |
| Diluted | **US 7.69 cents** | US 7.78 cents | US (0.09) cents |

For the year ended March 31, 2015, the Group achieved total sales of approximately US$46,296 million. Profit attributable to equity holders for the year was approximately US$829 million, representing an increase of US$12 million as compared with last year. Gross profit margin for the year was 1.3 point up from 13.1 percent reported last year. Basic earnings per share and diluted earnings per share were US7.77 cents and US7.69 cents, representing a decrease of US0.11 cents and US0.09 cents respectively as compared with last year.

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

| | **2015** *US$'000* | 2014 *US$'000* |
|---|---|---|
| China | **14,700,270** | 14,725,659 |
| AP | **6,549,339** | 6,162,919 |
| EMEA | **12,803,357** | 9,580,700 |
| AG | **12,242,627** | 8,237,851 |
| | **46,295,593** | 38,707,129 |

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

Operating expenses analyzed by function for the year ended March 31, 2015 and 2014 are as follows:

| | **2015** *US$'000* | 2014 *US$'000* |
|---|---|---|
| Other income - net | **1,490** | 22,427 |
| Selling and distribution expenses | **(2,302,182)** | (1,900,005) |
| Administrative expenses | **(1,883,114)** | (1,402,979) |
| Research and development expenses | **(1,220,919)** | (732,454) |
| Other operating (expenses)/income - net | **(168,574)** | 1,417 |
| | **(5,573,299)** | (4,011,594) |

Operating expenses for the year increased by 39% as compared with last year. This is principally attributable to the operating expenses of US$1,433 million recorded by System X and Motorola following the completion of the respective acquisitions on October 1 and October 30, 2014. Key expenses by nature comprise:

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Depreciation of property, plant and equipment and amortization of prepaid lease payments | **(127,516)** | (74,472) |
| Amortization of intangible assets | **(287,877)** | (127,163) |
| Employee benefit costs, including | **(2,997,614)** | (2,332,675) |
| - *long-term incentive awards* | ***(99,062)*** | *(80,274)* |
| Rental expenses under operating leases | **(88,774)** | (75,922) |
| Net foreign exchange loss | **(189,550)** | (79,242) |
| Advertising and promotional expenses | **(675,760)** | (554,415) |
| Others | **(1,206,208)** | (767,705) |
| | **(5,573,299)** | (4,011,594) |

Depreciation and amortization charges increased by US$214 million which is attributable to the increase in the business activities of the Group as well as the amounts brought in by System X and Motorola. Additional amortization of intangible assets in connection with the acquisition of System X and Motorola for the year totaled US$127 million. The increase in employee benefit costs is in line with the increased headcount as a result of the two acquisitions and the continuous expanding business operations of the Group. The impact of currency fluctuations during the year present a challenge, the Group recorded a net exchange loss of US$190 million (2014: US$79 million) for the year.

Other non-operating expenses (net) for the year ended March 31, 2015 and 2014 comprise:

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Finance income | **30,902** | 33,893 |
| Finance costs | **(185,504)** | (80,974) |
| Share of profits of associates and joint ventures | **17,055** | 9,221 |
| | **(137,547)** | (37,860) |

Finance income mainly represents interest on bank deposits.

Finance costs for the year increased by 129 percent as compared with last year. This is mainly attributable to interest expense of US$60 million in relation to the 5-Year US$1.5 billion notes, issued in May 2014, bearing annual interest at 4.7% due in May 2019; an increase in factoring costs of US$30 million; and US$17 million interest expense in relation to promissory note issued to Google Inc.

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

**Fourth Quarter 2014/15 compared to Fourth Quarter 2013/14**

| | **3 months ended March 31, 2015** ***US$'million*** | 3 months ended March 31, 2014 *US$'million* | Year-on-year change |
|---|---|---|---|
| Revenue | **11,334** | 9,357 | 21% |
| Gross profit | **1,779** | 1,244 | 43% |
| Gross profit margin | **15.7%** | 13.3% | 2.4 pts |
| Operating expenses | **(1,652)** | (1,013) | 63% |
| Operating profit | **127** | 231 | (45)% |
| Other non-operating expenses - net | **(23)** | (19) | 20% |
| Profit before taxation | **104** | 212 | (51)% |
| Profit for the period | **97** | 168 | (42)% |
| Profit attributable to equity holders of the Company | **100** | 158 | (37)% |
| Earnings per share attributable to equity holders of the Company | | | |
| Basic | **US 0.91 cents** | US 1.53 cents | US (0.62) cents |
| Diluted | **US 0.90 cents** | US 1.51 cents | US (0.61) cents |

For the three months ended March 31, 2015, the Group achieved total sales of approximately US$11,334 million. Profit attributable to equity holders for the period was approximately US$100 million, representing a decrease of US$58 million as compared with the corresponding period of last year. Gross profit margin for the period was 2.4 points up from 13.3 percent reported in the corresponding period of last year. Basic earnings per share and diluted earnings per share were US0.91 cents and US0.90 cents, representing a decrease of US0.62 cents and US0.61 cents respectively as compared with the corresponding period of last year.

Sales by geographical segment are as follows:

| | **3 months ended March 31, 2015** ***US$'000*** | 3 months ended March 31, 2014 *US$'000* |
|---|---|---|
| China | **3,071,064** | 3,101,845 |
| AP | **1,691,685** | 1,736,622 |
| EMEA | **2,966,483** | 2,574,730 |
| AG | **3,604,505** | 1,944,496 |
| | **11,333,737** | 9,357,693 |

Operating expenses analyzed by function for the three months ended March 31, 2015 and 2014 are as follows:

| | **3 months ended March 31, 2015** ***US$'000*** | 3 months ended March 31, 2014 *US$'000* |
|---|---|---|
| Selling and distribution expenses | **(657,805)** | (457,372) |
| Administrative expenses | **(545,840)** | (399,249) |
| Research and development expenses | **(424,353)** | (185,136) |
| Other operating (expenses)/income - net | **(23,614)** | 29,255 |
| | **(1,651,612)** | (1,012,502) |

Operating expenses increased by 63 percent as compared to the corresponding period of last year. This is principally attributable to the operating expenses of US$725 million recorded by System X and Motorola following the completion of the respective acquisitions on October 1 and October 30, 2014. Key expenses by nature comprise:

| | **3 months ended March 31, 2015** *US$'000* | 3 months ended March 31, 2014 *US$'000* |
|---|---|---|
| Depreciation of property, plant and equipment and amortization of prepaid lease payments | **(46,318)** | (18,502) |
| Amortization of intangible assets | **(118,048)** | (37,096) |
| Employee benefit costs, including | **(889,261)** | (603,668) |
| - *long-term incentive awards* | ***(20,042)*** | *(17,608)* |
| Rental expenses under operating leases | **(24,958)** | (19,383) |
| Net foreign exchange loss | **(47,141)** | (22,108) |
| Advertising and promotional expenses | **(201,244)** | (106,616) |
| Others | **(324,642)** | (205,129) |
| | **(1,651,612)** | (1,012,502) |

Other non-operating expenses (net) for the three months ended March 31, 2015 and 2014 comprise:

| | **3 months ended March 31, 2015** *US$'000* | 3 months ended March 31, 2014 *US$'000* |
|---|---|---|
| Finance income | **6,721** | 8,822 |
| Finance costs | **(52,163)** | (27,297) |
| Share of profits/(loss) of associates and joint ventures | **21,941** | (1,168) |
| | **(23,501)** | (19,643) |

Other non-operating expenses (net) increased by 20 percent as compared to the corresponding period of last year. This is mainly attributable to interest expense of US$16 million in relation to the 5-Year US$1.5 billion notes, issued in May 2014, bearing annual interest at 4.7% due in May 2019; an increase in factoring costs of US$3 million; and US$10 million interest expense in relation to promissory note issued to Google Inc., partly offset by share of profits of associates and joint ventures arising from share of operating income from respective associates and joint ventures.

**Capital Expenditure**

The Group incurred capital expenditure of US$972 million (2014: US$675 million) during the year ended March 31, 2015, mainly for the acquisition of property, plant and equipment, prepaid lease payments, additions in construction-in-progress and intangible assets.

**Liquidity and Financial Resources**

At March 31, 2015, total assets of the Group amounted to US$27,081 million (2014: US$18,357 million), which were financed by equity attributable to owners of the Company of US$4,084 million (2014: US$3,010 million), non-controlling interests (net of put option written on non-controlling interest) of US$22 million (2014: US$15 million), and total liabilities of US$22,975 million (2014: US$15,332 million). At March 31, 2015, the current ratio of the Group was 0.90 (2014: 1.00).

The Group had a solid financial position. At March 31, 2015, bank deposits, cash and cash equivalents totaled US$3,026 million (2014: US$3,953 million), of which 53.2 (2014: 66.9) percent was denominated in US dollar, 35.6 (2014: 23.8) percent in Renminbi, 2.8 (2014: 4.1) percent in Euro, 0.7 (2014: 2.2) percent in Japanese Yen, and 7.7 (2014: 3.0) percent in other currencies.

The Group adopts a conservative policy to invest the surplus cash generated from operations. At March 31, 2015, 75.4 (2014: 81.8) percent of cash are bank deposits, and 24.6 (2014: 18.2) 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 5-Year revolving loan facility agreement with syndicated banks for US$500 million on February 2, 2011. The facility was utilized to the extent of US$300 million as at March 31, 2015 (2014: Nil).

In addition, on December 18, 2013, the Group entered into another 5-Year loan facility agreement with syndicated banks for US$1,200 million, comprising US$800 million as short term. The facility was utilized to the extent of US$1,100 million, comprising US$700 million short-term, as at March 31, 2015 (2014: Nil).

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

The Group has also arranged other short-term credit facilities. At March 31, 2015, the Group's total available credit facilities amounted to US$12,223 million (2014: US$7,890 million), of which US$1,353 million (2014: US$489 million) was in trade lines, US$339 million (2014: US$325 million) in short-term and revolving money market facilities and US$10,531 million (2014: US$7,076 million) in forward foreign exchange contracts. At March 31, 2015, the amounts drawn down were US$316 million (2014: US$214 million) in trade lines, US$9,822 million (2014: US$6,513 million) being used for the forward foreign exchange contracts, and US$177 million (2014: US$145 million) in short-term bank loans.

At March 31, 2015, the Group's outstanding borrowings represented by the term bank loan of US$395 million (2014: US$310 million), short-term bank loans of US$1,168 million (2014: US$145 million) and long term notes of US$1,491 million (2014: Nil). When compared with total equity of US$4,106 million (2014: US$3,025 million), the Group's gearing ratio was 0.74 (2014: 0.15). The net debt position of the Group at March 31, 2015 is US$28 million (2014 net cash position: US$3,498 million).

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

The Group adopts a consistent hedging policy for business transactions to reduce the risk of currency fluctuation arising from daily operations. At March 31, 2015, the Group had commitments in respect of outstanding forward foreign exchange contracts amounting to US$9,822 million (2014: US$6,513 million).

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

**Contingent Liabilities**

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

**Human Resources**

At March 31, 2015, the Group had a headcount of more than 60,000 worldwide.

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

## CONSOLIDATED INCOME STATEMENT

| | Note | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| Revenue | 2 | **46,295,593** | 38,707,129 |
| Cost of sales | | **(39,613,780)** | (33,643,480) |
| Gross profit | | **6,681,813** | 5,063,649 |
| Other income – net | 3 | **1,490** | 22,427 |
| Selling and distribution expenses | | **(2,302,182)** | (1,900,005) |
| Administrative expenses | | **(1,883,114)** | (1,402,979) |
| Research and development expenses | | **(1,220,919)** | (732,454) |
| Other operating (expenses)/income - net | | **(168,574)** | 1,417 |
| Operating profit | 4 | **1,108,514** | 1,052,055 |
| Finance income | 5(a) | **30,902** | 33,893 |
| Finance costs | 5(b) | **(185,504)** | (80,974) |
| Share of profits of associates and joint ventures | | **17,055** | 9,221 |
| Profit before taxation | | **970,967** | 1,014,195 |
| Taxation | 6 | **(134,364)** | (196,725) |
| Profit for the year | | **836,603** | 817,470 |
| Profit attributable to: | | | |
| Equity holders of the Company | | **828,715** | 817,228 |
| Non-controlling interests | | **7,888** | 242 |
| | | **836,603** | 817,470 |
| Earnings per share attributable to equity holders of the Company | | | |
| Basic | 7(a) | **US 7.77 cents** | US 7.88 cents |
| Diluted | 7(b) | **US 7.69 cents** | US 7.78 cents |
| Dividends | 8 | **379,646** | 321,875 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Profit for the year | **836,603** | 817,470 |
| Other comprehensive (loss)/income : | | |
| Item that will not be reclassified to profit or loss | | |
| Remeasurements of post-employment benefit obligations, net of taxes | **(68,973)** | 4,177 |
| Items that have been reclassified or may be subsequently reclassified to profit or loss | | |
| Fair value change on available-for-sale financial assets, net of taxes | **7,326** | (2,288) |
| Investment revaluation reserve reclassified to consolidated income statement on disposal of an available-for-sale financial asset | **-** | (20,526) |
| Fair value change on cash flow hedges, net of taxes | | |
| - Forward foreign exchange contracts | | |
| Fair value gain/(loss), net of taxes | **421,138** | (49,106) |
| Reclassified to consolidated income statement | **(299,847)** | 10,818 |
| Exchange reserve reclassified to consolidated income statement on disposal of a subsidiary | **-** | 1,250 |
| Currency translation differences | **(598,733)** | (69,781) |
| Other comprehensive loss for the year | **(539,089)** | (125,456) |
| Total comprehensive income for the year | **297,514** | 692,014 |
| Total comprehensive income attributable to: | | |
| Equity holders of the Company | **289,626** | 691,772 |
| Non-controlling interests | **7,888** | 242 |
| | **297,514** | 692,014 |

## CONSOLIDATED BALANCE SHEET

| | Note | **2015** | 2014 |
|---|---|---|---|
| | | ***US$'000*** | *US$'000* |
| Non-current assets | | | |
| Property, plant and equipment | | **1,496,474** | 667,413 |
| Prepaid lease payments | | **225,111** | 40,884 |
| Construction-in-progress | | **311,888** | 351,934 |
| Intangible assets | | **8,929,713** | 3,339,516 |
| Interests in associates and joint ventures | | **45,719** | 20,753 |
| Deferred income tax assets | | **530,047** | 389,330 |
| Available-for-sale financial assets | | **73,400** | 35,157 |
| Other non-current assets | | **41,191** | 111,558 |
| | | **11,653,543** | 4,956,545 |
| Current assets | | | |
| Inventories | | **2,995,389** | 2,701,015 |
| Trade receivables | *9(a)* | **5,177,840** | 3,171,354 |
| Notes receivable | | **334,738** | 447,325 |
| Derivative financial assets | | **184,534** | 61,184 |
| Deposits, prepayments and other receivables | *10* | **3,572,015** | 3,000,826 |
| Income tax recoverable | | **136,857** | 65,715 |
| Bank deposits | | **171,139** | 94,985 |
| Cash and cash equivalents | | **2,855,223** | 3,858,144 |
| | | **15,427,735** | 13,400,548 |
| Total assets | | **27,081,278** | 18,357,093 |

## CONSOLIDATED BALANCE SHEET (CONTINUED)

| | Note | **2015** | 2014 |
|---|---|---|---|
| | | ***US$'000*** | *US$'000* |
| Share capital | *14* | **2,689,882** | 1,650,101 |
| Reserves | | **1,393,761** | 1,360,029 |
| Equity attributable to owners of the Company | | **4,083,643** | 3,010,130 |
| Non-controlling interests | | **235,378** | 227,490 |
| Put option written on non-controlling interest | *12(c)* | **(212,900)** | (212,900) |
| Total equity | | **4,106,121** | 3,024,720 |
| Non-current liabilities | | | |
| Borrowings | *13* | **1,885,848** | 10,125 |
| Warranty provision | *11(b)* | **338,700** | 277,231 |
| Deferred revenue | | **548,300** | 438,385 |
| Retirement benefit obligations | | **399,782** | 156,515 |
| Deferred income tax liabilities | | **200,730** | 142,881 |
| Other non-current liabilities | *12* | **2,440,435** | 844,914 |
| | | **5,813,795** | 1,870,051 |
| Current liabilities | | | |
| Trade payables | *9(b)* | **4,662,411** | 4,751,345 |
| Notes payable | | **171,049** | 108,559 |
| Derivative financial liabilities | | **80,897** | 58,462 |
| Other payables and accruals | *11(a)* | **9,066,487** | 6,658,254 |
| Provisions | *11(b)* | **1,203,547** | 852,154 |
| Deferred revenue | | **640,161** | 410,330 |
| Income tax payable | | **168,536** | 177,741 |
| Borrowings | *13* | **1,168,274** | 445,477 |
| | | **17,161,362** | 13,462,322 |
| Total liabilities | | **22,975,157** | 15,332,373 |
| Total equity and liabilities | | **27,081,278** | 18,357,093 |
| Net current liabilities | | **(1,733,627)** | (61,774) |
| Total assets less current liabilities | | **9,919,916** | 4,894,771 |

## CONSOLIDATED CASH FLOW STATEMENT

| | Note | **2015** **US$'000** | 2014 US$'000 |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Net cash generated from operations | *15* | **669,020** | 1,640,386 |
| Interest paid | | **(133,547)** | (71,199) |
| Tax paid | | **(296,981)** | (137,129) |
| Net cash generated from operating activities | | **238,492** | 1,432,058 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | **(258,599)** | (177,562) |
| Purchase of prepaid lease payments | | **(69,903)** | - |
| Sale of property, plant and equipment | | **9,181** | 9,106 |
| Acquisition of businesses, net of cash acquired | | **(2,325,726)** | - |
| Interests acquired in associates and a joint venture | | **(7,911)** | (8,769) |
| Payment for construction-in-progress | | **(347,506)** | (388,238) |
| Payment for intangible assets | | **(296,689)** | (109,544) |
| Purchase of available-for-sale financial assets | | **(32,596)** | (8,550) |
| Net proceeds from disposal of an available-for-sale financial asset | | **-** | 41,348 |
| Decrease in bank deposits | | **16,645** | 24,070 |
| Dividends received | | **305** | 547 |
| Interest received | | **30,902** | 33,893 |
| Net cash used in investing activities | | **(3,281,897)** | (583,699) |
| Cash flows from financing activities | | | |
| Exercise of share options | | **385** | 5,946 |
| Repurchase of shares | | **-** | (45,304) |
| Contribution to employee share trusts | | **(129,365)** | (100,688) |
| Dividends paid | | **(326,930)** | (266,692) |
| Proceeds from borrowings | | **1,803,420** | 119,292 |
| Repayments of borrowings | | **(693,880)** | (142,661) |
| Issue of long term notes | | **1,488,980** | - |
| Net cash generated from/(used in) financing activities | | **2,142,610** | (430,107) |
| (Decrease)/increase in cash and cash equivalents | | **(900,795)** | 418,252 |
| Effect of foreign exchange rate changes | | **(102,126)** | (14,190) |
| Cash and cash equivalents at the beginning of the year | | **3,858,144** | 3,454,082 |
| Cash and cash equivalents at the end of the year | | **2,855,223** | 3,858,144 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the Company | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital US$'000 | Share premium US$'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$'000 | Put option written on non-controlling interest US$'000 | Total US$'000 |
| At April 1, 2014 | **1,650,101** | **-** | **(6,734)** | **-** | **(49,003)** | **(23,622)** | **(3,209)** | **(235,381)** | **71,880** | **1,606,098** | **227,490** | **(212,900)** | **3,024,720** |
| Profit for the year | – | – | – | – | – | – | – | – | – | **828,715** | **7,888** | – | **836,603** |
| Other comprehensive income/(loss) | – | – | **7,326** | – | – | – | **121,291** | **(598,733)** | – | **(68,973)** | – | – | **(539,089)** |
| Total comprehensive income/(loss) for the year | – | – | **7,326** | – | – | – | **121,291** | **(598,733)** | – | **759,742** | **7,888** | – | **297,514** |
| Acquisition of businesses | – | – | – | – | – | **121,252** | – | – | - | - | – | – | **121,252** |
| Transfer to statutory reserve | – | – | – | – | – | – | – | – | **3,832** | **(3,832)** | – | – | – |
| Issue of ordinary shares | **1,039,396** | – | – | – | – | – | – | – | – | – | – | – | **1,039,396** |
| Exercise of share options | **385** | – | – | – | – | – | – | – | – | – | – | – | **385** |
| Vesting of shares under long-term incentive program | – | – | – | – | **166,927** | **(237,448)** | – | – | – | – | – | – | **(70,521)** |
| Deferred tax credit in relation to long-term incentive program | – | – | – | – | – | **9,693** | – | – | – | – | – | – | **9,693** |
| Share-based compensation | – | – | – | – | – | **139,977** | – | – | – | – | – | – | **139,977** |
| Contribution to employee share trusts | – | – | – | – | **(129,365)** | – | – | – | – | – | – | – | **(129,365)** |
| Dividends paid | – | – | – | – | – | – | – | – | – | **(326,930)** | – | – | **(326,930)** |
| At March 31, 2015 | **2,689,882** | **–** | **592** | **–** | **(11,441)** | **9,852** | **118,082** | **(834,114)** | **75,712** | **2,035,078** | **235,378** | **(212,900)** | **4,106,121** |
| At April 1, 2013 | 33,465 | 1,654,806 | 16,080 | 1,188 | (22,197) | (3,149) | 35,079 | (166,850) | 64,457 | 1,053,764 | 226,438 | (212,900) | 2,680,181 |
| Profit for the year | - | - | - | - | - | - | - | - | - | 817,228 | 242 | - | 817,470 |
| Other comprehensive (loss)/income | - | - | (22,814) | - | - | - | (38,288) | (68,531) | - | 4,177 | - | - | (125,456) |
| Total comprehensive (loss)/income for the year | - | - | (22,814) | - | - | - | (38,288) | (68,531) | - | 821,405 | 242 | - | 692,014 |
| Transfer to statutory reserve | - | - | - | - | - | - | - | - | 2,379 | (2,379) | - | - | - |
| Exercise of share options | 816 | 5,130 | - | - | - | - | - | - | - | - | - | - | 5,946 |
| Repurchase of shares | (164) | (45,304) | - | 164 | - | - | - | - | - | - | - | - | (45,304) |
| Vesting of shares under long-term incentive program | - | - | - | - | 73,882 | (100,747) | - | - | - | - | - | - | (26,865) |
| Share-based compensation | - | - | - | - | - | 80,274 | - | - | - | - | - | - | 80,274 |
| Contribution to employee share trusts | - | - | - | - | (100,688) | - | - | - | - | - | - | - | (100,688) |
| Dividends paid | - | - | - | - | - | - | - | - | - | (266,692) | - | - | (266,692) |
| Change in ownership interest in a subsidiary | - | - | - | - | - | - | - | - | - | - | 810 | - | 810 |
| Release of escrow shares for settlement of acquisition consideration | - | - | - | - | - | - | - | - | 5,044 | - | - | - | 5,044 |
| Transfer to share capital (Note 14) | 1,615,984 | (1,614,632) | - | (1,352) | - | - | - | - | - | - | - | - | - |
| At March 31, 2014 | 1,650,101 | - | (6,734) | - | (49,003) | (23,622) | (3,209) | (235,381) | 71,880 | 1,606,098 | 227,490 | (212,900) | 3,024,720 |

Notes

## 1 Basis of preparation

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

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

The Group has adopted the following new interpretation and amendments to existing standards that are mandatory for the year ended March 31, 2015 which the Group considers are appropriate and relevant to its operations:

- HK(IFRIC) – Int 21, Levies
- Amendments to HKAS 32, Financial instruments: Presentation - Offsetting financial assets and financial liabilities
- Amendments to HKAS 36, Impairment of assets: Recoverable amount disclosures for non-financial assets
- Amendments to HKAS 39, Financial instruments: Recognition and measurement – Novation of derivatives and continuation of hedge accounting
- Amendments to HKFRS 10, HKFRS 12, HKAS 27 (2011), Investment entities

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

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap.622) came into operation during the financial year; and as a result, there are changes to presentation and disclosure of certain information in the consolidated financial statements.

The following new standards and amendments to existing standards, which are considered appropriate and relevant to the Group's operations, have been issued but are not effective for the year ended March 31, 2015 and have not been early adopted:

| | Effective for annual periods beginning on or after |
|---|---|
| HKFRS 15, Revenue from contracts with customers | January 1, 2017 |
| HKFRS 9, Financial instruments | January 1, 2018 |
| Amendments to HKAS 1, Presentation of financial statements | January 1, 2016 |
| Amendments to HKAS 19 (2011), Employee benefits | July 1, 2014 |
| Amendments to HKAS 16, Property, plant and equipment | January 1, 2016 |
| Amendments to HKAS 27 (2011), Separate financial statements | January 1, 2016 |
| Amendments to HKAS 28 (2011), Investments in associates and joint ventures | January 1, 2016 |
| Amendments to HKAS 38, Intangible assets | January 1, 2016 |
| Amendments to HKFRS 10, Consolidated financial statements | January 1, 2016 |
| Amendments to HKFRS 11, Joint arrangements | January 1, 2016 |
| Amendments to HKFRS 12, Disclosure of interest in other entities | January 1, 2016 |

The adoption of these new standards and amendments to existing standards is not expected to have material impact on the Group's financial statements.

## 2 Segment information

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

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

The LEC assesses the performance of the operating segments based on a measure of adjusted pre-tax income/(loss). This measurement basis excludes the effects of non-recurring expenditure such as restructuring costs from the operating segments. The measurement basis also excludes the effects of unrealized gains/(losses) on financial instruments. Certain interest income and expenditure are not allocated to segments, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

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

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

| | **2015** | | 2014 | |
|---|---|---|---|---|
| | **Revenue from external customers** | **Adjusted pre-tax income** | Revenue from external customers | Adjusted pre-tax income |
| | ***US$'000*** | ***US$'000*** | *US$'000* | *US$'000* |
| China | **14,700,270** | **794,795** | 14,725,659 | 788,130 |
| AP | **6,549,339** | **302,183** | 6,162,919 | 109,350 |
| EMEA | **12,803,357** | **410,858** | 9,580,700 | 187,482 |
| AG | **12,242,627** | **7,999** | 8,237,851 | 68,627 |
| Segment total | **46,295,593** | **1,515,835** | 38,707,129 | 1,153,589 |
| Unallocated: | | | | |
| Headquarters and corporate expenses | | **(449,142)** | | (156,502) |
| Restructuring costs | | **-** | | (26) |
| Finance income | | **14,825** | | 19,240 |
| Finance costs | | **(129,096)** | | (33,754) |
| Net gain on disposal of available-for-sale financial assets | | **1,185** | | 21,880 |
| Dividend income from an available-for-sale financial asset | | **305** | | 547 |
| Share of profits of associates and joint ventures | | **17,055** | | 9,221 |
| Consolidated profit before taxation | | **970,967** | | 1,014,195 |

(b) Segment assets for reportable segments

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| China | **6,157,774** | 5,157,241 |
| AP | **2,179,482** | 1,993,624 |
| EMEA | **2,808,546** | 2,341,114 |
| AG | **5,059,385** | 2,559,869 |
| Segment assets for reportable segments | **16,205,187** | 12,051,848 |
| Unallocated: | | |
| Deferred income tax assets | **530,047** | 389,330 |
| Derivative financial assets | **184,534** | 61,184 |
| Available-for-sale financial assets | **73,400** | 35,157 |
| Interests in associates and joint ventures | **45,719** | 20,753 |
| Unallocated bank deposits and cash and cash equivalents | **1,259,658** | 2,521,366 |
| Unallocated inventories | **1,131,779** | 757,648 |
| Unallocated deposits, prepayments and other receivables | **1,508,524** | 2,214,124 |
| Income tax recoverable | **136,857** | 65,715 |
| Intangible assets pending allocation | **5,706,000** | - |
| Other unallocated assets | **299,573** | 239,968 |
| Total assets per consolidated balance sheet | **27,081,278** | 18,357,093 |

(c) Segment liabilities for reportable segments

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| China | **4,250,546** | 3,965,295 |
| AP | **1,697,066** | 1,671,669 |
| EMEA | **1,589,515** | 1,407,530 |
| AG | **5,005,649** | 1,636,349 |
| Segment liabilities for reportable segments | **12,542,776** | 8,680,843 |
| Unallocated: | | |
| Income tax payable | **168,536** | 177,741 |
| Deferred income tax liabilities | **200,730** | 142,881 |
| Derivative financial liabilities | **80,897** | 58,462 |
| Unallocated borrowings | **2,924,352** | 300,000 |
| Unallocated trade payables | **2,631,917** | 2,862,851 |
| Unallocated other payables and accruals | **2,499,007** | 2,687,703 |
| Unallocated provisions | **11,655** | 16,522 |
| Unallocated other non-current liabilities | **1,806,831** | 308,889 |
| Other unallocated liabilities | **108,456** | 96,481 |
| Total liabilities per consolidated balance sheet | **22,975,157** | 15,332,373 |

(d) Analysis of revenue by significant category

Revenue from external customers are mainly derived from the sale of personal technology products and services. Breakdown of revenue by business group is as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| PC Business Group | **33,346,120** | 31,632,868 |
| Mobile Business Group | **9,142,211** | 5,353,635 |
| Enterprise Business Group | **2,627,408** | 505,307 |
| Others | **1,179,854** | 1,215,319 |
| | **46,295,593** | 38,707,129 |

(e) Other segment information

| | China | | AP | | EMEA | | AG | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2015** ***US$'000*** | 2014 *US$'000* | **2015** ***US$'000*** | 2014 *US$'000* | **2015** ***US$'000*** | 2014 *US$'000* | **2015** ***US$'000*** | 2014 *US$'000* | **2015** ***US$'000*** | 2014 *US$'000* |
| Depreciation and amortization | **148,274** | 79,970 | **86,248** | 55,481 | **118,273** | 50,234 | **155,948** | 69,448 | **508,743** | 255,133 |
| Finance income | **4,197** | 3,966 | **3,254** | 1,251 | **463** | 697 | **8,163** | 8,739 | **16,077** | 14,653 |
| Finance costs | **2,255** | 788 | **9,457** | 6,318 | **24,788** | 10,206 | **19,908** | 29,908 | **56,408** | 47,220 |
| Additions to non-current assets (Note) | **249,117** | 99,190 | **35,840** | 14,822 | **17,098** | 7,978 | **61,681** | 52,071 | **363,736** | 174,061 |

Note: Other than financial instruments and deferred income tax assets; and excluding construction-in-progress pending allocation to segments.

(f) Included in segment assets for reportable segments are goodwill and trademarks and trade names with indefinite useful lives with an aggregate amount of US$6,191 million (2014: US$2,843 million). The carrying amounts of goodwill and trademarks and trade names with indefinite useful lives are presented below:

At March 31, 2015

| | **China** ***US$ million*** | **AP** ***US$ million*** | **EMEA** ***US$ million*** | **AG** ***US$ million*** | **Amounts pending allocation** ***US$ million*** | **Total** ***US$ million*** |
|---|---|---|---|---|---|---|
| **Goodwill** | **1,128** | **521** | **216** | **336** | **2,723** | **4,924** |
| **Trademarks and trade names** | **209** | **59** | **102** | **67** | **830** | **1,267** |

At March 31, 2014

| | China *US$ million* | AP *US$ million* | EMEA *US$ million* | AG *US$ million* | Total *US$ million* |
|---|---|---|---|---|---|
| Goodwill | 1,123 | 597 | 287 | 383 | 2,390 |
| Trademarks and trade names | 209 | 59 | 118 | 67 | 453 |

Goodwill pending allocation represents the amount attributable to the acquisition of Motorola Mobility Group (“Motorola”) and X86 server hardware and related maintenance services business of IBM (“System X”), details of which are set out in Note 16. The goodwill is primarily attributable to the significant synergies expected to arise in connection with the development of mobile devices and X86 server businesses, respectively. Management is in the process of determining the allocation of goodwill and other intangible assets to the appropriate cash generating units of the Group.

The directors are of the view that there was no indication of impairment of goodwill and trademarks and trade names as at March 31, 2015 (2014: Nil).

## 3 Other income – net

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Net gain on disposal of available-for-sale financial assets | **1,185** | 21,880 |
| Dividend income from an available-for-sale financial asset | **305** | 547 |
| | **1,490** | 22,427 |

## 4 Operating profit

Operating profit is stated after charging the following:

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Depreciation of property, plant and equipment and amortization of prepaid lease payments | **208,363** | 109,689 |
| Amortization of intangible assets | **300,380** | 145,444 |
| Employee benefit costs, including | **3,524,219** | 2,745,853 |
| *- long-term incentive awards* | ***99,062*** | *80,274* |
| Rental expenses under operating leases | **113,264** | 99,024 |

## 5 Finance income and costs

(a) Finance income

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Interest on bank deposits | **28,793** | 26,852 |
| Interest on money market funds | **2,092** | 2,126 |
| Others | **17** | 4,915 |
| | **30,902** | 33,893 |

(b) Finance costs

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Interest on bank loans and overdrafts | **28,658** | 39,811 |
| Interest on long term notes | **64,925** | - |
| Interest on promissory note | **16,599** | - |
| Factoring costs | **54,075** | 23,866 |
| Commitment fee | **10,787** | 5,878 |
| Interest on contingent considerations and put option liability | **7,068** | 7,190 |
| Others | **3,392** | 4,229 |
| | **185,504** | 80,974 |

## 6 Taxation

The amount of taxation in the consolidated income statement represents:

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Current tax | | |
| Hong Kong profits tax | **26,041** | 13,024 |
| Taxation outside Hong Kong | **193,810** | 201,175 |
| Deferred tax | **(85,487)** | (17,474) |
| | **134,364** | 196,725 |

Hong Kong profits tax has been provided for at the rate of 16.5% (2014: 16.5%) on the estimated assessable profit for the year. Taxation outside Hong Kong represents income and irrecoverable withholding taxes of subsidiaries operating in the Chinese Mainland and overseas, calculated at rates applicable in the respective jurisdictions.

## 7 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 after adjusting shares held by employee share trusts for the purposes of awarding shares to eligible employees under the long term incentive program.

| | **2015** | 2014 |
|---|---|---|
| Weighted average number of ordinary shares in issue | **10,714,763,044** | 10,408,747,622 |
| Adjustment for shares held by employee share trusts | **(44,369,898)** | (38,861,785) |
| Weighted average number of ordinary shares in issue for calculation of basic earnings per share | **10,670,393,146** | 10,369,885,837 |
| | ***US$'000*** | *US$'000* |
| Profit attributable to equity holders of the Company | **828,715** | 817,228 |

(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.

| | **2015** | 2014 |
|---|---|---|
| Weighted average number of ordinary shares in issue for calculation of basic earnings per share | **10,670,393,146** | 10,369,885,837 |
| Adjustments for share options and long-term incentive awards | **101,511,837** | 131,031,863 |
| Weighted average number of ordinary shares in issue for calculation of diluted earnings per share | **10,771,904,983** | 10,500,917,700 |
| | ***US$'000*** | *US$'000* |
| Profit attributable to equity holders of the Company used to determine diluted earnings per share | **828,715** | 817,228 |

Adjustments for the dilutive potential ordinary shares are as follows:

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

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

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

## 8 Dividends

| | **2015**<br>***US$'000*** | 2014<br>*US$'000* |
|---|---|---|
| Interim dividend of HK6.0 cents (2014: HK6.0 cents) per ordinary share, paid on December 1, 2014 | **85,978** | 80,426 |
| Proposed final dividend – HK20.5 cents (2014: HK18.0 cents) per ordinary share | **293,668** | 241,449 |
| | **379,646** | 321,875 |

## 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:

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| 0 – 30 days | **3,669,635** | 2,206,799 |
| 31 – 60 days | **881,449** | 601,499 |
| 61 – 90 days | **320,591** | 181,916 |
| Over 90 days | **426,267** | 220,754 |
| | **5,297,942** | 3,210,968 |
| Less: provision for impairment | **(120,102)** | (39,614) |
| Trade receivables – net | **5,177,840** | 3,171,354 |

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

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| 0 – 30 days | **3,764,369** | 2,761,170 |
| 31 – 60 days | **358,296** | 1,217,547 |
| 61 – 90 days | **218,299** | 586,145 |
| Over 90 days | **321,447** | 186,483 |
| | **4,662,411** | 4,751,345 |

## 10 Deposits, prepayments and other receivables

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

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Deposits | **3,481** | 1,635 |
| Other receivables (a) | **2,322,355** | 1,937,679 |
| Prepayments (b) | **1,246,179** | 1,061,512 |
| | **3,572,015** | 3,000,826 |

(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$581 million as at March 31, 2015 (2014: US$413 million) are included in prepayments.

## 11 Provisions, other payables and accruals

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

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Accruals | **2,120,381** | 1,359,002 |
| Allowance for billing adjustments (i) | **2,169,767** | 1,785,022 |
| Other payables (ii) | **4,776,339** | 3,514,230 |
| | **9,066,487** | 6,658,254 |

Notes:

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

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

(iii) The carrying amounts of other payables and accruals approximate their fair values.

(b) The components of provisions are as follows:

| | **Warranty** | **Environmental restoration** | **Total** |
|---|---|---|---|
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Year ended March 31, 2014 | | | |
| At the beginning of the year | 1,054,181 | 56,042 | 1,110,223 |
| Exchange adjustment | 3,997 | (2,837) | 1,160 |
| Provisions made | 898,264 | 8,610 | 906,874 |
| Amounts utilized | (812,936) | (5,179) | (818,115) |
| Unused amounts reversed | (16,246) | (36,952) | (53,198) |
| | 1,127,260 | 19,684 | 1,146,944 |
| Long-term portion classified as non-current liabilities | (277,231) | (17,559) | (294,790) |
| At the end of the year | 850,029 | 2,125 | 852,154 |
| Year ended March 31, 2015 | | | |
| At the beginning of the year | **1,127,260** | **19,684** | **1,146,944** |
| Exchange adjustment | **(69,142)** | **(2,919)** | **(72,061)** |
| Provisions made | **1,153,855** | **10,378** | **1,164,233** |
| Amounts utilized | **(1,049,291)** | **(6,919)** | **(1,056,210)** |
| Unused amounts reversed | **(19,391)** | **(3,749)** | **(23,140)** |
| Acquisition of businesses | **396,563** | **-** | **396,563** |
| | **1,539,854** | **16,475** | **1,556,329** |
| Long-term portion classified as non-current liabilities | **(338,700)** | **(14,082)** | **(352,782)** |
| At the end of the year | **1,201,154** | **2,393** | **1,203,547** |

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

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

## 12 Other non-current liabilities

Details of other non-current liabilities are as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Contingent considerations (a) | **270,196** | 307,183 |
| Deferred considerations (a) | **1,394,941** | 2,151 |
| Guaranteed dividend to non-controlling shareholders of a subsidiary (b) | **9,605** | 18,922 |
| Environmental restoration (Note 11 (b)) | **14,082** | 17,559 |
| Written put option liability (c) | **219,317** | 217,157 |
| Government incentives and grants received in advance (d) | **118,371** | 143,778 |
| Deferred rent liabilities | **127,954** | - |
| Others | **285,969** | 138,164 |
| | **2,440,435** | 844,914 |

(a) Pursuant to the completion of business combinations, the Group is required to pay in cash to the then respective shareholders/sellers contingent considerations with reference to certain performance indicators as written in the respective agreements with those then shareholders/sellers; and deferred consideration. Accordingly, non-current liabilities in respect of the present values of contingent and deferred considerations have been recognized. The contingent considerations are subsequently re-measured at their fair values as a result of change in the expected performance at each balance sheet date, with any resulting gain or loss recognized in the consolidated income statement. Deferred consideration is subsequently measured at amortized cost.

As March 31, 2015, the potential undiscounted amounts of future payments in respect of the contingent and deferred considerations that the Group could be required to make to the respective shareholders/sellers under the arrangements are as follows:

| | |
|---|---|
| Joint venture with NEC Corporation | Nil – US$325 million |
| Joint venture with EMC Corporation ("EMC JV") | US$39 – US$59 million |
| Stoneware | Nil – US$48 million |
| CCE | Nil – BRL400 million |
| Google Inc. | US$1,500 million |

(b) Following the acquisition of Medion on July 29, 2011, Lenovo Germany Holding GmbH ("Lenovo Germany"), an indirect wholly-owned subsidiary of the Company and the immediate holding company of Medion entered into a domination and profit and loss transfer agreement (the "Domination Agreement") with Medion on October 25, 2011. Pursuant to the Domination Agreement, Lenovo Germany has guaranteed to the non-controlling shareholders of Medion an annual guaranteed pre-tax dividend of EUR0.82 per share for each fiscal year. The Domination Agreement became effective on January 3, 2012 and is terminable by either Lenovo Germany or Medion after March 31, 2017. Accordingly, a non-current liability in respect of future guaranteed dividend has been recognized. The corresponding amount stated at its discounted value on the date of acquisition of Medion was charged to retained earnings in equity.

(c) Pursuant to the joint venture agreement entered into between the Company and Compal Electronics, Inc. ("Compal") to establish a joint venture company ("JV Co") to manufacture notebook computer products and related parts, the Company and Compal are respectively granted call and put options which entitle the Company to purchase from Compal and Compal to sell to the Company the 49% Compal's interests in the JV Co. The call and put options will be exercisable at any time after October 1, 2019 and October 1, 2017 respectively. The exercise price for the call and put options will be determined in accordance with the joint venture agreement, and up to a maximum of US$750 million.

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

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

(d) Government incentives and grants received in advance by certain group companies included in other non-current liabilities mainly relate to research and development projects and construction of property, plant and equipment. These group companies are obliged to fulfill certain conditions under the terms of the government incentives and grants. The government incentives and grants are credited to the income statement upon fulfillment of those conditions.

## 13 Borrowings

| | **2015** | 2014 |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Current liabilities | | |
| Short-term loans (i) | **1,168,274** | 145,477 |
| Term loans (ii) | **-** | 300,000 |
| | **1,168,274** | 445,477 |
| Non-current liabilities | | |
| Term loans (ii) | **395,043** | 10,125 |
| Long term notes (iii) | **1,490,805** | - |
| | **1,885,848** | 10,125 |
| | **3,054,122** | 455,602 |

(i) Short-term loans primarily comprised a US$1,200 million 5-year loan facility (comprising US$800 million short term) entered into in December 2013 and has been utilized to the extent of US$700 million as at March 31, 2015; and a US$500 million revolving loan facility entered into on February 2, 2011 which has been utilized to the extent of US$300 million as at March 31, 2015. The majority of the short-term bank loans are denominated in United States dollar.

(ii) Term loans comprised a US$1,200 million 5-year loan facility (comprising US$800 million short term) entered into in December 2013, and has been drawn down to the extent of US$400 million as at March 31, 2015.

(iii) On May 8, 2014, the Group completed the issuance of 5-Year US$1.5 billion notes bearing annual interest at 4.7% due in May 2019. The proceeds would be used for general corporate purposes including working capital, and to fund any acquisition activities.

The exposure of all the borrowings of the Group to interest rate changes and the contractual repricing dates as at March 31, 2015 and 2014 are as follows:

| | 2015 | 2014 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Within 1 year | **1,168,274** | 445,477 |
| Over 1 to 3 years | **-** | 10,125 |
| Over 3 to 5 years | **1,885,848** | - |
| | **3,054,122** | 455,602 |

The carrying amounts of bank loans approximate their fair value as the impact of discounting is not significant.

## 14 Share capital

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | ***Number of shares*** | ***US$'000*** | *Number of shares* | *US$'000* |
| *Issued and fully paid:* | | | | |
| Voting ordinary shares: | | | | |
| At the beginning of the year | **10,406,375,509** | **1,650,101** | 10,439,152,059 | 33,465 |
| Issue of ordinary shares | **701,107,215** | **1,039,396** | - | - |
| Exercise of share options | **1,172,000** | **385** | 18,277,450 | 816 |
| Repurchase of shares | **-** | **-** | (51,054,000) | (164) |
| Transfer from share premium and share redemption reserve | **-** | **-** | - | 1,615,984 |
| At the end of the year | **11,108,654,724** | **2,689,882** | 10,406,375,509 | 1,650,101 |

## 15 Reconciliation of profit before taxation to net cash generated from operations

| | 2015 | 2014 |
|---|---|---|
| | *US$'000* | *US$'000* |
| Profit before taxation | **970,967** | 1,014,195 |
| Share of profits of associates and joint ventures | **(17,055)** | (9,221) |
| Finance income | **(30,902)** | (33,893) |
| Finance costs | **185,504** | 80,974 |
| Depreciation of property, plant and equipment and amortization of prepaid lease payments | **208,363** | 109,689 |
| Amortization of intangible assets and share-based compensation | **399,442** | 225,718 |
| Loss/(gain) on disposal of property, plant and equipment | **162** | (356) |
| Net gain on disposal of available-for-sale financial assets | **(1,185)** | (21,880) |
| Loss on disposal of construction-in-progress | **200** | 1,219 |
| Loss on disposal of intangible assets | **2,656** | 12,673 |
| Dividend income | **(305)** | (547) |
| Fair value change on financial instruments | **20,376** | (10,572) |
| Release of escrow shares for settlement of acquisition consideration | **-** | (6,913) |
| Decrease/(increase) in inventories | **120,263** | (739,964) |
| (Increase)/decrease in trade receivables, notes receivable, deposits, prepayments and other receivables | **(526,439)** | 1,474 |
| (Decrease)/increase in trade payables, notes payable, provisions, other payables and accruals | **(491,457)** | 1,011,546 |
| Effect of foreign exchange rate changes | **(171,570)** | 6,244 |
| Net cash generated from operations | **669,020** | 1,640,386 |

## 16 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 October 1, 2014, the Group acquired certain assets and assumed certain liabilities in connection with System X. The acquisition provides the Group with end-to-end capabilities to serve enterprise customers and explore new growth segments in the enterprise hardware market. It also offers a comprehensive and competitive portfolio of server products including towers, racks, blades and converged systems, as well as associated maintenance services.

On October 30, 2014, the Group acquired 100% of the issued and outstanding equity interests in Motorola. Motorola is principally engaged in the business of developing, manufacturing, distributing and selling mobile devices, particularly smartphones based on the Android operating system, and their related products. The acquisition provides the Group with immediate access to key assets, technology and personnel to accelerate the Group's entry into mature geographies for smartphones, including those based on the popular Android operating system under its strong relationships with retailers and carriers.

The estimated total consideration for the business combination activities completed during the year is approximately US$5,232 million, including cash, the Company's shares as consideration shares, deferred consideration and share-based compensation obligation assumed by the Company.

Set forth below is the preliminary calculation of goodwill:

| | **Motorola** | **System X** | **Total** |
|---|---|---|---|
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Purchase consideration: | | | |
| - Cash paid less cash to be refunded (a) | **836,306** | **1,859,188** | **2,695,494** |
| - Fair value of consideration shares (b) | **768,482** | **270,914** | **1,039,396** |
| - Present value of deferred consideration (c) | **1,376,230** | **-** | **1,376,230** |
| - Share-based compensation obligation assumed | **114,922** | **6,330** | **121,252** |
| Total purchase consideration | **3,095,940** | **2,136,432** | **5,232,372** |
| Less: Fair value of net assets acquired | **(1,436,665)** | **(1,072,453)** | **(2,509,118)** |
| Goodwill (Note 2(f)) | **1,659,275** | **1,063,979** | **2,723,254** |

(a) At completion date on acquisition of System X, cash payment comprising cash consideration of US$2,070,000,000 net of a downward adjustment of US$210,811,622 calculated based on transferred balances of certain working capital items, was paid to IBM.

At completion date on acquisition of Motorola, US$660,000,000, representing the cash consideration, and a compensation of US$176,306,000, which primarily relates to the estimated amount of excess net cash and working capital remaining in Motorola transferrable to the Company, was paid to Google Inc., the seller, in cash.

(b) The fair values of 182,000,000 and 519,107,215 ordinary shares of the Company issued as part of the purchase consideration for the business combinations of System X and Motorola were based on the published share price on October 1 and October 30, 2014, respectively.

(c) The deferred consideration represents the promissory note of US$1,500,000,000 issued to Google Inc. payable in cash on the third anniversary of the completion date. The present value of deferred consideration is included in other non-current liabilities in the balance sheet.

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

| | **Motorola** | **System X** | **Total** |
|---|---|---|---|
| | ***US$'000*** | ***US$'000*** | ***US$'000*** |
| Cash and cash equivalents | **404,157** | **17,801** | **421,958** |
| Property, plant and equipment | **477,432** | **113,429** | **590,861** |
| Deferred tax assets less liabilities | **47,358** | **(51,405)** | **(4,047)** |
| Intangible assets | **1,587,718** | **1,510,000** | **3,097,718** |
| Other non-current assets | **24,720** | **-** | **24,720** |
| Net working capital except cash and cash equivalents | **(832,692)** | **(146,646)** | **(979,338)** |
| Non-current liabilities | **(272,028)** | **(370,726)** | **(642,754)** |
| Fair value of net assets acquired | **1,436,665** | **1,072,453** | **2,509,118** |

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 Combination".

At March 31, 2015, the Group has not finalized the fair value assessments for net assets acquired (including intangible assets) from the business combination activities. The relevant fair values of net assets stated above are on a provisional basis.

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

During the year ended March 31, 2015, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities, except that the trustee of the long-term incentive program of the Company purchased 89,467,450 shares from the market for award to employees upon vesting. Details of the program will be set out in the 2014/15 Annual Report of the Company.

## REVIEW BY AUDIT COMMITTEE

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

The Audit Committee of the Company has reviewed the annual results of the Group for the year ended March 31, 2015. It meets regularly with the management, the external auditor and the internal audit personnel to discuss the accounting principles and practices adopted by the Group and internal control and financial reporting matters.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the year ended March 31, 2015, the Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange, and where appropriate, met the recommended best practices in the CG Code, with the exception that the roles of the chairman of the Board (the "Chairman") and the chief executive officer of the Company (the "CEO") have not been segregated as required by code provision A.2.1 of the CG Code.

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 Yuanqing ("Mr. Yang") to continue to hold both the positions as it would help to maintain the continuity of the strategy execution and stability of the operations of the Company. The Board comprising a vast majority of independent non-executive directors meets regularly on a quarterly basis to review the operations of the Company led by Mr. Yang.

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

Apart from the foregoing, the Company met the recommended best practices in the CG Code as to be disclosed in the respective sections of the 2014/15 Annual Report. Particularly, the Company published quarterly financial results and business reviews in addition to interim and annual results. Quarterly financial results enhanced the shareholders' ability to assess the performance, financial position and prospects of the Company. The quarterly financial results were 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*

May 21, 2015

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